AREAA
Asian Real Estate Association of America™

2020 AREAA

THREE - POINT POLICY PLAN

TO BOOST AAPI HOMEOWNERSHIP

AREAA VIRTUAL POLICY SUMMIT

Jun 17, 2020
www.areaa.org

WHO IS AREAA

Founded in 2003, the Asian American Real Estate Association of America (AREAA) is a national nonprofit trade organization dedicated to improving the lives of the Asian American and Pacific Islander (AAPI) community through homeownership. AREAA is a powerful national voice not only for its members—housing and real estate professionals—but the communities they serve. AREAA represents over 17,000 members across 41 chapters.

Our members and partners help us advocate for greater homeownership access, not just for the AAPI community, but for all. AREAA advocates on behalf of AAPIs to key decisionmakers in the U.S. Senate, House of Representatives, Government-Sponsored Enterprises as well as important policymakers in the Federal Housing Finance Agency (FHFA), Consumer Financial Protection Bureau (CFPB), the U.S. Department of Housing and Urban Development (HUD) and other relevant governmental departments and agencies.

AREAA'S ACHIEVEMENTS

#NoOther Campaign
AREAA worked with the US Census Bureau to disaggregate Asian housing data from the "Other" category and include it as a standalone category for the first time its quarterly reports on homeownership by race and ethnicity.

Translations Clearinghouse
AREAA continues to collaborate with the Federal Housing and Finance Agency (FHFA), Fannie Mae and Freddie Mac to create translated resources in Spanish and Chinese for LEP borrowers. Korean, Vietnamese, and Tagalog are set to launch this year.

Preferred Language Field
In 2017, AREAA supported the inclusion of a Preferred Language Field on the redesigned Form 1003 or Uniform Residential Loan Application (URLA) in order to better capture data on limited English proficient (LEP) borrowers. While it was initially considered for inclusion in the redesigned form, FHFA ultimately determined that the redesigned URLA is not the appropriate vehicle to collect data on a borrower's preferred language. AREAA continues to work with to ensure that data collection and support for LEP borrowers are enhanced throughout the industry.

Eliminating the 1% Rule
AREAA worked to change underwriting standards to more fairly account for student loans that were in deferment when calculating a borrower's debt-to-income ratio.

CHALLENGES TO AAPI HOMEOWNERSHIP

In 2018, millions of AAPIs were potentially ready to buy homes, which would've resulted in an unprecedented upsurge in real estate transactions and tens of millions of dollars in potential loans. However, the continued housing shortages in the high cost areas they wish to buy in and the length of time it takes to save enough for a down payment continues to make the goal of homeownership that much more elusive for these buyers.

There is no simple solution to this problem. Even when AAPIs have some of the highest median incomes of any group or apply with multiple borrowers—often 3 or more—it is simply not enough. Until AAPIs look at less expensive areas or more affordable housing is built, the housing shortage and the burden of large down payments will continue to be one of the largest hurdles for our community.

The unique barriers to homeownership for our community loom large—language barriers, antiquated credit scoring models and underwriting standards that do not account for the self-employed, entrepreneurial AAPI buyer, as well as housing shortages in major markets—as we try to move the needle on the AAPI homeownership rate. This year's 3-Point Policy Plan focuses on:

1. **Ensuring the Continued Access and Commitment to Affordable Lending for Minority Homebuyers in GSE Reform**
2. **Reforming Credit Scoring Models to Increase Access to Credit for Clean, Thin Credit Individuals**
3. **Promoting Greater Understanding of the Needs of Buyers with Limited English Proficiency (LEP)**

2020 AREAA NATIONAL POLICY COMMITTEE

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AAPI QUICKFACTS

Estimated AAPI Population

19,041,252

+25% Since 2010

5.8% Of the US Population

Multiple-Race AAPI Population

23,605,508

+28% Since 2010

7.2% Of the US Population

Asian Americans Eligible to Vote

11,128,000

53% Registered to Vote

AAPI Limited-English Proficiency (LEP) Population

A 5,597,043

Chinese, Tagalog, Vietnamese, Korean
Top languages spoken by AAPI LEP speakers

Asian American Housing Rate

57.6%

Asian American Median Household Income

$87,243

+41% Than the National Average

Asian American Median House Value

$445,000

+98% Than the National Average

Pacific Islander Housing Rate

42.3%

Pacific Islander Median Household Income

$61,911

-0.4% Than the National Average

Pacific Islander Median Household Income

$319,600

+39% Than the National Average

Asian American Demographics

37.3 Median Age

64% Immigrant

53% Female

47% Male

Pacific Islander Demographics

37.3 Median Age

8.8% Veteran

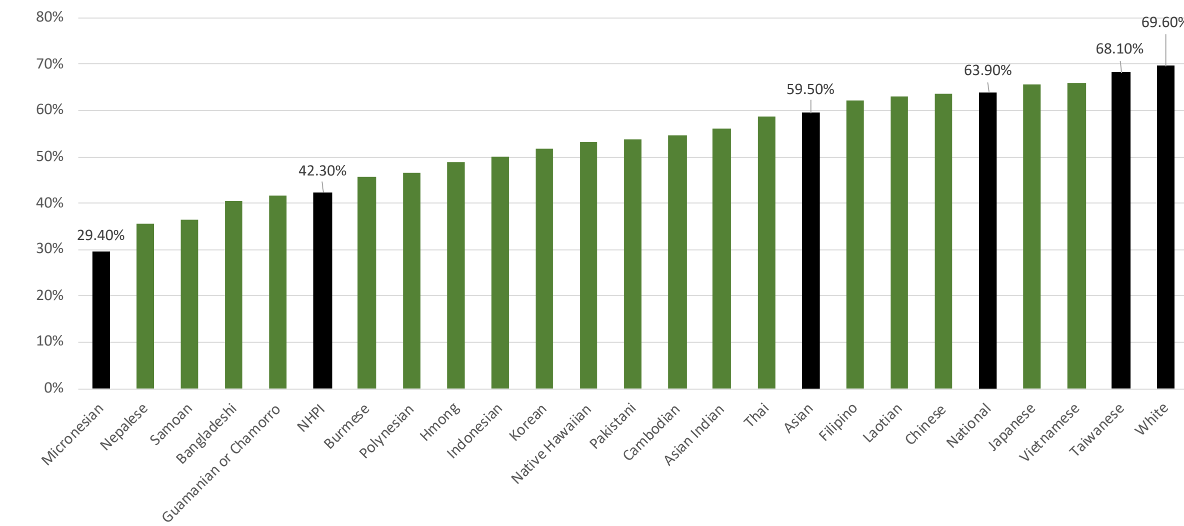
50.6% Male

49.4% Female

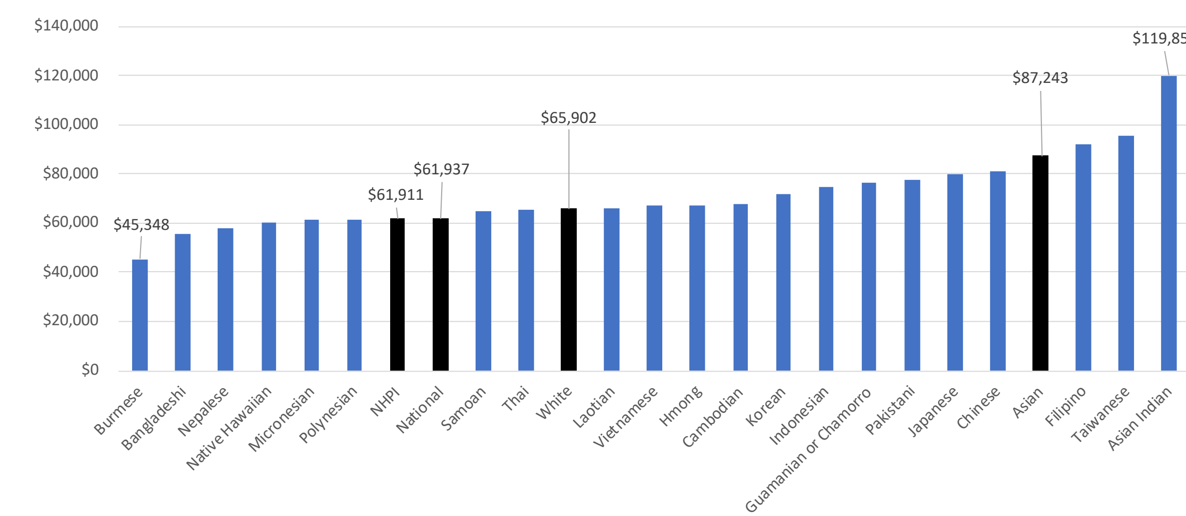
Source: 2018 American Community Survey, Selected Population Profiles

THE NEED FOR DISAGGREGATED AAPI DATA

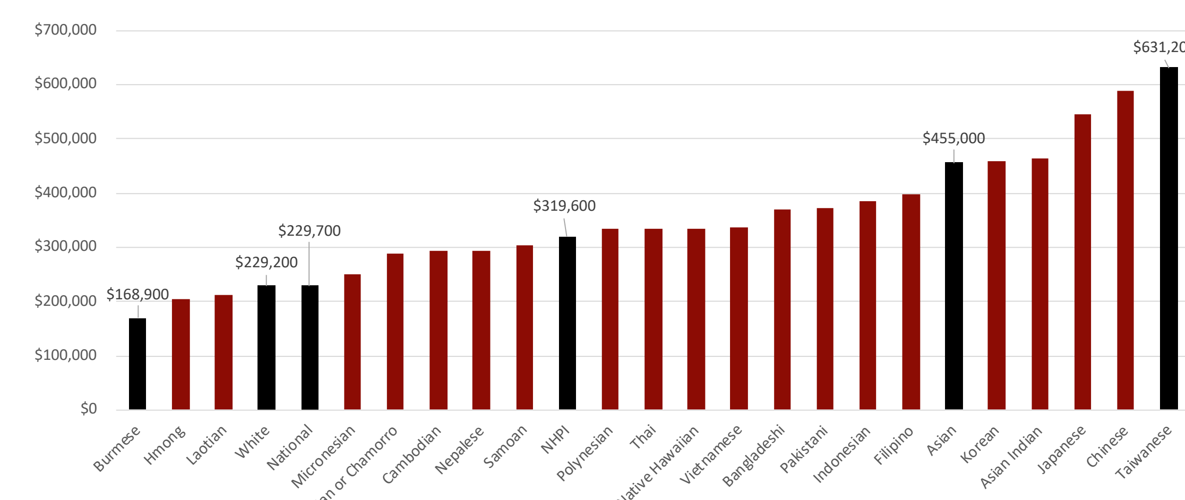
AAPI Homeownership Rate by Subgroup

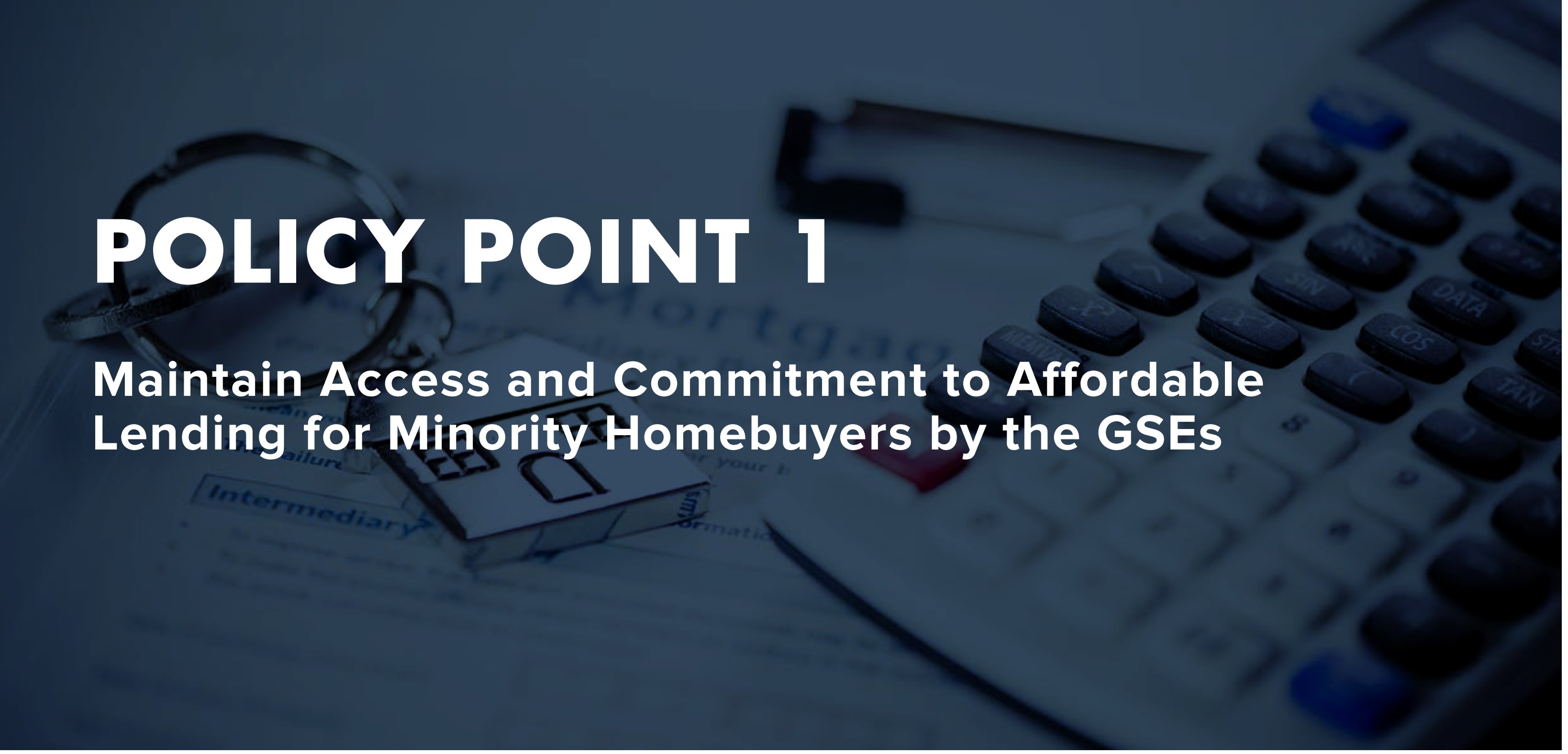


AAPI Median Household Income by Subgroup



AAPI Median Household Value by Subgroup





POLICY POINT 1

Maintain Access and Commitment to Affordable Lending for Minority Homebuyers by the GSEs

KEY FACTS

- **GSE-Backed Loans are Crucial to AAPI homeownership:** Asian borrowers are the highest minority users of conventional (GSE-backed) loans by number (223,906) and dollar amount ($86.4 billion dollars), just 6% and 2% of Asian loan applications are for FHA loans and VA loans, respectively.
- **Affordability is a Huge Barrier for Future AAPI Homebuyers:** With a median house price of $444,307 and concentrations in the most least-affordable housing markets, AAPI borrowers, even with some of the highest incomes of any borrower group, take the longest time to save for a 20% down payment at 24.6 years.

ASK

We ask that you support proposals that require the post-conservatorship restructuring of the GSEs that maintain access to reasonably priced loan products, education, resources, that address the nuanced needs of underserved homebuying communities such as AAPI homebuyers, as well as a renewed and continued commitment to the FHFA-imposed Duty to Serve guidance and their Affordable Housing Goals.

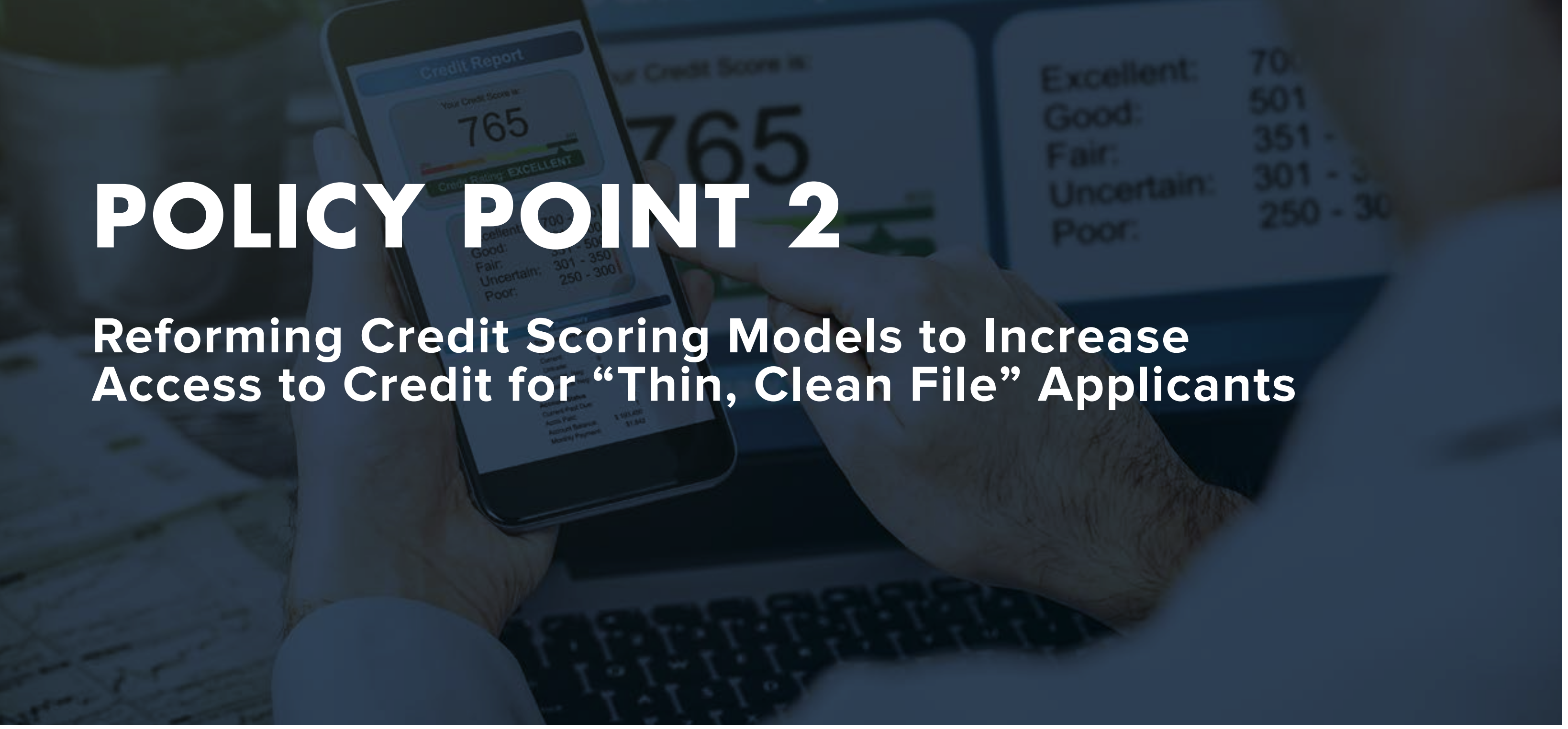
BACKGROUND

Together, the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac own or guarantee $5.6 trillion in single and multifamily mortgages—nearly half the market. GSEs reduce risk for lenders and investors, make loans more affordable, and contribute to the availability of the 30-year fixed-rate mortgage, backing around 80% of residential mortgages in America. The GSEs are also required by the Federal Housing and Finance Agency (FHFA) to support lending and access to education for underserved communities and borrowers, referred to as "Duty to Serve."

As the FHFA begins to transition the GSEs out of conservatorship, there are concerns that the potential restructuring or privatization could impact whether or not conventional conforming loan products will continue to be offered. AAPI homebuyers view FHA and other government-backed loans as having higher rates with a more cumbersome financing process, which results in a lower utilization of these loan products. Since 2008, AAPI usage of conventional conforming loans has trended upwards in correlation with the overall AAPI homeownership rate, thus one could conclude that GSE-backed loans are the mainstay of AAPI home financing and crucial for this community's continued access to homeownership. Any drastic change to the structure of the GSEs that affects their ability to create liquidity, stability and affordability in the mortgage market will negatively impact AAPI homeownership.

Additionally, the GSE's Duty to Serve guidance and Affordable Housing Goals required by the FHFA are critical to serving the most underserved communities including the AAPI, low-to-moderate-income, and other minority communities. One of the largest questions around the GSE's future is whether their restructuring will require them to continue to affirmatively and proactively address the disparities in opportunity—access to affordable loan products, first-time homebuyer assistance programs, expanded language access, homeownership education—for creditworthy borrowers in underserved markets.

The GSEs' exit from conservatorship will require the FHFA, the GSEs, and other stakeholders to look at how the enterprises will transition into a post-conservatorship structure. AREAA supports a thoughtful restructuring effort that will maintain access to reasonably priced loan products and renewed commitment to the "Duty to Serve" rule, both of which will require the GSEs to continue to meet and address the diverse needs of underserved American homebuyers.



POLICY POINT 2

Reforming Credit Scoring Models to Increase Access to Credit for “Thin, Clean File” Applicants

KEY FACTS

- **Clean Files, Insufficient Credit History:** Millions of young, New Americans, and people of color, including AAPIs, pay their bills on time, yet are not considered “credit-worthy” according to federal housing finance standards. These “credit invisible” or “credit thin” applicants, find a harder time getting loan approval, face higher financing costs, or are steered towards more expensive loans.
- **Homeownership Potential:** In 2018, there were 0.8 million mortgage-ready AAPIs with “clean, thin” credit histories, that were unable to qualify for loans because of their lack of sufficient credit history.

ASK

We ask that you cosponsor and support H.R. 123: FHA Additional Credit Pilot Program Reauthorization Act, introduced by Representative Al Green (D-TX) that would help fund pilot programs that alternative credit scoring models.

BACKGROUND

When they do have credit scores, Asian borrowers have the highest median credit scores overall across most enhanced loan types. However, because AAPI families prefer to make their purchases in cash at the time of purchase and avoid debt, AAPIs have historically struggled with credit qualification as a result of limited credit history. This can, in turn, can make it difficult for AAPIs to apply for the traditional forms of credit that would help build their credit file and show a history of payments over time.

AAPIs make up a growing share of the housing mortgage market, yet many AAPI consumers are being left out and are denied access to credit because they do not “fit” traditional credit scoring models (they have little to no credit history). AAPIs are more likely than any other applicant to be denied because of a thin credit file, despite being otherwise well-qualified buyer.

Fannie Mae and Freddie Mac are mandated to use a credit scoring model that does not take into account on-time rent, utility, and cell phone bill payments, only those that are delinquent which disproportionately affects people of color who may have less access to other types of credit, such as mortgages and credit cards.

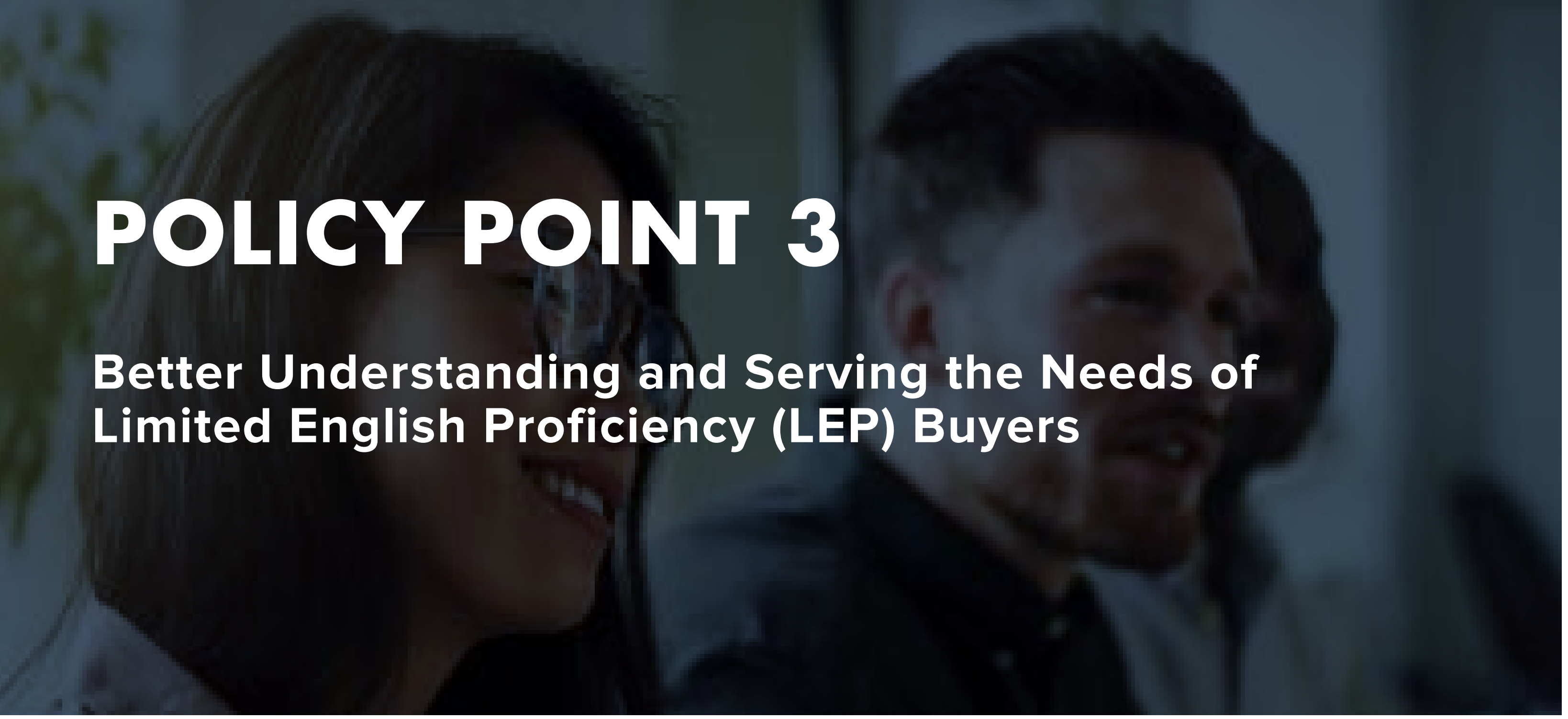
The impact of the limitations of the current scoring system is tremendous. Credit scores lack transparency, rely on information obtained from often erroneous or incomplete credit, and lack positive credit information from entities that are unable or unwilling to report consumer data—data, which could drastically improve a consumer’s credit score and establish the credit histories required of loan applicants.

New credit scoring models would allow for these “thin file” individuals to obtain credit and enter the housing market by considering common sense criteria such as rent or utility payments. In 2018, there were 0.8 million mortgage-ready AAPIs with “clean, thin” credit histories, that were unable to qualify for loans because of their lack of sufficient credit history.

Using alternative credit scoring could allow as many as 300,000 potential AAPI homebuyers to have credit scores that meet underwriting requirements and score as many as 40 million previously unscored consumers. Additionally, consumers with low credit or thin credit history could increase their scores and loan underwriters could have a more accurate financial predictor of one’s ability to repay a loan, leading to better lending options for consumers in general.

In 2018, Congress passed legislation to allow the Government Sponsored Enterprises (GSEs) to consider a borrower’s credit score only if certain procedural requirements are met with respect to the validation and approval of credit-scoring models. While this was a good start, more is needed to expand and allow the use of alternatives credit models.

Source: Reveal News, “How we identified lending disparities in federal mortgage data”



POLICY POINT 3

Better Understanding and Serving the Needs of Limited English Proficiency (LEP) Buyers

KEY FACTS

- **Language Access is a Significant Barrier to AAPI Homeownership:** One-third of AAPIs are LEP and many AAPI buyers prefer doing business in their native language, even if they are proficient in English. The lack of in-language materials can create additional barriers to homeownership for potential New Americans and LEP homebuyers who are well-qualified but may not fully understand the terms of their mortgages due to language barriers.
- **The Addition and Removal of the Preferred Language Question on the Revised URLA:** In 2019, the FHFA reversed its decision to include a Preferred Language Question on the URLA, which would allow better understanding of the unique challenges faced by LEP buyers and how to better serve them.

ASK

We ask you cosponsor and support H.R. 4783: LEP Data Acquisition in Mortgage Lending Act, introduced by Representative Al Green (D-TX) which would require the URLA form to include a language preference question for applicants to specify their language of choice.

BACKGROUND

The URLA also known as Freddie Mac Form 65 or Fannie Mae Form 1003 is the standard form used by borrowers to apply for a mortgage. The URLA is jointly published by the GSEs and has been used for over 20 years across the United States. Over two years the URLA has been in a redesign process by the FHFA with a revised target implementation date of March 1, 2021 (originally February 1, 2020).

The aim of the URLA redesign is to collect loan application information that is "relevant and useful to the loan underwriting decision-making process and to enhance the collection of information and the usability of the form." As a part of this redesign, some Members of Congress, AREAA and other advocacy organizations were successful in FHFA agreeing to include a Preferred Language Question on the (URLA), which would collect valuable data that can be used to better serve the needs of and unique challenges faced by LEP buyers.

The Preferred Language Question allows borrowers who prefer to communicate in a language other than English to identify that language and to enable mortgage industry participants to connect borrowers to available language access resources. The question does not require lenders or loan participants to communicate or provide documents in the applicant's preferred language.

The question was later removed from the URLA redesign by the FHFA in August 2019. If the revised URLA is released without the Preferred Language Question, it will be unlikely that there will be additional opportunities for revision in the near future due to the logistics and cost for lenders to adopt the updated form.

Over 77% of AAPI families speak a language other than English at home, 12% claim to not speak English well, and 4% do not speak English at all. FHFA's decision to remove a question that would help better understand how to serve LEP borrowers is devastating to closing the homeownership gap for these potential borrowers and is a disservice in improving their access to and understanding of the homebuying process.

AREAA continues to recognize that expanded access to in-language resources throughout the homebuying process is critical to closing the AAPI homeownership gap. We continue to advocate for greater language access resources and initiatives that will help promote better understanding of the homebuying process and increase homeownership for this community.

Source: Fannie Mae, "Uniform Residential Loan Application (URLA)/Uniform Loan Application (ULAD) FAQs"
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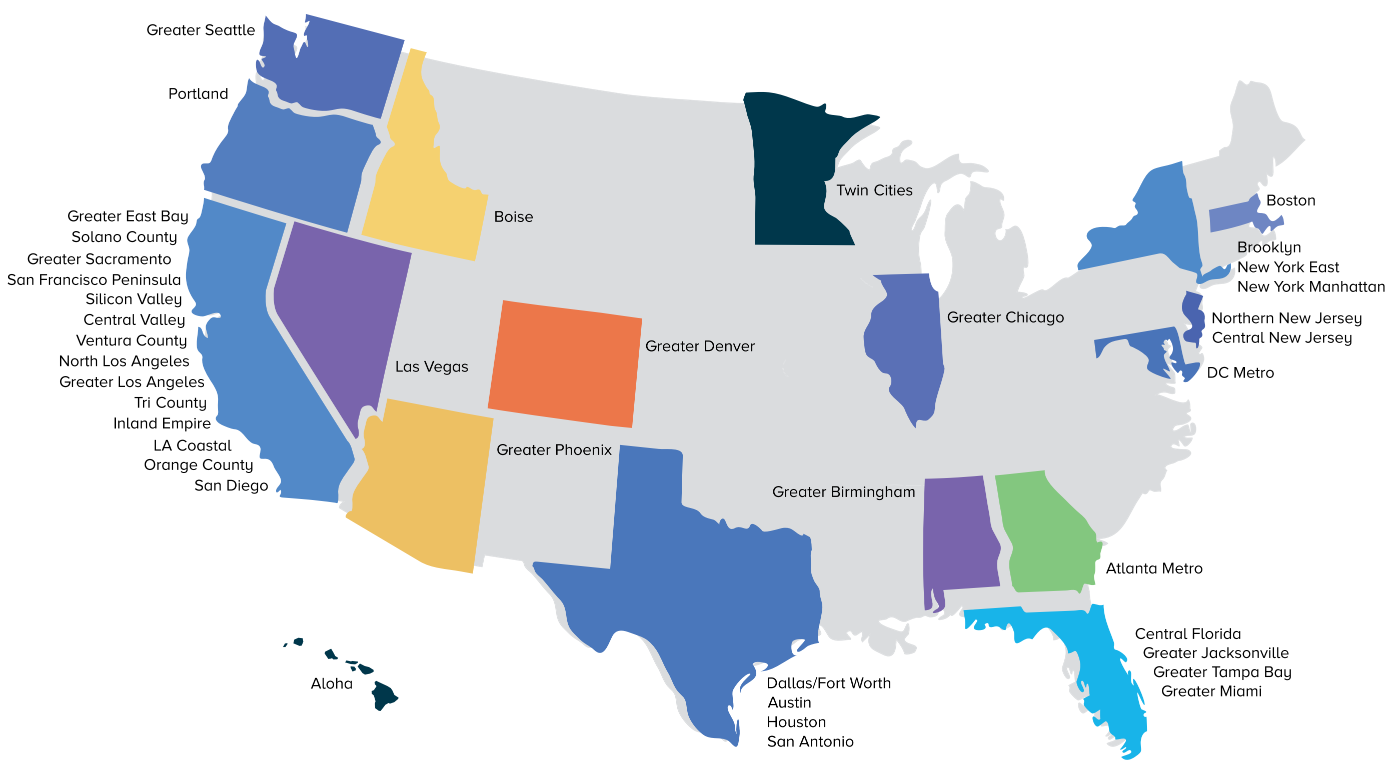
GET TO KNOW AREAA

17,000 Members and Growing	**41** Chapters across the US and Canada	**51** Ethnicities Represented
26 Languages Spoken	**2** National Conferences Per Year	**1** National Policy Summit Each May



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