

Improving Homeownership Opportunities for Hispanic Families

A Review of the Literature

Prepared for

U.S. Department of Housing and Urban Development
Office of Policy Development and Research

Prepared by

Abt Associates Inc.
Alvaro Cortes
Christopher E. Herbert
Erin Wilson
Elizabeth Clay

Contract # C-OPC-21895
Task Order 11

March 2006

The contents of this report are the views of the contractor and do not necessarily reflect the views or policies of the U.S. Department of Housing and Urban Development or the U.S. Government.

Table of Contents

Executive Summary	iii
Chapter 1 – Introduction	1
The Benefits of Homeownership	2
The Propensity for Homeownership	3
Hispanics in the U.S.....	6
Summary of Findings.....	16
Chapter 2 – The Hispanic Homeownership Gap: Size, Trends, and Contributing Factors	19
Hispanic Homeownership Rate and Gap	19
Factors Contributing to Homeownership Gaps.....	21
Determinants of Overall Homeownership Gaps Among Hispanics.....	46
Summary of Findings.....	48
Chapter 3 – Barriers to Hispanic Homeownership	49
Lack of Information About the Homebuying Process	50
Housing Market Barriers.....	56
Financial and Mortgage Market Barriers	63
Summary of Findings.....	75
Chapter 4 – Promoting Hispanic Homeownership.....	77
Strategies to Overcome the Lack of Information.....	79
Strategies to Overcome Real Estate and Housing Market Barriers	87
Strategies to Overcome Financial and Mortgage Market Barriers.....	90
The Potential Impact of Various Approaches for Increasing Hispanic Homeownership	98
Summary of Findings.....	103
Chapter 5 – Conclusion.....	107
References	111
Appendix A	119

Executive Summary

Homeownership rates have reached unprecedented levels in the U.S. According to 2005 Current Population Survey data, virtually every segment of the population has higher homeownership rates than a decade ago—although the gains have been largest among Hispanics. Between 1993 and the fourth quarter of 2005, ownership rates rose by 5.8 percentage points among non-Hispanic whites, 6.6 percentage points among blacks, and 10.6 percentage points among Hispanics. Yet despite these gains, sizable gaps in homeownership rates persist among Hispanics compared to non-Hispanic whites. As of the fourth quarter of 2005, 76 percent of non-Hispanic whites were homeowners, compared to 50 percent of Hispanics. Thus, despite the rapid growth in Hispanic homeownership over the past decade the gap between whites and Hispanics is still 26percentage points.

This report reviews the existing literature to examine what is known about the causes of the large gaps that exist between the homeownership rates of Hispanics and those of non-Hispanic whites as well as what is known about the best ways to narrow these gaps. More specifically, the goals of the report are three-fold:

1. To describe the demographic and socioeconomic characteristics of the U.S. Hispanic population and how these characteristics relate to the Hispanic homeownership gap;
2. To identify the main barriers to Hispanic homeownership, including both demographic and socioeconomic attributes of the Hispanic population and market factors such as the supply of mortgage financing, the prevalence of discriminatory treatment in both the housing and mortgage markets, and a lack of understanding and comfort with the homebuying and mortgage process by Hispanics; and
3. To catalogue existing efforts to address these barriers and to discuss what is known about the potential effectiveness of these approaches.

While the report mostly summarizes existing research, it also incorporates summary information on the Hispanic population derived from the decennial census and other publicly available national data sets.

The report demonstrates that Hispanics are quickly becoming a sizable proportion of the U.S. population and cannot be viewed as a single homogeneous group but rather are an increasingly diverse community. Hispanic households come from many different countries and differ across many demographic and socio-economic characteristics. Some Hispanics are born abroad and speak English poorly, while others are native-born citizens and speak English fluently. Of those who have immigrated to this country, some have been in the U.S. for many years, while others have been in the U.S. for only a few years. Nationally, Hispanic households have been heavily concentrated in the South and West – particularly in California and Texas – and a few metropolitan areas in the Northeast, but are now growing rapidly in many areas of the country. These characteristics are important, not only because they highlight the enormous diversity among Hispanic households, but also because they are critical to understanding the causes of observed homeownership gaps and how these gaps may change over time.

Hispanic homeownership rates are affected by many of the same demographic characteristics that influence homeownership rates among all households, but the rates are also shaped by characteristics that are particular to Hispanic immigrant communities. Hispanic

homeownership rates and gaps are strongly related to the same factors that affect homeownership rates of all racial and ethnic groups, including age, income, level of education, net worth, household type, mobility, and place of residence. Hispanic homeownership rates also are shaped by nativity, country of origin, citizenship status, and number of years in the U.S. The literature analyzing Hispanic homeownership finds that the typical homeownership demand factors, most importantly income, age, and education, explain a large part of the Hispanic gap in homeownership rates. Another contributing factor for Hispanics is their concentration in higher cost urban areas and in the Western region of the country. In addition, the large share of immigrants in the Hispanic population is particularly important. Studies that control for differences between Hispanics and whites in terms of household characteristics and geographic location explain between half and three quarters of the overall Hispanic-white homeownership gap. But studies that include factors related to Hispanics immigration status, including the number of years residing in the U.S. and citizenship status, are able to account for much of the remaining difference in homeownership rates.

Hispanics confront numerous barriers that are associated with information gaps about the homebuying process and with their ability to access the housing and mortgage finance markets.

For example, surveys of Hispanic renters have found that information gaps about the homebuying and mortgage qualification processes have discouraged some Hispanics from pursuing homeownership because their misunderstandings about the process lead them to believe that homeownership is unaffordable or too complicated, that banks are not to be trusted, or that they would not qualify for a mortgage when, in fact, they would. Hispanics' access to housing markets is limited by affordability problems as well as by discrimination in the housing market that makes housing search difficult. Access to housing finance is limited by poor credit histories, low wealth and income, and lack of proper documentation, which makes it difficult to meet standard underwriting guidelines. In addition, discrimination in the mortgage application process, can also frustrate Hispanics' pursuit of homeownership

Although the confluence of all of these barriers may seem insurmountable, government agencies and local communities have developed a litany of programs to help move Hispanic households into homeownership, although the success of many of these programs at addressing the specific needs of Hispanic families has yet to be firmly established. Some of these programs are designed to bridge information gaps through homeownership education and counseling and financial literacy courses that are targeted specifically at the Hispanic community through specialized outreach efforts and by offering materials and instruction in Spanish. Other programs attempt to improve the supply of affordable housing opportunities by granting development cost subsidies, providing regulatory relief, and reducing discriminatory practices in the housing market. Many other programs use down payment and closing cost assistance, income subsidies for mortgage payment, relaxed mortgage underwriting guidelines, reductions in mortgage interest rates, and alternative approaches to resolving residency concerns both to help make homeownership affordable and to expand Hispanics' access to mortgage financing. Most of these policies are designed to help all low-income households, but are marketed and tailored by local groups that serve Hispanic communities. Unfortunately, it is difficult to catalogue and assess the scale and geographic coverage of the myriad programs and services

available to help Hispanics households because there is only anecdotal information about efforts to specifically aide these households. Also, remarkably little is known about the effectiveness of various approaches to improving homeownership among low-income households generally or Hispanics specifically. The research that does exist primarily has focused on estimating the importance of reductions in access to mortgage finance to increasing homeownership rates. These studies suggest that Hispanic homeownership could be improved by between 3 to 7 percentage points if constraints on the supply of mortgage financing were relaxed. But no study has evaluated the potential impact of efforts to address the informational gaps that are considered so important for immigrant households.

Taken as a whole, this report suggests that Hispanics face a number of considerable barriers to homeownership in the U.S. A significant factor explaining the relatively low homeownership rates among Hispanics is that, compared to whites, a relatively large share of Hispanics have low-income and low wealth levels. While there are a number of policies aimed at assisting low-income and low-wealth households generally in becoming homeowners, the number of households assisted annually by these efforts is fairly small compared to the number of households eligible. The immigrant status of many Hispanics is also an important contributing factor to observed homeownership gaps. Some immigrants may prefer not to purchase a home because they may not plan on being permanent residents of the U.S., for some immigrants a lack of information about the homebuying process and an inability to meet mortgage underwriting criteria may be significant obstacles. While there are numerous examples of efforts by local and national organizations to address these informational and financial barriers to homeownership faced by immigrants, little is known about their effectiveness. There is a clear need for further research into the effectiveness of these efforts to ensure that the resources that are devoted to expanding homeownership opportunities for Hispanics are well targeted.

The introductory chapter of the report begins with a brief synopsis of the benefits of homeownership and the factors that make homeownership both desirable and feasible. This chapter also presents a profile of Hispanics in the United States to help put the disparities in homeownership rates between Hispanics and whites in context. Chapter 2 then describes the size of the Hispanic-white homeownership gap and trends in the gap over time. The chapter then discusses specific demographic and housing market factors that contribute to these gaps, including both descriptive information as well as a review of the literature that has examined these issues. Chapter 3 categorizes the principal barriers to Hispanic homeownership and summarizes what is known about the extent and nature of these barriers. Chapter 4 identifies existing strategies for addressing each of these barriers, including examples of policies and programs employed by government agencies, non-profit and for-profit organizations. The chapter also reviews what is known about the effectiveness of these efforts. The report concludes with a summary of findings.

Chapter 1

Introduction

Homeownership rates have reached unprecedented levels in the U.S. According to 2005 Current Population Survey data, virtually every segment of the population has higher homeownership rates than a decade ago—although the gains have been largest among Hispanics. Between 1993 and the fourth quarter of 2005, ownership rates rose by 5.8 percentage points among non-Hispanic whites, 6.6 percentage points among blacks, and 10.6 percentage points among Hispanics. Yet despite these gains, sizable gaps in homeownership rates persist among Hispanics compared to non-Hispanic whites. As of the fourth quarter of 2005, 76.0 percent of non-Hispanic whites were homeowners, compared to 50.0 percent of Hispanics. Thus, despite the rapid growth in Hispanic homeownership over the past decade the gap between whites and Hispanics is still 26.0 percentage points.

This report examines Hispanic homeownership rates and gaps in an effort to understand the major barriers that restrict homeownership opportunities for this group.¹ First, the report uses decennial census data to discuss the size of the Hispanic homeownership gap and major trends since 1980. The descriptive analysis is supplemented by a review of the literature on homeownership that suggests which demographic and socioeconomic characteristics of the Hispanic population contribute to the gap. Second, the report delineates the barriers to Hispanic homeownership beyond the demographic and socioeconomic characteristics of Hispanic households and summarizes the literature that investigates these issues. These barriers include problems accessing mortgage financing, discriminatory treatment in both the housing and mortgage markets, and a lack of understanding and comfort with the homebuying and mortgage processes. Finally, the report discusses existing efforts to address these barriers and what is known about the potential effectiveness of these approaches.

Thus, the report presents a comprehensive look at Hispanic homeownership rates and gaps that is informed by current data and existing studies. The rest of this introductory chapter provides a broader context by reviewing the nature of homeownership and of the Hispanic population of the U.S. Specifically, the introduction addresses the following issues:

- Why study homeownership rates? Or put differently, what are the potential benefits associated with homeownership? Federal, state, and local policymakers generally view homeownership as a critical force behind an individual's economic upward mobility and a community's stability. The rationale underpinning these assumptions is worth delineating.

¹ This report is part of a series of studies commissioned by HUD to examine Hispanic homeownership. Other studies completed as part of this effort include: a review of underwriting guidelines used by Fannie Mae, Freddie Mac, FHA, and a representative subprime lender to identify potential barriers in the lending industry for Hispanic homebuyers; case studies of efforts to assist Hispanic buyers in three market areas (Orlando, San Antonio, and Washington, DC); and four empirical studies of data from the decennial census and the American Housing Survey examining specific aspects of Hispanic homeownership trends and barriers. See Cortes *et al.* (2006) for a summary of all of these reports.

- What factors drive a household's propensity for homeownership? Homeownership rates and gaps are a function of both demand- and supply-side forces that drive a household's decision to own rather than rent.
- Who are Hispanics? The term "Hispanic" groups indiscriminately all persons of Spanish origin into a minority category, masking enormous diversity among Hispanics that is important to understanding how homeownership rates and gaps vary and change.

The Benefits of Homeownership

Promoting homeownership has long been an objective of housing policy in the U.S. and is reflected in a wide variety of federal, state, and local programs and policies. The Internal Revenue Service, the U.S. Department of Housing and Urban Development, state housing finance agencies, and local community development corporations are among the numerous actors that promote homeownership. Underlying these programs is the belief that homeownership provides benefits both to individuals and communities.

Homeownership is thought to benefit individuals both economically and socially.² Economically, the preferential tax treatment of mortgage interest, property tax payments and imputed rent can provide homeowners with significant tax savings and thus the overall costs of owning a home can be lower than renting (Follain *et al.*, 1993). However, low-income owners realize fewer of these benefits as a result of being in lower marginal tax brackets and being less likely to itemize deductions. Also, several recent studies have found that fluctuations in house prices coupled with high transaction costs can make homeownership a financially risky investment (Belsky and Duda, 2002; Goetzmann and Spiegel, 2002; Harding, Rosenthal, and Sirmans, 2004). Still, homeownership does provide the ability to accumulate wealth through principal payments and asset appreciation, even for low- and moderate-income homeowners (Boehm and Schlottmann, 2004; Pollakowski *et al.*, 1991).

The evidence is stronger for positive social outcomes associated with homeownership and includes findings that, compared to renters, homeowners are more likely than renters to participate in local organizations; engage in informal forms of social interaction (e.g., frequent interactions with neighbors); develop stronger commitments to their local areas; maintain their dwellings in good condition; stay in their local areas for longer periods of time; and show a higher sense of well-being (e.g., claim to be happier and to have a higher sense of self-esteem). These social benefits are apparent even after controlling for income, education and other socioeconomic characteristics (DiPasquale and Glaeser, 1999; Dietz and Haurin, 2003, Herbert and Belsky, 2006).

Related to these individual benefits are the benefits to communities that come from homeownership, some of which derive from the benefits homeownership confers on individuals and others from the types of households that become homeowners. Homeownership is associated with healthier and more stable neighborhoods, because owners are economically and socially invested in their communities and have a stake in promoting their neighborhoods' well-being. Homeowners help to make

² For a comprehensive review of the literature examining the extent to which low-income and minority households benefit from homeownership see Herbert and Belsky (2006).

neighborhoods more attractive places to live and work by investing in their properties, demanding higher quality public services, and participating in neighborhood improvement associations. Because homeowners are more likely to stay in their communities, they help provide neighborhood stability (Rohe, Van Zandt, and McCarthy, 2002).

Despite these alluring benefits to individuals and spill-over effects for communities, many households choose to rent rather than own. The factors that contribute to a household's tenure choices are discussed in the next section.

The Propensity for Homeownership

A household's propensity to own rather than rent is driven both by the household's demand for homeownership and by supply constraints that restrict access to homeownership.³ There are a variety of factors that fuel demand for homeownership, including the desires for greater control over the home and greater privacy, as well as the social status that is associated with being a homeowner. However, financial aspects of homeownership are very important. From a financial point of view, a household's demand for homeownership can be thought of as a function of two factors: the relative cost of owning compared to renting and a household's investment and consumption demands for housing. The supply constraints that restrict a household's access to homeownership stem from the availability of suitable housing units and the availability of mortgage credit. Each of these factors is discussed in turn.

The Demand for Homeownership

The demand for homeownership has been examined using two approaches: a user cost model for owning compared to renting and an analysis of homeownership investment and consumption good.

User Cost Model. The user cost model calculates a household's relative cost of owning compared to renting a home, given cost factors that vary for each household. The model compares the cost of owning versus renting after considering the potential tax savings from homeownership, the expected return on a home over time, and the transaction costs of buying and selling real estate. The net effect of these cost factors often makes homeownership a financially attractive tenure decision.

For decades, the U.S. tax code has offered homeowners considerable tax savings by allowing deductions for mortgage interest and property tax payments. Renters also benefit indirectly from these tax code provisions⁴ if landlords pass their tax savings onto tenants in the form of lower rents. Both theoretical and empirical studies have demonstrated that the net effect of these tax provisions is to subsidize the cost of homeownership when compared to renting. An important factor in the tax advantages for homeowners compared to renters is that homeowners do not have to pay taxes on the equivalent of the rent received by landlords, that is, the value of occupying the housing unit. In essence, while homeowners get to deduct some of the costs of homeownership (property taxes and

³ This section draws heavily from Herbert *et al.* (2005).

⁴ Landlords are taxed on their cash rent but are permitted deductions for mortgage interest, property taxes, and maintenance expenditures.

mortgage interest payments), they do not have to report any imputed rental income against these costs. One study estimated that the average amount actually paid by homeowners for each dollar in housing costs is approximately 74 cents (Hoyt and Rosenthal, 1990).

The user cost model also considers the expected capital gain on a home over time. The tax code has historically treated capital gains more favorably for homeowners than for landlords by shielding a portion of these gains from taxation. Since 1998, capital gains of up to \$500,000 for married couples and \$250,000 for single persons are exempt from federal taxation.⁵ This aspect of the tax policy permits homeowners to retain a higher share of expected capital, thereby reducing the user cost of homeownership and encouraging homeownership.

The expected capital gain on a home depends in part on the length of stay in a home. Offsetting capital gains from selling a home are the transaction costs associated with buying and selling, which are not incurred by renters. Homeowners typically must pay 6 percent of the home's sale price for the real estate agent's services, as well as legal fees, taxes, and settlement services. However, the impact of these transaction costs declines with the length of stay in the home, because longer stays spread the costs over more years and defer the costs to a later period. Since capital gains increase and transaction costs decline with length of stay in the home, the appeal of homeownership is greater for households who are unlikely to want to move in the near future.

Investment and Consumption Approach. Another major distinguishing feature of homeownership is that it represents both an investment and a consumption good. The investment demand for housing is influenced by the relative risk and return of housing compared to a household's overall investment portfolio. On the consumption side, greater demand for housing is associated with household type, size, and income, and with other household characteristics that influence the demand for the public services that are bundled with residential location.

When a household demands more housing to satisfy consumption needs than is sensible from an investment perspective, the household is likely to rent. For example, if a family expects relatively low investment returns on housing investment but also needs a large home to accommodate a new child, it is less likely to purchase a home to satisfy the increased consumption demand. The family is better off by renting. Alternatively, when housing is expected to appreciate greatly and a family's consumption demands are modest, homeownership is a more sensible choice. In general, households with low income and wealth and high expected mobility would be expected to have limited investment demand for housing. This occurs because the tax benefits of homeownership would be limited, mobility makes the expected returns to homeownership low, and the concentration of assets in this one investment would be too high. Thus, limited investment demand for homeownership would be expected to lower the homeownership propensity of these households.

Supply Constraints on Homeownership

Availability of Single-Family Housing. Since the mid-1970s, researchers have studied the spatial concentration of minority households in central cities and its impact on access to opportunities. The

⁵ In order to exclude gains up to these amounts the homeowner must have occupied the home for at least two years out of the last five years.

spatial mismatch hypothesis demonstrated that the concentration of minorities in inner-city neighborhoods and the suburbanization of employment opportunities reduced employment opportunities among minority households (Kain, 1992). Less well known is research that has applied the spatial mismatch theory to homeownership opportunities, showing how constraints on access to the supply of different types of housing (e.g., single-family versus multi-family) may contribute to lower minority homeownership rates (Kain and Quigley, 1975; Herbert, 1997).

Because developers are subject to higher land prices in central cities, central city developers favor high-rise and multi-family housing units on smaller lots over lower density developments covering large tracts of land. Therefore, city skylines are dominated by towering skyscrapers and tall apartment buildings rather than single-family units with chimneys. The relative lack of single-family housing units in central cities is important because: (1) single-family housing is more conducive to homeownership than multi-family housing; and (2) minority households are disproportionately located in central cities. As a result, minority households have limited access to single-family housing, which affects their tenure decision and likely contributes to lower homeownership rates when compared to non-minority households.

Mortgage Finance Constraints. Mortgage lenders can deny a loan to a borrower if the borrower fails to meet their underwriting standards. The application of these standards in the mortgage market can limit access to homeownership and can contribute to homeownership gaps if these rules affect ethnic and racial groups differently. Compared to their non-minority counterparts, minority households may be more likely to encounter credit barriers and downpayment constraints that restrict the availability of mortgage credit and limit their tenure decision. Discrimination in mortgage lending may further restrict homeownership opportunities.

Some minority households may be perceived as higher credit risks than non-minority households. For example, lenders may view minorities as higher credit risks if racial and ethnic discrimination in labor markets increases the likelihood that minorities will be laid off during an economic downturn. Lenders may seek to offset the higher risk through the underwriting process—this is evident, for example, in the higher interest rates charged by subprime lenders. The degree to which mortgage lenders offer higher interest rates to loan applicants perceived as posing greater default risk is a source of debate. Some argue that credit rationing and multiple loan rates arise if lenders group loan applicants on the basis of observable differences in credit risk. Low-risk borrowers are offered prime rates, while higher-risk borrowers are offered higher subprime interest rates. The higher rates might dissuade potential minority homebuyers if the expected capital gains no longer justify homeownership from an investment perspective.

In addition to charging higher interest rates based on perceived credit risks, lenders may view observable demographic characteristics as potential indicators of higher rates of late payments or defaults (often called “statistical” discrimination) or may avoid doing business with particular groups outright. Both forms of discrimination are illegal and have been extensively examined by researchers. Based primarily on a study conducted by researchers at the Boston Federal Reserve Bank, the consensus from the literature is that, as recently as the 1980s and 1990s, there was indeed discrimination in the mortgage market (Munnell *et al.*, 1996).

Others argue that Fair Lending Laws and the threat of costly litigation create strong incentives for lenders to offer similar loan rates to all borrowers (Duca and Rosenthal, 1994). Lenders are

particularly mindful of fair lending practices when the credit risk is associated with politically sensitive characteristics, such as race and ethnicity, sex, and age.

Homeownership requires considerable household wealth to cover closing costs and downpayment requirements. There is substantial evidence that lack of wealth reduces the likelihood of becoming a homeowner and that minority households (especially blacks and Hispanics) have significantly less accumulated wealth than non-Hispanic whites. Moreover, downpayment constraints are particularly problematic for minority households who reside disproportionately in large central cities with high costs. The costs in these housing markets make it more difficult for households to accumulate the needed down payment, often a minimum of 3 to 5 percent of the total value.

Both demand and supply factors influence a household's propensity for homeownership and these factors are shaped, in turn, by the characteristics of households. The characteristics of Hispanics in the U.S. are less well documented than those of other groups, both because Hispanics are an enormously diverse group and because historical data is limited. The following section uses 2000 Census data to provide a profile of Hispanics in the U.S.

Hispanics in the U.S.

Documenting changes in the composition of the Hispanic population in the U.S. over time is complicated by data collection challenges and by a lack of consistency in how Hispanics have been defined. In addition, collecting data on Hispanics is challenging because there are undocumented Hispanics in the U.S. who do not respond to government surveys and, therefore, are unaccounted for in census statistics. The number of such households is unclear, but studies suggest that the estimated undercount of Hispanics in the 2000 census is about 2.85 percent (Paral and Associates, 2004) and that the foreign born have a higher undercount rate (Robinson, 2001).

Between 1930 and 1960, the U.S. Census used a variety of terms to define Hispanics that were commingled with racial classifications: "people who were born in Mexico or to parents born in Mexico" was used to define a separate Mexican category in the 1930 census. "Persons of Spanish mother tongue" was used in 1940. "White persons of Spanish surname" was used in 1950 and 1960, but only in five states in the Southwest. By 1970, the census began to separate racial classifications from Hispanic definitions. The Census used three different definitions of Hispanic origin for 1970 census reports: the Spanish language population (or "the population of Spanish mother tongue plus all other persons in families in which the head or wife reported Spanish mother tongue"); the Spanish heritage population (or "the population of Spanish language and/or Spanish surname in the five Southwestern states of Arizona, California, Colorado, New Mexico, and Texas, the population of Puerto Rican birth or parentage in New York, New Jersey, and Pennsylvania, and the population of Spanish language elsewhere"); and the population of Spanish origin or descent based on self-identification.

In 1980, the census included a separate ethnicity question based on Spanish/Hispanic origin or descent that allowed respondents to select among seven national origin categories: Mexican American, Mexicano, Chicano, Puerto Rican, Cuban, Central or South American, and other Spanish origin. Similarly, the 1990 census asked respondents to record whether they were of Spanish/Hispanic origin and listed seven response categories: not of Hispanic origin; Mexican,

Mexican-American, Chicano; Puerto Rican; Cuban; and other Spanish/Hispanic. Respondents were also allowed to write in a place of origin not listed on the form. Write-in responses were coded as either the country specified by the respondent, “South American” or “Central American” when the respondent wrote in these responses, or “other.”

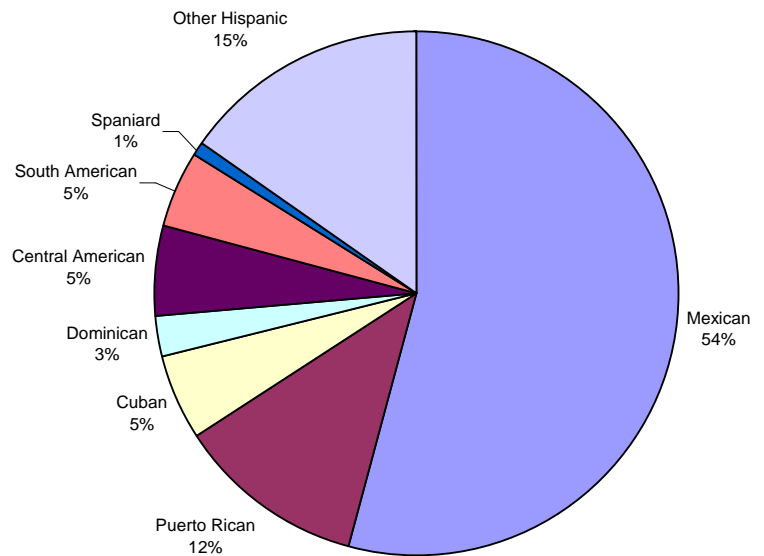
The 2000 census asked people to classify themselves as persons of Hispanic/Spanish/Latino origin based on their ancestry, lineage, heritage, nationality group, or country of birth. Race is collected separately from ethnicity. People of Hispanic origin may be of any race or multiple races, and respondents are allowed to choose from five response categories or write-in responses. Unlike the previous census, infrequent responses were coded as “other Central American,” “other South American,” or “other Spanish or Latino,” rather than identified with a specific country. However, even the 2000 U.S. Census had difficulties collecting accurate data on Hispanics, particularly with respect to country of origin and racial characteristics (discussed below).

The following sections present a profile of Hispanic households in the U.S. They include information on the demographic, socio-economic, and immigration characteristics of Hispanic households, and on the geographic distribution of Hispanics across the U.S. Specifically, Hispanic homeownership rates tend to increase with age, income, level of education, net worth, and marriage formation, and are also shaped in less predictable ways by place of residence, nativity, country of origin, and degree of social integration (citizenship status and years in the U.S.). The relationship between these characteristics and homeownership is discussed in the following chapter.

Demographic and Socio-Economic Characteristics of Hispanic Households

In 2000, there are 9.2 million households of Hispanic origin in the U.S. and 35 million Hispanic persons, representing 8.7 percent of all U.S. households and 12.5 percent of the total U.S. population. As shown in Exhibit 1-1, 54 percent of Hispanic households are of Mexican origin, 12 percent are of Puerto Rican origin, 5 percent are of Cuban origin, and 3 percent are of Dominican origin.⁶ South Americans and other Central Americans constitute 10 percent of Hispanic households, and 15 percent are “other Hispanics.”⁷

Exhibit 1-1: Country of Origin Among Hispanic Households in the U.S., 2000



Source: Integrated Public Use Microdata Series (IPUMS) data from U.S. Census 2000 PUMS 1% sample.

⁶ All data presented in the report are weighted to be representative of the population.

⁷ In the 2000 Census, write-in responses that were not classified into one of the response categories associated with twenty different countries were coded as “Other Central American,” “Other South American,” or “Other Spanish or Latino.” It is unclear what types of write-in responses would be classified as “Other Spanish or

Exhibit 1-2 presents the racial characteristics of Hispanic and non-Hispanic households in the U.S. The racial classification of Hispanics has historically been problematic for the U.S. Census. In the 1980 and 1990 census reports, Hispanic persons were treated as “white” when the “other race” category was recorded in order to maximize historical comparability with previous census.⁸ Applying this convention to 2000 census data suggests that 91 percent of Hispanic heads of household are white (50 percent “white” and 41 percent “other race”), 6 percent of Hispanic heads of household are of two or more races, and only 2 percent of Hispanic households are black.

Exhibit 1-2

Racial Characteristics of Hispanic and Non-Hispanic Households in the U.S., 2000

Race	Percent of Hispanic Households	Percent of non-Hispanic Households
White	50.4%	82.1%
Black or African American	2.0%	12.3%
American Indian/Alaska Native	1.0%	0.7%
Asian	0.3%	3.2%
Native Hawaiian/Pacific Islander	0.1%	0.1%
Some other race ¹	40.5%	0.1%
Two or more races	5.8%	1.5%
Total Number of Households	9,187,972	96,292,129

¹ In both the 1980 and 1990 Census, IPUMS classified Hispanic persons as “white” when “other race” category was recorded to maximize historical comparability.

Source: Integrated Public Use Microdata Series (IPUMS) data from U.S. Census 2000 PUMS 1% sample.

Exhibit 1-3 presents the socio-economic characteristics for Hispanic and non-Hispanic households in 2000. More than two-fifths of Hispanic households (44 percent) earn less than \$30,000 annually, and fewer than one-quarter earn more than \$60,000 a year (22 percent). By contrast, only one-third of non-Hispanic households (34 percent) earn less than \$30,000, and more than one-third (34 percent) earn over \$60,000 annually. Thus, Hispanics are more likely to be low- or moderate-income households than their non-Hispanic counterparts.

In addition, Hispanic households are relatively poorly educated. Almost one-half of Hispanic heads of household (46 percent) have less than a high school education, and only one-third have some education beyond high school. Very few Hispanic households have a professional or graduate degree (4 percent). By contrast, about one-sixth of non-Hispanic households (16 percent) have less than a

Latino.” Most Caribbean countries are not included in the list of twenty response categories, but it is unlikely that these countries collectively comprise 15 percent of Hispanic households in the U.S.

⁸ The Integrated Public Use Microdata Series (IPUMS) re-coded as “White” those who marked “other race” and identified themselves as being of Hispanic origin on the Hispanic origin question.

high school education, and more than half (56 percent) experience some type of education beyond high school. Nearly 10 percent of non-Hispanic households have a graduate or professional degree.

Exhibit 1-3

Socio-Economic Characteristics of Hispanic and non-Hispanic Households in the U.S., 2000

Income	Percent of Hispanic Households	Percent of non-Hispanic Households
<\$10,000	12.7%	9.3%
\$10,000 and <\$20,000	15.9%	12.3%
\$20,000 and <\$30,000	15.8%	12.7%
\$30,000 and <\$40,000	14.0%	12.2%
\$40,000 and <\$50,000	10.9%	10.6%
\$50,000 and <\$60,000	8.4%	9.0%
\$60,000 and <\$70,000	6.2%	7.3%
\$70,000 or more	16.2%	26.6%
Education		
Less than High School	45.6%	16.3%
High school graduate, or GED	21.8%	27.8%
Some college, no degree	17.1%	22.5%
Associate degree	4.4%	6.2%
Bachelors degree	7.1%	16.9%
Professional/Graduate degree	4.1%	10.3%
Age		
<30	20.8%	12.0%
30-34	14.4%	8.9%
35-44	26.9%	22.2%
45-54	18.0%	20.4%
55-64	9.7%	13.9%
65-74	6.5%	11.5%
75+	3.8%	11.1%
Household Type		
Married couples with children	37.8%	23.1%
Married couples without children	19.9%	30.4%
Other Families with children	14.7%	8.1%
Other Families without children	9.2%	6.4%
Other ¹	18.3%	32.0%
Total Number of Households	9,187,972	96,292,129

¹ Other household types include singles; separated, divorced, widowed people (without own children); and other unrelated people living together (without own children).

Source: Integrated Public Use Microdata Series (IPUMS) data from U.S. Census 2000 PUMS 1% sample.

Exhibit 2-1**Homeownership Rates and Gaps¹, 1980-2000**

Household Head	1980			1990			2000		
	Households	Rate	Gap	Households	Rate	Gap	Households	Rate	Gap
Hispanic	4,010,898	44.1%	-24.9%	5,812,158	42.1%	-26.9%	9,187,972	45.6%	-26.8%
Non-Hispanic Black	8,284,691	45.4%	-23.6%	9,691,699	43.9%	-25.2%	11,796,057	46.6%	-25.9%
Non-Hispanic Asian or Pacific Islander	1,022,940	52.5%	-16.5%	1,911,257	52.2%	-16.9%	3,181,674	53.1%	-19.4%
Other Non-Hispanic	485,017	52.6%	-16.4%	628,292	52.9%	-16.2%	2,236,977	51.2%	-21.3%
Non-Hispanic White	66,590,515	69.0%		73,664,936	69.1%		79,077,421	72.5%	
Total	80,394,061	65.0%		91,708,342	64.2%		105,480,101	66.2%	

¹ Homeownership gaps are calculated in relation to the non-Hispanic white homeownership rate.

Sources: U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 IPUMS 1% sample.

Exhibit 3-4 presents the homeownership affordability ratios among first-time homebuyers for all 11 metropolitan areas in the study. Based on the Fannie Mae analysis, a middle-class homebuyer in Atlanta, Washington DC, Houston, and Philadelphia is able to afford a median-priced home, each having an affordability ratio below 100. Middle-class families in Chicago are just able to buy a median-priced home (ratio is 100). Families in 6 out of the 11 metropolitan areas (Boston, Denver, Los Angeles, New York, San Francisco, and Seattle) are not able to afford a median-priced home. With affordability ratios ranging from 118 to 198, middle-class families purchasing a median-priced home would need approximately 1.2 to 2.0 times the area median income to qualify for a mortgage with 10 percent down payment.

Exhibit 3-4

2000 Homeownership Affordability Ratios for First-Time Homebuyers in 11 Large Metropolitan Areas

Metro Area	Income to Qualify for a Mortgage	Median Family Income	Hispanic Median Family Income	Homeownership Affordability Ratio	Hispanic Homeownership Affordability Ratio
Atlanta ¹	\$48,800	\$63,100	\$42,600	77	115
Washington, DC ¹	\$69,300	\$82,800	\$50,000	84	139
Houston ¹	\$48,900	\$56,700	\$33,000	86	148
Chicago ¹	\$67,700	\$67,900	\$40,500	100	167
Philadelphia ¹	\$52,700	\$57,800	\$28,000	91	188
Denver ¹	\$73,600	\$62,100	\$36,200	118	203
Seattle	\$83,800	\$65,800	\$40,000	127	210
Los Angeles ¹	\$73,400	\$52,100	\$33,400	141	220
San Francisco ¹	\$148,400	\$74,900	\$49,000	198	303
New York ¹	\$88,800	\$56,200	\$27,600	158	322
Boston ¹	\$121,200	\$65,500	\$29,100	185	416

¹ Among the 30 metropolitan areas with the largest number of Hispanic households in the nation.

Sources: *Fannie Mae, 2004*

However, using 2000 IPUMS data to produce comparable income measures for Hispanic families,²⁹ none of these metropolitan areas are affordable to Hispanic families earning a median income. For example, the median income among Hispanics families in Atlanta is approximately \$42,600, or over \$20,000 less than the median family income for all families. After adjusting the affordability ratio to reflect Hispanic median family incomes, the homeownership affordability ratio increases in Atlanta to 115. This suggests that a first-time Hispanic homebuyer in Atlanta would need to earn 115 percent of the area median income to qualify for a mortgage with 10 percent down payment.

²⁹ The Fannie Mae study uses family median-income data from the U.S. Department of Housing and Urban Development, which does not contain income data by ethnicity. In order to produce comparable median family income for Hispanics, we used 2000 IPUMS data for a household of four.

Exhibit 4-1: Strategies for Overcoming Homeownership Barriers Among Hispanics

