Understanding a Motivated, HISPANIC Consumer Base

— by DEBORAH GARCIA-GRATACOS —

Tremendous home-buying demand is waiting to be tapped from Hispanic borrowers. These business tips could help unleash that buying power.

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The mortgage lending industry is back on its feet and making considerable progress. The Mortgage Bankers Association (MBA) is forecasting a 7 percent increase in residential mortgage originations in 2015, with strong job growth and low mortgage rates being driving factors. ¶ But there is another critical factor worth noting—the demographics of the nation's homebuyer are quickly changing. ¶ In 2012, four years after the onset of the housing crisis, Hispanics alone accounted for 51 percent of the total net increase of 693,000 owner households in the United States, and the numbers continue to grow. ¶ From 2000 to 2012, states such as North Carolina, Maryland and Georgia had a greater than 100 percent increase in their Hispanic population, according to the Pew Research Center, Washington, D.C. (see www.pewhispanic.org/2014/04/29/statistical-portrait-of-hispanics-in-the-united-states-2012). ¶ While Congress and President Obama continue to debate immigration reform, Hispanics continue to buy houses in the United States. ¶ And we can expect to see an even bigger increase in Hispanic originations following the president's announcement on Nov. 21, 2014 that will allow up to 5 million undocumented immigrants to work legally in the United States. Lenders should be aware of this significant segment of the market.

Importance of lending to Hispanics

As the demographic makeup of this nation changes, Hispanics are an essential market for the mortgage lending industry. With all the signs showing a rebound in the housing market, now is the time to ensure that customer communication is strengthened, positioning the mortgage finance market to prosper by serving the Hispanic community and providing Hispanic families the opportunity to build long-term wealth.

We are still in the midst of a major wave of immigration, where many hard-working families from Latin America are looking to achieve the American dream of homeownership. This growing demographic has or will have the need to obtain a mortgage. In many cases, these borrowers will be faced with qualifying for loans without the ability to speak the language.

According to a Jan. 31, 2013, article in *The Economist*, "The Magic Words 'Make Them Learn English,'" based on historic immigration waves, there is a three-generation pattern before English becomes the language almost solely spoken in the home (see www.economist.com/blogs/johnson/2013/01/immigration).

This was the pattern when Jews, Italians and Germans arrived in the United States, according to *The Economist*. The article goes on to suggest that there is no reason it will be different for Hispanics: "The immigrants' kids always learn English, and speak the heritage language at home. The third generation has a smattering of the heritage language, at best."

One significant difference is most non-English-speaking immigrants arrived in the United States before the 30-year fixed-rate mortgage was even introduced. Before the Great Depression, banks would typically give short-term loans of three to five years that would balloon—which means families would need to refinance their homes frequently, even during periods of unemployment.

It took immigrant families as well as anyone who was not wealthy decades before they could even buy a home. Economic progress took longer as a result. Today that is not the case. The 30-year fixed-rate mortgage is what helped to create the middle class in the United States, and it is available to all who qualify.

Today, however, there is a growing demographic of Hispanics who qualify—but do not speak the language.

Having serviced and monitored more than 725,000 mortgage loans as the chief executive officer of the only Hispanic woman-owned non-bank loan servicing firm in the nation, I have seen firsthand the need for the industry to communicate better with Spanish-speaking homeowners in order to capture this market share.

It is often said that some of the most successful business owners in Southern California are Koreans who learned how to speak Spanish. They realized that to capture and retain this growing market, they had to be able to communicate with their clientele.

Yet major corporations, in particular banks and mortgage servicers, are struggling to keep up with the country's changing demographics. With ongoing growth in the Hispanic population, it is important for lenders to provide language access for all mortgage origination materials, until the next generation of native English speaking Hispanics begins to purchase homes.

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How to tap the market—best practices

Fortunately, there are several steps that lenders and loan servicers can take in order to address this issue and ensure that Hispanic clients get into good loans, prosper and become long-term customers for lenders.

First, consider alternative credit-scoring criteria—particularly if clients have thin credit files or even past delinquencies that may be tied to subprime lending. Credit scores are an important factor in the loan underwriting process; however, they do not reflect holistically the credit soundness of some minority applicants.

In the case of Hispanic borrowers, we know that language access makes a significant difference in understanding credit reports and corrective measures. Traditional credit determinations penalize borrowers who do not have recent credit histories, use small lending institutions such as credit unions or who have previously relied on payday and subprime lenders that are the predominate credit resource in minority neighborhoods.

Lenders should consider alternative credit-scoring criteria, and consider credit sources like Stamford, Connecticut–based VantageScore Solutions LLC's VantageScore® model, which evaluate borrowers who have thin credit files or past delinquencies and rental income.

Second, lenders should consider partnering with families to build a down payment for their house. While reports indicate that Hispanics are not saving as much as Caucasians or other ethnicities, they are one of the only groups supporting nuclear and extended families in other countries, to the tune of $53.8 billion in 2013 alone, according to Pew Research Center. That is more than the 2014 annual revenue of the Coca-Cola Company.

It takes significant resolve and discipline for a community to send that much financial support abroad, given the cost of living in the United States. It is incumbent upon lenders to figure out how to leverage such discipline to help financially prepare this rapidly growing demographic for homeownership. Whether it is through remittances themselves, rounding up purchases, the penny saver club or the Treasury Department's *myRA* (www.myra.treasury.gov), let families know that lenders are willing to work with them to save for a down payment on a house.

Third, consider alternative financing vehicles during the origination process. Solutions include shared-appreciation mortgages, through which lenders benefit from price appreciation, or lease purchases, which position renters to buy their homes.

Fourth, translate loan origination and disclosure documents into Spanish. This will ensure minimal misunderstanding as it relates to the borrowers' responsibilities and underscore the importance of constant communication with their lender.

Finally, the word *confianza* (or trust, familiarity) is very important in the Spanish language.

While having a bilingual origination team is very important,

A Blueprint for Success

In March, the National Association of Hispanic Real Estate Professionals (NAHREP), San Diego, outlined its Hispanic Wealth Project Blueprint for increasing Hispanic wealth in the next 10 years. One of components of the plan is to increase Hispanic homeownership in the United States. The blueprint's recommendations include:

- Ensuring Hispanics have consistent access to low-down-payment mortgage financing;
- Increasing housing inventory, especially in the stock of affordable homes;
- An increase in the number of formally trained Hispanics working in the mortgage and real estate industry;
- Practical consumer protection that reduces the risk of predatory activity while simultaneously promoting fair housing and improved credit access;
- Down-payment assistance and a plan to provide more Hispanic families with access to viable programs;
- Housing counseling that improves homeownership sustainability;
- Strong Community Reinvestment Act (CRA) and affordable-housing goals that are met through programs that truly serve communities and homebuyers; and
- The continuation of government housing policies, including the mortgage interest tax deduction, that favor homeownership outcomes.

As a professional in the mortgage industry, I have seen firsthand the need for the industry to better serve the needs of our Spanish-speaking community, which often results in increased revenue when effectively incorporating this market share. It's a win-win relationship for the mortgage industry and the community alike.

Some of the most progressive corporations understand the Hispanic consumer base and have for years incorporated marketing techniques and outreach efforts to reach Hispanic neighborhoods and communities. Storefronts in Miami have signs stating "se habla Español,"—we speak Spanish—as the Spanish language has saturated the city and increased the diversification in the market and allowed companies to grow revenues by better serving Hispanic consumers.

According to 2013 Home Mortgage Disclosure Act (HMDA) data, more than 580,000 residential loans were originated for Hispanics, resulting in a 1.5 percent increase in the market from 2012. Although this number may seem low, during the same period non-Hispanic originations saw a 15.7 percent decrease, according to the Pew Research Center, Washington, D.C.

Banks and lenders should be encouraged to think outside the box and include this growing demographic when planning strategies to increase origination market share. Loan servicers should prepare by internally outlining policies and procedures that effectively support oral and written communication with Hispanic borrowers post-origination.

The mortgage industry as a whole should actively recruit more qualified Spanish-speaking personnel and increase Hispanic staff levels and vendors.

Government-sponsored enterprises (GSEs) like Fannie Mae and Freddie Mac should continue to support homeownership programs that offer low down payments and encourage first-time homebuyers. (For example, Fannie Mae and Freddie Mac issued new lending guidelines to "enable creditworthy borrowers who can afford a mortgage, but lack the resources to pay a substantial down payment plus closing costs, to get a mortgage with 3 percent down," Federal Housing Finance Agency [FHFA] Director Mel Watt said in a statement.)

The mortgage industry as a whole should actively recruit more qualified Spanish-speaking personnel and increase Hispanic staff levels and vendors in order to better communicate with potential future homeowners and existing borrowers.

Increases in Hispanic homeownership will drive ongoing increases in Hispanic household net worth, enabling broader investments in education, small-business formation and more, according to NAHREP's Hispanic Wealth Project Blueprint. By partnering with other organizations, industry leaders and government representatives, the mortgage industry can effectively prepare for this growth in the economy and work in partnership in celebrating homeownership in the Hispanic community.

having a personal local presence with expertise in originations and homeownership programs who is a native Spanish speaker or fluent in Spanish is invaluable.

It is difficult for new Hispanic immigrants to work out these challenges with a non-Spanish speaker, especially over the telephone. Hence the continuing long lines on payday at local branch offices, even when online banking options are available and accessible to them.

Loan product opportunities

Currently most Hispanic mortgage loans originated in the United States are non-conventional, insured or guaranteed by the U.S. government—the Federal Housing Administration (FHA), Department of Veterans Affairs (VA), U.S. Department of Agriculture (USDA) Rural Development program, etc. While these types of loans create more access, they also involve additional costs such as mortgage insurance.

Interestingly, the Home Mortgage Disclosure Act (HMDA) data indicates that 63 percent of Hispanic home-purchase borrowers took out a non-conventional loan. However, only 16 percent of Asian home-purchase borrowers had taken out a non-conventional loan, according to 2013 HMDA data. Credit scores may be a factor, but they do not explain the significant gap in the market. This means that lenders offering conventional loans are not capturing all of the value on the table with regard to Hispanic borrowers.

In addition, the HMDA data also indicates that minority borrowers tend to acquire loans from banks that typically offer more costly loans to all borrowers, regardless of ethnicity. These banks have learned how to capture an important market that could be eligible for conventional loans with lower monthly payments.

The more that qualified Hispanics get into conventional loans with lower monthly payments, the more disposable income they will have to build more savings and a stronger credit profile. It also builds *confianza*. If they feel that they are not being taken advantage of and are respected by their lender, they are likely to continue the business relationship for generations to come.

When individuals are acclimating to a new country, they are most loyal to the organizations and people that helped make it a smooth transition.

The following is a short list of best practices that will help foster better business relationships with the Hispanic community:

- Review existing credit underwriting criteria and determine ways to capture a growing market with a thin credit profile.
- Make a true commitment to change "business as usual," which is reflected in policies and procedures—such as partnering with families to build a down payment for a house or providing alternative financing vehicles.
- Capture metrics on originations and foreclosures, and make adjustments in the areas where targets are not met.
- Translate key disclosure documents.
- Provide more effective and results-oriented loss-mitigation counseling.
- Have trained bilingual and culturally aware staff (e.g., staff members who have lived in Latin America or have been immersed in Hispanic communities).
- Use non-traditional marketing sources such as Hispanic newspapers, churches, community centers, storefront businesses and news media.

The next wave

As an industry, we have a lot of catching up to do, but I believe it can be done. American businesses are resilient and smart about understanding their customers. It is also important to understand history and how the Hispanic community fits into that context.

Like almost all Americans, Hispanics see homeownership as a pathway to stability and wealth building, whether they are first- or third-generation Americans.

A marketing and business strategy that understands how to serve this particular range of buyers will only lead to more success, a growing customer base and significantly increased revenue. **MB**

Deborah Garcia-Gratacos is president and chief executive officer of DEVAL LLC, Irving, Texas. A Hispanic, she is a native Spanish speaker. She can be reached at dgarcia@deval.us.

authors | upclose

Steve Bergsman

Steve was born in the Big Apple but raised in Levittown, New York. He wrote a book about it: *Growing Up Levittown: In a Time of Conformity, Controversy and Cultural Crisis*. Home now is in Mesa, Arizona, where during winter he rides his bike 150 miles a week. Also a travel writer, his passport's been to 135 countries. After four books on real estate investing, he tackled a new genre. *The Death of Johnny Ace*, his first novel, is a fictionalized biography of an early 1950s R&B singer who died playing Russian roulette moments before a Christmas Eve concert in Houston.

Mark Fleming

Mark is chief economist at Santa Ana, California–based First American Financial, leading the economics team responsible for analysis of, and commentary on trends in the real estate and mortgage markets. His research has been published in a number of academic journals, as well as the book *Advances in Spatial Econometrics*. He graduated from the University of Maryland with a Master of Science and doctorate in agricultural and resource economics, and holds a Bachelor of Arts in economics from Swarthmore College. Mark lives and works in the nation's capital and likes to run, bike and make beer.

Deborah Garcia-Gratacos

Debbie is president and chief executive officer of DEVAL LLC. She started her business out of her home in 2002, and it has grown to a multimillion-dollar operation with more than 100 staff members, serving such clients as the Department of the Treasury, Department of Housing and Urban Development (HUD), Federal Deposit Insurance Corporation (FDIC) and American Express. One of Debbie's primary focuses is advocating for the increase of Hispanic homeownership nationwide. A licensed attorney, she obtained her Master of Business Administration and juris doctorate from the University of Florida, and two Bachelor of Arts degrees from the University of Central Florida. A native of Puerto Rico, Debbie is fluent in Spanish and enjoys spending time at the beach with her family.

Megan Horn

Megan is director of communications for iEmergent in Des Moines, Iowa. A marketer by education, she has enjoyed learning and navigating the mortgage banking industry. Her experience with marketing data and analytics transferred easily into the world of mortgage opportunity forecasting. Despite statistical trends, she's a millennial with a home and a mortgage whose household is run by Violet, an 11-year-old terrier with a mohawk. Her dream is to be a Broadway star, but that's hindered by her inability to dance, sing or act. She enjoys kickboxing, reading, wine, traveling and attending the Broadway shows she can't star in.

Kristin Messerli

Kristin is the founder of Cultural Outreach Solutions, specializing in helping companies better reach and serve multicultural homebuyers. Her expertise is in multicultural marketing, millennial homeownership and compliance with diversity regulations in the Dodd-Frank Wall Street Reform and Consumer Protection Act. Prior to starting her business, Kristin worked as a social worker locally and abroad, and as a business consultant developing international social enterprises. She holds a Master of Public Administration degree and speaks fluent Spanish. For fun, she enjoys cultural experiences that include trying interesting foods such as scorpions and leeches.