

Housing and Homeownership

Moderator - Raoul Raymundo, Chief Executive Officer, The Resurrection Project

Session Three

Financial Access for Immigrants: Learning from Diverse Perspectives

The third session focused on homeownership among immigrants and its importance for long-term wealth accumulation. Sherrie Kossoudji, associate professor of social work at the University of Michigan, began by citing her research with Stan Sedo, also of the University of Michigan, on homeownership as an indicator of wealth. Andrew Schoenholtz, deputy director of the Georgetown University Institute for the Study of International Migration, discussed joint research of the institute with the Fannie Mae Foundation to increase immigrant homeownership¹. Michael Frias, Chicago regional community affairs officer for the Federal Deposit Insurance Corporation (FDIC), addressed nontraditional ways that banks have penetrated immigrant markets and the role of the Community Reinvestment Act (CRA) in those efforts. Frias also discussed the New Alliance Task Force, an association of various concerned organizations, whose main mission is to bring immigrants into the banking system.

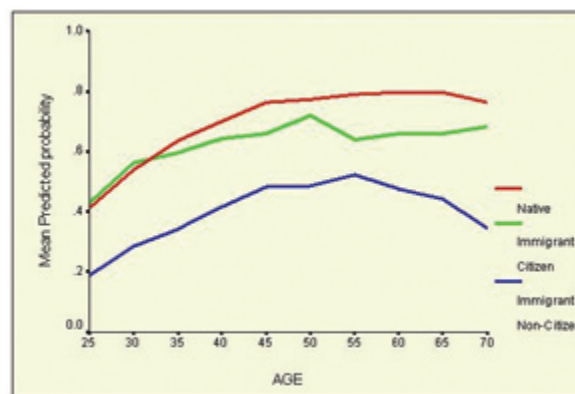
SHERRIE KOSSOUDJI
University of Michigan

Sherrie Kossoudji is an associate professor of social work at the University of Michigan. Kossoudji began her remarks noting that despite low education attainment and a tendency not to use traditional banking services, the high level of remittance activity to Mexico suggests a certain level of “financial savvy.” Her research with Stan Sedo of the University of Michigan focuses on homeownership as an indicator of wealth. Previous work she had conducted with Sedo focused on income of immigrants compared to that of U.S. born workers. But, said Kossoudji, “Suddenly it occurred to us that [income] covers a pretty transitory phenomenon...where the real action is in wealth.”

Kossoudji stated that the U.S. Census now tracks for the first time immigrant citizen homeownership rates distinct from those of non-citizens. She showed that in 2002 the

homeownership rate for U.S. natives is 70.3 percent, for citizen immigrants, it's 67.6 percent, and for non-citizen immigrants, 34.9 percent. At younger ages (25 to 35), there is almost no difference in homeownership rates between native-born and immigrant citizens; there is a disparity among older heads of households toward native born (see Figure 1). The disparity between non-citizens

Figure 1: Homeownership by Age*



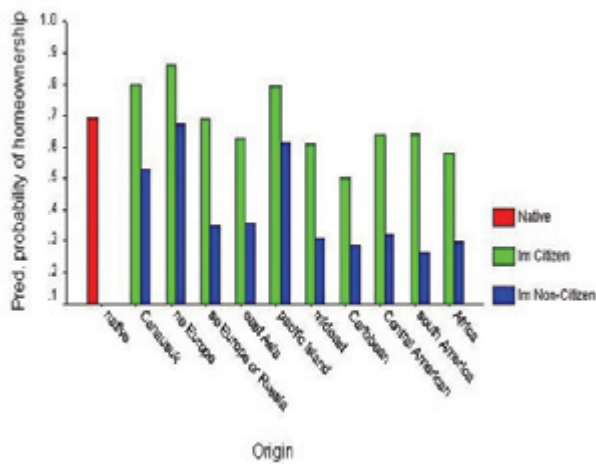
*Predicted value based on regression.

and citizens, both native born and immigrant, remains wide across all age segments.

Kossoudji also discussed the significance of nationality of immigrants, noting that Europeans and immigrants from other developed areas have higher homeownership rates than native born. She further added that ethnicity, not just national origin, has an effect on homeownership rates. After controlling for nationality, there is a wide disparity in homeownership rates based on ethnicity (Figure 2). This is an area Kossoudji urged others to research more deeply, especially given that home equity is a primary component of household wealth. Kossoudji concluded by summarizing the key findings of her research:

- Immigrant citizens and native born living in urban areas are equally likely to be homeowners;
- Immigrant citizens and native-born homeowners are almost equally likely to have no mortgage and have similar debt-to-value ratios when they do have a mortgage;
- Immigrant citizen homeowners have significantly higher equity values than natives;
- Immigrant non-citizens lag behind on every measure, no matter how many years they have lived in the United States; and
- Housing is a higher proportion of wealth for immigrant citizens and non-citizens than for native born.

Figure 2: Homeownership by Nationality



ANDREW SCHOENHOLTZ
Georgetown University

Andrew Schoenholtz is deputy director of the Georgetown University Institute for the Study of International Migration. He discussed joint research of the institute and the Fannie Mae Foundation that focused on practices to promote homeownership among immigrants.¹

Schoenholtz shared his experience in meeting with financial institutions to discuss his findings. He said that he usually begins the discussions on a macro level, noting that there are already 35 million foreign-born U.S. residents. That number is currently growing by roughly a million per year. About half come from Latin America and a fourth from various parts of Asia. Further, he referred to a point made earlier in the day that the last decade and a half has seen immigrants populating areas that had little immigrant settlement prior to 1990. These areas are

struggling to provide appropriate financial services and address other services and needs.

Schoenholtz cited research showing that the foreign born are three times as likely as U.S. born to rank buying a home as their number one priority, and posed the question: “Why are immigrants largely an untapped home buying market?” The study notes these barriers:

- Cultural assumptions/lack of familiarity with the U.S. credit system;
- Lack of credit history;
- Conventional tools used by financial institutions to measure credit worthiness;
- Language limitations;
- Conventional mortgage products out of reach for low-income; and
- Limited supply of affordable housing.

In undertaking the study, Schoenholtz stated that he wanted to focus on financial institutions that have had some success in reaching the foreign-born market, and the relationships they have with community based organizations (CBOs) and other partners to help them reach it. He noted that the study, which was published in 2001, uncovered a number of very good practices. The researchers wanted to ensure that the handbook would add value to efforts to reach immigrant markets, and so they formed a strategic business plan with the American Bankers Association (discussed by James Ballentine of the ABA in the opening panel).

Schoenholtz emphasized the need to design and market creative mortgage products with the goal of sustainable homeownership. The successful institutions have taken the time to conduct both quantitative and qualitative research on their markets to determine the community profile, that is, the makeup and cross-section of immigrants in the market. The successful institutions have also staffed themselves to accommodate their market, and made the commitment to re-evaluate the way they determine creditworthiness given special needs and preconceptions of many immigrants. They have further recognized that traditional mortgage products may not suit all immigrant markets.

Schoenholtz discussed qualitative aspects of determining credit needs and other market characteristics and ways to ensure success in delivering financial services. In effect, the bank must establish a presence in the community beyond what might traditionally be described as being a good corporate citizen. Schoenholtz stated, “Establishing a presence in the community and really building trust [among CBOs]...I can't underscore more the importance of the trust issue, which is why partnerships become very,

very important. The financial institutions do not have to do this alone.”

MICHAEL FRIAS
Federal Deposit Insurance Corporation

Michael Frias is the Chicago regional community affairs officer for the FDIC. Frias began by addressing earlier comments about the CRA. “[The] CRA has never been about charity. We have never encouraged banks to do things they shouldn’t be doing; it’s always been about good business.” He stated that the CRA was enacted to keep banks from ignoring certain, generally low-income, markets. Even though the households that remit funds to Mexico, other parts of Latin America, and the Caribbean are among the poorest in the country, banks are actively pursuing their business because they represent an opportunity.

The CRA, Frias also noted, has encouraged banks to pursue nontraditional approaches to serving low-income and new immigrant markets. “We heard from James Maloney [of Mitchell Bank] that he will accept alternative forms of identification; there’s nothing traditional about that. They put a branch in a high school; it’s probably the only bank in the nation that has done that. And the bank is a certifying acceptance agent.”²

Frias discussed the New Alliance Task Force, a group of 55 organizations, including CBOs, small and large banks, regulators, capital markets institutions, private mortgage insurers, and the Internal Revenue Service (IRS). The principle mission of the task force is, “...to open doors for immigrants and get them into the banking system,” Frias said. The task force has four working groups focused on financial education, bank products and services (except mortgages), mortgage financing, and social projects. Frias discussed the work of the mortgage task group. The group developed a model mortgage product based on the mortgages already issued by Mitchell Bank in Milwaukee and Second Federal Savings in the Pilsen neighborhood of Chicago. The unique aspects of the product are that instead of a Social Security number, the applicant can use an individual tax identification number (ITIN) for documentation. Also, references from certain utilities, landlords, and even clergy can be considered in lieu of a formal credit history.

Frias stated that neither Mitchell nor Second Federal had experienced any losses or delinquencies in the approximately three years they had been issuing these types of loans. Mark Doyle, CEO of Second Federal, Frias said, “...told me that these loans are better than they’re saleable [to the formal secondary market dominated by Fannie Mae and Freddie Mac] loans.” He went on to

mention that Neighborhood Housing Services of America, which has made a secondary market for nonconforming loans for decades, would begin purchasing ITIN mortgages in the near future. Another entrant into the secondary market for ITIN mortgages, Frias noted, is the Wisconsin Housing and Economic Development Authority (WHEDA). The agency will work with four banks including North Shore Bank and Mitchell Bank to purchase ITIN loans. A unique aspect of the underwriting for these loans, Frias stated, is, “They are actually going to consider remittances (monies sent back to home countries) back to Latin America as an obligation...as alternative credit information.”

Frias noted that the USA PATRIOT Act, “...distinguishes between a U.S. person and a non-U.S. person.” For a non-U.S. person, a bank must obtain a Social Security number, an ITIN, or a foreign-issued identification as documentation to create the banking relationship. He stated that about 32 percent of bank offices nationwide accept alternate forms of identification adding, “That’s immediate access to the system.” The Chicago area banks that already serve the immigrant market with mortgage products, Frias stated, are mostly community banks that can implement decisions quickly, but are also having difficulty meeting demand in some cases. Frias closed by urging the bankers present to become well versed with the PATRIOT Act. Other than that, he advised bankers to stay aware of safety and soundness issues, and understand and manage default and other relevant risks.

Notes

1 The report *Reaching the Immigrant Market: Creating Homeownership Opportunities for New Americans*, can be accessed at www.fanniemaefoundation.org/programs/pdf/rep_immigrant.pdf.

2 An Acceptance Agent is an individual, business, or organization (college, financial institution, accounting firm, etc.) authorized by the IRS to assist individuals in obtaining ITINs. For more information go to www.irs.gov.