

The State of Latino Housing in California



CENTER FOR
CALIFORNIA
REAL ESTATE

About

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Author: Roger Cruzen

Editors

Anne Framroze, senior vice president communications, CALIFORNIA ASSOCIATION OF REALTORS®, and CCRE director

Julissa Gómez, manager of housing opportunity and fundraising, CALIFORNIA ASSOCIATION OF REALTORS®

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Background

The Center for California Real Estate (CCRE) is an institute founded by the CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.) dedicated to intellectual engagement in the field of real estate. Its mission is to advance industry knowledge and innovation with an emphasis on convening key experts and influence-makers. CCRE reflects C.A.R.'s increasing role in shaping the future of the industry by advancing innovative policy solutions and active dialogue with experts and industry stakeholders. Additional background on CCRE and C.A.R. can be found at centerforcaliforniarealestate.org.

Introduction

They are young, hard-working, better educated, more family oriented and, by 2020, expected to contribute more than \$1.7 trillion annually to the California and U.S. economies. In fact, if California's Latino population formed its own country, its economy would be the 14th largest in the world, according to The Nielsen Company.

Although analysts say California's growing Latino population has the potential to become a major engine of economic growth, there remain some nagging issues that threaten to jeopardize the state's future and the well-being of millions of Californians. These include rising rents, which have doubled since 2000, and sharply higher home prices caused by a critical lack of housing inventory and new-home construction, not to mention sharply declining housing affordability – even in Southern and Central California's more affordable inland markets.

Latinos account for roughly 15 million people in a state of approximately 40 million. Nationally, their numbers are expected to reach 106 million, or one in four residents, by 2050.

Demographers also predict that the number of Latinos nationwide will surpass all other ethnic groups, including whites, by 2060. What's more, a little over half of California Latinos are under the age

of 18, which positions them to lead the pace of household growth, contributing the majority of the 6 million households expected to be formed over the next decade.

Latinos also are hard-working – a cultural attribute long-prized by employers – and more highly educated. The number of Latinos with a bachelor's degree or higher jumped by 25.1 percent between 2011 and 2015, nearly triple the increase of entrepreneurial non-Hispanic white Californians over the same period, according

to figures from the U.S. Census Bureau. They also are more likely to speak English: 58 percent of Latino millennials are bilingual, and only 14 percent of those are "Spanish-dominant," according to the 2016 State of Hispanic Ownership Report by the National Association of Hispanic Real Estate Professionals (NAHREP). Not surprisingly, Latino millennials are tech-savvy: 83 percent say they sleep with their phones and 89 percent use social networking sites, Nielsen reports.

Although the share of Latinos with six-figure incomes has doubled from approximately 8 percent in 2000 to 16 percent in 2015, and fewer workers today struggle with poverty-level wages, Latinos continue to experience high levels of wealth inequality. Many also continue to experience inequalities when it comes time to find a mortgage. According to the NAHREP study, Latino mortgage applicants were denied credit at roughly twice the rate of non-Hispanic white applicants. Latinos also accounted for only 7.3 percent of mortgages, although they make up 17 percent of the U.S. population. Lenders argue that Latino residents are often "credit invisible" or have "thin" credit files, but that, too, is changing: Between 2005 and 2015, Latinos accounted for 100 percent of the net growth in consumer checking accounts, 21 percent of growth in savings accounts, and 5.1 million additional credit card accounts.

Lenders, in combination with federal agencies Fannie Mae and Freddie Mac, are in the process of re-tooling their efforts to educate Latino home buyers unaccustomed to American methods of financing homes and devising new products that are more culturally familiar to Latinos.

Latinos attach a great deal of importance to home-ownership, according to a 2017 online survey of California renters conducted by the CALIFORNIA ASSOCIATION OF REALTORS®.

Twenty-eight percent of Latinos who previously owned a home said they moved due to a foreclosure or short sale. Despite losing a previous home during the Great Recession, 28 percent said homeownership remains “extremely” important, while 29 percent said it was “very” important, and 27 percent answered that it was “moderately” important. Forty-six percent of Latino renters surveyed said they were more likely to buy a home that will accommodate multiple generations — more than any other ethnic group. One in five indicated they plan to pool funds with other family members to enable them to buy a home.

Although California’s most urgent issues are housing affordability and low inventory, C.A.R. estimates that only one in four Californians will be able to qualify to purchase the state’s median-priced home, and that just shy of 115,300 new homes will be built statewide in 2018. That’s approximately 72,000 fewer new homes than are needed to hit 2018 targets.

Playing a greater role in advocating for the construction of affordable rental and ownership housing is one area where Latinos and all Californians can make a difference. Holding local leaders accountable for developing local affordable housing plans and continuing to encourage developers and communities to “Think Density,” despite pressure from neighbors, is expected to continue to make affordable housing for lower-income citizens a dream, rather than a reality.

In its ongoing effort to achieve a better understanding of the current state of housing in California and

the issues and challenges that face the state’s home buyers, the Center for California Real Estate (CCRE) – an institute founded by the CALIFORNIA ASSOCIATION OF REALTORS® – convened a panel discussion in September 2017 to discuss the problems facing Latinos and possible solutions.

Joining in a lively discussion, which was moderated by C.A.R. Chief Executive Officer Joel Singer, were:

- Patty Arvielo, president, New American Funding, the nation’s largest women- and Latina-owned mortgage company with 2,500 employees, 140 offices and \$21 billion in loans serviced;
- Sergio Barajas, manager of housing outreach, Freddie Mac;
- John Gamboa, president, California Community Builders and vice chair of The 200, an organization comprised of retired community activists whose goal is to increase homeownership opportunities for communities of color;
- Michele Martinez, mayor pro tem, City of Santa Ana, and immediate past president, Southern California Association of Governments.

[Please note: The U.S. Census Bureau uses both “Latino” and “Hispanic” interchangeably. For the purposes of this report, we will use “Latino” throughout. The Q&A transcript has been edited to accommodate space limitations.]

Participants



PANELIST: Patty Arvielo
President, New American
Funding

Patty Arvielo is president of New American Funding, and leads the mortgage bank with over 2,500 employees and 140 branches across the nation. She influences the real estate finance industry in terms of lending policy initiatives and she rallies for the upward mobility of women in the workplace overall.

To better serve Hispanic communities, Patty Arvielo spearheaded the Latino Focus Committee within her organization. Her vast experience, commitment and dedication has led to her recent appointment to a three-year term on the Consumer Advisory Board by the Consumer Financial Protection Bureau (CFPB). Patty is also on the Diversity and Inclusion Committee and the Consumer Affairs Advisory Council for the Mortgage Bankers Association. She currently resides on the Latino Donor Collaborative Board.



PANELIST: Sergio A. Barajas
Manager of Housing
Outreach, Freddie Mac

Mr. Barajas is currently manager of housing outreach at Freddie Mac working within the Single Family Affordable Lending and Access to Credit Division. As a housing outreach manager, his primary responsibilities are to help Freddie Mac build relationships with REALTORS®, housing intermediaries and other stakeholders to create education and awareness about responsible lending opportunities to first time homebuyers, low-to-moderate income borrowers, and families in underserved markets.



PANELIST: John Gamboa
President, California
Community Builders and
Vice Chair of The 200

John C. Gamboa, the president of California Community Builders, is former co-founder and executive director of the Greenlining Institute. Prior to the Greenlining Institute, he was executive

director of Latino Issues Forum; communications manager at U.C. Berkeley; executive director of Project Participar, a citizenship program; and marketing and advertising manager at Pacific Bell.



MODERATOR: Joel Singer
Chief Executive Officer,
CALIFORNIA ASSOCIATION
OF REALTORS®

Joel Singer is chief executive officer of the CALIFORNIA ASSOCIATION OF REALTORS®, a state-wide trade organization with 190,000 members dedicated to the advancement of professionalism in

real estate. He has held the Association's top staff position since November 1989 after serving as C.A.R.'s chief economist and heading the Association's Public Affairs department. Singer was instrumental in developing Real Estate Business Services Inc. (REBS), C.A.R.'s for-profit subsidiary, and serves as its president.



**PANELIST: Michele C.
Martinez**
Mayor Pro Tem, City of
Santa Ana, and immediate
past President, Southern
California Association of
Governments

Michele Martinez ran for Santa Ana City Council in 2006. Michele was re-elected to a third term and currently serves as the

City's Mayor Pro Tem. Michele is most proud of championing the city's first, five-year Strategic Plan and Economic Development Strategic Plan. Her past roles include the president for the Southern California Association of Governments (SCAG) and the president of the National Association of Latino Elected and Appointed Officials (NALEO). Currently, Michele is a board member for the Southern California Latino Policy Center. Recently, Michele was appointed to serve on the League of California Cities-Latino Caucus Board of Directors.

Questions & Answers

JOEL SINGER: Let's begin by asking what issues currently are having an impact on Latinos from the standpoint of homeownership and rental housing.

MICHELE MARTINEZ: The No. 1 issue is housing costs. Another is what happened between 2005 and 2008 and the impact of subprime loans in the Latino community. We're still trying to deal with that. Santa Ana had one of the highest foreclosure rates and we're still struggling. We're a city of renters.

JOEL SINGER: Michele, what is SCAG and how does it fit into the housing picture?

MICHELE MARTINEZ: We're the largest metropolitan planning organization in the country, representing 19 million people. Our role is to help 191 cities and six counties plan when we're dealing with transportation and land use. We are responsible to the federal government to do a regional transportation plan, and we're responsible for housing through the Regional Housing Needs Assessment (RHNA). We have a mandate from the state that each locality has to build a certain amount of housing.

JOEL SINGER: John, your assessment of the number one issue affecting homeownership and the state of Latino housing?

JOHN GAMBOA: I agree it's the cost of housing. But it is the cost of housing aggravated by the lack of affordable supply. Latinos are no different in that we're affected by the lack of supply. Also, from 1934 to 1970, Latinos were legally excluded by the redlining activities of the major financial institutions and government programs. Just when we were starting to catch up, then comes the housing crisis and we're even further behind now than we were.

JOEL SINGER: Patty, obviously you're dealing with this crisis in terms of financing.

PATTY ARVIELO: I probably bring a different perspective because I'm certainly not a policy person. I entered into the Latino market because of my passion to serve my culture and my people, and what started as a thing for fun and love turned into a huge business opportunity. And, I've seen things by touching the consumer and seeing their enthusiasm for homeownership. I see tons of opportunity.

Our outreach efforts are better by percentage than the banks. It's because I've built a sales force that mirrors the communities, meaning that I have a lot of successful Latinos working for me, and African Americans, too. Our company is extremely diverse, and we hire and train to serve the market. So, I see a lot of opportunity there.

What is lacking, and the reason we have such a great partnership with Freddie Mac, is outreach and education. No one's spending the money to educate the cities. I love Santa Ana. I just opened a large business there. But I'm watching the cities we're in knowing that they have down payment assistance money, but nobody knows because they don't have the money to advertise. So that's where our partnership with Freddie Mac comes in.

There's this perception that we [Latinos] are all poor. We're not. Although there is a large demographic within Latino communities that can't afford housing, we've built a thriving industry. And we do have a lot of cash, even though we save it differently than non-Hispanics or non-Latinos. So, I see this as exciting and opportunistic. I don't see it as "woe is us." I see "us" as a huge emerging market.

JOEL SINGER: Well, there's no question that the desire for homeownership is extremely high.

PATTY ARVIELO: Huge.

JOEL SINGER: Sergio, how do you assess California's problem?

SERGIO BARAJAS: I think it does come down to cost, affordability and supply. Those are the biggest issues.

JOEL SINGER: What's really concerning is that the affordability ratio is so low at a point when we've got record-low interest rates. And so, the concern has got to be that it's going to continue to get worse. What can we do to change that? Michele, you get to represent government here.

MICHELE MARTINEZ: We talked about the millennial thing a little bit. Among Latinos, 36 percent are under the age of 20. So, that is a perfect prime market on which REALTORS® can focus. There's this conversation that millennials don't want families; they don't want to drive. But 80 percent of millennial renters actually want to buy a home. They



Panelists Patty Arvelo and Sergio Barajas

just can't afford it. Although at the local level we have programs for first-time home buyers, cities are the worst at communicating the services that we have. We need to partner with institutions and REALTORS® to get that message out.

I really believe we need that partnership even more now when you realize that by 2020, 41 percent of the population will be Latino. By 2050, 47 percent. The California economy cannot be successful without this population. It is vital. Yes, there is a lot of opportunity. And yes, not all Latinos are poor. But we don't do a very good job at marketing to those who have the opportunity; who may not understand the access points. We need to connect the dots.

JOEL SINGER: From my perspective, the Latino homeownership rate may be the only rate that's holding its own or going up slightly. But we anticipate in California that we're going to be a majority renter state in about 2025. And that's going to inhibit everybody's homeownership - particularly, as you point out, the fastest growing segment, which is the Latino population.

And we also postulate that the real problem is supply. We're building 100,000 units. We used to build 300,000 units. When our population was 20 million or less, we built 300,000 units. Now as we approach 40 million in the state, we're doing 100,000 units. What, specifically, can we do to boost the supply of homes?

mechanisms that helped build more affordable housing. We're trying to figure out, is the state going to do its job and help us? Because we have developments in place now that are ready to go, but there is that gap funding. And the city only has limited funds that we can provide.



Moderator Joel Singer and panelist Michele Martinez

MICHELE MARTINEZ: At the state level, we've got to change regulations. Cities are not in the business of building housing. That's not our job or our responsibility.

JOEL SINGER: I don't think anyone wants you to build as much as you're doing, by the way.

MICHELE MARTINEZ: Exactly. We have mechanisms in place. But in 2012, redevelopment was taken away from us, so we lost those financing

We need to figure out what the financing mechanisms are to help that development move forward. But more important, we have regulations that are in place that are cumbersome; that sometimes developers will come to us and say, "Look, we want to build. Time is money." And we take them through this whole process, whether it's through the federal, through the state, NEPA, CEQA. And so, we need reforms there.

When we talk about density in local municipalities and communities like Santa Ana, where there are predominantly single-family homes, the moment we start talking about doing high-rise apartments and condos, there is a lot of resistance. So, we're kind of torn. From a policymaker perspective, it gets very political. You know, do I want to get to the next level, and what does that mean? So sometimes you're trying to do for the greater good, or you're trying to do for you as an individual in your political career. A lot of politics does come into play. But I think we've got to have these honest conversations.

I look at it from a fiscal perspective: How am I going to run my city and make sure that it's sustainable. The two major sources of revenue are property tax and sales tax. We receive more sales tax in Santa Ana than we do property tax because the majority of our residents are renters. And you're starting to see that trend for all of California. So, there are going to be major implications. We need to figure out a strategy for helping these people.

Then there are the baby boomers, who are pushing back against accessory dwellings because of parking issues. So, there are a lot of issues at the local level.

Ultimately, I believe for us to move the needle forward we're going to need the financing mechanisms and the political will from policymakers to say this is the kind of housing we need. But we need the support, again, from individuals like yourselves, not the development community, but from folks at your level to help educate the community about the need for supply.

JOEL SINGER: John, what would you do to solve this problem?

JOHN GAMBOA: Well, I'm a relative newcomer to the issue. But from a newcomer's perspective, two issues I see are inhibiting factors toward increasing supply are CEQA and prevailing wage issues. I think the misuse of CEQA by NIMBYs and by the Building Trades Union artificially keeps the cost of housing up, which in turn leaves so many more of our

people not having the ability to purchase a home. And I also believe that we need some strength in our policymakers to take a stand and do what's right for their communities.

JOEL SINGER: When we do our interviews, we find that all millennials want to own a home. What are the barriers, beyond the cost of housing, that can be addressed? Obviously, you've had some success on the financial side. But are there any barriers that can still be attacked that will actually change the dynamic on homeownership?

PATTY ARVIELO: Many of the barriers exist today because of the meltdown. We're a very archaic business with a little bit of automation, and the automation sometimes excludes the Latino culture. So, that is a problem in terms of access to credit. If you think about the meltdown and the access to credit then, a lot of Latinos got into homes because there were no-doc loans. So, it made it easier for them to obtain financing.

I'm working to let the agencies know that we cannot automate the cultural nuances that exist today. Companies like mine do a large percentage of manual underwrites, but we're able to take the risk because someone knows the product and has always focused on putting people into homes they can afford.

I'm also watching first-time home buyers. Sixty percent of them are Latino. A lot of them are buying with their parents because the parents were excluded from homeownership. So, they are assisting, which we do in our culture. We help our family. It's foundational within us.

Access to credit is still an issue because of over-regulation. I sit on the CFPB Advisory Board. I'm the first active mortgage banker to sit on the board. What I would like to achieve is some clarity around the placement of rules in a way that excludes the very people we should be serving.

Here's one example. On DAP loans or bond loans, we are limited on how much we make. As a result, a lot

of business owners in this space don't want to do those loans because we don't make any money, and there's risk involved. We happen to do a lot of them, but I'm losing money. So the fact that the MLO Comp Rule exists is prohibiting us from being able to scale that business, because I can't pay a loan officer to do a loan that I lose money on. If we could remove just that rule or change that rule, I would see a bit of a lift.

JOEL SINGER: Patty, I'm fascinated by what you said about the inability to automate in a way that captures what you do in terms of underwriting. Are you optimistic you can get around that over time?

PATTY ARVIELO: We cannot underwrite Latino homeownership in the automated rule. No. 1, we're all married to the FICO score. And FICO score is an algorithm that I believe works. But there are new credit scoring models that we're not using that will allow more people to be "credit visible" instead of "credit invisible." Latinos don't always necessarily run to credit. Same with the African American community. Or, they get taken advantage of in the pawnshop-type lending, where they only rate them as bad if they don't make their payments, but they're not necessarily letting us know that they're making their payments on time.

We're close to being able to begin using some alternative credit scoring models. I'm very optimistic that we're close with one. I think it is important that we talk about that, because I think it's very safe lending. It's just that we can't take cultural nuances and put us in a white man's box. That's what we're doing today.

JOEL SINGER: The agencies [Fannie Mae and Freddie Mac] have played a more positive role than I think the private lenders have played in reaching out to diverse communities. How are you going to continue that in the regulated environment you're now in and continue to accelerate homeownership in underserved communities?

SERGIO BARAJAS: Well, we work closely with FHFA every time we want to pilot something or have a

thought that we think addresses some of the needs that exist. We do a lot of pilots. As a matter of fact, we have one with New American Funding that is a bit more culturally sensitive and understands that we all don't save and borrow the same way.

Just going back two-plus years with the reintroduction of both the 95 percent product and the 97 percent product, kind of to piggyback on everybody's comments here, people start saying, "Oh, here they go again. They're back in the 97 space." The 97 space always made sense. It was how you documented that, your participation in that space. So, I think we've done a lot of good things to date with allowing for that 3 percent to come from different sources. We're talking about boarder income, allowing boarder income, meaning rental income from extended families, which tends to be prevalent in not only Latino households, but in low or moderate-income households, generally speaking.

At the beginning of June, we pushed out a pilot on a no-credit-score loan. We continue to look for more ways to make purchase loans that make sense. To Patty's point, it's not about just trying to underwrite to numbers. It's underwriting to a housing situation that is sustainable. Sustainable is the word we like to use when we're talking about housing. I also think we need to redefine the housing experience. We need to go up. We need denser housing.

JOHN GAMBOA: One of the issues that's come up in our discussion with for-profit and nonprofit developers has been the product liability insurance issue between condos and multi-family properties. One of the things we were trying to find out is: Why is 95 percent of government subsidy housing going to build rentals rather than homes for sale?

PATTY ARVIELO: I was with [HUD Secretary] Ben Carson recently, and all he talked about was rental housing. I'm not really understanding the push in that segment.

JOHN GAMBOA: I'm fearful that if 95 percent of

housing is going to be rentals, our community is doomed to be renters from now on.

MICHELE MARTINEZ:

Ninety percent of policymakers are clueless about housing. They want to support affordable housing or subsidies but don't realize that when you subsidize a for-profit or a nonprofit developer, and you provide that affordable housing, well, guess what? There are covenants. That means the developer who owns that property is not paying property tax, and there's a renter staying there. So, it's a double-whammy. And the elected officials clapping their hands and saying "Yeah for me, look what we're doing in our community!" But there are unintended consequences; right? Let me tell you, 90 percent of elected officials don't understand it. I'm a nerd and a policy wonk, so that I just immerse myself in all of this because I want to make good informed policy decisions.

The reality is that 90 percent of elected officials have full-time jobs. We need practitioners to come and educate the policymakers so we can move forward together. We're all working in our own silos, and that doesn't benefit any of us.

SERGIO BARAJAS: To your point, once they're in the rental queue and they have tax credits or tax-exempt bonds, then they're in a 15-year window where they can't convert. When they do try to convert, they get more subsidy thrown at them. So, I think your point is: Why not provide some type of subsidy for affordable homebuyer opportunities up-front?



Panelist Patty Arvielo

MICHELE MARTINEZ: Exactly.

SERGIO BARAJAS: I get what you're saying. I think it makes a lot of sense.

JOHN GAMBOA: We change the law. But my point is that once it gets pushed down that path, people are going to be very strong proponents of it staying in that box.

It's hard to keep blaming the legislators. They had over 300 housing bills. When I went in to talk about SB 2 and 3, half of them hadn't even read it. I had an analysis that was done by a woman who works for me, and they asked me if they could copy it so they could speak from it. That was amazing to me, hearing that they were going to vote on it in two weeks and that they hadn't even read the bills.

JOEL SINGER: From a policy standpoint, John, you're absolutely right, the focus is almost entirely on affordable rental housing. We were involved in it, and one of the ways to get our support, quite frankly, was put 20 percent of SB 2 into ownership, workforce housing. But you take all those housing programs

together, and they're a drop in the bucket. They're going to produce 15,000 units at best.

Until you get into an environment where you incent the private sector to start building affordable market-based and workforce housing, you're not going to get anywhere. Until you create an environment where people can build affordable market-based housing, it's not going to reach down to the 50 percent of median segment. But you can reach workforce housing. I think the problem is that they focus on the legislative side at the state level and probably at the local level. Since we're not going to create the environment where people can actually build, let's get some money to subsidize.

The real question we have to confront is that if you're a millennial of any race in California, particularly



Panelist Michele Martinez

Latinos, and you are looking at housing prices here versus what you can get in other states, why would you choose to live here?

PATTY ARVIELO: We were with former President Bush the other day, and he actually applauded the fact that California was so employer unfriendly. He was welcoming everybody from here to Texas. We have a large percentage of Latino growth in Tennessee, North Carolina and Iowa. I mean, I'm there watching them leave the state for opportunities and housing in other states. We're actually driving them out!

JOEL SINGER: By the way, we would support \$2 billion. We've suggested that they get sales tax, income tax money and directly subsidize housing if you're going to do it, because there's not enough money coming in even with the bill package that was passed. But you're going to get to the point where you are housing our current population and forgetting everything else. When we're looking at who that's going to hurt the most, you're never going to get there until you start building more housing, and it's not going to come from subsidized housing. It's got to come from the marketplace. And you and I both know, in SCAG, there are governments that are very supportive of housing, and there are a bunch of local entities that resist it in every possible way. Yet from the standpoint of subventions from the state, from the standpoint of how they're treated in terms of funding, including housing funding, there's no penalty.

MICHELE MARTINEZ: Exactly. I agree. The amount of money a family is spending on housing and transportation doesn't leave much for health-care or education.

So, how can they save money to purchase a home? These are not millennials; these are [average] Latinos. I'm 38 years old. I'm a renter. And, again, the majority of residents in Santa Ana are renters. Would we want to be property owners? Most definitely.

But when we're talking about policy, we're working in

silos. We talk about housing. We talk about transportation. We talk about economic development. There is resistance from individual municipalities where they just don't want housing. I want to be very honest that it's mostly coming from [the] conservative perspective – "Not in My Backyard;" "Not in Coastal Cities." That ends up impacting all of us. So, we need to figure out a way to get some of these folks covered.

We have yet to figure out a strategy of how to reach out to our constituents to give them that basic understanding about the importance of bringing more supply into our community. That it's not going to have a negative impact. It's going to be a positive. In Santa Ana, you would expect our residents to be supportive. But these same Latinos are saying "No more growth in Santa Ana." We need more housing, and they're saying, "No."

Some of my colleagues are stepping back and saying, "You know, I'm up for re-election next year. Am I going to build this development?" That's political will. But that political will is not going to be there until we have a message that resonates with those who are coming to city halls saying "If you do this, we're not going to support you." We need to change that message.

Look at the policymakers. The majority don't look like me. I always ask, "Who are you planning for? Are you planning for your generation, or are you planning for the future?" The decisions they're making are planning for their generation, which is 50, 60 years ago. Unfortunately, that does not resonate with what we need today.

JOEL SINGER: Let's talk a little bit more about the opportunities. What could we immediately do to increase homeownership rates?

SERGIO BARAJAS: I don't think I have a silver bullet. There definitely are some things from a product and underwriting standpoint that Freddie Mac has done and can do that'll help with homeownership rates in markets where there's not such a big difference with

the income ratio. But in California, you can only adjust the machine so much to create more affordability. So from our perspective, it probably does come down to maybe a few more tweaks that we can make.

Patty talked about looking at alternative credit scoring models. But once you make those adjustments, I don't know that there's any more adjustment to be made. We're already at 97. Is it possible that we get back to 99 or 100? Who knows?

JOEL SINGER: What happens if they're not bidding for homeownership housing? We're pushing up rental prices. That's an argument I hear all the time. I think that argument is totally misplaced. The demand for housing is there. The question is: Do you want the demand to be balanced between homeownership and rentals? Because the fact of the matter is, by suppressing homeownership, rents have gone up far faster than homeownership costs in California.

SERGIO BARAJAS: I don't think anybody is looking to suppress homeownership. When I go back and look at the bubble that we just went through and the different products that were out there, there was a point where it all became artificial; the creation of that homeownership wasn't sustainable.

JOEL SINGER: But the issue was real clear there. There was no underwriting going on. It was worse than no underwriting.

PATTY ARVIELO: Yes. It would have been fine if there was underwriting.

JOEL SINGER: The lesson is you have to underwrite, and you don't allow people to lie. I mean, you eliminate those two things, none of this would have happened. Does anyone see the outcome changing?

PATTY ARVIELO: We're opening small businesses quicker than any demographic in the country. Latinos are driving that initiative. They're not large

employers: three to five people. But they're your gardeners, they're your housekeeping companies, they're really important things that we need as working moms, for somebody to come in and fill that need. But here in California, you're right. The rents are ridiculous. And I do think that we have to deal with that at a local level.

JOEL SINGER: What about accessory units? And I'm thinking particularly about Santa Ana. Can that start to lessen the pressure?

PATTY ARVIELO: I think they're important for the Latino community. The problem is the code around building them and managing them. And then you have REALTORS® who need to protect the interests of the buyer and make sure that when that appraisal comes back and says the accessory unit needs work, they don't fight us on that. Let us fix what needs to be fixed. There are phenomenal HUD guidelines around the units that have been around forever. It works if the city works with us, and if the REALTORS® don't fight us by saying, "Wait, we can't close in 30 days, give us an extra 10 so the seller can fix the issues."

JOEL SINGER: This is the one opportunity that has come out in the last couple of years that really creates housing supply. If the cities will just stay out of the way, people will construct these units. It's in their family interest to do so. And what I'm starting to see is cities figuring out ways to make sure they can't.

PATTY ARVIELO: And I'm feeling that, too.

MICHELE MARTINEZ: Agree. Agree.

PATTY ARVIELO: It just needs to be done the right way. I do think it's really important that we work in the cities where Latinos have a high population, Santa Ana being one, Lynwood being another one.

SERGIO BARAJAS: I think we have discussed four or five things today that in combination will help relieve some of the pressure. Maybe it is some changes to underwriting guidelines, some changes to building

code and how those properties are viewed. It's bringing in private capital that might have a little bit of subsidy to find a way to address some of that liability for homebuilders. But it's not just one of these. We need to create a solution that addresses housing needs for all.

JOEL SINGER: I think tax increment financing is what they're talking about. How you bring it back in a way that is not abusive is of mutual interest to all of us, and what other things does the REALTOR® community need to consider when they're looking at assisting our partners in the lending arena?

PATTY ARVIELO: Latinos do business with other Latinos 90 percent of the time. We have a mutual interest in taking care of each other's interests. A lot of it is making sure that the client is getting the best prevailing rate. But my biggest competitor in this space is people who do it the wrong way. Because Latinos are very trusting: "Here's your rate, don't ask questions."

Oftentimes, I see 200 additional basis points being charged to the same demographic. I think REALTORS® should be ensuring that the borrower is getting the best rate, because that \$50 to \$100 difference a month, while it may not matter to a non-Latino buyer, is the difference between having car insurance and not having car insurance. And that means getting the home that is sustainable for them. I see nightmares because I service my portfolio. So, I see what happens post-closing. Maybe the air conditioning goes out. It means when the appraiser comes back and there are items that need to be fixed, don't fight us on that. Work in unity with us to fix it. It's not like I don't want to close the loan, too. But it's in the best interests of the client.

JOEL SINGER: I think you make several good points there. And the risk, obviously, when you're dealing with a buyer who by definition is going to be closer to the edge on making payments is a real risk that you have to account for in your portfolio, as well as from a servicing standpoint.

SERGIO BARAJAS: Patty talks about one lender charging 200 more basis points than another. Well, think about someone who's taking on an FHA loan that can go conventional and have a cheaper loan for the life of the loan. There are a lot of instances where I don't think we're matching up the borrower with the right product. I think it has become muscle memory in the industry to go one route.

We're trying to educate REALTORS® on what their responsibilities are to the homebuyer. We have a website called myhome.freddiemac.com that I like to say is like Switzerland. It provides answers to prospective home buyers so they don't have to go to the lender or the REALTOR® to say, "Oh yeah, that verifies what I'm being told," and it talks about options.

JOEL SINGER: What specifically would you change on the regulatory level?

PATTY ARVIELO: The condo approval process is ridiculous. We have to work with that because a lot of the affordability comes in condos.

JOEL SINGER: Awhile back, I said that if we wait to change people's minds, nothing will ever happen. Would you agree there is a need to sue cities or whoever is in charge of these housing elements to get them to conform?

MICHELE MARTINEZ: I'm in total agreement. Sometimes government gets in your way. And again, it's by design, right? There are people that want to maintain and preserve the status quo. So, when we talk about the system, the system's not broken. It's by design. But guess what? You're going to take it to the courts, and you're going to be stuck in a battle. That's not going to solve the problem. We have to start electing people who have the time and energy to be focused on good policy.

JOEL SINGER: "Mattress money" is one example of a financing issue that needs to be resolved. To what extent have we solved that issue, because it's one that we've talked about for 15 years?

PATTY ARVIELO: We're working together with Freddie. It is a big issue. That and the fact that we [Latinos] pool our money. I think immigration reform plays a big part in that. I have honest conversations with people who've applied. They said, "Oh, you know, we keep this money here because this one is DACA now." I mean, about 50 percent of Latinos still save their cash at home. And it's mainly to take care of the immigrant relatives.

I think there's still that fear. But as long as they put it in the bank and it's seasoned within and we get a bank statement 30 days old; as long as we can see the flow of money coming from one relative to the other, we don't even need the source of the relatives' [income]. We can see in manual underwriting where the money's really coming from, if it's from a sustainable source.



Panelist John Gamboa

JOEL SINGER: In closing, I'd like to give everyone a chance to talk about the potential here. Not just what keeps you up at night about what we're going to see in terms of Latino homeownership, but let's talk about the potential again because I do think California's about establishing the dream and making it a reality. What can we each commit to doing to really addressing that situation?

MICHELE MARTINEZ: What keeps Michele Martinez up at night? It's that basic premise: Is that the way we want our children to be raised, that they have to do their homework in a closet? Or they have to convert a garage? The future of California is these kids, and this is the kind of standard of living that they're living in every single day in Santa Ana. It breaks my heart. But these are the realities we're facing that people don't want to talk about.

We have a lot of information within local and regional municipalities and at the state and federal level. But we don't know how to disseminate that kind of information. So, we're going to need the digital revolution to help us. I'm really pushing government not to be archaic, to move into this direction so that we can then share that information with you all, so that you can make good decisions.

Unfortunately, we're not there, and that's the other big barrier within government, that we are so archaic that we don't know how to break down the information. I have an open data, big data committee at SCAG. I am the chair. We have folks like Esri, Microsoft, a lot of the big players are there, and we will be setting direction at the regional level in the next four months. Housing is at the top of the list. And I would love to include whoever wants to be involved.

JOHN GAMBOA: One of the issues we didn't talk about is: Does prevailing wage on housing affect any of your businesses? I believe in prevailing wage, and I believe in labor, except when it comes to housing, because that additional cost falls on the people that need to buy the homes, and too many of those are people in our community. I think something has to be done on the prevailing

wage issue, and not to be afraid of labor, because it's only one union. You've got all the other union members who pay the price for prevailing wage, simply for the building trades union.

PATTY ARVIELO: All of this has been great information, and I welcome hearing from all of you. Sometimes I think we feel like it doesn't matter that we're one person, or our one vote doesn't matter. But I really think it does. It's what makes our country great.

I think it's really important to get people that look like us talking and get it out to the public eye so that they know that we're controlling what is the seventh largest GDP in the world, and that is the Latino economy within the United States of America.

SERGIO BARAJAS: Our commitment is to continue to do what we're doing in the test-and-learn environment. We want to look at alternate models to underwriting, whether it's tweaking the policies, tweaking the practices. And as long as it's sustainable, we want to be in front of that effort and continue to do that going forward. Our ability to get the message out there is the second thing that I think is important. Michele, to your point, being at the table so that you're not on the menu, we always want to be at the table and not on the menu.



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