

# **A Tenuous Future for Latino Homeownership in California**

## **Financial Institutions Complicit in Perpetuating the Minority Homeownership Gap**

*An Analysis of the Lending Performance of the Top 10 Banks in California  
in Lending to Potential Latino Homebuyers, Based on 2006 HMDA Data*

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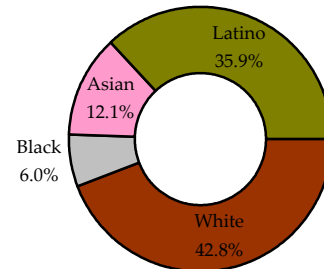
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# INTRODUCTION

For over 40 years homeownership rates have increased across the nation, except in California, where they have been declining steadily since 1960.<sup>1</sup> Although homeownership rates for minorities have been increasing due to the gradual elimination of racial covenants and overt discrimination, minorities continue to be hard hit by the increasing cost of achieving homeownership in California. Median home prices in California are currently two-and-a-half times the national median price.

Racial Makeup of California Population



As of September 2007, a household seeking to purchase the median-priced home in California must earn a minimum of \$124,384 in income annually in order to qualify for a conventional, fixed-rate mortgage loan.<sup>2</sup> Only 21.3% of all California households earn that much income, including only 12.1% of all Latinos in the state.<sup>3</sup> In contrast, the median income of all California residents is \$54,558, while that of the Latino residents of the state is \$43,805. The exorbitant price of homes, combined with Latino households' lower aggregate wealth and this 20% differential in median income means that only 1 in 25 Latino potential new homebuyers can afford a home in this state.

Latinos are the fastest-growing segment of California's population, currently comprising 36% of the population, compared to a 46% share for non-Hispanic Whites.<sup>4</sup> Current population estimates show the share of the Latino population in the total population of California surpassing that of non-Hispanic Whites by the year 2020, making the California the largest "minority-majority" state in the US.<sup>5</sup>

This change in demographics will doubtless continue to bring to light the many socioeconomic disparities that currently exist among Latinos and Whites in California, as well as their implications for the future of the state. Among the major disparities

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<sup>1</sup> US Census. *Census of Housing: Historical Census of Housing Tables: Homeownership*. Last revised Dec. 2004.

<sup>2</sup> Author's calculations based on September 2007 home pricing data from DataQuick.

<sup>3</sup> Author's calculations based on data from US Census American Community Survey, 2006.

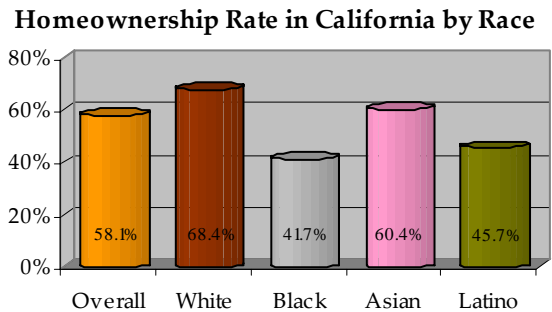
<sup>4</sup> Author's calculations based on data from US Census, 2000.

<sup>5</sup> *Housing California's Latino Population in the 21<sup>st</sup> Century: The Challenge Ahead*. Waldo Lopez-Aqueres, Joelle Skagler, and Tadeusz Kugler. The Tomás Rivera Policy Institute, Jan. 2003.

between Latinos and non-Hispanic Whites in California is the homeownership rate, which is currently 45.7% for Latinos and 68.4% for Whites, a 22.7-point differential<sup>6</sup>. This very large homeownership gap between Whites and Latinos is directly attributable to the high cost of homes in this state, which in turn is a function of both demand and regulatory restrictions on the housing supply that has made the California housing market the most expensive in the nation, and second-to-last in overall homeownership. While 69% of Americans of all races own their homes, only 56.9% of Californians do.

As wide as the homeownership gap between Latinos and non-Hispanic Whites is, it is likely understated for two reasons: insufficient Census data on undocumented Latino workers, and the rate of “doubling-up” of Latino families. Fully 18% of nationalized Latinos and 32% of non-citizen Latinos live in overcrowded housing<sup>7</sup>, which the federal government defines as households who live in housing units that contain more than one person per room, excluding the bathroom and kitchen. In contrast, only 3% of non-Hispanic Whites live in overcrowded conditions. It is therefore evident that the benefits of homeownership to Latinos as a whole are diminished by overcrowding compared to the benefits enjoyed by the vast majority of non-Hispanic Whites.

This situation is likely to get worse as housing prices continue to rise and the demographics of the state change. The ongoing rise in foreclosures across the nation has been shown to be a product of excessive deregulation of the financial services industry at the federal level, and of greed and dishonesty at the level of individual mortgage brokers and the firms that represent them. In fact, given Latinos’ increased probability of receiving a subprime loan, the credit crunch produced by this crisis is likely to reduce the number of Latinos who qualify for home mortgages by half.



At one time mortgage brokers were usually salaried employees of established, federally-regulated banks that based their decisions upon whether or not to lend the bank’s money to a prospective borrower on strict guidelines based on the borrowers’ income and credit history. However, lenders have recently changed the way they do business, with both good and bad repercussions for both borrowers and the financial services industry.

<sup>6</sup> Author’s calculations based on data from US Census, 2000.

<sup>7</sup> US Census. Survey of Income and Program Participation, 2001.

One such change allowed lenders to make credit available to people with incomes too low for a traditional mortgage, or those with poor or nontraditional credit histories, by offering subprime loans, which are loans whose interest rate is several points higher than the federal, or “prime” rate, in an effort to bridge the additional risk associated with lending to what are considered to be riskier borrowers.

A second change in the industry concerns the expansion of the mortgage business from solely federally-regulated financial institutions to many smaller outfits, none of which fall under federal oversight. Lenders from both these smaller mortgage lenders and larger banks are increasingly paid a commission per loan originated proportional to the amount of the loan they brokered. As part of the ongoing investigations on the foreclosure crisis, it has been discovered that unscrupulous lenders have taken advantage of borrowers by encouraging prospective borrowers to take out a loan larger than that which they can comfortably afford, resulting in greater profits for the individual brokers.

Most virulent among the profit-making schemes is the flourishing of the now-infamous adjustable-rate mortgages (ARM), which entice the borrower with a low initial interest rate that then resets after a specified number of years, at which point the rates increase steadily. This results in ballooning monthly payments that quickly become out of reach for lower-, moderate-, and even middle-income households.

Packaging these mortgages as securities whose value was buoyed by what was once believed to be a strong housing market and selling them to investors did spread the risk widely, but not necessarily effectively.

This unbridled lending party began spinning out of control in mid-2006, when the glut of adjustable-rate mortgages made during the housing boom years of 2000-2004 began to reset, causing homeowners’ monthly mortgage payments to rise significantly.

It is estimated that by the end of 2008, two million households will lose their homes to foreclosure.<sup>8</sup> Given that the median household in the United States contains 2.59 persons<sup>9</sup>, this represents at least 5 million Americans who will face the emotional and financial hardship of losing their homes.

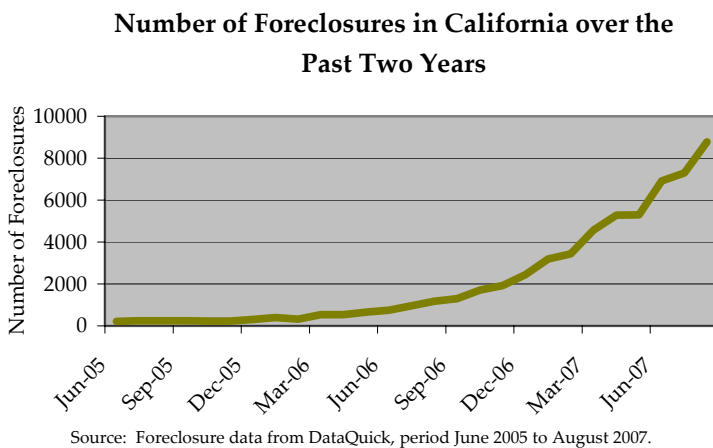
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<sup>8</sup> *Income is No Shield Against Racial Differences in Lending: A Comparison of High-Cost Lending in America’s Metropolitan Areas.* John Taylor, David Berenbaum, Joshua Silver, and Anna Gullickson. The National Community Reinvestment Coalition, Jul. 2007.

<sup>9</sup> US Census, 2000.

An important study by the National Community Reinvestment Coalition (NCRC) revealed that women, minorities, and lower-income borrowers are most likely to receive a subprime loan.<sup>10</sup> Specifically, the study showed that Latinos and African Americans are *two times* more likely to receive a subprime loan than non-Hispanic Whites, even when controlling for income and credit worthiness. These unsettling results show that there are cases when a borrower of color received a higher-priced loan, even if (s)he was just as qualified for a prime loan as a White borrower. It is therefore clear that these are the groups that are now being hit the hardest by the ongoing foreclosure crisis.

In addition, a study by the Federal Reserve Bank of Boston demonstrates that 55% of borrowers who were given subprime loans actually qualified for prime loans<sup>11</sup>, and data from First American LoanPerformance states that 61% of borrowers who received



subprime loans in 2006 alone were eligible for prime loans.<sup>12</sup> All three of these studies point definitively to widespread unfair lending practices that have disproportionately affected lower-income and minority borrowers.

The number of prime-rate loans to minorities could be substantially increased if the

banking industry developed a uniform standard for ensuring that prime-rate borrowers receive prime rates rather than subprime rates.

The strongest and most effective solution proposed for resolving the foreclosure crisis has been advanced by FDIC Chair Sheila Bair, who would require all subprime mortgages to reset into conventional, 30-year fixed-rate mortgages.<sup>13</sup> This would protect homeowners whose adjustable-rate mortgages are soon to reset from ballooning monthly payments.

<sup>10</sup> Ibid.

<sup>11</sup> "Subprime Debacle Traps Even Very Credit-Worthy." Rick Brooks And Ruth Simon. *Wall Street Journal*, December 3, 2007.

<sup>12</sup> Ibid.

<sup>13</sup> "Bair: Increase Modifications." Joe Adler. *American Banker*, Sep. 28, 2007.

Until the banking industry uniformly recognizes the credit history of minorities, particularly through alternative credit scoring, it is unlikely that we will be able to fully close the present minority homeownership gap.

# **EXECUTIVE SUMMARY AND METHODOLOGY**

The Greenlining Institute produces this report each year to compare California's top banks in terms of their lending to our state's Latino potential homebuyers. The data for the banks are based on figures submitted to us by the banks studied, which are in turn based on publicly-reported HMDA disclosure data available from the Federal Financial Institutions Examination Council (FFIEC). Industry averages and data for metropolitan statistical areas (MSA) are from the HMDA aggregate reports, also available from the FFIEC.

The Home Mortgage Disclosure Act (HMDA) was enacted by Congress in 1975 to bring transparency to the private mortgage origination industry. A 1989 revision to Regulation C, the section that mandates the production of disclosure reports, mandated the disaggregation of the data by race, ethnicity and gender. A further revision to Regulation C in 2002 mandated that financial institutions report the rate spread for their loans. Since the passage of this Act, the number and share of loans originated to people of color have increased significantly, making this law one of the most significant for helping Americans of color gain equitable access to wealth.

For this report, Greenlining tabulated only prime-rate, conventional (Type 1) loans originated for home purchase (Purpose 1). In addition, we limit the loan tallies to only those loans that were originated (Action 1). We present this data for all Latinos in California, as well as separately for moderate-income and for lower-income Latinos statewide. We include a separate section for loans originated to Latinos in the Los Angeles/Long Beach/Glendale metropolitan area, as well as an overview of housing and race statistics for all metropolitan areas in the state.

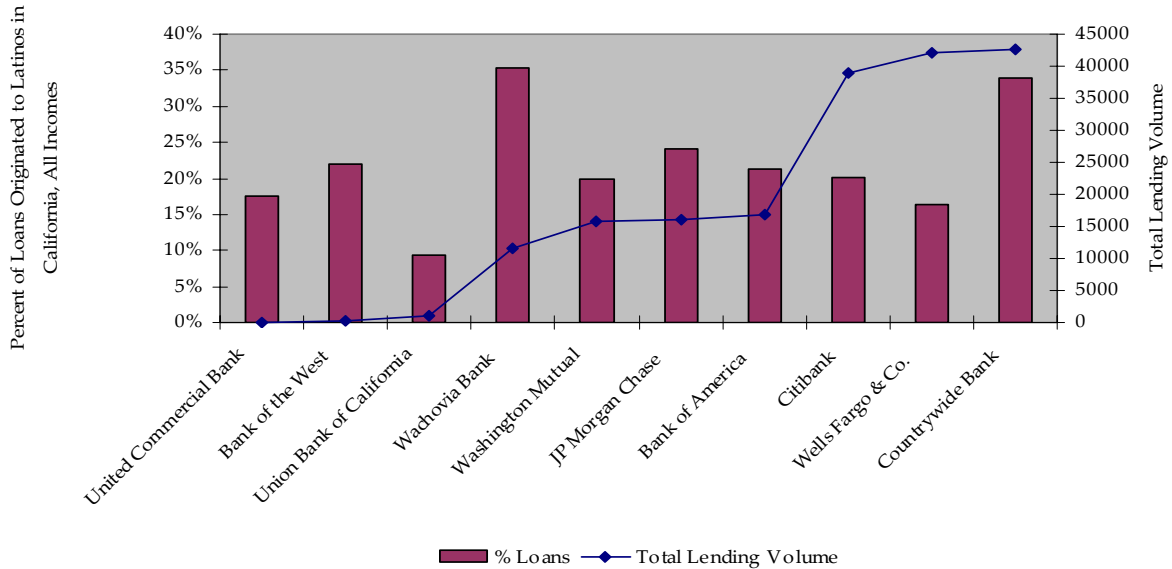
The chart below summarizes the ranks of each of California's top ten banks in terms of the share of prime-rate loans originated to Latinos of all incomes:

### Summary of all Ranks in this Report

Institution	Rank in <i>Percent of Prime- Rate Loans to Latinos in California (Table 1.1)</i>	Rank in <i>Number of Prime- Rate Loans to Latinos in California (Table 1.1)</i>	Rank in <i>Percent of Prime- Rate Loans to Moderate- Income Latinos in California (Table 2.1)</i>	Rank in <i>Number of Prime- Rate Loans to Moderate- Income Latinos in California (Table 2.1)</i>	Rank in <i>Percent of Prime- Rate Loans to Lower- Income Latinos in California (Table 3.1)</i>	Rank in <i>Number of Prime- Rate Loans to Lower- Income Latinos in California (Table 3.1)</i>
Bank of America	5	5	4	3	3	3
Bank of the West	4	9	3	8	8	8
Citibank	8	7	6	5	4	6
Countrywide Bank	2	1	1	1	1	1
JP Morgan Chase	3	4	9	7	7	7
Union Bank of California	10	8	10	10	8	8
United Commercial Bank	7	10	5	9	8	8
Wachovia Bank	1	3	2	2	2	2
Washington Mutual	6	6	7	6	5	5
Wells Fargo & Co.	9	2	8	4	6	4

While this report does not contend that the disparities among the banks in loan originations to Latinos are a result of overt discrimination, there are, in fact very large disparities in their lending performance, as this report will show. Most tellingly, there is also no relationship between a bank's total lending volume and the percent of loans it originates to Latinos, as presented in the chart below. In this example we see that **Wachovia**, which produced only 58.5% as many loans as **Wells Fargo**, actually made a 215% larger share of its loans to Latinos than its competitor.

**Percent of Loans Originated to Latinos in California versus Total Lending Volume**



These results indicate that it is a financial institution’s commitment to serving traditionally underserved communities that determines its lending performance, not the size of its mortgage origination output.

Among the other findings presented in this report are the following:

- The ten major financial institutions originated **37,673** prime-rate home loans (**24.09%** of all prime loans originated in 2006) to Latinos of all incomes in California.
- **5,598** prime-rate home loans (**3.58%** of all prime loans originated in 2006) were originated to moderate-income Latinos (those earning between \$26,814 and \$42,903) in California. This income represents 50 to 80 percent of the state median income.
- **718** prime-rate home loans (**0.46%** of all prime loans made in 2006) were originated to low-income Latinos (those earning less than \$26,814) in California. This income represents less than 50 percent of the state median income.
- Only half the banks studied originated any loans at all to low-income Latinos in the Los Angeles metropolitan area.
- While Latinos represent **36%** of the population of California, they received only **24%** of all home loans in 2006. In contrast, Whites represent **46%** of the state’s population and received **66%** of all home loans.

Greenlining also produces a report on lending to African Americans, which will be published soon.

# SECTION ONE

## LATINO HOMELENDING IN CALIFORNIA

The data below illustrate the disparity between the proportion of Latinos in the population of California and their representation in the pool of home loan borrowers. While Latinos represent 36% of the state population, they received an average of only 24% of all prime-rate home loans. In contrast, Whites, who comprise 43% of the state population, received 66% of all prime-rate loans.<sup>14</sup>

**Wachovia**, which expanded its market share in California last year by acquiring World Savings Bank, has once again taken the top place in percent of prime-rate home loans originated to Latinos of all incomes, as presented in Table 1.1. In terms of number of loans, **Countrywide** originated the greatest number of loans to this demographic, closely followed by **Wells Fargo**.

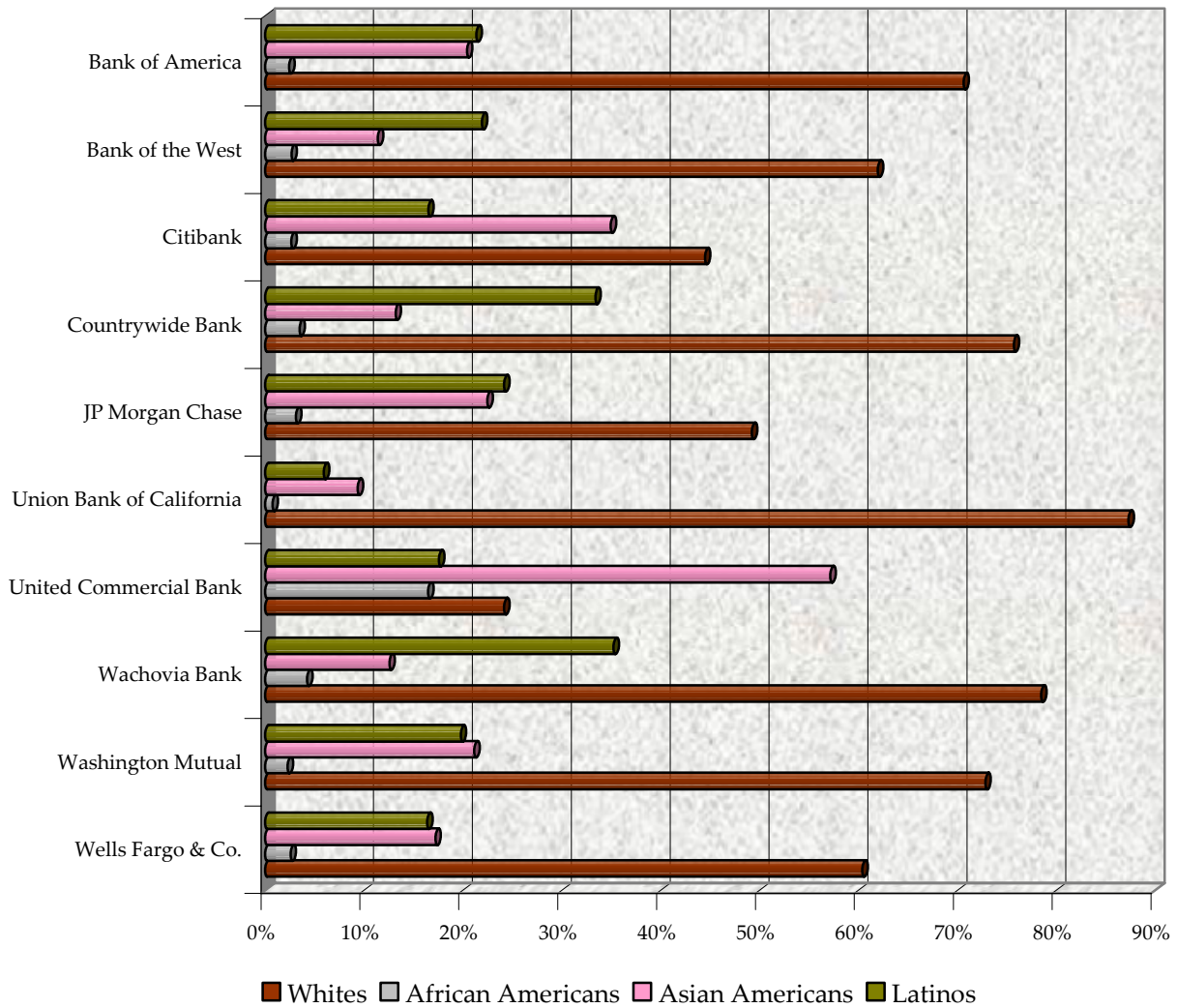
Rank	Bank	% loans to Latinos	# loans to Latinos	# loans w/ ethnicity indicated (total)
1	Wachovia Bank	35.23%	4,035	11,452
2	Countrywide Bank	33.40%	14,440	43,235
3	JP Morgan Chase	24.17%	3,881	16,058
4	Bank of the West	21.93%	41	187
5	Bank of America	21.35%	3,570	16,725
6	Washington Mutual	19.79%	3,127	15,800
7	United Commercial Bank	17.58%	16	91
8	Citibank	16.51%	1,603	9,708
9	Wells Fargo & Co.	16.40%	6,898	42,066
10	Union Bank of California	5.94%	62	1,044
<b>Total for Top 10 Banks</b>		<b>24.09%</b>	<b>37,673</b>	<b>156,366</b>
<i>Industry Average and Totals</i>		<i>28.44%</i>	<i>78,779</i>	<i>276,955</i>

Unfortunately the average percent of prime-rate loans originated to Latinos by all top 10 banks in California combined is 4.35 percentage points below the industry average. However, both **Wachovia** and **Countrywide** originated prime-rate mortgages to Latinos in proportions above the industry average.

<sup>14</sup> Population percentage data from US Census, American Community Survey, 2006. Home loan percentages are author's calculations based on bank-submitted data.

Table 1.2 depicts the percentage of conventional prime rate home loans originated by each institution for four specific racial categories. Most of the percentages do not add up to 100% because not all racial categories are represented.

**Percentage of Home Loans Originated in California by Race/Ethnicity and Institution (All Incomes), 2006**



# SECTION TWO

## MODERATE-INCOME LATINO HOMELENDING IN CALIFORNIA

This section reports the number and the proportion of loans going to moderate income Latinos, which at 50 to 79 percent of the area median income (AMI), earn between \$29,268 and \$46,826 per year.<sup>15</sup> Latino households represent 35% of all moderate income households in the state, and 30% of all Latino households earn a moderate income. In comparison, 20% of Whites and 25% of Blacks earn a moderate income.<sup>16</sup>

**Countrywide** and **Wachovia** are well ahead of their competitors in lending to moderate-income Latinos, respectively originating 9% and 8.31% of all their loans in fiscal year 2006 to this demographic (Table 2.1).

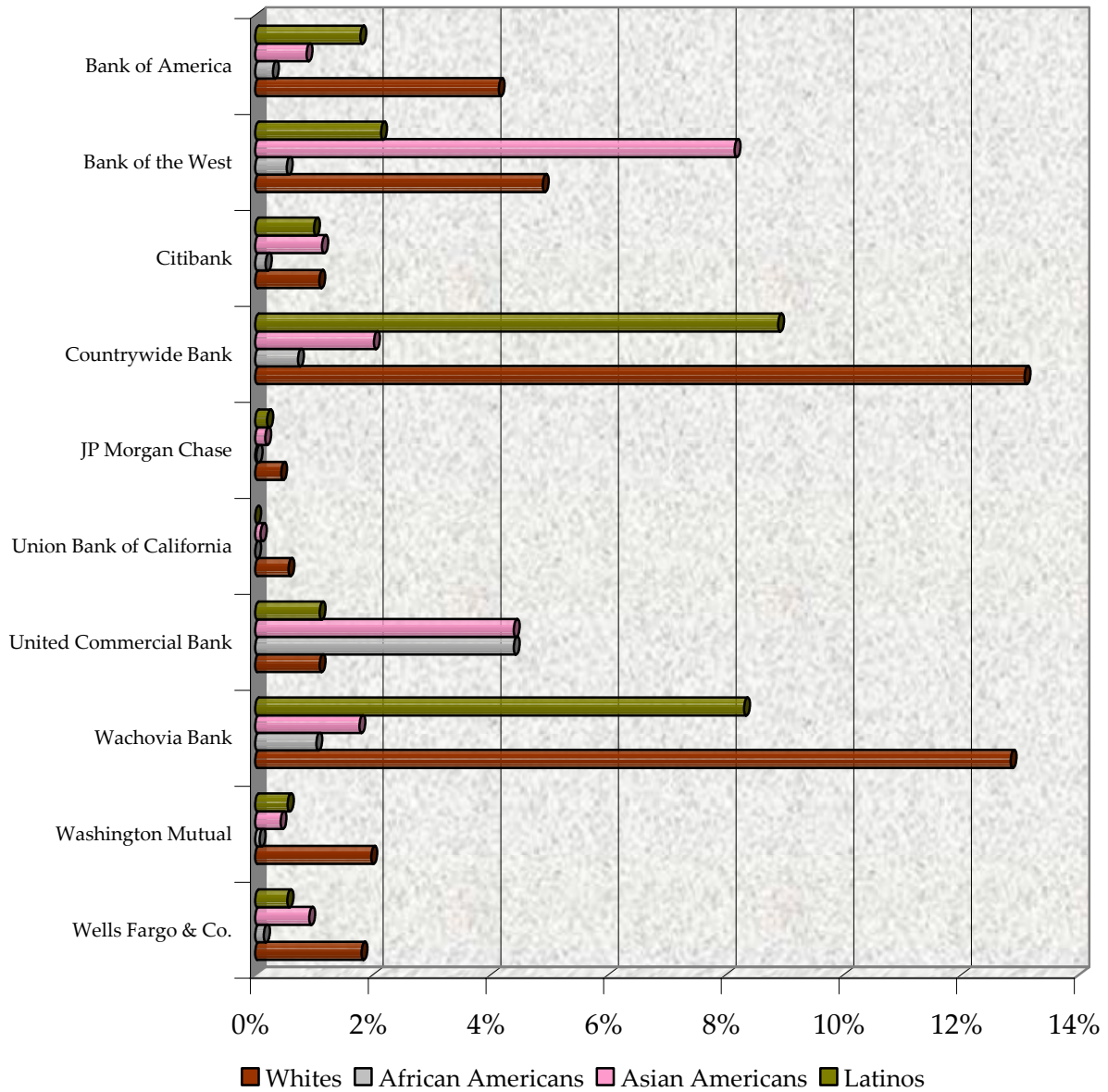
<b>Table 2.1</b> <b>Percent of Conventional Home Loans Originated to MODERATE-INCOME</b> <b>(between 50 and 79% AMI) Latinos in California in 2006</b>				
Rank	Bank	% loans to latinos	# loans to latinos	# loans w/ ethnicity indicated (all incomes)
1	Countrywide Bank	8.89%	3,845	43,235
2	Wachovia Bank	8.31%	952	11,452
3	Bank of the West	2.14%	4	187
4	Bank of America	2.07%	346	16,725
5	United Commercial Bank	1.10%	1	91
6	Citibank	1.00%	97	9,708
7	Washington Mutual	0.56%	88	15,800
8	Wells Fargo & Co.	0.55%	232	42,066
9	JP Morgan Chase	0.21%	33	16,058
10	Union Bank of California	0.00%	0	1,044
<b>Total for Top 10 Banks</b>		<b>3.58%</b>	<b>5,598</b>	<b>156,366</b>

Table 2.2 depicts the percentage of conventional prime rate home loans originated by each institution for four specific racial categories. Most of the percentages do not add up to 100% because not all racial categories are represented.

<sup>15</sup> AMI thresholds are based on Housing and Urban Development guidelines, and the dollar values are this author's calculations based on income information from the US Census American Community Survey, 2006.

<sup>16</sup> Author's calculations based on US Census American Community Survey, 2006.

**Percentage of Home Loans Originated to Moderate-Income Borrowers  
in California by Race/Ethnicity and Institution, 2006**



# SECTION THREE

## LOW-INCOME LATINO HOMELENDING IN CALIFORNIA

Low-income Californians face the greatest challenge in obtaining housing, whether rental or ownership. This section reports the number and the proportion of loans going to low-income Latinos, which at 50 percent or less of the area median income (AMI), earn less than \$29,268 annually.<sup>17</sup> Latino households represent 14.9% of all low-income households in the state, and 12% of all Latino households are low-income earners. In comparison, 4.6% of Whites and 32.4% of Blacks are low-income earners.<sup>18</sup>

**Countrywide** has retained its top position in both number and percent of loans to low-income Latinos.

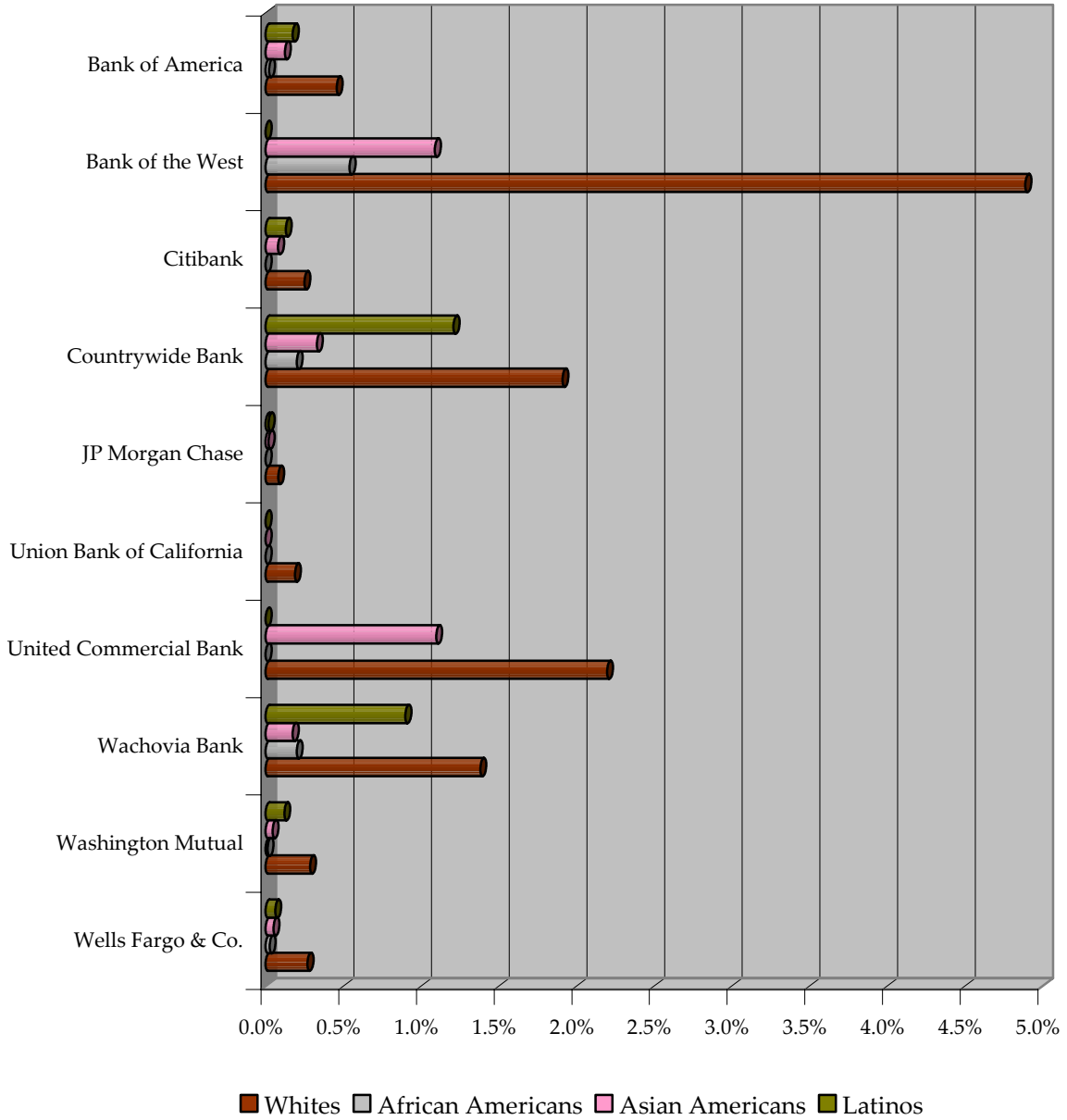
<b>Table 3.1 Percent of Conventional Home Loans Originated to LOW-INCOME (less than 50% AMI) Latinos in California in 2006</b>				
Rank	Bank	% loans to Latinos	# loans to Latinos	# loans w/ ethnicity indicated (all incomes)
1	Countrywide Bank	1.21%	521	43,235
2	Wachovia Bank	0.90%	103	11,452
3	Bank of America	0.20%	33	16,725
4	Citibank	0.13%	13	9,708
5	Washington Mutual	0.12%	19	15,800
6	Wells Fargo & Co.	0.06%	26	42,066
7	JP Morgan Chase	0.02%	3	16,058
8	Bank of the West	0.00%	0	187
8	United Commercial Bank	0.00%	0	91
8	Union Bank of California	0.00%	0	1,044
<b>Total for Top 10 Banks</b>		<b>0.46%</b>	<b>718</b>	<b>156,366</b>

Table 3.2 depicts the percentage of conventional prime rate home loans originated by each institution for four specific racial categories. Most of the percentages do not add up to 100% because not all racial categories are represented.

<sup>17</sup> AMI thresholds are based on Housing and Urban Development guidelines, and the dollar values are this author's calculations based on income information from the US Census American Community Survey, 2006.

<sup>18</sup> Author's calculations based on US Census American Community Survey, 2006.

**Percentage of Home Loans Originated to Low-Income Borrowers in California by Race/Ethnicity and Institution, 2006**



# SECTION FOUR

## HOMELENDING TO LATINOS LIVING IN THE LOS ANGELES/LONG BEACH/GLENDALE MSA

By the end of 2006, *only 2% of residents* of the Los Angeles/Long Beach/Glendale metropolitan area could afford to purchase a home in the metro area.<sup>19</sup> This means that the second most populated<sup>20</sup> metro area in the United States is also the most unaffordable. Due to these dubious distinctions, and to the centrality of Los Angeles' economy to the well-being of our state, the Greenlining Institute adds this special section on homelending to Latinos in this metro area.

The home price correction precipitated by the reduction in the availability of credit has caused home prices to decrease by 3.8 percent since this time last year,<sup>21</sup> which has increased affordability to 3 percent this year. The median home price in Los Angeles County is currently \$500,000.<sup>22</sup> The homeownership rate for the metropolitan area is 47.5%,<sup>23</sup> which is fully 10.6 percentage points lower than the median for the state as a whole.

**Table 4.1**  
**Conventional Home Loans Originated to Latinos in Los Angeles/Long Beach/Glendale MSA (2006)**

Rank	Bank	% loans to Latinos	# loans to Latinos	# loans w/ ethnicity indicated
1	Bank of the West	50.00%	17	34
2	Wachovia Bank	38.13%	652	1,710
3	Countrywide Bank	37.96%	3,957	10,423
4	United Commercial Bank	28.26%	13	46
5	Washington Mutual	27.49%	903	3,285
6	JP Morgan Chase	26.00%	1,406	5,408
7	Bank of America	21.80%	648	2,973

CHART CONTINUES ON NEXT PAGE →

<sup>19</sup> National Association of Home Builders' Housing Opportunity Index, 2007.

<sup>20</sup> US Census, American Community Survey, 2006.

<sup>21</sup> "Southland home sales plummet." *DQNews*. Nov. 14, 2007. Available at <http://www.dqnews.com/RRSCA1107.shtm>.

<sup>22</sup> Ibid.

<sup>23</sup> Author's calculations based on data from US Census, American Community Survey, 2006.

8	Citibank	20.67%	598	2,893
9	Wells Fargo & Co.	19.71%	1,400	7,104
10	Union Bank of California	5.67%	22	388
<b>Total for Top 10 Banks</b>		<b>28.06%</b>	<b>9,616</b>	<b>34,264</b>

Table 4.1 shows that **Countrywide** retained its position as the state’s top prime conventional home loan originator to Latinos in terms of number of loans originated, while a newcomer to Greenlining’s rankings, **Bank of the West** finished as the top bank –by far– in percentage of loans to Latinos in California.

Table 4.2 presents the data on lending to moderate-income Latinos in the Los Angeles metropolitan area.

<b>Table 4.2</b>				
<b>Conventional Home Loans Originated to Latinos earning between \$41,459 and \$25,912 in the Los Angeles/Long Beach/Glendale Metropolitan Area (2006)</b>				
Rank	Bank	% loans to Latinos	# loans to Latinos	# loans w/ ethnicity indicated (all incomes)
1	Countrywide Bank	10.17%	1,060	10,423
2	Wachovia Bank	8.48%	145	1,710
3	Bank of the West	5.88%	2	34
4	Citibank	0.66%	19	2,893
5	Washington Mutual	0.43%	14	3,285
6	Bank of America	0.34%	10	2,973
7	JP Morgan Chase	0.22%	12	5,408
8	Wells Fargo & Co.	0.13%	9	7,104
9	United Commercial Bank	0.00%	0	46
9	Union Bank of California	0.00%	0	388
<b>Total for Top 10 Banks</b>		<b>3.71%</b>	<b>1,271</b>	<b>34,264</b>

Table 4.3 presents the data on lending to low-income Latinos in the Los Angeles metropolitan area.

**Table 4.3**  
**Conventional Home Loans Originated to Latinos earning less than \$25,912 in the Los Angeles/Long Beach/Glendale Metropolitan Area (2006)**

<b>Rank</b>	<b>Bank</b>	<b>% loans to Latinos</b>	<b># loans to Latinos</b>	<b># loans w/ ethnicity indicated (all incomes)</b>
1	Countrywide Bank	1.59%	166	10,423
2	Wachovia Bank	1.05%	18	1,710
3	Citibank	0.10%	3	2,893
4	Washington Mutual	0.06%	2	3,285
5	JP Morgan Chase	0.04%	2	5,408
6	Bank of the West	0.00%	0	34
6	United Commercial Bank	0.00%	0	46
6	Wells Fargo & Co.	0.00%	0	7,104
6	Bank of America	0.00%	0	2,973
6	Union Bank of California	0.00%	0	388
	<b>Total for Top 10 Banks</b>	<b>0.56%</b>	<b>191</b>	<b>34,264</b>

# SECTION FIVE

## LATINO HOMELENDING BY METROPOLITAN AREA

Housing affordability in California is no longer a problem limited to lower- and moderate-income families, although it is these families that are most affected by the rising cost of homeownership. Nine out of the top ten least affordable housing markets are located in California, and all California metro areas are in the top half of unaffordable housing markets in the nation (Table 5.1).<sup>24</sup>

<b>Metro Area</b>	<b>Percentage of Homes Affordable to Median Earners (Housing Opportunity Index)</b>	<b>Median Sales Price (2Q2007)</b>
Los Angeles-Long Beach-Glendale, CA	3.0%	\$530,000
Salinas, CA	3.7	556,000
Merced, CA	3.8	296,000
Santa Ana-Anaheim-Irvine, CA	4.4	615,000
San Francisco-San Mateo-Redwood City, CA	5.7	802,000
Santa Barbara-Santa Maria-Goleta, CA	6.2	538,000
New York-White Plains-Wayne, NY-NJ	6.3	510,000
Napa, CA	6.4	577,000
San Luis Obispo-Paso Robles, CA	6.4	527,000
Modesto, CA	7.0	330,000

This lack of affordability has serious implications for the state’s ability to attract a productive middle class that expects to achieve homeownership. Business interests have already taken note of the effect of high housing prices on their competitiveness, especially the high-tech companies in Silicon Valley that depend on young, middle-class workers to drive innovation.

The cost and availability of capital have a profound effect on housing prices and housing demand, and inequitable access to either of these will produce glaring disparities in the ability of different groups to be full, active participants in the market.

<sup>24</sup> From Wells Fargo/National Association of Home Builders (NAHB) Housing Opportunity Index (HOI). Available at <http://www.nahb.org>.

Table 5.2 presents the percent of loans originated to Latinos in each metropolitan area in California relative to their representation in the metropolitan area.

<b>Table 5.2</b>					
<b>Conventional Home Loans Originated to Latinos of All Incomes, by MSA, 2006</b>					
<b>MSA</b>	<b>Percent of all Loans Originated to Latinos in MSA</b>	<b>Latinos as % of Total Population in MSA<sup>25</sup></b>	<b>Disparity</b>	<b>Total Number of Loans Originated to Latinos in MSA<sup>26</sup></b>	<b>Total Number of Loans Originated in MSA</b>
CALIFORNIA	28.4%	35.9%	-7.4%	78,779	276,955
Bakersfield	46.4%	45.2%	1.2%	3,126	6,738
Chico	11.6%	12.0%	-0.4%	153	1,314
El Centro	78.1%	75.7%	2.3%	1,042	1,335
Fresno	36.9%	47.6%	-10.7%	2,244	6,075
Hanford	41.0%	47.7%	-6.7%	304	742
Los Angeles	35.6%	47.3%	-11.7%	18,505	51,966
Madera	55.4%	49.2%	6.1%	562	1,015
Merced	15.0%	52.2%	-37.3%	2,751	18,390
Modesto	40.8%	38.4%	2.4%	1,651	4,044
Napa	26.5%	28.2%	-1.7%	232	877
Oakland	19.0%	21.6%	-2.7%	4,213	22,219
Oxnard	29.4%	36.5%	-7.1%	1,983	6,734
Redding	6.2%	7.2%	-1.0%	69	1,109
Riverside	41.8%	44.1%	-2.3%	17,316	41,430
Sacramento	15.0%	19.1%	-4.1%	2,751	18,390
Salinas	52.0%	51.5%	0.5%	999	1,920
San Diego	24.4%	30.1%	-5.7%	5,853	23,975
San Francisco	11.5%	14.1%	-2.5%	1,402	12,142
San Jose	20.9%	25.7%	-4.9%	3,263	15,637
SLO	14.7%	18.3%	-3.5%	282	1,916
Santa Ana	21.2%	32.9%	-11.7%	4,175	19,682
Santa Barbara	37.1%	38.2%	-1.0%	778	2,095
Santa Cruz	24.4%	28.3%	-3.9%	403	1,652
Santa Rosa	22.3%	22.0%	0.3%	797	3,573
Stockton	34.6%	35.7%	-1.1%	1,803	5,211
Vallejo	20.7%	22.0%	-1.3%	618	2,987
Visalia	47.9%	55.8%	-8.0%	1,174	2,452
Yuba	24.7%	21.9%	2.8%	330	1,335

<sup>25</sup> Author's calculations based on data from US Census, American Community Survey, 2006.

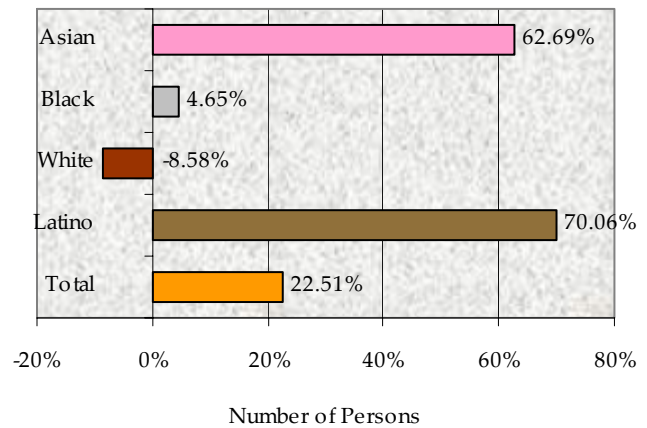
<sup>26</sup> Data from publicly-available HMDA disclosure tables. Available at <http://www.ffiec.gov>.

The column marked, “Disparity” in Table 5.2 shows that in 20 out of a total of 28 metropolitan areas, financial institutions are originating a percentage of home loans to Latinos that is less than their representation in the metropolitan area. Throughout the state, Latinos are receiving 7.4 percent less loans that they would if all financial institutions originated loans at parity with Latinos’ representation in the total population.

In contrast, in only 5 out of 28 metropolitan areas did financial institutions originate fewer loans to non-Hispanic Whites than their representation in the metropolitan area. Statewide, non-Hispanic Whites receive 6.4 percent *more* loans than their representation in the state population.

Why is this significant? Non-Hispanic Whites represent a shrinking demographic in the state of California. Not only are they the only racial/ethnic group in the state that is *leaving* the state at a faster rate than they are arriving or reproducing, but they are also being overtaken as a share of the total population by the large increase in the state’s Latino population. The non-Hispanic White population has *decreased* by 8.58% over the past 16 years, and the Latino population is *increased* by 70.06% over the same time period.<sup>27</sup>

Change in California's Population by Race, 1990-2006



At the more local level, a large increase in the Latino population is accompanied by a similar decrease in the non-Hispanic White population. It should therefore follow that if the proportion of loans going to Latinos does not change in relation to their increasing share of the population, then Latinos are being denied the opportunity for homeownership and are therefore renting.

For this reason, financial institutions should set a goal of matching the percent of loans originated to Latinos to their increasing representation in the state.

<sup>27</sup> Author’s calculations based on population data from California Department of Finance and US Census American Community Surveys 2001-2006.

# SECTION SIX

## HOUSING MARKET SNAPSHOTS IN CALIFORNIA'S METRO AREAS, 2005-2006

Statewide, only 4 percent of Latino households can afford the median-priced home with a conventional, fixed-rate mortgage. This means that only 1 out of 25 potential Latino homebuyers can afford the median home in California. In comparison, 10.8 percent of all Californians can afford the median-priced home. It is clear that the housing market is failing to serve most Californians, especially our state's communities of color. Table 6.1 presents the change in the price of the median home from 2005 to 2006, as well as the percent of Latino households that can afford the median home in each metropolitan area.

**Table 6.1**  
**Median Home Prices by MSA, 2005-2006<sup>28</sup>**

MSA <sup>29</sup>	Median Home Price, 2006	Median Home Price, 2005	Percent Change 2005-2006	Median Income of Latino Households, 2006 <sup>30</sup>	Percent Latino Households that can Afford a Home in this MSA, 2006 <sup>31</sup>
CALIFORNIA	\$512,500.00	\$497,000.00	3.12%	\$43,805	4.0%
Bakersfield	\$279,750.00	\$232,500.00	20.30%	\$34,637	2.0%
Fresno	\$299,500.00	\$270,000.00	10.90%	\$34,099	6.1%
Los Angeles	\$515,000.00	\$459,000.00	12.20%	\$41,360	3.5%
Madera	\$298,000.00	\$279,000.00	6.80%	\$34,649	5.0%
Merced	\$367,750.00	\$314,000.00	17.10%	\$33,589	7.0%
Modesto	\$381,000.00	\$340,000.00	12.10%	\$41,510	9.5%
Napa	\$555,000.00	\$570,000.00	-2.60%	\$57,791	1.2%
Oakland	\$590,000.00	\$558,750.00	-5.59%	\$55,144	2.0%
Oxnard	\$600,000.00	\$570,000.00	5.30%	\$53,819	1.9%

CHART CONTINUES ON NEXT PAGE →

<sup>28</sup> Median home prices for May 2005 and May 2006 from DataQuick.

<sup>29</sup> The MSA that are not presented here did not have a reported median home price.

<sup>30</sup> Author's calculations based on data from US Census American Community Survey, 2006.

<sup>31</sup> Author's calculations based on the percentage of Latino households that earn an income equal to or greater than that required to purchase the median home, assuming a conventional, 30-year fixed-rate mortgage with 7% interest, and a 10% downpayment. Income data from US Census American Community Survey, 2006. Minimum income required is author's calculation, and home price data from DataQuick.

Riverside	\$387,000.00	\$344,000.00	-12.50%	\$47,839	13.6%
Sacramento	\$427,500.00	\$457,000.00	6.46%	\$47,810	4.7%
Salinas	\$619,000.00	\$573,000.00	8.00%	\$44,235	2.4%
San Diego	\$510,000.00	\$510,000.00	0.00%	\$44,760	3.8%
San Francisco	\$793,500.00	\$777,500.00	-2.06%	\$46,711	4.5%
San Jose	\$654,750.00	\$621,500.00	-5.35%	\$52,831	7.9%
SLO	\$550,000.00	\$505,000.00	8.90%	\$34,794	2.3%
Santa Ana	\$634,000.00	\$586,000.00	8.20%	\$52,223	2.8%
Santa Barbara	\$515,000.00	\$520,000.00	-1.00%	\$42,095	1.9%
Santa Cruz	\$714,750.00	\$685,000.00	4.30%	\$46,760	1.8%
Santa Rosa	\$549,000.00	\$535,000.00	2.60%	\$47,724	4.6%
Stockton	\$440,000.00	\$395,000.00	11.40%	\$42,642	2.2%
Vallejo	\$455,500.00	\$425,000.00	7.20%	\$50,246	4.9%
Visalia	\$256,000.00	\$205,500.00	24.60%	\$31,182	13.1%

# CONCLUSION

The housing affordability crisis in California is the product of a combination of high demand for land, local- and state-level regulatory barriers to production, the effects of the erosion of property tax revenue due to Proposition 13, NIMBY attitudes towards development, and other impediments that both decrease housing production and increase the cost of production.

The first priority for state and local leaders interested in providing housing relief for all Californians is to set realistic goals for long-term development in their jurisdictions that include housing for people of all income levels, and then make the appropriate changes to city ordinances and zoning codes that will allow the jurisdiction to reach its goals. For example, cities that have excessive building setback or parking requirements should consider reducing them in certain areas to spur housing production. Cities should also provide for the development of a variety of housing forms that are less expensive and consume less land than the single-family subdivisions that are the current dominant form of new housing in the state.

At the statewide level, it is imperative to create a state housing trust fund to provide dependable funds for incentivizing the development of more affordable housing.

While all these reforms would lower the supply-side barriers to housing production, financial institutions are responsible for crafting workable and equitable solutions to spur housing demand through responsible lending. Importantly, lending institutions should take into account the needs of borrowers with non-traditional credit, which includes a very large portion of Latino borrowers, especially those getting newly acquainted with American banking practices.

Financial institutions should view lower- and moderate-income households as a potential emerging market that can be strengthened by the wealth-building benefits of homeownership. An increase in the number of households that can increase their wealth directly translates into more households participating more fully in our nation's economy. Given that homeownership is far and away the greatest source of wealth for the majority of Americans, a household's first home loan can be a ticket to future security, and a boon to the economy as a whole.

On the federal level, regulators must ensure that all lending, whether prime or subprime, is done responsibly. The subprime market has enormous potential to bring homeownership to households that can normally not afford to take this plunge, but

given the increased risks it is imperative that regulators enact a system of checks to ensure that fraud is minimized and that potential homebuyers are not misled.

Reductions in local barriers to increasing the housing supply, federal and state regulations to ensure greater security in the lending market, and strong commitments by individual financial institutions to lower-income and minority communities are a necessary three-pronged approach to increasing homeownership in California and the nation, as well as restoring borrower confidence. The Greenlining Institute hopes that the lessons we have learned from the so-called “mortgage meltdown” translate into workable solutions that will strengthen the housing market for our future, including systematic efforts to move borrowers with subprime loans into more stable prime loans.