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Housing*

Financial Literacy & Homeownership

Best Practices Report 2005



**A Useful Resource for those Servicing the Latino
Community in Chicago, particularly:**

- Mortgage Lenders
- Realtors
- Community Based Housing Counselors

Helping Achieve the Dream of Homeownership

Vision

Despite the fact that they have become the largest minority in the United States, Latinos still face many obstacles when trying to obtain homeownership. This report will summarize the demographic trends and the realities of the Latino community in Chicago to get a better picture of what their situation is. It will also draw attention to mortgage products that target this group, give suggestions of how to promote financial literacy and, subsequently, obtaining homeownership. Moreover, this report will give examples of the best practices for lenders, Realtors, and housing counselors when dealing with the emerging market for Latino homeownership. Homeownership helps build wealth and this report will try and guide those who are in a position to assist in the process of buying a home.



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Best Practices Review

Summary

Lenders, Realtors and housing counselors must all recognize the characteristics of the group they are going to serve. If they are going to provide their services to the Latino community in Chicago, they must be aware of the demographic trends and realities of this population so that they know the needs of their clients. Subsequent to obtaining this knowledge, providers will be better prepared to offer services that are catered to what the client needs. These providers must increase the standards about how they do their business and be aware of the programs that are available to this low to moderate-income population. Low-interest mortgage loans and financial literacy classes may give the client the boost they need to buy a home. Special consideration should be made for the likelihood that persons taking these classes will bring their children and a space should be made available to keep them busy. For some of the older children, this may instill a desire to learn more about financial literacy. Sometimes, these children may act as translators and service providers must be aware of this common family make-up.

These groups should unite in an effort to increase the efficiency of their services. When bonds are formed between organizations, there is more awareness of the services that are available. In turn, the organizations can turn to one another for assistance and increase the guidance that is provided to members of the community.

The aforementioned items are all part of the best practices for lenders, Realtors, and housing counselors when dealing with the low to moderate income Latino community. Following each of these steps will help provide the best home buying experience for this underserved population. If these service providers do not follow the best practices, they can easily turn this process into a nightmare. However, supplying the client with utmost quality services and treatment can turn the process into a dream come true.

The demographic trends of this community reflect a harsh reality. The percentage of Latino homeowners in Chicago fall too short of White homeowners. As members and partners of the community, lenders, Realtors, housing counselors can start an economic revolution in the Latino community by helping them build wealth through homeownership.

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Homeownership in Latino Communities

Demographic Reality and Trends

In order to get a feel for the financial situation that low to moderate-income Latinos face when trying to obtain homeownership one must study the demographic realities and trends. Population statistics, homeownership rates, and income will be evaluated on a wide scale and later compared to specific communities of our target population. This will enable us to identify key differences related with race, homeownership, and wealth in different areas of Chicagoland. First, we will examine race in the population and the rates of homeownership in the state of Illinois. We will then focus on and compare those statistics to those of the City of Chicago, and, finally, particular Latino Communities that are relevant to our study. Finally, we will study the income that these different groups earn to try to hypothesize why there are differences in rates of homeownership among different groups. (Figures from the 2000 census)

City of Chicago

The state of Illinois features a predominantly White population (67.8%) while Latinos make up 12.3% and Blacks with 15.1%. The percentage of homeowners in the state is 67.3%. A drastic change is witnessed as we observe the race of the population of the City of Chicago. Blacks make up the largest portion of the population (36.4%), followed by Whites (31.3%) and Latinos (26%). This is a much more diverse group that will give us better data to study and gather information on Latino homeownership.

Chicago has more renters than owners (52% renters, 48% owners). This is a tremendous decline in homeownership. With a much greater percentage of Latinos as renters, we must ask ourselves two questions. Could this change be the result of a higher Latino population? Or can we associate this change with the city lifestyle? Although there is a significant decrease in the White population, they still have more owners than renters.

As we continue to witness changes in the number of people from different races and percentages of homeowners, we can later assume reasons for those changes. We must examine areas heavily populated with Latinos to better understand the situation they face regarding obtaining homeownership. Logan Square, Humboldt Park, South Lawn-dale (includes Little Village), Lower West Side (includes Pilsen), and South Chicago are areas in Chicago in which we will shift our focus.

Protocols of Respect and Partnerships

Protocols of Respect

When dealing with this client base, certain protocols of respect must be followed. Many Latino cultures are vastly different from typical American culture. For this reason, lenders, Realtors, and housing counselors must be cautious on how they communicate with their customers. Referring to an older Latino client by their first name may offend them and cause them to seek another provider. This protocol of respect must not be deviated unless told by the customer to do so.

The level of service provided to this client base must be no different from the conventional clients. Equal treatment must be applied and part of the code of ethics. Additionally, these clients may be a more loyal client base. Quite often, hard working immigrants will be more inclined to protect their earnings and will not toy around with this process. These clients must also be educated on predatory lending since they are a targeted group in this malicious practice. This must also be translated in a respectful way, avoiding speech in a condescending manner.

Teamwork/Communication within Partnerships

Another way Realtors, housing agencies, and lenders can familiarize themselves with the Latino community is by partnering with each other. Each party is interested in reaching out to this target audience and a reliable network aids in spreading credibility and trustworthiness. Moreover, these partners must also share this commitment. To properly serve the community, clear and open lines of communication must be made and teamwork should be implemented within this network.

These service providers must work collaboratively with each other during the home buying process. Attorneys also have a significant role in this process and must be included. Each of these parties must understand the contract and they should make sure the client understands it as well. Just as there should be good lines of clear communication with the customer, the same should exist between partners. A collective understanding that one partner isn't more important than the others should be expressed. This whole process is a joint effort and neither party should be overly possessive of the client. Instead, all partners should realize how much each agency can contribute and what their expectations are. They all need to be positive and inclusive, but assertive. The presence of teamwork and good communication between the partners will ultimately benefit the client.

Best Practices for Housing Counselors

misinformation in order to improve credit scores.

Financial literacy classes are the next step after the credit is restored. Counselors and their agencies should provide financial fitness workshops, such as Money Smart classes, that help the client prepare their own budget, manage their money, and stress the importance of financial responsibility. This preparation will enable clients to become self-sufficient consumers.

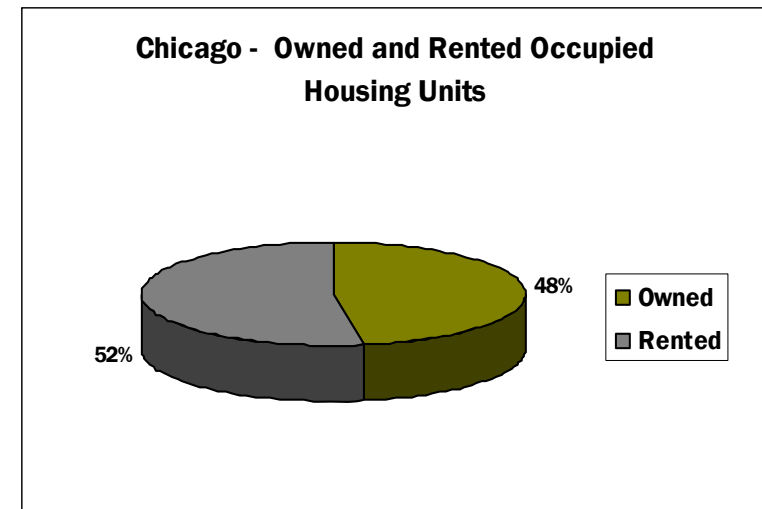
Post-Purchase and Foreclosure Prevention Counseling

Counselors must offer counseling after the client has purchased the home. Again, this process is new to many of these clients and they need guidance subsequent to buying the home. During the post-purchase phase, the client should be provided with plenty of information that will help them in maintaining their homeownership status. Information regarding refinancing, homeowners' insurance, property taxes and exemptions, budget preparation, home equity, property rehabilitation loans, and upkeep and maintenance of their home should be explained and made available for clients. In addition, counselors should realize the possibility of foreclosure. Foreclosure prevention counseling is another useful tool that helps clients keep their home. They should be educated on the causes of default and negotiating resolutions with lenders to prevent foreclosure.

Since these underserved clients tend to be relatively inexperienced with the home buying process, counselors must be mindful that terms and concepts are thoroughly explained, as misunderstandings may result. In addition, bombarding the customers with too much information may prove to be futile, as the customer may not be able to retain much new and unfamiliar information. Counselors must always act in the best interest of the clients and must be aware of who they choose to do business with. Maintaining good relationships with trustworthy Realtors and loan officers will greatly benefit the customer when they ask for referrals. Most importantly, good counseling can help the client with all aspects of buying a home.



Latino Homeownership Rates and the Browning of America



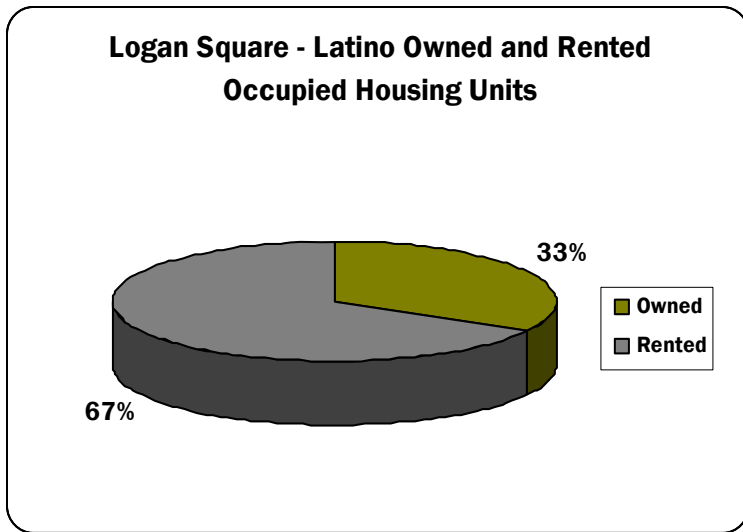
Logan Square & Humboldt Park

Logan Square is a north side Latino community made up mostly of people of Mexican and Puerto Rican origin. This neighborhood is known as a Mecca for immigrants and is rich in Latino culture. 65.1% of Logan Square's population consists of Latinos while Whites make up 26.3%. Overall, 66% of Logan Square residents are renters while 34% own. Again, we see another decline in homeownership. This time it appears in one of the most recognizable Latino communities in Chicago. Latinos in Logan Square are made up of 62% renters and 38% owners. Whites, however, are made up of 51% owners and 49% renters. How will this trend continue as we study other Latino communities?

Logan Square's neighbor to the South, Humboldt Park, has a high percentage of Latinos as well. Latinos in this area are made up mostly of two groups, Mexicans (51.4% among Latinos) and Puerto Ricans (37.3% among Latinos). In 1990, this area was made up of 51.6% of residents of Puerto Rican origin and 34.6% of residents of Mexican origin among Latinos. There is a strong representation of Puerto Rican culture along with the presence of their fellow Mexicans, whose influence is notably engraved in the neighborhood. Although it may not be common knowledge, this area is as much a Black community as it is

Neighborhood Statistics

Latino. Blacks make up about 47.4% of the population while Latinos comprise 48%. The White population is not as widespread in Humboldt Park as it is in Logan Square, as they only represent 3.3% of the population. Upon further analysis, 60% of the population rents while 40% are homeowners, an improvement from the homeownership situation in Logan Square. An interesting finding in this study shows that the small 3.3% population comprised of Whites in this area consists of 51% owners and 49% renters. In the Latino population, about 62% are renters and 38% are owners. This percentage of homeowners is greater than the percentage in Logan Square, however, there continues to be a disparity as we compare the White population to Latinos.



Best Practices for Housing Counselors

Housing counselors are another important resource that the Latino community turns to for assistance in the home buying process. Clients may tend to be more open to work with these counselors, particularly because many of the housing agencies are non-profit. However, counselors must still reach out to this group and make them feel welcome. There should be a positive and inviting atmosphere so the client is comfortable and becomes more likely to revisit. When serving the customer, counselors must be conscious of their clients' many needs and they should keep in mind that they must try to provide for these needs as efficiently as possible. Also, housing agencies should implement one-on-one counseling so that each client gets adequate attention for their needs. Group counseling tends to overlook certain clients and they may enter the home buying process unprepared.

The housing counselor must guide the client through each step in the preparation for home buying process. They must also be honest about the situation the clients are in. Can they afford to buy a home? If they cannot, they must not be discouraged. Encourage them to put themselves in a better situation so that they can later be approved for a mortgage loan. Additionally, both the counselor and the client must be aware and knowledgeable of the threat predatory lending poses. Counselors must know the predatory lending laws and prepare the customer for this hazard. Predatory lending could easily destroy the chances of long-term homeownership.

Pre-Purchase Counseling

During the pre-purchasing step, counselors must thoroughly evaluate the clients' ability to pay a loan. With the assistance of private and public loan programs, can the client gather the funds to pay for a mortgage? Counselors should layer such subsidies in an attempt to gather as much assistance as possible. Their income and expenses should be evaluated and a budget should be made to gather whether or not buying a home is feasible at the time. If they cannot, credit restoration and financial literacy classes should be offered.

The credit restoration process entails a thorough review of the clients credit report. As derogatory credit is found, the counselor should plan to correct it. Follow up and negotiations with creditors may be necessary to reduce debt and/or set up payment plans. Counselors should also request that creditors correct any credit bureau

Best Practices for Realtors

omers. When dealing with low to moderate income Latinos, including undocumented immigrants, this is significantly important because many are first time homebuyers and are not exposed to those rights. For example, they should be informed of the Chicago Heat Disclosure Law, which states that the “projected average monthly cost of utility service” should be disclosed. Items such as these can be essential when considering the costs of living in an owned home.

Disclosure of other items dealing with the conditions and true zoning of said buildings should be provided. Undisclosed interest on property and ministerial acts are other items that this group may not understand but should be educated on so they know the situation the transaction is in. All policies need to be shown in writing and explained to the customer. Another important item is the home warranty. The warranty can be a crucial purchase for lower income individuals because it covers unexpected expenses that could potentially cripple the client. In addition, there are many older homes in areas such as Logan Square that are in need of maintenance. Lenders will sometimes cover this expense, usually \$300, and it usually covers for one year.

Serving the Clients Needs

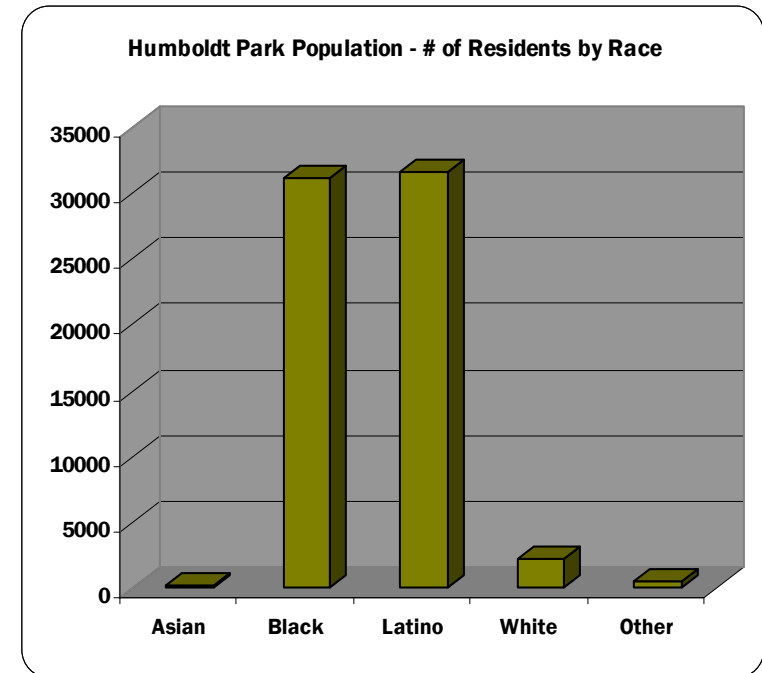
After Realtors subscribe themselves to a code of ethics and set of rules, completes the adequate educational programs, creates a checklist, and becomes knowledgeable of what important items must be disclosed, they must then focus on serving the client.

The Realtor must first be aware of the customer’s needs. Non-monetary needs seem to be overlooked. The Realtor must be cognizant of these needs, which may include neighborhood, school districts, and distance from place of employment among others.

Communication

During the home buying process, the Realtor must communicate clearly the responsibility of buying a home. Continuous and consistent follow-up with consumers must be performed and the Realtor must be readily available. The seriousness of the transaction must be expressed so that the customer can make decisions accordingly. All options should be provided, however, the Realtor must not engage in decision-making. The client must understand the process so they know what is available and make their own decisions based upon that knowledge.

Neighborhood Statistics



Little Village & Pilsen

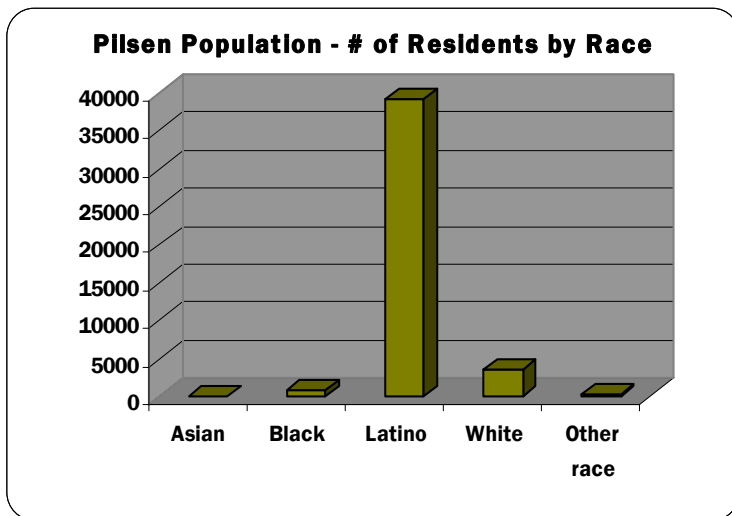
Now we will shift our attention to Neighborhoods that are among the most heavily populated with Latinos, South Lawndale and Lower Westside. These areas include the two highest concentrations of Latinos in Chicago, Little Village and Pilsen. These areas have predominant populations of Mexicans and are known for their fine illustrations of Mexican culture, colorful appearances, and streets lined up with some of the best restaurants in the city. These neighborhoods are proud of their roots and it becomes very apparent upon visiting both areas.

Little Village is located in South Lawndale and is commonly associated with 26th street, where restaurants and shops line up and down the street. Latinos in this area comprise 83% of the population, 91.5% of which are Mexican. This differs from Logan Square and Humboldt Park

Neighborhood Statistics

in that the Latino populations in those area had more representation from Puerto Ricans with regard to population. The rest of the population in Little Village is 12.9% Black and 3.5% White. The percentage of total owner-occupied housing units is comparable to the percentages in Logan Square and Humboldt Park; yet, the Whites in this area are much more likely to be homeowners than Latinos. 58% of Whites in this area are owners while 42% are renters, similar to the trend in Humboldt Park. Only 39% of the Latinos are owners while 61% of them are renters. The disproportion of homeownership with relation to race continues as Little Village is studied.

Pilsen is Little Village’s neighbor to the east. It is located in the Lower Westside community of Chicago. This area, to a greater extent, is heavily populated with Mexicans. This well-known Latino community has the highest Latino population in Chicago. 88.9% of Pilsen is comprised of Latinos, 91.7% of which are Mexican. The rest of the population consists of 8.1% Whites and 1.8% Blacks. As we look at the statistics related to homeownership, the results are as expected. The Pilsen population is made up of 73% renters and 27% owners. The Latino statistics are very similar, with 74% renters and 28% owners while 62% of Whites are renters and 38% are owners.



Best Practices for Realtors

Much like lenders, Realtors must cater to the needs of low to moderate income Latinos and offer services that are appropriate for them. The Realtor is another mediator with which these Latinos should be able to confide in, therefore, they need to build trust with these buyers. The recurring issues in the Realtor community related to operational and ethical problems are obstacles when trying to create a bond of trust these clients. The best practices for Realtors dealing with this group will be discussed in the following segment.

Code of Ethics, Rules, and Continuing Education

It is imperative that Realtors subscribe to the Code of Ethics, offered by the National Association of Realtors along with other reputable Realtor organizations, as they work with Latinos and their entire clientele. They should also follow the guidelines of the Real Estate Licensing Act and their own code of ethics to further ensure their clients are treated fairly. The rules of the agency should be clearly stated and followed.

The use of continuing education courses can be another useful tool for Realtors. This makes certain that Realtors of the agency are continuously learning about the real estate business and are increasingly competent. The Realtor should also take homeownership courses that his/her client has taken. This will prepare the Realtor to answer questions if necessary. However, willingness to take training and demonstration of true intent to work for customer must be displayed. As Realtor Alexander Chaparro, stated, “You make the investment before you get the benefit.”

Realtor Checklist

A Realtor checklist can be used to make certain all parties know the process of the transaction. The implementation of this tool can avoid problems before they occur. The Realtor can start by brainstorming the biggest problems they can encounter during the home buying process. These items can be prioritized on the checklist along with other items that are standard for the transaction being completed. Many Realtors currently do not use such a mechanism; nevertheless, it can greatly improve service and customer satisfaction.

Disclosure of Rights, Acts, and other Items

The Realtor must explain rights when working with the cust-

Best Practices for Mortgage Lenders

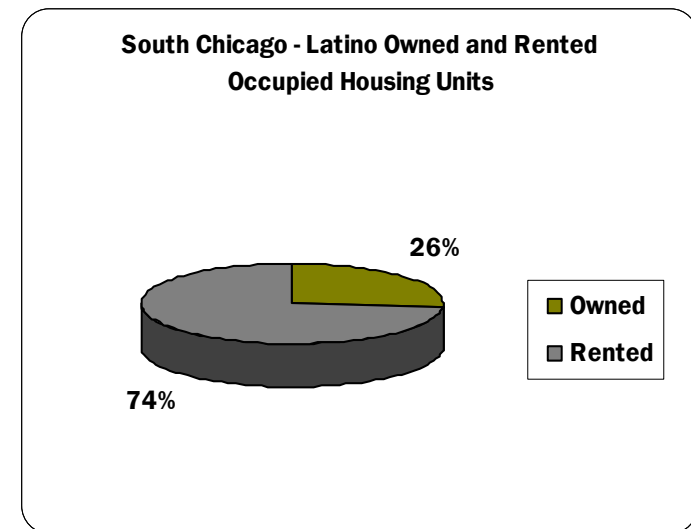
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here

time these classes place must be taken into consideration, as these can become restrictions to probable participants. The classes must also be available in Spanish.

Establish a Presence

As these first steps are taken, lenders should now focus on becoming a familiar face in the neighborhood. Do these potential customers know of the lender's financial institution? Are they aware of the products these institutions provide? What is their opinion? The lender must evaluate these questions and later act on these issues. Homebuyer educational classes are a start, but additional strides must be taken. The lender should participate in housing fairs, sponsor neighborhood events and distribute information that facilitates access to the mortgage products and their financial institution.

Neighborhood Statistics



South Chicago

South Chicago is another community, located in the southeast side of Chicago, that is continuing to grow with Latinos. This is yet another community that shows the struggle Latinos are encountering when trying to obtain homeownership. As you can see in the chart above, the vast majority of Latinos in South Chicago are renters. The White population in this area comprises 38% owners and 62% renters. The trend continues.

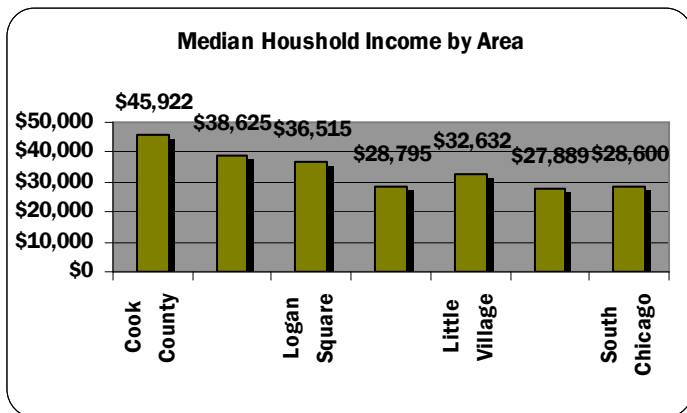
As we have studied a broad spectrum and followed up with statistics of the most concentrated Latino communities, we can now make many comparisons and have a better feel for the situation that Latinos face. The percentage of overall homeownership has steadily decreased as we focused on these smaller areas. Since the smaller areas that were studied showed an increase of Latino residents and a decrease in homeownership, we must try to find reasons for this disparity. Could this relationship have something to do with median household income? Further analysis must be made to scrutinize the possibility.

Neighborhood Statistics

Median Household Income

The overall median household income (MHI) for the state of Illinois is \$46,590 while the Cook County MHI is slightly lower at \$45,922. The MHI's decrease as we narrowed our focus to Chicago and the aforementioned Latino neighborhoods. Chicago's MHI is \$38,625, much lower than County's MHI. As we move to the Latino communities, we continue to witness this decrease. The MHI's in these communities are as follows: Logan Square, \$36,515; Humboldt Park, \$28,795; Little Village, \$32,632; Pilsen, \$27,889; South Chicago, \$28,600. There is an evident relationship between median household income and homeownership. As we study Latino communities, we notice lower MHI's and, in turn, their residents are less likely to be homeowners. Are there other reasons that we can attribute with the low percentage of homeowners in Latino community? Most definitely. Yet, these reasons tend to be more subjective and require more investigation and interaction with members in these communities to help explain this phenomenon.

There are some interesting findings in this study, however. In two of the target Latino communities, Humboldt Park and Little Village, Whites have a lower Median Household Income than Latinos. With this in mind, the White populations in these two areas still have a higher percentage of homeowners.



	Fifth	Third	Bank	CitiBank			
LOAN	Flex 53 for Immigrant Borrowers	Good Neighbor	Home Possible 100	Home Run	Home on Time	CAMP	CPAP
Loan Type	Fixed and ARM's	Fixed and ARM's	Fixed and ARM's	Fixed Rate, T-Bill and LIBOR ARM's	Fixed Rate, T-Bill and LIBOR ARM's	Fixed Rate, T-Bill and LIBOR ARM's	Fixed Rate
Term	30yr Fixed; 3/1 & 5/1 ARM	15, 20, 30yr Fixed; 3/1 and 5/1 ARM's	15, 20, 30 yr Fixed; 7/1 ARM's	Fixed: 5/1, 7/1, 10/1 ARM's; No coops	Fixed: 5/1, 7/1, 10/1 ARM's; No coops	15-30yr; 5/1, 7/1, 10/1 ARM's	15-30yr
Maximum Loan Amount	1-unit, \$333,700; 2-units, \$427,150	2 unit max; No loan amount restrictions	1 unit max - \$359,650	\$400,000	\$400,000	\$400,000; 2-4 unit	N/A
Down-Payment	5%	None	\$600	1-unit, \$500	N/A	2%, with 2/1 option	\$500 from own funds
Closing Cost Assistance	Standard Affiliate closing costs programs	\$1500; \$500 from Customer	\$1500; \$500 from Customer	Flexible sources of funds	N/A	N/A	None
PMI	Required	Not Required	Required	Not Required	Required	Required	Required
Accessible with an ITIN	Yes	No	No	No	No	No	No
Income Requirements	No Income Restrictions	80% of AMI or reside in target area	100% of AMI or reside in target area	80% of AMI	None, Properties In an LMI CT	100% of AMI	80% of AMI

Best Practices for Mortgage Lenders

Latino staff that can fluently speak Spanish should be hired. In addition, cultural diversity training should be implemented to assist those who aren't familiar with the Latino community. This will help avoid unintentional discriminatory actions. However, should these actions occur they should be dealt with appropriate discipline and/or training.

Affordable Mortgage Products

After lenders have successfully evaluated their potential client base and prepared for serving them they should provide appropriate mortgage products. Low to moderate-income earning individuals tend to have trouble gathering funds for a down payment and may not qualify for such products because of bad credit. Additionally, many undocumented immigrants may not have the proper identification, which, consequently, further complicates proving credit history.

Programs must be tailored around such needs to lure Latinos in these target areas. Lenders and their respective institutions should internally offer flexible programs with lower interest rates. These programs may also be provided by working with non-profits like Fannie Mae and Freddie Mac as well as government sponsored programs through the state of Illinois and the city of Chicago. Other characteristics of these programs may include: down payment and closing cost assistance, allow credit blemishes, acceptance of non-traditional credit histories, not requiring PMI (Private Mortgage Insurance), reduced monthly payments, subsidized second mortgages and acceptance of the ITIN (Individual Taxpayer Identification Number) for identification purposes. This assistance is necessary for these individuals, many of whom are first time homebuyers. Matrices of programs geared toward this population are shown on the following pages.

Education and Counseling

Another useful tool in servicing this group is the application of homebuyer education and counseling. Lenders must be knowledgeable of these services because they can greatly enhance the relationship they have with their clients while preparing them for the home buying process. This financial literacy review will make the client a better, more responsible consumer. Lenders must either be willing to offer these classes or collaborate with groups in the community who do. The location and

(Continued on page 20)

Neighborhood Statistics

Why should this matter? Despite the monetary advantage Latinos have in Humboldt Park and Little Village, they are still less likely to be homeowners. This is a very important revelation in that financing a home is one of the most important wealth building vehicles. Predatory Lending and Foreclosure resulting from such practices may be a cause of this reality. Abusive lending practices may add to the distrust many Latinos have for banking institutions, therefore, decreasing the amount of Latinos trying to reach homeownership status. Latinos also face other disadvantages that hinder the possibility of becoming homeowners. According to the National Council of La Raza, "Latinos are more likely to finance a home purchase with an expensive mortgage product and are less likely to refinance, which often can lower the cost of a mortgage."

As we have studied the demographic realities and trends, we discover many reasons for the low rate of homeownership in Latino Communities. Once we gather information on the different areas in our study, we see trends of lower income and homeownership rates in our target communities. Low-income rates normally indicate a lower capability of being able to purchase a mortgage and maintain regular payments. However, when members of another group have high homeownership rates despite the fact that they earn less, we can infer some reasons for this. The lack of financial literacy in this community creates a tremendous setback for Latinos, as building equity through a mortgage can help increase their income. Awareness of programs that promote financial awareness must be presented. Lenders, Realtors, and housing counselors that service Latinos must utilize these tools to close this gap of inequality by promoting wealth building practices in these communities.



Affordable Mortgage Products

Below is a listing of mortgage products directed toward low to moderate income Latinos that assist in obtaining homeownership. They must first go through pre-purchasing counseling, which will guide them through the prerequisites of obtaining a loan and references to lending institutions and mortgage products. Credit restoration and financial literacy classes may be necessary. Condominium purchasers must receive condominium counseling in addition to homebuyer counseling. They must then meet with a lender to obtain a mortgage loan approval. Here are some mortgage products that are made available for this group.

IHDA Programs and Tax Smart

Among some of the mortgage products that are directed toward Latinos, the Mortgage Revenue Bond (MRB) and Mortgage Credit Certificate (MCC) programs are widely acclaimed by its provider, the Illinois Housing Development Authority (IHDA). These housing assistance programs, offered by the IHDA, aid in the home purchasing process. These programs are targeted for first-time buyers that meet certain restrictions. The MRB offers a 30-year fixed rate mortgage with interest rates approximately half a percent below market rates. The MCC assists by offering a tax credit, which allows borrowers to reduce their federal income tax liability by up to \$2,000 a year. The federal income tax credit received is equal to 25% of interest paid or accrued on the first mortgage loan with which the recipient finances the acquisition of the residence. However, this percentage is subject to change. This program is very similar to the Tax Smart program offered by the city of Chicago. Applicants may use Tax Smart with a Rehab Loan and receive up to 50% in tax credit, rather than the 25% or \$2,000. However, qualified participants may only use one IHDA housing assistance program, as they do not allow “double dipping”. Accordingly, an applicant may not use Tax Smart with IHDA’s MRB program, as they both use state funds.

Both the MRB and MCC programs are excellent sources of aid, depending on the customers situation or savings preference. In addition to these programs, IHDA offers many other programs to assist lower income families buy a home.

Best Practices for Mortgage Lenders

Helping low to moderate income Latinos achieve the dream of obtaining homeownership entails many things before serving them. Service providers helping this group must first become knowledgeable of this group and their needs in order to begin the process of buying a home. They must also be aware of the tools and resources available that will further assist in this process. This next segment will focus on the best practices for counselors, lenders, and Realtors when serving members of the Latino Community.

Mortgage Lenders

As Latinos continue to grow in massive numbers their market value maintains a steady increase. Special attention is needed for lower to moderate income Latinos in the Chicago area, as it is a diverse population with different needs. Mortgage products should be tailored to undocumented immigrants as well as second or third generation Latinos who find themselves in a financial burden. Lenders must recognize the importance of serving these individuals and follow certain guidelines. Their respective banks must reach out to the community in order to gain these potentially lucrative clients.

Outreach

Before a lender can reach out to communicate a desire for a business relationship he/she must first study their target group. One must keep in mind that the Latino community, in itself, is very diverse. Within each area, the language, whether it is English or Spanish, is spoken differently. The median income may also vary. These, among many other characteristics, must be examined carefully in order to know which products to offer and accurately market them.

Fair Lending

As mentioned previously, many residents of the Latino community may have distrust with lenders and financial institutions. Consequently, it is imperative that lenders stress that they are proactive in fair lending. They may do this in a number of ways. Foremost, upper management must be in accordance with fair lending and marketing that focuses on products made specifically to help them obtain homeownership. These two items on the “checklist” demonstrate the effort lenders and their institutions are putting forth. With these items checked, lenders can now do other things that will further gain their trust.

Individual Taxpayer Identification Number

The Individual Taxpayer Identification Number, or ITIN, is a card distributed by the Internal Revenue Service (IRS) to those who are not eligible to receive a Social Security card but must have taxpayer identification. These were initially intended for federal tax reporting only but many banks have accepted these forms of identification to be able to identify undocumented immigrants and evaluate their tax paying patterns. Consequently, ITIN loans have come about to serve this population. These loans tend to have higher interest rates because of the perceived risk involved with serving a client that may not be able to thoroughly prove their credit history and may face deportation. Recently, some banks have become “Acceptance Agencies” and assist their clients in obtaining this form of identification.

Usually, banks require that their clients have the ITIN for two years in order to qualify for an ITIN loan. They may also review a clients credit history by observing non-traditional credit such as rent, utility, cellular phone, and furniture payments to determine whether the client has adequate spending habits. Many difficulties arise when serving the undocumented. Clients may, at times, use a false identity and social security number. This poses many problems because it decreases the reliability of that credit evaluation. ITIN loans, however, open the doors to many hard working immigrants that need a wealth building driver to lift them out of low income status. Lenders may also note that the founding fathers that issued ITIN loans can attest to the value of these loans. James Maloney, Chairman of Mitchell Bank in Milwaukee, WI, says of ITIN mortgage loans: “These are our best-performing assets. These are folks who are appreciative of the fact that we're willing to take a chance on them.” Mitchell Bank says it has never experienced a default on the roughly 100 ITIN loans it has issued and they have only recorded two late payments during it's four year existence.

When considering serving the Latino community in Chicago, lenders, Realtors and housing agencies must be aware of the fact that a significant proportion of this population is undocumented. Because of this, an effort to promote homeownership includes this group of Latinos and the ITIN is the most useful tool for them to gain access to a mortgage loan.

Affordable Mortgage Products

American Dream Down Payment Initiative

The American Dream Down Payment Initiative is a Housing and Urban Development (HUD) sponsored program that helps participants with down payment and closing costs. This program is only available for Section 8 Clients. They can receive up to \$10,000 in grant money, which can be used in combination with other programs. After 5 years, it is forgivable and does not need to be repaid. This program, just as the MRB and MCC, are exclusively for first-time homebuyers.

New Homes for Chicago

This program is intended to revitalize neighborhoods. It has approved over 65 developments in its 11 years of existence. There are select properties available in North Lawndale and South Chicago for purchase under this program. The program provides deep subsidies for the buyer. \$10,000 is automatically credited directly to the developer and buyers can qualify for up to \$30,000 credit towards sales price depending on income and family size. The residency requirement for these grants is 10 years. Clients can combine the American Dream Down Payment Initiative or Tax Smart/MCC with New Homes for Chicago.

Chicago Partnerships for Affordable Neighborhoods

This program is a partnership between Department of Housing of the city of Chicago and developers that is intended to ensure affordable condominiums. CPAN operates in participating communities of Chicago and only deals with condominiums. Developers involved in this program provide homes at write down prices between \$139,000-165,000, significantly below the market rates. According to the Department of Housing, “the difference between the market value and the affordable price is recaptured as a junior mortgage, assigned to the Chicago Low-Income Housing Trust Fund.” This second mortgage is paid upon sale of the property or after the 30-year term is completed at a 3% flat rate.

In order to be qualified, clients must meet the income and family size requirements and have completed homebuyer counseling from a certified homebuyer counseling agency. Qualified applicants can receive up to \$40,000 in purchase price assistance; however, there are recapture provisions. The commitment in this program is heavier than the previously mentioned programs. The applicant must stay in the property for at

Affordable Mortgage Products

least 10 years. During the 10 years, this money is forgiven yearly on a pro-rata basis. For example, if the applicant receives \$30,000 in assistance and moves out of the property in 5 years, they are required to repay \$15,000. In addition, any assistance received cannot be used for upgrades on their condominiums.



Publicly funded programs like these help many families achieve the dream of buying a home. Housing agencies, lenders, and Realtors alike, must work cooperatively in an effort to service these users. As a member of each of these groups, they must all be aware of the effects of using each of the programs and they must be translated to the client. More often than not, first-time homebuyers may not be familiar with mortgage lending terminology. In addition, service providers must make sure their clients fall under all the prerequisites to make certain that they are qualified. Being knowledgeable on these publicly funded programs is an example of the Best Practices for serving the Latino community.



Financial Literacy Education Workshop

Promoting Financial Literacy

The root of many of the problems Latinos face when struggling to obtain homeownership lies in the lack of financial literacy and money management skills. Nearly half of Latinos in the U.S. do not have bank accounts and have little understanding of their finances. Although the many Latinos in Chicago deal with different monetary dilemmas and situations, the stress can be lessened with the introduction of financial education services. A program such as Money Smart, created by the FDIC, introduces the basic functions of money management and continues by highlighting the importance of budgeting, understanding credit, investments, predatory lending, and the homeownership process. This broad money management tool can help introduce crucial, wealth building tactics. Realties, housing agencies and financial institutions alike should implement useful tools like Money Smart and consider certifying their clients so that they are better prepared for maintaining their finances. These are the training modules Money Smart goes through:

1. Bank on it: Introduction to bank services
2. Borrowing Basics: An introduction to credit
3. Check it out: How to choose and keep a checking account
4. Money Matters: How to keep track of your money
5. Pay yourself first: Why you should save, save, save
6. Keep it safe: Your rights as a consumer
7. Borrowing Basics: How your credit history will affect your credit future
8. Charge it right: How to make a credit card work for you
9. Loan to Own: Know what you're borrowing before you buy
10. Your own home: What homeownership is all about

Following a curriculum similar to this will not only help the client through the home buying process, but also better prepare them for other financial hurdles they may encounter. The introduction of these services may also build a bond of trust with the client, as it demonstrates intent to help. These resources should also be made available in Spanish because of the vast demand. In addition, these financial literacy classes should be taught by bilingual staff that will keep the clients interested in the material and motivated to continue with the program.