Immigrant Homebuyers

For immigrants, purchasing a home symbolizes that one has "made it" in America. Homeownership is a key financial resource, providing opportunities to secure the "good life." Successive waves of immigrants who regard acquisition of their first home as a major goal have helped poor communities transition to working-class and then middle-class communities. Such a metamorphosis seems to be taking place in Lawrence and Lowell—Massachusetts cities with large Latino and Southeast Asian immigrant populations.

In 2003, the Immigrant Learning Center (ILC), Inc., a nonprofit organization in Malden, Massachusetts, set out to document and describe this metamorphosis as part of its public education program to raise the visibility of immigrants as valuable contributors to America's economic, social, and cultural vitality.

To carry out the study, the ILC contracted with researchers from Tufts University and Northern Essex Community College, who conducted

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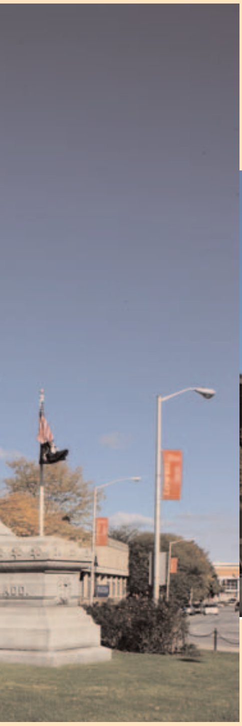

by Marcia Hohn

& Economic Revitalization

and analyzed more than 60 in-depth interviews with immigrant homebuyers and 24 interviews with community representatives from many layers of the local housing industry. Relevant census data were also collected to provide social and demographic context.[1]

Homeownership on the Upswing

In both Lawrence and Lowell, homebuying by immigrant families has become a noticeable economic activity, with dramatic increases seen between 1990 and 2000. In that period, homeownership among Latinos in Lawrence increased 166 percent from 926 units in 1990 to 2,462 units by 2000. This increase represents a jump among Latinos from 21 percent to 31 percent in the city's total homeownership. In Lowell, Asian homeownship increased 164 percent from 434 units in 1990 to 1,145 in 2000, and Latino homeownship increased 82 percent from 381 to 694 units, rising from 5 percent to 11 percent of total homeownership during the decade. These increases suggest that the growth in immigration, which is

Leveraging Private Loans

by Helen Payne Watt

Immigrants who seek conventional financing for a home often face hurdles such as a lack of a stable employment or credit history. And yet, they may have a history of on-time bill payment, access to cash through cultural savings clubs, and similar informal assets. To traditional underwriters such assets may not have value, but to relatives, friends—and often home sellers—they may be an attractive foundation for a loan.

Today a new kind of business called specialty loan administration is meeting a need for immigrants and others by facilitating private loans in conjunction with bank financing. Two approaches are common: *family seconds* and *seller financing*.

Family Seconds

Some immigrants are able to supplement a bank mortgage with a second mortgage from private sources such as relatives, close friends, and neighbors. Nationwide, Community Seconds programs and Soft Seconds programs use subsidized funds from nonprofits to provide a second mortgage at an affordable rate. Informal financing in immigrant communities works the same way. A private mortgage from relatives lowers debt-to-income ratios and allows more people to qualify.

Conventional wisdom in the financial-services industry holds that when low- and moderate-income individuals find secondary financing from relatives and friends, it's essentially a gift, not a loan. But in reality, private borrowing and lending occurs across the socioeconomic spectrum, and low- and moderate-income individuals pay back principal and interest just as often as the well-heeled do. In our experience, the average interest rate charged on an intrafamily mortgage loan is 4.74 percent.

Facilitating private loans in conjunction with bank financing is meeting a need of immigrant households.

The latest Survey of Consumer Finances estimates that more than 8 percent of U.S. households have a loan outstanding to relatives and friends. This translates into about 6 million such loans per year. Moreover, 72 percent of such borrowers are from households with less than $50,000 in household income.

The National Association of Realtors reports that the proportion of first-time homebuyers using loans from relatives has risen from 5 percent to 9 percent over the last 6 years, while the proportion using gifts from relatives has remained steady at about 25 percent. Although there remains some risk of default, banks, Fannie Mae, Freddie Mac, and other mortgage lenders are starting to respond to the trend by relaxing guidelines on second mortgages from related persons.

Seller financing

Although out of fashion for some years, seller financing is becoming more popular as mortgage rates rise. A specialty loan administrator can handle the details when homebuyers find a home for which the seller is willing to finance all or part of the purchase price. Since its founding in 2000, specialty loan administrator CircleLending has seen an average seller-loan interest rate of 6 percent, which compares favorably with other options available to homebuyers with a poor credit history. To ensure that lending among private parties goes smoothly, private loans require proper legal documentation and a sound plan for repayment.

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helping to stabilize population loss, is also fueling the housing industry.

Characteristics of Immigrant Homebuyers

Census data illuminate some important changes in characteristics among immigrants in the two cities during the last decade. For example, Lawrence saw a 164 percent increase in bachelor's degrees among Latinos and a 420 percent increase in graduate or professional degrees. In Lowell, there was a 177 percent increase in bachelor's degrees among Southeast Asians, an 85 percent increase in associate degrees, and a 77 percent increase in the number of Southeast Asians with graduate or professional degrees.

The number of households with incomes of $100,000 or more increased significantly among immigrants in both cities. Both cities appear to be experiencing the birth of a new middle-class composed primarily of immigrants. These immigrants are "urban stayers" who are putting roots down in their communities by buying a home. Interestingly, many of the new immigrant homebuyers are also entrepreneurs maintaining small local businesses that cater to the cultural and ethnic necessities of their community as verified by a previous study.[2] Thus, the immigrants are providing dual investments in their communities.

In Lawrence, most new immigrant homebuyers are females between the ages of 25 and 35 who have been in the

United States for 16 or more years. The majority are already citizens, and they have no plans to return to their country of origin. In Lowell, there is a similar profile. Most homebuyers are between the ages of 25 and 40, with a higher percentage of females who have been in the United States between seven years and 30 years. More than half have already obtained citizenship.

Costs, Financing, and Home Types

In Lawrence, most homebuyers interviewed had purchased triple-deckers, a common type of housing there. In Lowell, most reported that they had purchased a single-family home. In neither case was overcrowding an issue.

A common stereotype of immigrants is that they overpopulate a household with many more individuals than the unit was designed to house. However, this was not the case in either city, according to interviewees. For example, in Lawrence, 40 percent reported three to five individuals living in various properties, including two-family and triple-decker homes. Another 37 percent reported six to 10 individuals, but only in two-family or triple-decker homes. In Lowell, 50 percent of interviewees noted three to five individuals in single-family homes, while another 50 percent reported between six and 10 people, most of them children.

Affordability was the primary reason for purchasing a home in a particular area of the city—although being close to family members was a factor for Lowell homebuyers. The vast majority (70 percent in Lawrence and 90 percent in Lowell) paid between $151,000 and $300,000. But there is a striking difference between the two cities in how down payments and closing costs were financed. In Lawrence, the majority drew on their savings. In Lowell, the majority said they financed the costs through the help of a social or government program for first-time homebuyers.

Spending for repairs and renovations was sizeable, with most new homeowners spending $1,000 to $5,000 and a significant number spending $10,000 or more. The majority purchased appliances and supplies from nearby Home Depot stores, and many hired local contractors, keeping the dollars in the region.

The Purchasing Experience

A home is, in all probability, the most expensive item Americans will buy in their lifetime. It can be a frightening experience. Most immigrant homebuyers in Lowell (79 percent) used a real estate agent, and most reported having a good or very good overall experience. In Lawrence, fewer people (57 percent) used an agent, but they reported an overall higher level of satisfaction with the purchasing experience.

However, the reports of satisfaction need to be viewed with caution. Informants from the housing industry in both cities expressed concern about predatory lenders whose aggressive ethnic marketing often masks unfavorable terms, unexpected balloon payments, and a lack of commitment to the economic health of communities. In a market of shrinking home values and rising interest costs, some immigrant homebuyers could experience foreclosure. In fact, the foreclosure rate is already up in both cities.

Immigrants who are just gaining a toehold in the American mainstream can be economically fragile when facing a sudden job loss or shifting personal circumstances. Financial education and asset-building programs that help immigrants build strong credit histories and understanding of financing systems would be immensely helpful in addressing these issues, as would immigrant-friendly products and services from local banks committed to the economic well-being of their communities. Such products and services might include personal greeters, bilingual and bicultural staff, outreach and services at trusted community organizations, and collaborations with consulates to develop identification documents for banking purposes.

The Revitalizing Factor

Past studies of immigrants have focused on their ability to meet current and future workforce needs. The Immigrant Learning Center data highlight another way immigrant communities are an important boon to local economies. In buying homes, immigrants are making a decision to stay in a city. They are putting a stake in the ground. This means that they are investing in the city and will be making contributions to the social and civic fabric for years to come.

Both cities appear to be experiencing the birth of a new middle class composed primarily of immigrants.

Although cities seeking to meet economic challenges should continue to design strategies that bring back the middle class, revitalization will be incomplete and inefficient if immigrant communities are not treated as vital assets. Historically, cities that give immigrants the right opportunities have been able to grow a new middle class from people already living inside the city limits.

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[1] U.S. Census Bureau, *Census of Population and Housing, 1990, 2000: Summary File 3.* Available at http://factfinder.census.gov.

[2] Jorge Santiago, *The Latino Business Community in Lawrence, Massachusetts: Profile and Analysis* (Haverhill, Massachusetts: Northern Essex Community College, 2004).