

The Emerging Markets Homeownership Initiative: A Business Plan to Increase Homeownership in Minnesota's Emerging Markets



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Emerging Markets Homeownership Initiative Focus Group Report
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Emerging Markets Homeownership Initiative Listening Session Report
www.mhfa.state.mn.us/homes/EMHI_Listening_Session_Report.pdf

Emerging Markets Homeownership Initiative Meeting Summary Reports
www.mhfa.state.mn.us/homes/EMHI_Meetings.htm

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SUMMARY

- *A disturbing racial and ethnic homeownership gap persists in Minnesota. A call to action is required to close the gap.*

Minnesota is a national leader in its overall homeownership rate. However, there is a significant gap in homeownership rates among households of color, non-English speaking households, or households in which English is a second language (“emerging markets.”) This is unacceptable on a variety of levels, ranging from providing economic opportunity for all Minnesotans to establishing business relationships critical to the state’s future.

In spring 2004, a variety of business and community groups convened under the Emerging Markets Homeownership Initiative (EMHI). Its primary goal was to create a business plan whereby the homeownership industry and community groups could identify and implement objectives that would significantly increase the homeownership rates among Minnesota’s emerging markets. A robust process was established that examined the extent and scope of the issue, identified the determinants of and barriers toward emerging markets homeownership, established specific goals to increase the homeownership rate among emerging markets, identified and selected “best practices” goals and strategies to address homeownership barriers, and established an organizational structure to implement and establish accountability for the goals and strategies.

The result of this process is *The Emerging Markets Homeownership Initiative: A Business Plan to Increase Homeownership in Minnesota’s Emerging Markets*. This business plan is the culmination of analysis, critical thinking and commitment from a wide variety of Minnesotans who are committed to a Minnesota where successful, sustainable homeownership is accessible to all citizens who desire it.

The Emerging Markets Homeownership Initiative: A Business Plan to Increase Homeownership in Minnesota’s Emerging Markets is the result of extensive quantitative and qualitative research. All elements of the research conducted, whether through literature reviews or through constituent interviews, listening sessions or focus groups, reveal six critical barriers to emerging markets homeownership that need to be addressed if progress is to be made in closing the variance in homeownership rates between non-Hispanic white Minnesotans and emerging markets:

- Wealth and downpayment
- Credit and lending practices
- Cultural factors, preferences and immigration
- Discrimination
- Information, marketing and outreach
- Homebuyer counseling and financial education

Upon identification of these barriers, best practice strategies are identified under three fundamental business plan elements:

- Provide trusted guidance
 - Establish a transitional, “trusted advisor” emerging market outreach network
 - Institutionalize a homeownership industry network that is friendly and accessible to emerging market consumers

- Expand and tailor outreach
 - Strategically disseminate homeownership resource information in a manner accessible to emerging markets
 - Develop and increase culturally-sensitive emerging market consumer education to demystify the homebuying process

- Innovate structural support
 - Expand access to entry cost assistance resources for emerging markets
 - Develop and implement emerging market friendly financing processes and products
 - Acknowledge and address systemic issues of racism and housing supply

The Emerging Markets Homeownership Initiative: A Business Plan to Increase Homeownership in Minnesota’s Emerging Markets expands each of these business plan elements and strategies in a manner that establishes actionable, achievable and impactful outcomes. To accomplish these outcomes, the business plan:

1. Establishes tangible, specific goals. The homeownership rate among Minnesota emerging markets is to be increased to 58 percent by 2012 with the ultimate goal to reach parity in homeownership rates.

2. Establishes an accountable and inclusive organizational structure to assure implementation of each business plan element, strategy and outcome and to track progress toward the goals established.

3. Recognizes that “one size doesn’t fit all.” Effective strategies for various emerging markets must be identified and implemented based upon approaches that are sensitive to specific cultures and ethnicities.

4. Establishes an implementation approach that includes statewide initiatives to build an infrastructure that addresses specifically identified barriers to emerging market homeownership and, at the same time, employs local “pilot programs” to identify and test approaches that are specifically germane to various emerging markets.

The Emerging Markets Homeownership Initiative: A Business Plan to Increase Homeownership in Minnesota’s Emerging Markets is, indeed, uniquely Minnesotan. It is not an initiative of lenders, government, real estate professionals, community groups, housing educators and counselors, non-profit housing providers, or housing advocates acting alone. Rather, it is a business plan that has been created and vetted by all these groups. It is a public/private partnership and a collective call to action in the best Minnesota tradition.

I. INTRODUCTION and PURPOSE

- *The Emerging Markets Homeownership Initiative is the Minnesota homeownership industry's and community's business plan to increase homeownership opportunities in Minnesota's emerging markets*
- *The Emerging Markets Homeownership Initiative business plan is the result of a comprehensive, analytical approach.*

Introduction

Homeownership is a principal element of the “American dream.” For most Americans, homeownership is their primary means of wealth creation. For generations, national and state policies have encouraged homeownership because of its demonstrated impact in strengthening families and building communities. However, there is a racial and ethnic gap in homeownership attainment both nationally and in Minnesota. While Minnesota is a national leader in its overall homeownership rate in 2000 (74 percent),¹ its homeownership rate for emerging market households in 2000 (42 percent) trailed the national rate (46 percent).² Homeownership disparities based on race and ethnicity are troubling and unacceptable. Given projected increases in population growth in emerging market households, the homeownership gap could continue to increase unless concerted efforts are made to encourage emerging market homeownership opportunities.

This racial and ethnic gap has increasingly captured the attention of the homeownership industry, civil rights groups, government officials, faith-based organizations, and other community activists. Those involved in ongoing efforts to address this issue recognize the need for a comprehensive statewide effort to make significant and tangible progress toward increasing homeownership among emerging markets in Minnesota.³

This business plan establishes a framework for increasing homeownership among emerging markets in Minnesota. It demonstrates Minnesota's commitment toward achieving tangible results, and being held accountable for, addressing an unacceptable racial and ethnic gap in homeownership. A cooperative and collaborative effort has been undertaken by a variety of entities which have a stake and role in increasing homeownership among diverse communities. This plan was developed by representatives of the homeownership industry, including major lenders and real estate institutions, and vital community organizations. The business planning effort was convened by Fannie Mae, the Federal Reserve Bank of Minneapolis and the Minnesota Housing Finance Agency. The plan was made possible by the guidance and thoughtful insight of a committed Advisory Group and Committee and interested public stakeholders.

¹ U.S. Bureau of the Census, 2000. <http://quickfacts.census.gov/qfd/states/27000.html>.

² U.S. Bureau of the Census, 2000 and MHFA staff tabulations.

³ For purposes of the business plan, “emerging markets” refer to people of color, non-English speaking individuals or individuals where English is a second language.

The core business plan is set forth as follows:

- I. Introduction and Purpose
- II. Background and Findings
- III. EMHI Plan

A Note about Terminology

This business plan utilizes the term “emerging markets” to describe households of color or Hispanic ethnicity, new immigrants and other underserved people. This term refers to populations that are experiencing dramatic increases in population growth and for whom the homeownership sector is increasingly focusing its attention. The term “minority” is utilized in this plan only when describing research or initiatives that use that term. Growth markets, particularly in the first-time homebuyer arena, will increasingly come from communities of color and Hispanic ethnicity. These markets are gaining in importance and emerging in influence throughout Minnesota communities.

Business Plan Development

Key to the development of the business plan was the participation of an EMHI Advisory Group and Committee. Representatives from fifty organizations have been instrumental in serving as Advisory Group and Committee members in the development of this business plan. Advisory Group members generally represent community and institutional organizations committed to and active in homeownership issues and key leaders from the African-American, recent African immigrant, Asian, Hispanic and Native American communities. Nine organizations participated as Committee members in the development of the business plan; Committee members represented key real estate industry stakeholders. A listing of Advisory Group and Committee member organizations follows:

Table 1: Advisory Group Participants

<i>Advisory Group</i>	
African American Family Services	Metropolitan Council
African Development Center	Mille Lacs Band of Ojibwe -
American Indian OIC	Community Development - Housing
Bremer Bank	Minneapolis Area Association of Realtors
Bremer Foundation	Minneapolis Public Housing Authority
Builders Outreach Foundation	Minneapolis Urban League
Center for Asians and Pacific Islanders	Minnesota Coalition of Community Land Trusts
Chicanos Latinos Unidos En Servicios	Minnesota Credit Union Network
City of Minneapolis	Minnesota Housing Partnership
City of St. Paul	Minnesota Manufactured Housing Association
Cross Cultural Home Ownership Alliance	Mortgage Guaranty Insurance Company
Department of Housing and Urban Development	Multicultural Network of Real Estate Professionals
Don't Borrow Trouble	National Association of Housing and Redevelopment
Duluth Local Initiatives Support Corporation	Officials (MN)
Family Housing Fund	Neighborhood Development Alliance
First Homes	Pohlad Family Foundation
Freddie Mac	St. Paul Area Association of Realtors
Greater Minnesota Housing Fund	St. Paul Urban League

Greater Twin Cities United Way Habitat for Humanity MN Hmong American Partnership Joint Religious Legislative Coalition Local Initiatives Support Corporation Metropolitan Alliance of Community Centers	TCF Bank United Migrant Opportunity Services, Inc. US Bank USDA Rural Development Wells Fargo Bank
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Table 2: Committee Participants

<i>Committee</i>	
Bremer Bank	Minnesota Association of Mortgage Brokers
US Bank	Minnesota Association of Realtors
Wells Fargo Bank	Minnesota Bankers Association
Home Ownership Center	Mortgage Association of Minnesota
Independent Community Bankers of Minnesota	

The business planning process involved a series of seven formal meetings with Advisory Group and Committee members between August 2004 and April 2005. Each meeting was designed to address specific topic areas important to the development of the business plan. The meeting schedule and topics are illustrated in Table 3 below.

Table 3: Business Plan Meeting Schedule

Meeting Date	Meeting Topic
August, 2004	EMHI Business Planning Orientation and Homeownership Barrier Identification
September, 2004	Targeting Primary Barriers to Address in the Business Plan
October, 2004	Prioritizing High Impact Barriers and Best Practices
November/December, 2004	Building Delivery Implementation Strategies for Best Practice Efforts
December, 2004	Identifying Implementation Actions and Resources
February, 2005	Building Accountability and Evaluation Mechanisms
April, 2005	Draft EMHI Business Plan Review

The analytic framework for the Emerging Markets Homeownership Initiative involved extensive analysis to identify major barriers to homeownership in Minnesota and to review local and national best practices that could effectively be applied to address the identified barriers. This comprehensive research approach to the business plan ensured the identification of the primary determinants of the racial and ethnic homeownership gap in addition to generating key strategy recommendations for addressing those barriers.

First, a literature review was conducted to identify both determinants of and barriers to homeownership for emerging markets. Both quantifiable and unquantifiable determinants were identified. It was noted that the quantifiable determinants “explained” relatively little of the gap in emerging market homeownership rates. For the most part, demographic factors were difficult, if not impossible, to influence through the efforts of

the homeownership industry and its community partners.⁴ However, the unquantifiable determinants “explained” a significant part of the gap and could be addressed through a business plan developed by the homeownership industry and its community partners. Identification of these determinants led to the barrier focus areas identified below.

Second, and parallel to the literature review and quantitative analysis on homeownership barriers, an extensive analysis to identify best practice strategies to consider in the development of this business plan was conducted. Best practice strategies were gathered through a combination of literature reviews and qualitative research.

The analytic business planning process presented a number of opportunities to conduct qualitative research. First, extensive qualitative analysis through interviews with EMHI Advisory Group and Committee members was conducted. Second, three statewide public listening session forums on emerging market homeownership barriers and strategies were held. Third, a series of targeted focus groups with real estate industry participants and members of Minnesota’s diverse communities across the state were sponsored. Results from the qualitative analysis corroborated the findings obtained from the literature review and quantitative analysis.

The results from the qualitative and quantitative research were shared and discussed with the Advisory Group and Committee for the purpose of reaching consensus on key homeownership barriers. Determining which barriers to focus on included discussion of:

- How can the business plan be structured to best ensure actionability and achievability of implementation?
- Which barriers can most effectively be impacted to improve access to successful homeownership among emerging markets in Minnesota?

Once barrier focus areas were selected (see Table 4), best practice strategies to address those barriers that have been implemented in Minnesota and nationally were researched. Similar to the process used to determine the primary homeownership barriers, best practice efforts were identified through a literature review, select interviews and qualitative research. The three primary strategies this business plan recommends are: developing strategies around providing trusted guidance to communities of color and Hispanic ethnicity; expanding and tailoring outreach efforts to better serve diverse communities; and innovating structural support to improve mortgage products and processes to better meet the needs of both existing and new diverse markets.

⁴ See appendix F of this business plan, “Analysis of the Homeownership Gap” for a detailed discussion of this analysis.

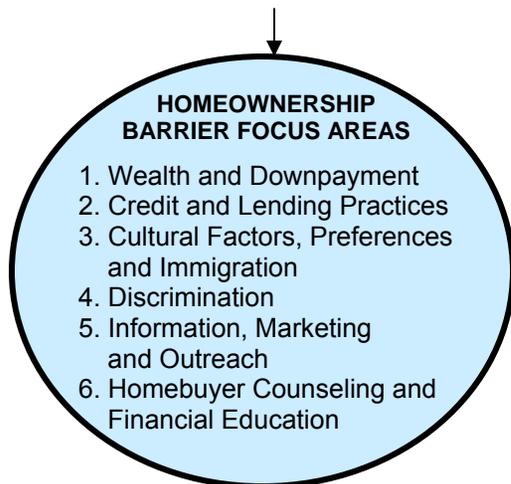
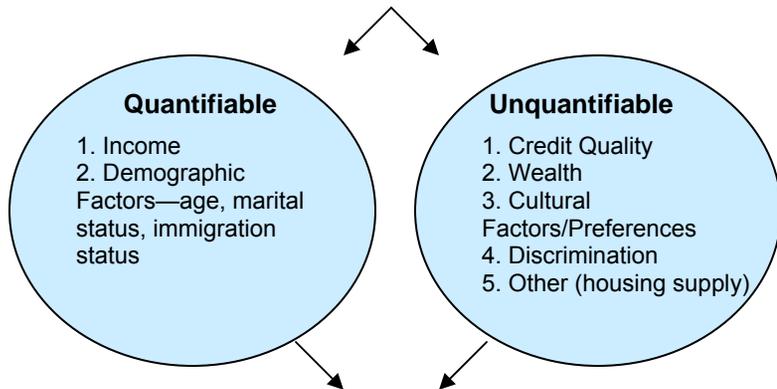
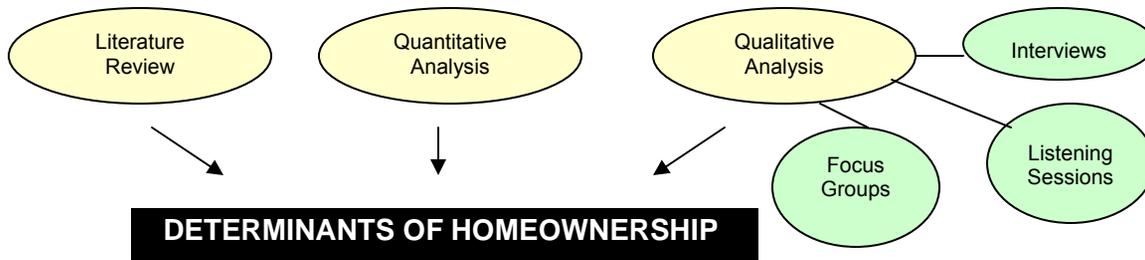
Table 4: Homeownership Barrier Focus Areas

- 1. Wealth and downpayment**
- 2. Credit and lending practices**
- 3. Cultural factors, preferences and immigration**
- 4. Discrimination**
- 5. Information, marketing and outreach**
- 6. Homebuyer counseling and financial education**

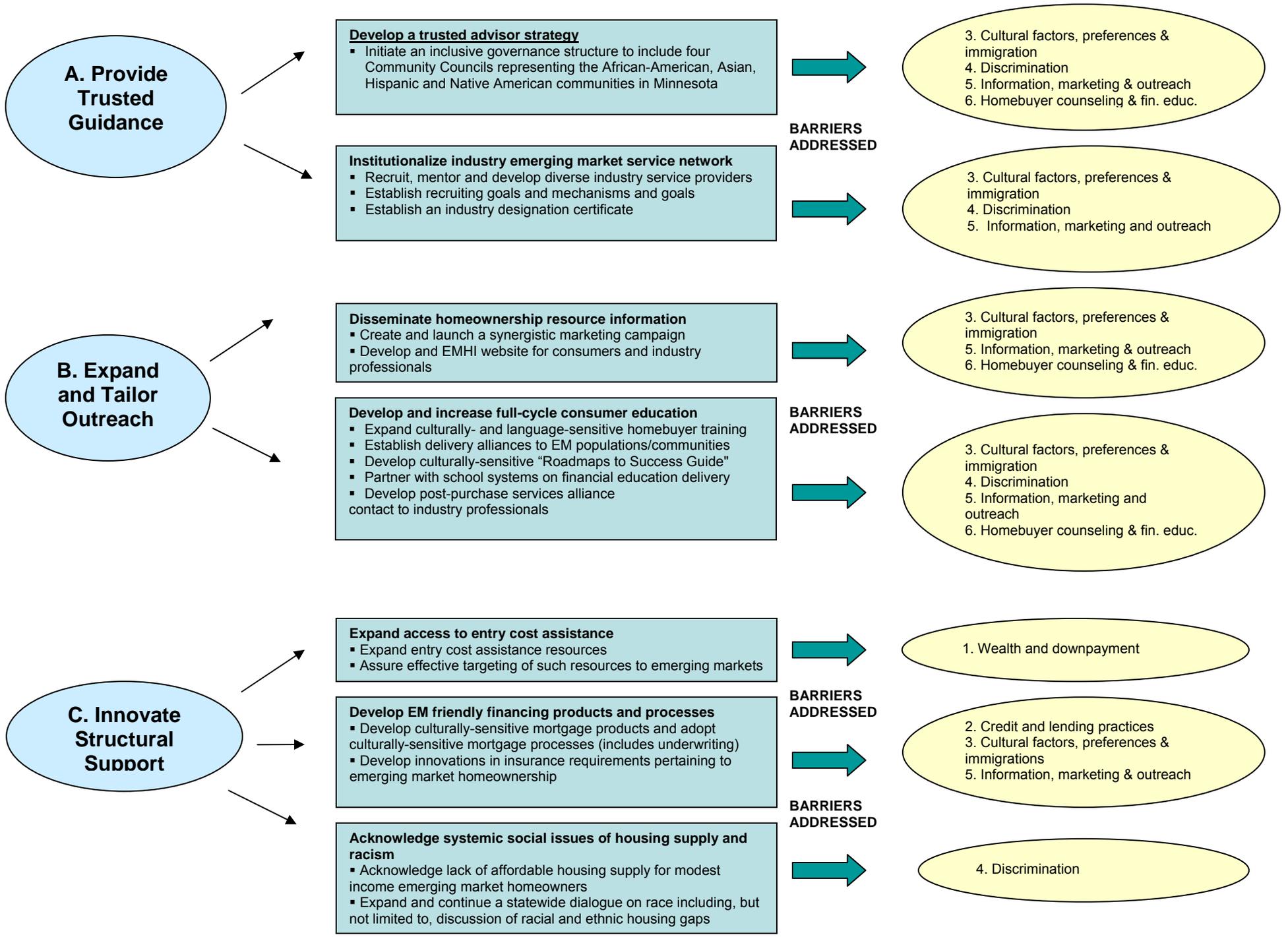
As George Masnick, a senior fellow at Harvard’s Joint Center for Housing Studies who has researched, taught and written on homeownership attainment since the 1970s notes, “There is perhaps no greater indicator of the persistence of social inequality in the United States than that measured by enduring racial inequality in homeownership.”⁵ Decreasing and ultimately eliminating Minnesota’s racial and ethnic homeownership gap requires focused, collaborative efforts on behalf of many organizations. In order to effect change and continue to expand homeownership opportunities for emerging markets in Minnesota, it is imperative that members of diverse communities and the homeownership industry work jointly to expand and encourage successful, sustainable homeownership. The contributions and work of the EMHI Advisory Group and Committee exemplify how a comprehensive, collaborative partnership effort can bring about change through the development of tangible, effective implementation strategies to increase homeownership opportunities for diverse populations. Through critical analysis, dialogue and evaluation, this business plan sets forth actionable and achievable implementation strategies that, as implemented, will provide successful homeownership opportunities for emerging markets in Minnesota.

⁵ Masnick, George. S. “Homeownership Trends and Racial Inequality in the United States in the 20th Century.” Joint Center for Housing Studies of Harvard University. W01-4. 2001. P. 8.

Figure 1: **EMHI BUSINESS PLAN STRATEGIC FRAMEWORK**



IMPLEMENTATION STRATEGIES	
A. Provide Trusted Guidance	Strategy 1: Recruit, mentor and develop diverse industry service providers
	Strategy 2: Develop an industry certification program
B. Expand and Tailor Outreach	Strategy 3: Create and launch a synergistic marketing campaign
	Strategy 4: Develop an EMHI website for consumers and industry professionals
	Strategy 5: Expand culturally- and language-sensitive homebuyer training
	Strategy 6: Develop culturally-sensitive “Roadmap to Success” guides
	Strategy 7: Develop post-purchase services alliance
	Strategy 8: Partner with school systems on financial education delivery
C. Innovate Structural Support	Strategy 9: Expand access to entry cost assistance
	Strategy 10: Develop EM friendly financing products and processes
	Strategy 11: Acknowledge issues of housing supply
	Strategy 12: Acknowledge issues of racism



II. BACKGROUND and FINDINGS

- *Minnesota is a gateway for emerging markets, whose population has doubled in the last ten years and is growing faster than the national average. Impacting the growth of diverse households in Minnesota over the last decennial census was a 127 percent increase in foreign-born populations in that same time period.*⁶
- *Serving diverse markets is good business, and increasingly a matter of business necessity.*
- *Homeownership is a vital asset development tool, particularly for emerging markets.*
- *Minnesota's racial homeownership gap harms the quality of life for all Minnesotans.*
- *There are six principal barriers to homeownership for emerging markets that can be addressed successfully by the homeownership industry.*

This section begins by outlining Minnesota's market demographics, including a discussion of expected strong emerging market growth. Next, economic and social benefits of homeownership are reviewed. This is followed by a comparison of homeownership attainment for emerging market populations and non-Hispanic whites in the United States and Minnesota. Lastly, national and local efforts designed to eliminate the racial and ethnic homeownership gap are discussed.

Market Demographics

The racial and ethnic composition of the nation is changing dramatically. The United States is experiencing strong population growth overall and in particular among emerging market populations. Total U.S. population growth exceeded 13 percent from 1990 to 2000, with emerging market households increasing over 43 percent, compared to just three percent growth among non-Hispanic whites.⁷ According to researcher George Masnick's analysis of the 2000 census, the share of non-Hispanic whites in the overall U.S. population will decline by six percentage points in the next 20 years, from 70 percent to 64 percent.⁸

Minnesota is experiencing more rapid population growth among emerging markets than the nation as a whole. In this state, the percentage of emerging market populations doubled in size from 1990 to 2000, increasing from 6 percent to 12 percent.⁹ This population increase reflects a growth rate of over 112 percent—over 2.5 times the growth rate experienced nationally (43 percent).

⁶ Brookings Institution, Metropolitan Policy Program. Living Cities Series. "Minneapolis/St. Paul in Focus: A Profile From Census 2000." November, 2003.

⁷ Masnick, George S. "The New Demographics of Housing." *Housing Policy Debate*. 13. 2. (2002) P. 281.

⁸ *Ibid*, p. 281.

⁹ U.S Bureau of the Census 1990 and 2000 and MHFA staff tabulations.

Growth in Immigrant Markets

In a recent Brookings Institution report, the Twin Cities metropolitan area is characterized as a “re-emerging” immigrant gateway.¹⁰ Of twenty-three major metropolitan areas analyzed by the Brookings Institution, the Twin Cities experienced the fifth-largest increase in its foreign-born population in the last two decades (127 percent). Furthermore, over 60 percent of the foreign-born population in the Twin Cities metropolitan area are relatively new to the United States, having arrived here between 1990 and 2000. The foreign born population in the Twin Cities is diverse with 43 percent of the population coming from Asia, 23 percent coming from Mexico and Central America and 18 percent from Africa.¹¹ The State Demographic Center has calculated the largest immigrant groups in Minnesota, which are listed in Table 5 below.¹² It is important to note that many racial and ethnic immigrant groups estimate that their population may be even higher than the State Demographic Center’s estimates. For example, the Hmong community estimates that there are over 80,000 Hmong in Minnesota.¹³ Similarly, other immigrant groups estimate that population figures are much higher than estimated by the Minnesota State Demographic Center.

Table 5: Minnesota’s Largest Immigrant Groups

Immigrant Group	School Enrollment 2003-2004	State Demographic Center Estimate of Population
Latino	38,643	175,000
Hmong	21,613	60,000
Somali	5,734	25,000
Vietnamese	2,910	25,000
Russian	2,346	12,500
Laotian	2,258	13,000
Cambodian	1,718	7,500
Ethiopian	1,329	7,500

Population Projections

The trend toward increased diversity is projected to continue at a strong pace according to projections recently released by the Minnesota State Demographic Center.¹⁴ These population estimates, which project out to the year 2030, indicate that the percentage of Minnesota’s non-white population will continue to increase. In 2000, nine percent of Minnesotans were non-white;¹⁵ this is expected to increase to 15 percent by 2030 with

¹⁰ Brookings characterizes the Twin Cities market as re-emerging because, historically, the Twin Cities was a mecca for Scandanavian and other European immigrants. See Brookings Institution. “Minneapolis/St. Paul in Focus: A Profile from the 2000 Census.” Living Cities Databook Series. November, 2003.

¹¹ Ibid, p. 28.

¹² Ronnigen, Barbara J. “Minnesota’s Immigrant Populations Continue to Increase.” State Demographic Center. Minnesota Department of Administration. June 17, 2004.

www.mnplan.state.mn.us/resource.html?Id=7193

¹³ Hughes, Art. “Hmong Populations Rises Dramatically.” Minnesota Public Radio. August 1, 2001.

¹⁴ McMurry, Martha. “Minnesota Population Projections by Race and Hispanic Origin, 2000-2030.” State Demographic Center. Minnesota Department of Administration. January, 2005.

¹⁵ The state demographic figure for the “non-white” category does not include “two or more races.”

Latinos projected to double in population, from three percent to six percent in the same time period.¹⁶

An analysis of the projected future population growth from 2000 to 2015 reveals a modest increase among whites (11 percent). Every racial and ethnic group is projected to grow at a more rapid rate than whites, ranging from a 32 percent projected population increase for Native Americans to a 98 percent increase for Latinos (and households of two or more races).¹⁷

Table 6: Minnesota Population Projections by Race and Hispanic Origin, 2000 to 2030

Minnesota Population Projections by Race and Hispanic Origin								
Race/Ethnicity	2000	%	2015	%	2030	%	Population Change 2000-2015	Population Change 2000-2030
White	4,474,401	88%	4,954,100	83%	5,255,500	79%	11%	17%
Black	179,957	4%	295,100	5%	386,600	6%	64%	115%
Asian & Pacific Island	147,787	3%	249,300	4%	326,800	5%	69%	121%
American Indian	56,086	1%	73,900	1%	89,300	1%	32%	59%
Latino	143,382	3%	283,200	5%	406,700	6%	98%	184%
Two or More Races	61,248	1%	121,300	2%	210,200	3%	98%	243%
Nonwhite	445,078	9%	739,600	12%	1,012,900	15%	66%	128%
Total Population	5,062,861	100%	5,976,900	100%	6,675,100	100%	18%	32%

Source: State Demographic Center, www.demography.state.mn.us

The demographic change Minnesota is currently experiencing, and that is projected to continue in the future, further highlights how important it is for the real estate and finance sectors to effectively reach first-time homebuyers from emerging markets. Households of color and households of Hispanic ethnicity will play an increasingly important role in the first-time homebuyer market.

Emerging markets comprise forty percent of U.S. first-time homebuyers, and are expected to increase to 54 percent by 2010, according to the National Association of Realtors.¹⁸ Given expected increases in population among diverse communities, both in Minnesota and nationally, emerging markets will have an increasingly significant impact on the real estate market. For a variety of real estate related business sectors, the ability

¹⁶ Ibid, p. 1.

¹⁷ McMurry, Martha. "Minnesota Population Projections By Race and Hispanic Origin, 2000-2030." State Demographic Center. Minnesota Department of Administration. January, 2005.

¹⁸ National Association of Realtors. www.realtor.org/divweb.nsf/pages/divgood?OpenDocument. Studies vary in the percent of minorities who comprise first-time homebuyers. Recent analysis indicates that somewhere from 35 to 40 percent of first-time homebuyers are minorities. A Harvard University report, *The State of Housing 2005*, finds that 35% of first-time homebuyers in 2005 are minorities whereas the National Association of Realtors reports that 40% of first-time homebuyers are minorities.

to effectively reach diverse markets is not only good business, it's a matter of business necessity.

Economic and Social Benefits of Homeownership

Given the variety of economic and social benefits associated with homeownership, disparities in attainment by race and ethnicity concern citizens and policymakers alike. From an economic benefits standpoint, homeownership serves as the primary wealth creation vehicle for Americans. The importance of homeownership as an asset development tool for low- and moderate-income households is critical because it is primarily through asset creation that families develop economic stability and opportunity. Asset attainment through homeownership places families in more a more economically secure position to achieve other goals, be that the pursuit of higher education or starting one's own business.¹⁹

Homeownership is a vital component of our national economic health as well, as evidenced by the tracking of general economic indicators such as the number of new housing starts and by the percent of total gross domestic product influenced by housing consumption and residential investment. Fifteen percent of the nation's 2004 gross domestic product (GDP) is attributable to housing.²⁰ Statistics from a recent report published by the Homeownership Alliance, demonstrate the significant role homeownership transactions play in the economy. "During the past decade existing home sales rose from less than 4.5 million to nearly 7 million units while new home sales increased from 670,000 to more than one million units."²¹

The social benefits of homeownership for families and communities are equally important. Evidence indicates that children of homeowners demonstrate higher levels of educational attainment.²² Homeowners also exhibit greater civic and voluntary involvement, as measured by participation in neighborhood block groups and voter turnout.²³ Homeownership also provides greater neighborhood stability.²⁴ There is a sense that the degree to which we can collectively decrease racial and ethnic homeownership disparities, equality will be advanced.

¹⁹ Ewing Marion Kauffman Foundation. "The Entrepreneur Next Door: Characteristics of Individuals Starting Companies in America." An Executive Summary of the Panel Study of Entrepreneurial Dynamics. P. 19.

²⁰ Gross Domestic Product: Fourth Quarter 2004. Bureau of Economic Analysis and MHFA staff tabulations. March 30, 2005.

²¹ Homeownership Alliance. "America's Home Forecast: The Next Decade of Housing and Mortgage Finance." P. 24

²² Duda, Mark and Eric Belsky. "Asset Appreciation, Timing of Purchases and Sales, and Returns to Low-Income Homeownership." Joint Center for Housing Studies of Harvard University. August 2001. P. 2.

²³ Rossi, Peter H., and Eleanor Weber. "The Social Benefits of Homeownership: Empirical Evidence from National Surveys." *Housing Policy Debate*. 3.2. (1996).

²⁴ Ibid.

Homeownership Attainment Nationally

Homeownership rates increased significantly in the twentieth century; at the beginning of the century less than one-half (46 percent) of Americans owned their own home and by the end of it, two thirds (66 percent) did.²⁵ The economic climate of the past decade has been particularly favorable to homeownership. Historically low mortgage interest rates combined with strong economic conditions helped to increase the homeownership rate by more than 14 percent from 1994 to 2003, resulting in an additional 8.9 million new homeowners in the United States.²⁶ Households of color and Hispanic ethnicity experienced marked increases in homeownership attainment levels over this time period. Nationally, African-Americans experienced a 25 percent increase in homeownership, Hispanics a 63 percent increase and Asians and Pacific Islanders a 103 percent increase.²⁷

The homeownership gains made by emerging markets over the past decade are also evident in Home Mortgage Disclosure Act (HMDA) analysis.²⁸ Examining results captured by the HMDA reveals substantial increases in home purchase activity among African-Americans (106 percent), Asians (236 percent) and Hispanics (163) over the past ten years (1993-2003).²⁹ These increases can be compared to the more modest, 50 percent increase in home purchase activity by whites.

Homeownership Attainment in Minnesota

Minnesota consistently ranks in the top tier of states with regard to its homeownership rate. In 2000, over 74 percent of Minnesotans owned their home, compared with 66 percent of Americans nationally, earning Minnesota the second highest ranking in the nation.³⁰ By 2003, Minnesota jumped to the highest ranked state; the percentage of owner-occupied households in the state is now over 76 percent according to the American Community Survey,³¹ which is the best available data source by which to measure homeownership rate statistics outside of the census, which is only conducted every ten years.

²⁵ U.S. Bureau of the Census. "Historical Census of Housing Tables." http://eadiw.state.wy.us/housing/Owner_0000.html.

²⁶ Homeownership Alliance. "America's Home Forecast: The Next Decade of Housing and Mortgage Finance." P. 28.

²⁷ Ibid, p. 28.

²⁸ The Home Mortgage Disclosure Act (HMDA) requires lending institutions to report public loan data. The data is reported annually and intended to be used in determining whether financial institutions are serving the housing needs of their communities. More recently, Minnesota HMDA data shows that a 35 percent increase in home purchase loans among Hispanics from 2002 to 2003. Home purchase activity for African Americans in this same time period increased 22 percent, and Asian and Native American purchases each increased 15 percent.

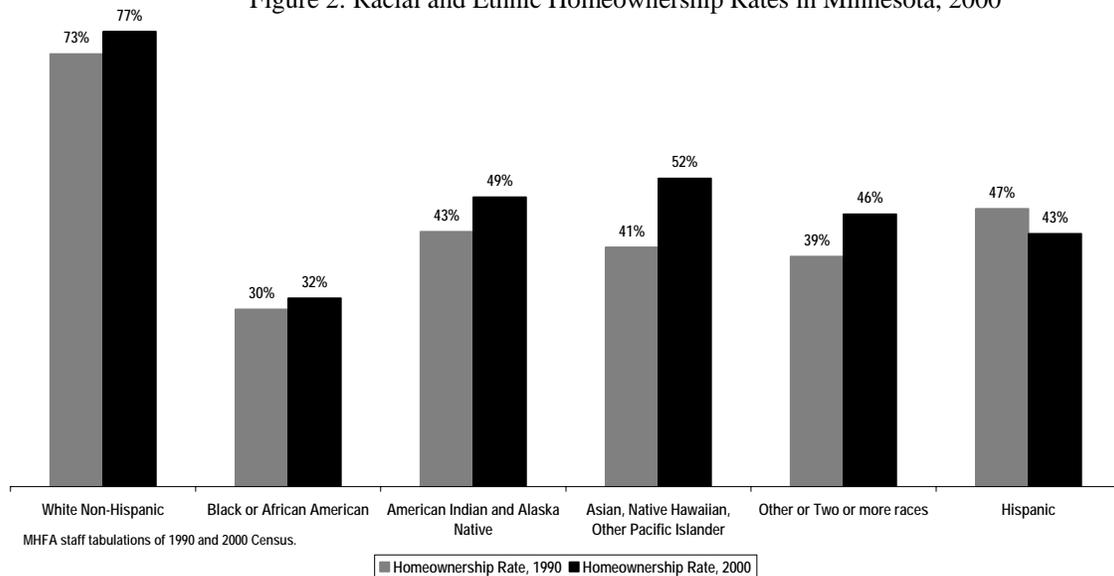
²⁹ Federal Financial Institutions Examination Council. Press release on Home Mortgage Disclosure Act data. July 26, 2004. <http://www.ffiec.gov/hmcrpr/hm072604.htm>.

³⁰ U.S. Bureau of the Census, 2000. West Virginia had the highest homeownership rate in the nation in 2000.

³¹ American Community Survey, 2003. "Percent of Occupied Housing Units That are Owner-occupied." Ranking Tables: 2003. <http://www.census.gov/acs/www/Products/Ranking/2003/R21T040.htm>

Masked behind Minnesota’s impressive overall homeownership rate are disappointing figures for emerging market populations. Most concerning is that while Minnesota leads the nation in homeownership, emerging market homeownership in Minnesota trails the national average. While the overall homeownership rate was six percentage points better than the national average in 2000, Minnesota’s emerging market homeownership rate (42 percent) trailed the national average (46 percent) by four percentage points.³² Analyzing homeownership attainment levels by race and ethnicity in Minnesota yields striking disparities. The African-American homeownership rate is just 32 percent while Hispanic homeownership is just 43 percent. Forty-nine percent of Native Americans are homeowners and 52 percent of Asians. Homeownership rates for racial and ethnic groups across the state, and in communities around the state, are unacceptably low. For a detailed analysis of emerging market homeownership rates in eight locations throughout Greater Minnesota and the Twin Cities metropolitan area, please see appendix B.

Figure 2: Racial and Ethnic Homeownership Rates in Minnesota, 2000



The homeownership gap between non-Hispanic whites and African-Americans is the largest in the state at 45 percentage points in 2000. Hispanics have the next largest gap, at 34 percentage points, followed by American Indians at 28 percentage points, and Asians with a 25 percentage point gap. In 2003, Minnesota experienced the eighth largest racial and ethnic homeownership gap in the nation.³³ For a complete ranking of U.S. states by racial and ethnic homeownership gap, see appendix C.

³² U.S. Bureau of the Census, 2000 and MHFA staff tabulations.

³³ The homeownership gap in Minnesota in 2003 was 32%. American Community Survey, 2003 and MHFA staff tabulations.

Table 7: Minnesota’s Homeownership Gap, 1990 to 2000

Racial/Ethnic Group	Homeownership Rate 1990	Homeownership Rate 2000	Homeownership Gap (1990)	Homeownership Gap (2000)
Non-Hispanic White	73%	77%	—	—
African-American	30%	32%	43%	45%
Asian	41%	52%	33%	25%
Hispanic	47%	43%	26%	34%
Native American	43%	49%	30%	28%

Six Homeownership Barrier Focus Areas

Understanding the racial and ethnic homeownership gap is critical to the development of an effective business plan that establishes strategies to eliminate disparities in homeownership attainment. Researchers are able to reach general agreement on the key factors that most influence homeownership attainment. However, some factors are more easily quantifiable than others. The influence of demographic and economic factors on homeownership attainment, such as income, age, marital status and immigration status tends to be easier for researchers to quantify. Other equally important factors that influence homeownership attainment include: credit quality; wealth; cultural factors and preferences; discrimination; and the supply of affordable ownership units are much more difficult for researchers to quantify.

To understand Minnesota-specific homeownership barriers that emerging markets face, the following analyses were conducted: relevant literature around homeownership barriers and strategies were reviewed; quantitative analysis to determine which indicators most influence homeownership barriers in Minnesota was conducted; and thorough qualitative research with targeted diverse populations, industry leaders, and the general public was initiated. The analysis of this research led to some key findings.

- The primary quantifiable determinants of homeownership include demographic factors such as age, race/ethnicity, marital status, immigrant status, and economic factors such as income. These determinants are indicators that can be easily measured and positively linked to the likelihood of whether one is, or will become, a homeowner. Combined, quantitative analysis conducted for this business plan shows that these indicators “explain” roughly 30 percent of the racial and ethnic gap in homeownership rates in Minnesota.³⁴ Researchers are able to quantify, or explain, what portion of the homeownership gap is attributable to demographic factors through the use of statistical analyses.
- Additional explanatory variables that contribute up to about 70 percent of our understanding of racial and ethnic homeownership disparities in Minnesota are attributable to factors that are much more difficult for researchers to quantify. These indicators include influential factors such as: credit quality; wealth and

³⁴ See Appendix E of the business plan, “Homeownership Barrier Identification—Literature Review and Quantitative Results” for a detailed discussion of this analysis.

access to downpayment assistance; cultural factors, preferences and immigration; discrimination; and other factors such as the supply of affordable ownership units.

Although income and age clearly impact homeownership attainment, a large portion of what explains the homeownership gap in Minnesota, roughly 70 percent, is “unexplained” by those two indicators.³⁵ A number of other unquantifiable³⁶ factors contribute significantly to the racial and ethnic homeownership gap. These factors are described below.

- Credit quality is one indicator that is difficult for researchers to quantify;³⁷ it is increasingly recognized as a significant determinant of homeownership. Advances in automated underwriting systems, which present both benefits and challenges to emerging market populations,³⁸ increase the importance of the role credit in the mortgage decision. Many new immigrants lack credit and can be particularly disadvantaged with respect to the increased reliance on credit scores in the mortgage process. Others lack sufficient understanding on the importance of establishing solid credit in early adulthood. Better information and education on just how important it is to establish good credit early in life would position not just emerging markets, but all consumers, to more easily access future homeownership opportunities.
- Lack of wealth and access to downpayment resources is a homeownership barrier that is widely acknowledged in homeownership research and in the qualitative feedback phase of EMHI. While innovations in mortgage product development and enhancements have led to the creation of affordable and flexible low- and no-downpayment first-time homebuyer mortgage options, many emerging market consumers noted that they do not know of these programs or how to access them. The lack of streamlined, readily accessible information on entry cost assistance resources for consumers and trusted advisors, to whom consumers turn to for advice and guidance, highlights the importance of providing information through targeted marketing and outreach and of providing easy access to homeowner education and counseling.
- A variety of cultural factors, preferences and issues related to emerging market shared experience and/or immigration can present barriers to homeownership. Non-native English language speakers, in particular, face hurdles to accessing information on the homebuying process. Furthermore, some immigrants face documentation barriers that inhibit homeownership. These documentation

³⁵ For a more detailed discussion of homeownership barriers and the attempts to quantify the reasons for the homeownership gap, see Appendix E.

³⁶ The term unquantifiable is used to describe these factors because it is much more difficult for researchers to analyze and “quantify” to what absolute extent they contribute to homeownership disparities.

³⁷ Credit quality is difficult for researchers to analyze because credit scoring models are proprietary to credit reporting agencies.

³⁸ The use of automated underwriting systems has resulted in increased approvals for more emerging markets, not all have benefited. Individuals who have no credit or have not developed a credit history are at a disadvantage with respect to automated underwriting systems.

barriers include difficulty demonstrating stable employment, verifying the source of downpayment funds, and in some cases, certifying legal status.

- Discrimination continues to inhibit positive homebuying experiences. In a recent Department of Housing and Urban Development Study (2000), it was noted that the following forms of discrimination persist: geographic steering into and away from certain neighborhoods; providing less information and assistance with financing, and less encouragement in the homebuying process overall; and limiting the ability of minorities to inspect homes. The study found that whites were favored over African-Americans in 17 percent of tests and favored in 20 percent of tests with Hispanics.³⁹

Through consultation with Advisory Group and Committee members, it was determined that it is generally difficult to develop strategies around the quantifiable determinants of homeownership. It is beyond the scope of this business plan to initiate changes to income, age, marital or immigration status. The Committee and Advisory Group determined that where the homeownership industry can best develop an actionable, achievable and impactful plan is around the following six key homeownership barrier areas:

- Wealth and downpayment
- Credit and lending practices
- Cultural factors, preferences and immigration
- Information, marketing and outreach
- Discrimination
- Homebuyer counseling and financial education

Qualitative feedback obtained through ten real estate industry and emerging market consumer focus groups and three public listening sessions helped define the six homeownership barriers above. In particular, focus group and listening session participants emphasized the critical role of homebuyer and financial education in preparing emerging market homebuyers for successful homeownership. The need for continued innovation in lending products was also discussed extensively and ranged from suggestions to explore additional innovations in alternative underwriting techniques to the development of mortgage loan products to serve interest-averse populations and individuals with an Individual Taxpayer Identification Number (ITIN)⁴⁰ who are not citizens of the United States or who are not lawful permanent or nonpermanent residents of the United States.

Common barriers facing diverse emerging market populations emerged from the focus groups, as did important cultural differences such as the need for customized lending

³⁹ US Department of Housing and Urban Development. "Discrimination in Metropolitan Housing Markets: National Results from Phase 1, Phase 2, and Phase 3 of the Housing Discrimination Study (HDS)." 2000. See p. iv for a discussion on testing methodology.

⁴⁰ It is important to note that many legal residents of the United States do not have a social security number, instead many of these individual are issued an Individual Taxpayer Identification Number by the Internal Revenue Service (IRS). The IRS issues ITINs to foreign nationals and resident and non-resident aliens who have tax payment obligations.⁴⁰

products and processes noted in the preceding paragraph.⁴¹ The “institutional” fear of using established financial institutions was a common barrier cited by a number of diverse focus group participants. The Native American focus group noted just how intimidating banks can be, likening visiting one in some instances to a “going to the principal’s office.” Fear of the homeownership process was prominently noted as a barrier to homeownership in the African American community as well. A real estate broker who participated in the focus group noted that “many of my clients do not think it is possible to own a home,” offering as a suggestion that children be taught in school that it is possible to become a homeowner.

The strong desire to own a home was a universal thread among the diversity of focus group participants as well. As one participant in a Hispanic focus group in Greater Minnesota noted, “When you are a homeowner, it’s yours. It is an investment—it’s a lot of work, but it’s worth it.” That exact sentiment was also offered by Hmong focus group participants who noted that although homeownership presents numerous challenges, the end result is beneficial because you have something that belongs to you which will ultimately improve one’s own life and that of one’s children. The additional benefits of more space gained through homeownership to accommodate a growing family equate to greater freedom and pride.

National and Local Efforts

The disparity in homeownership attainment among non-Hispanic whites and emerging markets is evident in Minnesota, and nationally. The persistence of the homeownership gap, amid rapid population growth among emerging market households, has renewed a call for action around strategies designed to eliminate the gap. A number of national and local efforts to address emerging market homeownership have already been proposed, developed or implemented, and are featured below.

National Efforts: A number of regulatory efforts have been in place for some time to encourage participants in the real estate industry to increase their focus on serving low- and moderate-income households, including emerging markets. These efforts include the Fair Housing Act, the Equal Credit Opportunity Act, the Community Reinvestment Act, and the Home Mortgage Disclosure Act. Recently, a number of efforts and initiatives have been proposed that take a more positive approach to this issue than the approach anticipated in enforcement. Prominent examples include:

- *America’s Homeownership Challenge:* In December 2003, President Bush issued *America’s Homeownership Challenge* to the real estate and mortgage finance industries to encourage them to join the effort to close the gap between the homeownership rates of whites and non-whites. Since he issued the *Challenge*, more than two dozen companies have made commitments to increase minority homeownership, including pledges to provide more than \$1.1 trillion in mortgage purchases for minority homebuyers this decade. As part of this effort, the

⁴¹ See the Emerging Markets Homeownership Initiative Focus Group Report, January 2005. http://www.mhfa.state.mn.us/homes/EMHI_Focus_Group_Report.pdf

President signed the American Dream Downpayment Act into law, which will assist over 40,000 families nationwide with downpayment and closing costs; doubled the funding for housing counseling for families; and proposed the Zero-Downpayment Initiative for FHA-insured mortgage loans in his FY 2005 budget.

- *Expanding the American Dream Commitment:* Fannie Mae, the largest secondary market funder for conventional home mortgage loans, announced its *Expanding the American Dream Commitment* in early 2004. In this effort, Fannie Mae is enlisting its lending partners to increase the minority homeownership rate by six percent over the next ten years. As part of this effort, Fannie Mae is planning to apply technology to expand access to mortgage credit, build stronger community partnerships with entities that serve as trusted advisors to first-time homebuyers, and adopt products and processes in cooperation with public sector partners to assist in expanding the minority homeownership rate.
- *CreditSmart and Don't Borrow Trouble:* Freddie Mac, the second largest secondary market home mortgage purchaser, has implemented a number of initiatives that focus on serving minority households. These efforts include *CreditSmart*, a cooperative educational effort with historically black colleges and universities, to increase minority community knowledge of issues pertaining to homeownership and break down barriers to its access. Freddie Mac also implemented its *Don't Borrow Trouble* campaign in a number of communities throughout the country to inform homeowners of the dangers of predatory lending. There is currently an active campaign in the Twin Cities metropolitan area.

Local Efforts: In Minnesota, there have also been a number of efforts to address the disparity in the homeownership rate between emerging markets and non-Hispanic whites. The following provides examples:

- *The 50/30 Project:* The 50/30 Project is an initiative sponsored by the Urban Coalition in cooperation with the Humphrey Institute at the University of Minnesota. Its name reflects the goal of the initiative: to increase the homeownership rate among communities of color to 50 percent by the time the head householder reaches the age of 30, and to accomplish this by 2012. This initiative enlisted industry stakeholders to both sponsor a study of home buying among communities of color in the Twin Cities metropolitan area and develop recommendations to address the disparity in the homeownership rate between emerging markets and non-Hispanic whites. The focus of the 50/30 Project was to increase wealth creation in communities of color by assuring that the first, fundamental step toward wealth creation was taken within such communities: purchasing a home. In 1999, *A Dream Deferred: The 50/30 Housing Research Initiative Final Report* was published. The report contained a study of barriers to homeownership in emerging markets, and contained 27 recommendations to address those barriers.

- *The Home Ownership Center*: Comprehensive homeowner training, whether through homebuyer education or counseling, has been identified as a primary way to assure that homebuyers are successful at sustaining homeownership. Homeowner training is particularly relevant to low-income, underserved and first generation homebuyers. Minnesota has a well-developed homeowner training infrastructure. The Home Ownership Center is a nonprofit “umbrella” organization that was established by industry stakeholders to assure standardization, quality control and financial support for homeowner educators and counselors throughout the state. Virtually all homeowner educators and counselors throughout the state provide services with the support of The Home Ownership Center, and every county in the state is provided such services except one. The Home Ownership Center has traditionally focused on outreach to emerging markets.
- *The Cross Cultural Home Ownership Alliance (CCHOA) and The Multicultural Network of Real Estate Professionals (MNRP)*: both of these groups represent “grassroots” attempts to increase the homeownership rate in emerging markets. CCHOA is a group composed primarily of African-American real estate professionals representing a variety of organizations. CCHOA has embraced the goal of the 50/30 Project and has held a number of sessions within the African-American community to inform households of the steps that must be taken to become homeowners. MNRP is comprised of real estate professionals reflective of the increased ethnic and racial diversity in Minnesota, and also focuses on increasing homeownership within emerging markets.
- *Community Lending Initiatives*: In Minnesota, a number of financial institutions have established financial products to increase lending both among emerging markets and within low- and moderate-income census tracts. On a secondary market basis, the Minnesota Housing Finance Agency and Fannie Mae have offered targeted mortgage products for some time, but within the past ten years larger financial institutions have also established “portfolio” products with more aggressive underwriting and qualification standards. Minnesota is unique in the number of such products available.
- *Changing the Face of Housing in Minnesota*: The Family Housing Fund, the Twin Cities Local Initiatives Support Corporation and the Corporation for Supportive Housing have established *Changing the Face of Housing in Minnesota*. This effort both encourages and assists organizations that would like to be more diverse so that they more effectively address housing issues within emerging markets.
- *Fair Housing Implementation Council*: This council actively works to address fair housing issues around the state of Minnesota. An excellent analytical resource developed in conjunction with the FHIC is the *Regional Analysis of Impediments to Fair Housing*. Most recently, the FHIC provided funding to create informational materials outlining “Homeownership Rights to Fair

Housing.” This material specifies who to contact in the case of unfair treatment or possible discrimination.

The nature and number of initiatives focused on increasing homeownership among Minnesota emerging markets suggests a number of things. First, there is a strong interest in addressing this issue on both a national and local level from a number of entities. Second, there are a variety of financial and support tools that are available to apply toward this effort. And lastly, but with equal importance, “grassroots” efforts on this issue are necessary. However, an effective effort also requires corresponding support and involvement from the homeownership industry and the leadership of major institutions. Minnesota appears ready to address homeownership disparities through the implementation of strategies outlined in this plan.

III. EMHI BUSINESS PLAN

- *The Emerging Markets Homeownership Initiative will increase the emerging market homeownership rate to 58 percent by providing 40,000 new emerging market households homeownership opportunities by 2012.*
- *Emerging Markets Homeownership Initiative participants hold themselves accountable for achieving results through an inclusive governance structure.*
- *Focusing on three key business elements will yield desired results: provide trusted guidance, expand and tailor outreach and innovate structural support.*
- *Statewide initiatives and pilot efforts among Emerging Markets Homeownership Initiative participants will result in collaborative business plan implementation.*

This business plan outlines implementation strategies for the homeownership industry and community and establishes strong accountability mechanisms which will help to ensure further progress toward the decrease in the racial and ethnic homeownership gap in Minnesota. This section of the business plan begins with an analysis establishing future emerging market homeownership rate goals under the plan. Next, the ongoing organizational and accountability structure for the Emerging Markets Homeownership Initiative is reviewed. This is followed by a discussion of the implementation plan, including specific scopes of work for twelve business plan strategies. Lastly, the financial and resource component to the plan is discussed.

Emerging Market Homeownership Rate Goals

The purpose of the Emerging Markets Homeownership Initiative business plan is to develop and implement effective strategies to decrease, and ultimately eliminate, the racial and ethnic homeownership gap in Minnesota. However, reaching homeownership rate parity among non-Hispanic whites and emerging market households requires bold and aggressive goal setting mirrored by an equally strong commitment on the part of the homeownership industry and the wider community. The homeownership goals set forth in this business plan contemplate a concentrated commitment to increase the homeownership rate among emerging market groups by 12 percentage points over the next seven years, from 46 percent in 2004 to 58 percent by 2012. This goal can be achieved by providing 40,000 new emerging market households the opportunity to achieve successful homeownership from 2006 to 2012.⁴² This will result in a projected

⁴² EMHI recommends beginning homeownership rate progress benchmarking in 2006. The homeownership rate goal analysis listed in Appendix G has been updated in the text of the business plan to reflect a 2006 benchmark start date. The goals presented in Appendix G analyzed a 2004 to 2012 time horizon which indicated that by serving 5,000 first-time emerging market homeowners per year, the emerging market homeownership rate could be increased to 58% by 2012. However, it is important to account for implementation time before beginning to track EMHI goals; therefore, it is recommended that EMHI formally track goal progress beginning in 2006. It is likely that the 5,000 emerging market homeowner goal will not be met when 2004 and 2005 data is released. The best available estimate is from 2003 which suggests that close to 3,600 first-time emerging market homebuyers were served in that year. Holding the estimate of 3,600 first-time emerging market homebuyers constant, approximately 3,000 fewer homeowners were served in 2004 and 2005 than the original projections estimated. As a result, the overall homeownership goal of reaching a 58% emerging market homeownership rate by 2012 has been increased

12 percentage point decrease in the racial and ethnic homeownership gap in Minnesota and a 16 percentage point increase in the emerging market homeownership rate.

Table 8: Future Homeownership Goals in Minnesota

HOMEOWNERSHIP RATE GOALS				
	2000	2004	2012	Absolute Change (2000-2012)
Non-Hispanic Whites	77%	78%	81%	4%
Emerging Markets	42%	46%	58%	16%
Homeownership Gap	35%	32%	23%	-12%

Source: Harvard University's Joint Center for Housing Studies; Claritas Data; Minnesota State Demographic Center; and MHFA Staff Tabulations

Methodology

Reaching the 58 percent homeownership rate goal by 2012 will require a concentrated commitment on the part of the homeownership industry and community organizations, and aggressive implementation of the strategies outlined in this business plan. The discussion of goals in this section is derived from the technical memorandum in appendix G. The process of establishing aggressive homeownership rate goals involves three primary steps:

1. Utilize reliable homeownership rate information for the baseline year (2004);
2. Determine appropriate homeownership rate projections, and;
3. Incorporate reliable population projections into the analysis.

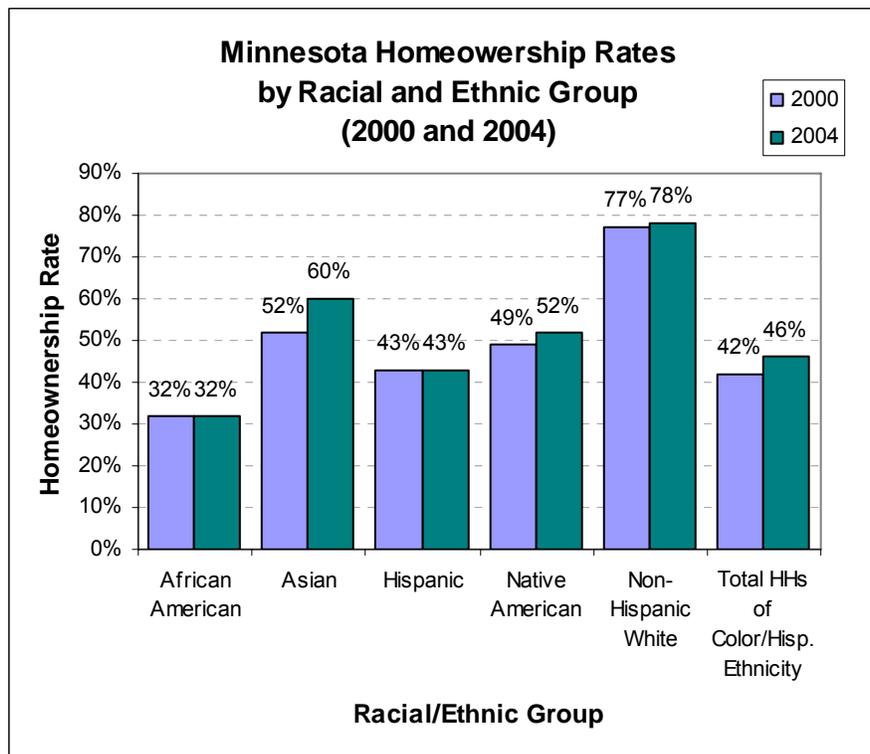
To determine homeownership baseline information for 2004, Claritas data was used.⁴³ Traditionally reliable homeownership rate data, such as the U.S. Census, only provide homeownership rate information every ten years. Improvements to data collection and reporting are underway, although not yet available, as the American Community Survey is scheduled to provide homeownership rate information by race and ethnicity for a variety of geographies, but is not projected to release this information until 2006.

from 35,000 to 40,000 first-time emerging market homeowners. If the market can serve roughly 5,700 first-time emerging market homeowners over seven years (2006 to 2012), and the demographic and economic assumptions built into the model hold true, the 58% emerging market homeownership rate goal will be attained.

⁴³ The Claritas is the only source of demographic data that reflects changes since the 2000 Census. The American Community Survey (ACS) is the other source of data collected since the 2000 Census; however, the Census Bureau's implementation of the complete ACS will not occur until 2006. Thus, the Claritas is the only source of data more recent than the 2000 Census. Claritas also has access to data that would be prohibitively expensive to purchase, for example, Equifax's TotalSource Database (data on income). Claritas's estimates and projections use the same methodology as the Census Bureau. Claritas, in fact, uses the most recent decennial census data as their starting place for creating estimates and projections.

The homeownership rate estimates (baseline data) for 2004 show a four percentage point increase in the homeownership rate for emerging market groups in Minnesota (42 to 46 percent). According to this data, the Asian homeownership rate has increased fairly dramatically from 2000 to 2004, by eight percentage points. Currently, nearly two-thirds of Asians in Minnesota are homeowners. However, it is important to note that some of the Asian community in Minnesota have expressed concern over the reliability of homeownership statistics for the Asian community. In order to afford homeownership, many Asian households double up and pool income from multiple households to qualify for a mortgage. This creative solution to access homeownership opportunities can lead to an over count in the actual number of households who are independent homeowners. Native Americans also experienced slight gains in homeownership (3 percentage points). However, homeownership rates for African-Americans and Hispanics remained constant at 32 percent and 43 percent respectively.

Figure 3: Minnesota Homeownership Rates by Racial and Ethnic Group, 2000 and 2004



Source: Claritas Data.

It should be noted that recent increases in the homeownership rate for emerging markets is at least partially the result of the generally favorable economic climate and low interest rate environment of recent years. These positive economic conditions could change and become less favorable for first-time, first-generation homebuyers. Therefore, it is recommended that progress in meeting the aggressive homeownership goals established in this plan be evaluated and reviewed on a regular, ongoing basis.

While determining appropriate baseline homeownership rates by racial and ethnic group is a critical first step in conducting a homeownership rate analysis, the two critical factors

that drive the homeownership rate goals are: 1.) the projected annual change in homeownership for each racial and ethnic group, and 2.) the projected annual increase in population for each of these groups.

This analysis utilizes a set of homeownership rate projections developed by Harvard University's Joint Center for Housing Studies.⁴⁴ The Joint Center developed three sets of homeownership projections—low, middle and high based on varying economic assumptions and historical homeownership rate performance. The homeownership goals set forth in this business plan for emerging market groups use the high projection figures from Harvard's Joint Center for Housing Studies.⁴⁵ The primary purpose in selecting the high homeownership rate projections for emerging market groups resulted from sensitivity analysis conducted, and from a commitment and call on the part of the Advisory Group and Committee to set ambitious, yet realistic, goals rooted in sound analysis. The homeownership rate projections for non-Hispanic whites use the low projections provided by Harvard's Joint Center for Housing Studies. Given that non-Hispanic whites in Minnesota have obtained a remarkably high and unprecedented homeownership rate at 78 percent in 2004, it is difficult to predict at what pace non-Hispanic homeownership rates can continue to increase. Therefore, the more conservative, low projection was chosen for non-Hispanic whites.

A sound homeownership rate goal setting analysis requires the incorporation of reliable population projections. This analysis uses the recently released population projections by race and ethnicity for Minnesota, as published by the State Demographic Center.⁴⁶ These projections account for estimated changes in fertility, mortality and migration.

The analysis indicates that a 58 percent homeownership rate goal for emerging markets by 2012 is attainable by serving approximately 5,700 emerging market households per year beginning in 2006. This represents a 58 percent increase or 2,100 additional households over current estimated first-time home purchase activity among households of color and Hispanic ethnicity, according to the most recently available Home Mortgage Disclosure Act data (2003).

⁴⁴ Discussions with researchers at Fannie Mae also utilized the Joint Center's homeownership projections in setting Fannie Mae's American Dream Commitment goals.

⁴⁵ The high projection rested on an extrapolation of the 1993-1998 homeownership rate trends, a period extremely favorable to homeownership growth. It is important to note that the Joint Center report recommends utilizing the middle series, which is the average of the low and high series. In their report, they state that the middle series is the most realistic.

⁴⁶ Additional analysis was performed on the population projections to compensate for projected decreases in international migration. Two-thirds of the annual rate of increase for minorities (demographer's projections) migration was used. McMurry, Martha. "Minnesota State Population Projections by Race and Hispanic Origin, 2000-2030." Minnesota State Demographic Center. January, 2005.

Table 9: Annual Homeownership Goals in Minnesota

ANNUAL GOALS BY RACIAL AND ETHNIC GROUP			
	Annual Goal	2003 Activity**	Percent Increase
African American	1,705	879	94%
Asian	1,399	1,394	—
Hispanic	1,603	863	86%
Native American	271	150	81%
Emerging Markets (Total)*	5,700	3,598	58%

* Total includes additional racial and ethnic classifications including other, two or more races and Hispanic whites.

** Home Mortgage Disclosure Act, 2003. Home purchase activity.

Source: Harvard University Joint Center for Housing Studies; Claritas Data (2004); Minnesota State Demographic Center; MHFA Staff Tabulations

Reaching 5,700 emerging market homeowners per year for the next seven years will not eliminate the racial and ethnic homeownership gap in Minnesota. It is important to acknowledge that the annual goals by racial and ethnic group set forth in this business plan will not result in uniform homeownership rate improvements for each racial and ethnic group. This is not the result of a lower commitment to increase the homeownership rate for some racial and ethnic groups but, rather, because Minnesota's diverse communities of color and Hispanic ethnicity are starting from varying levels of homeownership in 2004 and have different age and income characteristics.

The Emerging Markets Homeownership Initiative's vision is to reach homeownership rate parity among emerging market and non-Hispanic white populations. The interim 2012 goals established by this business plan are ambitious, particularly the commitment to reducing the racial and ethnic homeownership gap from a 35 percentage point to a 23 percentage point gap by 2012 (Table 8). The Emerging Markets Homeownership Initiative business plan calls for a 12 percentage point reduction in the gap from 2000 to 2012. According to available data, Minnesota experienced a successful 3 percentage point reduction in the homeownership gap from 2000 to 2004 and this progress was made during a time period of extremely favorable economic conditions that drove homeownership rates to their highest levels in Minnesota's history. This business plan establishes a goal of reducing the homeownership gap by an additional nine percentage points from 2004 to 2012.

It is important to analyze the EMHI business plan's homeownership gap reduction goals within a historical and national context. Examining reductions in the white and non-white homeownership gap over time reveals that progress nationally has indeed been slow. Using 1990 and 2000 census as data points, researcher Patrick Simmons with the Fannie Mae Foundation notes that, "Despite widespread gains in minority homeownership rates, the white-minority 'gap' in homeownership attainment expanded for the second consecutive decade. During the 1990s, the difference in homeownership rates between whites and minorities increased by 0.5 percentage points, from 24.5 to 25.0 percentage points. This followed an increase of a full percentage point during the

1980s.”⁴⁷ The author notes that while the overall national homeownership rate rose for emerging markets, homeownership rate gaps between emerging markets and whites fell slightly in almost every age category. Changes in age structure, whereby the white population experienced more dramatic shifts into older age categories that have higher homeownership rates than emerging market populations, account for the apparent inconsistency of the increase in the overall homeownership rate gap but the decline in homeownership gaps by age category.

The aggressive implementation of the strategies outlined in this business plan, and a clear commitment on the part of the homeownership industry and community, will still result in unacceptable homeownership gaps for racial and ethnic groups by 2012. The acknowledgement and realization that racial and ethnic homeownership gaps will still exist in 2012 in Minnesota should not detract from the importance of concentrated efforts and a continued commitment to work toward homeownership rate parity. Many of the homeownership barriers faced by racial and ethnic groups originate from a variety of deeply embedded and entrenched historical and economic factors. As one participant in the African-American consumer focus group stated in reference to homeownership attainment, “There is a lack of belief that it is possible.” The confidence barrier was expressed consistently by diverse communities around the state; eliminating it and the other homeownership barriers will require an ongoing commitment far beyond 2012.

While the homeownership rate goals set forth in this business plan use the best available data sources and research, they rely heavily on both homeownership rate and population growth projections. Projection figures are inherently tenuous in nature, given that the underlying economic and social assumptions are subject to change. Beginning in 2006, the American Community Survey data will make homeownership rate information by race and ethnicity available on a statewide geographic basis. This data will serve as the primary benchmark by which progress toward meeting the homeownership rate goals outlined in this business plan will be tracked. Additional data sources EMHI may use to benchmark progress in meeting homeownership rate goals include the Home Mortgage Disclosure Act, which provides information on home purchase activity by racial and ethnic group, and the Government Sponsored Enterprise dataset that provides detail on the racial and ethnic background of first-time homebuyers.

Organizational Structure and Accountability

The development of an ongoing EMHI governance structure reflective of the homeownership industry is critical to implementation success. A commitment to ongoing implementation of this business plan on the part of an accountable governance structure will ensure that the business plan continues to be relevant to changing market conditions and dynamics and is adaptable to such changes.

To oversee business plan implementation efforts, a commitment to hire a Director is outlined. The Director will report to a twelve to fifteen member Governance Group,

⁴⁷ Simmons, Patrick A. “Changes in Minority Homeownership in the 1990s.” Fannie Mae Foundation Census Note 07. September 2001. P. 5.

comprised of representatives from each of the EMHI Conveners, three Committee member representatives and six Advisory Group representatives.

Equally critical to the success of this business plan is input from diverse communities. To ensure effective implementation of key strategies set forth in this plan, four Community Councils will be established: one council will focus on strategies to increase access to homeownership within the African-American community, the second on the Asian community, the third on the Hispanic community and the fourth on the Native American community. The EMHI Director will convene and work closely with each nine- to twelve-member Community Council.

Evaluation and Tracking

An EMHI summit, to be held annually, will provide an opportunity to monitor progress in achieving business plan objectives and goals. The EMHI summit will review the impact that underlying economic conditions, including demographic change and the evolving mortgage finance environment, have on the achievement of EMHI goals. As business and economic conditions change, it will be important to reexamine and readjust elements of the business plan, as needed. Furthermore, the evaluation of EMHI homeownership pilots and initiatives are critical. As the initiative progresses and evaluation results are tracked, it is important that this business plan be a flexible, fluid tool. The Emerging Markets Homeownership Initiative business plan is intended to serve as a guide to encourage continuing and evolving efforts to close the homeownership gap over time.

Participants in the annual EMHI summit will include the EMHI Advisory Group, Committee, Governance Group, Director and Community Councils. A more detailed discussion of the roles and responsibilities of the key governance stakeholder groups, including an organizational chart, follows next.

Advisory Group and Committee

Staffing: The Committee and Advisory Group are comprised of representatives from organizations that developed the EMHI business plan.

Duties and Responsibilities: The Committee and Advisory Group review the progress toward meeting the overall goals as well as progress on EMHI initiatives and pilots at least annually. The Committee and Advisory Group advise the Governance Group and Director on both the progress and future direction of EMHI.

Governance Group

Staffing: The Governance Group is comprised of one representative from each of the convening organizations, three representatives appointed by the Committee with one member representing mortgage lenders, one member representing real estate professionals, and one member representing homeowner educators/counselors, and six representatives appointed by the Advisory Group. The Governance Group will reflect the diversity of the communities served by EMHI.

Duties and Responsibilities: The Governance Group provides ongoing review, oversight and direction of business plan, including assuring progress toward achieving EMHI goals as well as the operational and financial status of initiatives and pilots. This group provides direction and support to the Director, and shall be responsible for retention and evaluation of the Director. The group also supports fundraising efforts for EMHI. The Governance Group shall meet at least once per month.

Director

Staffing: The Director is the chief executive responsible for EMHI, and is hired by the EMHI conveners.

Duties and Responsibilities: The Director is primarily responsible for the implementation of the business plan on a statewide basis. The Director coordinates the work of individuals and organizations which make substantive contributions to the initiatives and pilots developed and implemented under the business plan and tracks the results of these efforts. The Director convenes and facilitates the Community Councils together with other groups that may have an impact on achievement of goals under the business plan. The Director is responsible for establishing and maintaining the EMHI “brand” and image in cooperation with the Governance Group, and is the primary spokesperson for EMHI. The Director is primarily responsible for fundraising on behalf of the initiative.

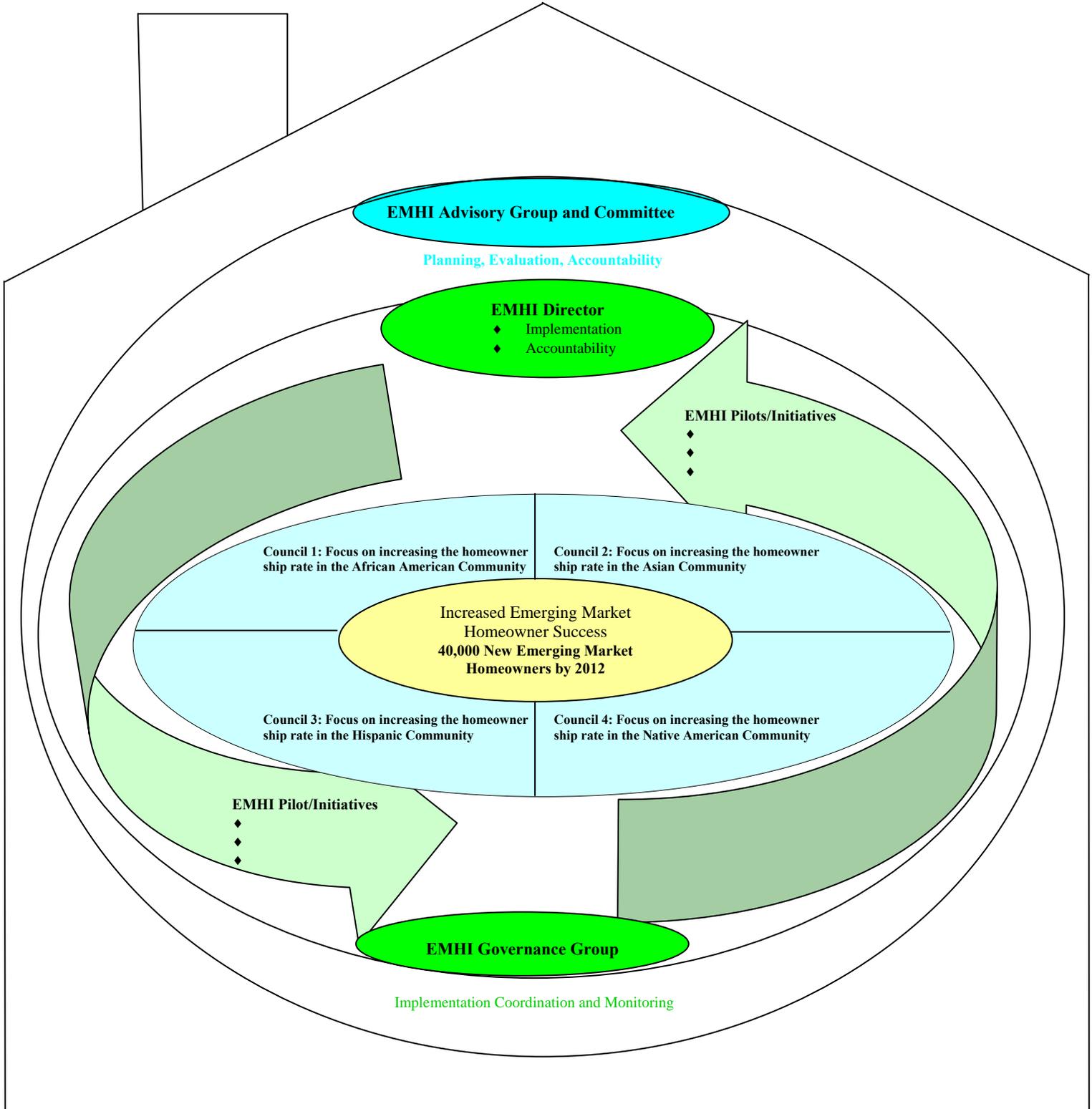
Community Councils

Staffing: Four EMHI Community Councils are comprised of nine to twelve individuals representing the African-American, Native American, Asian and Latino communities in Minnesota. The Councils are recruited by the Director with the advice of the Governance Group.

Duties and Responsibilities: The Councils provide advice to the Director to assure effective implementation of the strategies under each element of the business plan as it pertains to the community represented by each council. Council members are advocates for their community by raising issues pertaining to the initiative and assuring that initiatives and pilots are designed to address community needs. Council members are also liaisons to the communities they represent by assuring effective communication to the community pertaining to EMHI, convening and building bridges between the community and EMHI, and acting as the primary point of contact between the community and EMHI.

Figure 6: EMHI Governance Structure Organizational Chart

EMERGING MARKETS HOMEOWNERSHIP INITIATIVE Governance Structure



Implementation Plan and Strategies

With advice and input from Advisory Group and Committee members, three primary business plan elements were developed.

- A. Provide trusted guidance;
- B. Expand and tailor outreach efforts;
- C. Innovate structural support to enhance mortgage products and processes.

Critical to closing Minnesota's homeownership gap is the development of an implementation plan that positions strategies to address the primary homeownership barriers that emerging market households face. In order for implementation efforts to result in measurable improvements in homeownership rates for Minnesota's diverse communities, three things must be in place. First, the objective of the specific implementation strategy must be clear. Second, outcome benchmarks and deliverables need to be established by which to measure progress. Third, the implementation team should be thoughtfully developed with appropriate accountability mechanisms established.

Implementation efforts are generally defined as broader, more global initiatives or as targeted pilot efforts. Highlighting the distinction between an EMHI initiative and an EMHI pilot may be helpful. Initiatives, for the most part, fall under the first two elements of the business plan: provide trusted guidance and expand and tailor outreach. Pilot efforts typically materialize under the third element of the business plan: innovate structural support, and are generally linked to strategy six, develop emerging market financing products and processes. Pilots are specifically designed to serve as a critical research and development components for the testing of new product and process innovations that will lead to increased access to homeownership opportunities in emerging markets.

Another distinction between initiatives and pilots may relate to the level of geographic targeting. Most initiatives have a broader scope of influence that generally reaches statewide. For example, the development of culturally-sensitive "Roadmap to Success" guides could be made available across the state. A website developed and designed for use by consumers and industry professionals can also reach constituents around the state. Pilots, however, are generally defined by a geographic area or a designated target market. Eventually, pilot efforts may lead to larger, community-wide initiatives.

It is anticipated that through the development of this business plan, and with the establishment of an ongoing governance structure to oversee implementation efforts, a number of pilot efforts may be developed. The ongoing governance structure for EMHI, and in particular the Community Councils, will play an important advisory role in the identification, development and execution of community- and industry-based pilot efforts. For example, market trends clearly highlight the growth of the mortgage broker sector and it is evident that many brokers have strong relationships with diverse consumer markets. Exploring partnership possibilities with mortgage brokers may be an important element of a pilot effort to close Minnesota's homeownership gap.

The intent of this business plan is to develop a clear framework for future strategies and efforts around emerging market homeownership. Many organizations are already working diligently on efforts designed to increase access to homeownership, and this business plan recognizes and embraces these efforts.⁴⁸ However, the cooperative and collaborative development of the business plan emphatically anticipates further enhancement and elevation of collective efforts to eliminate the homeownership gap in Minnesota. This effort, the first in the nation of its kind, has brought representatives from Minnesota's diverse communities together with leadership from the homeownership industry to join forces to close the homeownership gap. Hence, well-designed pilot efforts are an integral part of the business plan. The advantage of becoming an EMHI pilot is clear: pilot efforts will have the community support and credibility to position them for enhanced effectiveness and success. The visibility and marketing capabilities of a collective EMHI effort further enhances pilot effort desirability. Most importantly, by participating in a collaborative EMHI pilot effort, future emerging market business development efforts will have access to resources that will enhance their credibility.

The following section provides detailed scopes of work for twelve business plan strategies. These scopes of work include identified lead and primary conveners, and participants, who are the primary implementers of each strategy. Proposed outcomes, which are subject to amendment by the lead and primary conveners, are also included in the scopes of work. The Emerging Markets Homeownership Initiative business plan is designed to be a fluid plan that incorporates ample opportunity to integrate responsible revisions to the proposed implementation strategies based on new and objective information that will continue to be analyzed over time. As such, the designated timeframe for the proposed completion of specific objectives is yet "to be determined" by the lead implementers for each business plan strategy. Additional organizations may be added as lead or primary conveners, or participants, in executing the scopes of work outlined in the business plan as well.

A. Provide Trusted Guidance

The first element of the business plan recommends a commitment to expanding the number of quality trusted advisors who work with, and in, diverse communities. This element of the business plan also has two key strategies: the establishment of a transitional emerging market outreach network and the development of an "established" emerging market service provider network through an increased commitment to recruitment and retention goals of diverse populations.

The importance of "trusted guidance" in general and "trusted advisors" in particular was discussed by the Advisory Group and Committee throughout the development of the business plan. It was recognized that "trusted advisors" within various communities are critically important sources of advice and counsel to emerging market households considering homeownership. It was also noted that there are too few individuals that have the knowledge of the complexities of the homebuying system to provide the level of

⁴⁸ See Appendix I for a description of notable community and industry efforts.

advice necessary to assist emerging market homebuyers through the process successfully. Furthermore, while some individuals from emerging markets have chosen the real estate industry as a career, more emerging market real estate professionals would likely have a positive impact on expanding the number of “trusted advisors” from within emerging market communities.

In developing objectives under this business plan element, an early idea was to expand emerging market “trusted advisors” from within various emerging market communities but outside the real estate profession. After further consideration of this approach, it was deemed impractical and unlikely to yield desired results. Another strategy was to proffer “trusted advisor” designations on current real estate professionals. However, it was noted that within all communities, and especially emerging market communities, that trust is earned, not designated.

As a result, the “Community Council” component of the EMHI organizational structure was developed both to assure diversity in the implementation of the business plan and to provide community “connectedness” as an essential aspect of EMHI. The following objectives were also established as part of this business plan element:

- Recruit and develop diverse industry service providers
- Establish industry certification program.

Each of these objectives is further described next.

Strategy 1: Recruit and Develop Diverse Industry Service Providers

Business Plan Element: Provide Trusted Guidance

Business Plan Strategy: Recruit, retain and professionally develop racially and ethnically diverse real estate service providers.

Primary Homeownership Barriers Addressed:

- Cultural factors, preferences and immigration
- Discrimination

Information and Background

Background

One of the strategies identified toward providing trusted guidance was to recruit, develop and retain racially and ethnically diverse individuals within segments of the real estate industry that focus on providing homeownership opportunities. In both formal research conducted under EMHI and in focus groups and listening sessions held as part of EMHI, it was noted that emerging market populations are more comfortable in working with institutions that employ people who speak their language and are sensitive to their culture.

In developing this strategy, it was noted that both recruitment *and* retention of racially and ethnically diverse employees was important to successful strategy implementation. It was also noted that a Twin Cities effort, *Changing the Face of Housing in Minnesota*, has been focusing on this issue in the non-profit and public sectors, and that there was an opportunity to capitalize and expand upon this effort in the private sector. It was further noted that if such an undertaking was to be successful, efforts need to be made to provide incentives for emerging market individuals to choose career opportunities in the real estate industry, and that industry leaders should establish specific goals for emerging market recruitment and retention.

Objective

Recruit, retain and professionally develop lenders, real estate professionals and other homeownership service providers from racially and ethnically diverse populations to help assure knowledge and comfort with the home buying process within emerging market communities. Efforts should be made to capitalize on existing efforts, developing incentives for emerging market individuals to choose careers in the real estate industry, and establishing accountability among homeownership service providers for recruiting and retaining emerging market employees.

Proposed Outcomes:

- *Changing the Face of Housing in Minnesota* is formally expanded as a resource to the private sector by TBD.

- *Changing the Face of Housing in Minnesota* is expanded as both a public and private sector initiative in Duluth by TBD.
- Enlist key real estate industry service providers and local colleges and universities to establish at least six internship opportunities and three additional scholarships for emerging market individuals who wish to choose real estate as a career by TBD.
- Key real estate industry service providers establish voluntary recruitment and retention goals by TBD.

Evaluation: Progress toward meeting objectives and outcomes as defined in this scope of work will be regularly reviewed by the EMHI Director and EMHI Governance Group, with input from the EMHI Community Councils.

Service Area: Focus on pilot efforts in Twin Cities and Duluth metropolitan areas

Targeted Emerging Markets: All

Lead Convener

1. Twin Cities LISC

Primary Convener

1. Corporation for Supportive Housing
2. Family Housing Fund
3. Duluth LISC
4. Minnesota Association of Realtors

Initiative Participants

1. EMHI Councils
2. Greater Minnesota Housing Fund
3. Mortgage Association of Minnesota
4. Multicultural Network of Real Estate Professionals
5. University of St. Thomas
6. Designated participating lenders
7. Designated participating realty firms

Strategy 2: Establish Industry Certification Program

Business Plan Element: Provide Trusted Guidance

Business Plan Strategy: Develop and implement a statewide education program to certify real estate industry participants in cultural competency and affordable lending resources and techniques.

Primary Homeownership Barriers Addressed:

- Cultural factors, preferences and immigration
- Discrimination
- Information, marketing and outreach

Information and Background

Background

One of the strategies identified toward providing trusted guidance was to increase the knowledge, skills and abilities of the existing real estate services delivery network in working effectively with emerging markets. Consensus was reached that one important way to do this was to establish a statewide education plan that would certify real estate industry participants in cultural competency and affordable lending resources and techniques.

In developing this strategy, it was noted that various trade associations had already developed education and/or certification programs that addressed elements of the strategy, and that these programs may serve as a base from which the development of the certification program could begin. It was also noted that it was important that development of such programs under EMHI needed active input from community members to be served under EMHI. The following was also noted:

- The statewide education program should be implemented under the “EMHI brand” as developed.
- Any certification program developed should be easy to administer.
- Attention needs to be given to ways that participation in the program by real estate professionals will “add value” to their work.
- It is essential that real estate and mortgage lending trade associations aggressively enlist their members to become certified under the program.
- It is essential that a mechanism be established whereby emerging market community members are aware of individuals that have received certification under the program.

Objective

Develop and implement a statewide education program to certify real estate industry participants in cultural competency and affordable lending resources and techniques. Participants who are certified under the program should be able to provide reliable advice in a culturally-sensitive fashion to emerging market consumers who wish to purchase a home.

Proposed Outcomes:

- An educational program relevant and acceptable to a wide-range of industry real estate professionals and lenders is developed and implemented under the “EMHI brand” by TBD.
- The education program establishes a certification containing elements that are acceptable and recognized by industry participants and emerging market community members.
- At least three education sessions are held at various locations throughout the state by TBD.
- At least 200 individuals have received certification under the program by TBD.

Evaluation: Progress toward meeting objectives and outcomes as defined in this scope of work will be regularly reviewed by the EMHI Director and EMHI Governance Group, with input from the EMHI Community Councils.

Service Area: Statewide

Targeted Emerging Markets: All

Lead Convener

1. Mortgage Association of Minnesota

Primary Convener

1. Minnesota Association of Realtors

Initiative Participants

1. Cross Cultural Homeownership Alliance
2. EMHI Councils
3. Independent Community Bankers of Minnesota
4. Minnesota Association of Mortgage Brokers
5. Minnesota Credit Union Network
6. Multicultural Network of Real Estate Professionals

Expand and Tailor Outreach Efforts

The second element of the business plan recommends a commitment to expanding and tailoring outreach and educational efforts to diverse communities around the state. This element of the business plan also has two key strategies: improved dissemination of homeownership resource information to emerging markets through a marketing campaign including the development of an EMHI website, and increased availability of, and access to, comprehensive homeowner training and consumer education.

In discussing this business plan element, Advisory Group and Committee members noted that the development and implementation of other business plan strategies would prove to be ineffective if this business plan element was implemented poorly. Culturally-sensitive outreach and education efforts are essential to business plan success. The following objectives were discussed as part of this business plan element:

- Develop and implement synergistic marketing campaign
- Develop and implement EMHI website
- Expand culturally-sensitive homeowner training
- Develop “Roadmap for Success” guide
- Develop post-purchase services network
- Partner with schools to expand financial empowerment

Each of these objectives is further described next.

Strategy 3: Develop and Implement Synergistic Marketing Campaign

Business Plan Element: Expand and Tailor Outreach

Business Plan Strategy: Develop and implement a well-funded, synergistic marketing and outreach campaign pertaining to homeownership opportunities for emerging markets.

Primary Homeownership Barriers Addressed:

- Cultural factors, preferences and immigration
- Information, marketing and outreach

Information and Background

Background

One of the most critical strategies identified toward expanding and tailoring outreach was to develop and implement a well-funded, synergistic marketing and outreach campaign pertaining to homeownership opportunities for emerging markets.

Throughout the development of the business plan, it has been reinforced that homeownership needs to be promoted within emerging markets as an achievable opportunity for those who wish to choose it. In a variety of forums, it was emphasized that many emerging market communities have no expectations or hope that this choice is available for a variety of reasons. Many emerging market households are comprised of potentially first generation homebuyers. A number of emerging market participants have noted that people within their communities have had unfavorable experiences in attempting to purchase a home, and this discourages others from the community from pursuing homeownership as an option for their households.

As a result, the need for a marketing campaign to build consumer confidence and awareness pertaining to homeownership opportunities for emerging markets has been routinely cited as critical to the success of EMHI. Such a campaign must be designed to demystify the homebuying process, and identify the programs, tools and techniques that are available to emerging markets. However, it has also been noted that a marketing or outreach campaign must be carefully structured to be sensitive to the ethnic and cultural needs of various emerging markets. One approach to product, promotion, distribution, or even pricing, will not be effective for all groups.

A well-structured, well conceived marketing plan will be important to leverage all the other efforts under EMHI. To the extent the marketing approach “brands” EMHI with a consistent focus, theme and message, the brand may be carried through to reinforce other business plan elements in a manner that will be recognizable by various emerging markets.

Objective

Develop and implement a well-funded, synergistic marketing and outreach campaign to build consumer confidence and awareness pertaining to homeownership opportunities for emerging markets and to leverage activities, initiatives and pilots established under EMHI.

Proposed Outcomes:

- Determine tactical and funding approach to achievement of objective by TBD.
- Establish marketing creative and branding approach to EMHI by TBD.
- Implement marketing campaign through appropriate media strategy by TBD.

Evaluation: Progress toward meeting objectives and outcomes as defined in this scope of work will be regularly reviewed by the EMHI Director and EMHI Governance Group, with input from the EMHI Community Councils.

Service Area: Statewide

Targeted Emerging Markets: All, with appropriate modifications to address individual market needs and sensitivities.

Lead Convener

1. TBD

Primary Convener

1. TBD

Initiative Participants

1. EMHI Councils
2. Fannie Mae
3. Minnesota Association of Realtors
4. Minnesota Housing Finance Agency

Strategy 4: Develop and Implement EMHI Website

Business Plan Element: Expand and Tailor Outreach

Business Plan Strategy: Create an EMHI website in support of EMHI goals to provide current, relevant information for consumers and industry professionals

Primary Homeownership Barriers Addressed:

- Wealth/downpayment
- Cultural factors, preferences and immigration
- Information, marketing and outreach
- Homebuyer counseling and financial information

Information and Background

Background

One of the strategies identified toward expanding and tailoring outreach was to further develop and implement an initiative website for consumers and industry professionals.

The necessity of an EMHI website was mentioned by a variety of participants in a variety of venues during development of EMHI business plan strategies. A variety of real estate industry participants stated that a website could be an extremely valuable resource tool to keep stakeholders up to date on EMHI, to provide industry participants with cultural competency information to enhance their probability of success in serving diverse emerging markets, and to update information on affordable lending tools and techniques.

A number of emerging market consumers acknowledged the potential of an EMHI website as well. As with industry participants, a website could be structured with a “consumer track” to explain the homebuying process as well as tools, techniques and resources available to assist homebuyers and/or homeowners on both a pre- and post-purchase basis. The website could also list specific individuals and/or firms with individuals that have received certification under the program developed under EMHI. It was also noted that a website could contain an electronic comprehensive homeowner training component including a testing regimen to assure borrower mastery and wider access to homeowner training services by emerging markets.

Developing an EMHI website would present a number of challenges, including continually updating the information therein and assuring links to bi-lingual resources and other entities providing emerging market services.

Objective

Develop, implement and maintain a website to assist emerging market consumers and real estate industry participants with current, relevant information and resources to assist in addressing emerging market homeownership opportunities and issues.

Proposed Outcomes:

- Determine tactical and funding approach to achievement of objective by TBD.
- Establish potential website metrics by TBD.
- Launch website in initial form by TBD.

Evaluation: Progress toward meeting objectives and outcomes as defined in this scope of work will be regularly reviewed by the EMHI Director and EMHI Governance Group, with input from the EMHI Community Councils.

Service Area: Statewide

Targeted Emerging Markets: All

Lead Convener

1. TBD

Primary Convener(s)

1. Federal Reserve Bank of Minneapolis

Initiative Participant(s)

1. EMHI Councils
2. Family Housing Fund
3. Home Ownership Center
4. Minnesota Association of Realtors
5. Multicultural Network of Real Estate Professionals

Strategy 5: Expand Culturally-Sensitive Homeowner Training

Business Plan Element: Expand and Tailor Outreach

Business Plan Strategy: Increase and accelerate access to culturally- and language-sensitive homeowner training and information.

Primary Homeownership Barriers Addressed:

- Cultural factors, preferences and immigration
- Information, marketing and outreach
- Homebuyer counseling and financial education

Information and Background

Background

One of the strategies identified toward expanding and tailoring outreach was to further develop and increase consumer education and counseling activities to enhance the probability of providing successful, sustainable homeownership for emerging market homebuyers.

Minnesota has an advanced infrastructure in support of comprehensive homeowner training. The Home Ownership Center is an effective umbrella organization that provides standardization and quality control for homeowner education and counseling providers throughout the state through its Home Stretch core curriculum. The Home Ownership Center also participates in funding homeowner educators and counselors and is in the process of establishing an online measurement and evaluation system of homeowner education and counseling activities.

The Home Ownership Center's work has been dependent on the commitment and acceptance of the implementation of the statewide infrastructure by organizations providing homeowner education and counseling services throughout the state. Homeowner educators and counselors have recognized the efficiency and effectiveness of this infrastructure, and are providing excellent service in almost every county in the state.

It has been generally recognized throughout EMHI that the Minnesota infrastructure for homeowner education and counseling is effective. It has also been recognized that homeowner education and counseling services are critical to assist emerging markets achieve successful, sustainable homeownership as many households in emerging markets are both first-time and first-generation homebuyers. It has been noted that the Home Ownership Center has always been active in reaching emerging markets and has established a number of efforts to increase this activity. It is recommended that this focus be accelerated and expanded to enhance the probability of success for EMHI.

Objective

Increase and accelerate additional, high-quality comprehensive homeowner training and information opportunities targeted to emerging market consumers and available at a variety of locations through a variety of well-qualified providers or other appropriate mediums. Focus must be on culturally- and language-sensitive training and curricula to meet diverse emerging market needs.

Proposed Outcomes:

- Establish eight pilot programs (see below) targeted and customized toward meeting the needs of diverse markets, with all pilots implemented by TBD.
- Assure that at least four of the pilots established above feature formal alliances between homeowner training service providers and community groups.
- Achieve 160 “graduates” from established pilots by TBD.
- By TBD, complete review of an electronic comprehensive homeowner training component including a testing regimen to assure borrower mastery.

Evaluation: Progress toward meeting objectives and outcomes as defined in this scope of work will be regularly reviewed by the EMHI Director and EMHI Governance Group, with input from the EMHI Community Councils.

Service Area: Four pilots in Greater Minnesota and four pilots in the Twin Cities metropolitan area

Targeted Emerging Markets: All

Lead Convener	Primary Convener	Initiative Participants
1. Home Ownership Center	1. Home Ownership Center Advisory Council Designees	1. Cross Cultural Homeownership Alliance 2. EMHI Councils 3. Duluth LISC 4. Minnesota Housing Finance Agency

Strategy 6: Develop “Roadmap for Success” Guide

Business Plan Element: Expand and Tailor Outreach

Business Plan Strategy: Develop a comprehensive, culturally-sensitive “roadmap to success” guide for emerging market homeowners.

Primary Homeownership Barriers Addressed:

- Cultural factors, preferences and immigration
- Discrimination
- Information, marketing and outreach

Information and Background

Background

One of the strategies identified toward expanding and tailoring outreach was to develop a comprehensive, culturally-sensitive “roadmap for success” guide that demystifies the homebuying process and makes it more user-friendly in a manner that is understandable and would resonate with various emerging market groups.

The concept of developing a “roadmap to success” guide is relatively simple in concept, but somewhat more complex in execution. To assure an effective “roadmap to success,” it would be essential to develop a number of formats designed to be both appealing and sensitive to various cultures and ethnicities, and to translate the piece into a number of languages commonly spoken by Minnesota emerging markets.

The “roadmap to success” guide must also balance providing useful, accurate information with providing too much detail that may be perceived as excess and intimidating. Sufficient detail must be provided on the steps, requirements, opportunities and challenges in the homebuying process and homeownership itself. It is likely that the piece would include the roles of various entities in the homebuying process, identification and information about key decision-making points in the process, information on selecting a home and information on lenders and loan products.

Objective

Create a sufficiently and appropriately detailed, understandable, seamless and universally-used “roadmap for successful homeownership” that demystifies the steps, requirements, opportunities, rights and other aspects critical to successful, sustainable homeownership.

Proposed Outcomes:

- “Roadmap” funding and distribution plan developed by TBD.
- “Roadmap” contents developed by TBD.
- “Roadmap” creative treatment for four emerging market populations created and tested by TBD.
- “Roadmap” distributed at 50 prominent points of emerging market contact by TBD.

Evaluation: Progress toward meeting objectives and outcomes as defined in this scope of work will be regularly reviewed by the EMHI Director and EMHI Governance Group, with input from the EMHI Community Councils.

Service Area: Statewide

Targeted Emerging Markets: All

Lead Convener

1. Fannie Mae

Primary Convener

1. Federal Reserve Bank of Minneapolis
2. Minnesota Housing Finance Agency

Initiative Participants

1. Department of Housing and Urban Development
2. EMHI Councils
3. Family Housing Fund
4. Greater Minnesota Housing Fund
5. Home Ownership Center
6. Independent Community Bankers of Minnesota
7. Minnesota Association of Mortgage Brokers

Strategy 7: Develop Post-Purchase Services Network

Business Plan Element: Expand and Tailor Outreach

Business Plan Strategy: Develop and implement a post-purchase services network to assure that emerging market homeowners have access to information and services pertaining to predatory lending and foreclosure prevention that will enhance their prospects for successful, sustainable homeownership.

Primary Homeownership Barriers Addressed:

- Discrimination
- Information, marketing and outreach
- Homebuyer counseling and financial education

Information and Background

Background

One of the strategies identified toward expanding and tailoring outreach was to further develop or increase consumer education and counseling activities to enhance the probability of providing successful homeownership for emerging market homebuyers. It was noted that Minnesota has a well-established network of pre-purchase and post-purchase services and initiatives toward this end. In the post-purchase area, Minnesota has a strong network of foreclosure prevention counselors and a collaborative approach to public information and referral pertaining to predatory lending through *Don't Borrow Trouble Minnesota*.

The importance preventing both foreclosure and predatory lending was referenced often throughout the development of EMHI, whether at Advisory Group or Committee meetings, focus group sessions, or stakeholder meetings. Typically, both topics were referenced and discussed separately, although there are certainly similarities in both the approaches and ends in both activities. In reviewing national models for both topics, it is clear that *Don't Borrow Trouble Minnesota* has established the most advanced system for information and referral of any such effort in the country by creating a centralized call center with referral out to homeowner counselors for particularly difficult cases. In Chicago, IL, a similar information and referral system was developed under its *Home Ownership Preservation Initiative* for foreclosure prevention. While Minnesota has a strong foreclosure prevention network, it currently doesn't feature a similar referral system.

An opportunity for synergy and efficiency has been identified in merging information and referral services under a "Post-Purchase Services Alliance" (see attached diagram). By using the call center already established under *Don't Borrow Trouble Minnesota*, it may be possible to streamline and increase access to foreclosure prevention services in Minnesota and sustain both activities over a longer term than if they were approached separately.

Objective

Develop and implement a post-purchase services network to assure that emerging market homeowners have access to information and services pertaining to predatory lending and foreclosure prevention that will enhance their prospects for successful, sustainable homeownership. The network will be comprised of public information, a call center and referral network brought about by a service and funding partner “alliance” focused on providing post-purchase support in avoiding both predatory lending and foreclosure.

Proposed Outcomes:

- An “alliance” toward the ends in the objective will be formed by conveners and initiative participants by TBD.
- A budget and funding commitments for the first two years of the network will be established by TBD.
- A coherent, collaborative infrastructure will be established for the post-purchase services network by. The infrastructure will include active support of both anti-predatory lending and foreclosure prevention components by the lending industry, including mortgage servicers.
- Training of referral service providers will occur by TBD.

Evaluation: Progress toward meeting objectives and outcomes as defined in this scope of work will be regularly reviewed by the EMHI Director and EMHI Governance Group, with input from the EMHI Community Councils.

Service Area: Twin Cities Pilot

Targeted Emerging Markets: All

Lead Convener

1. Home Ownership Center

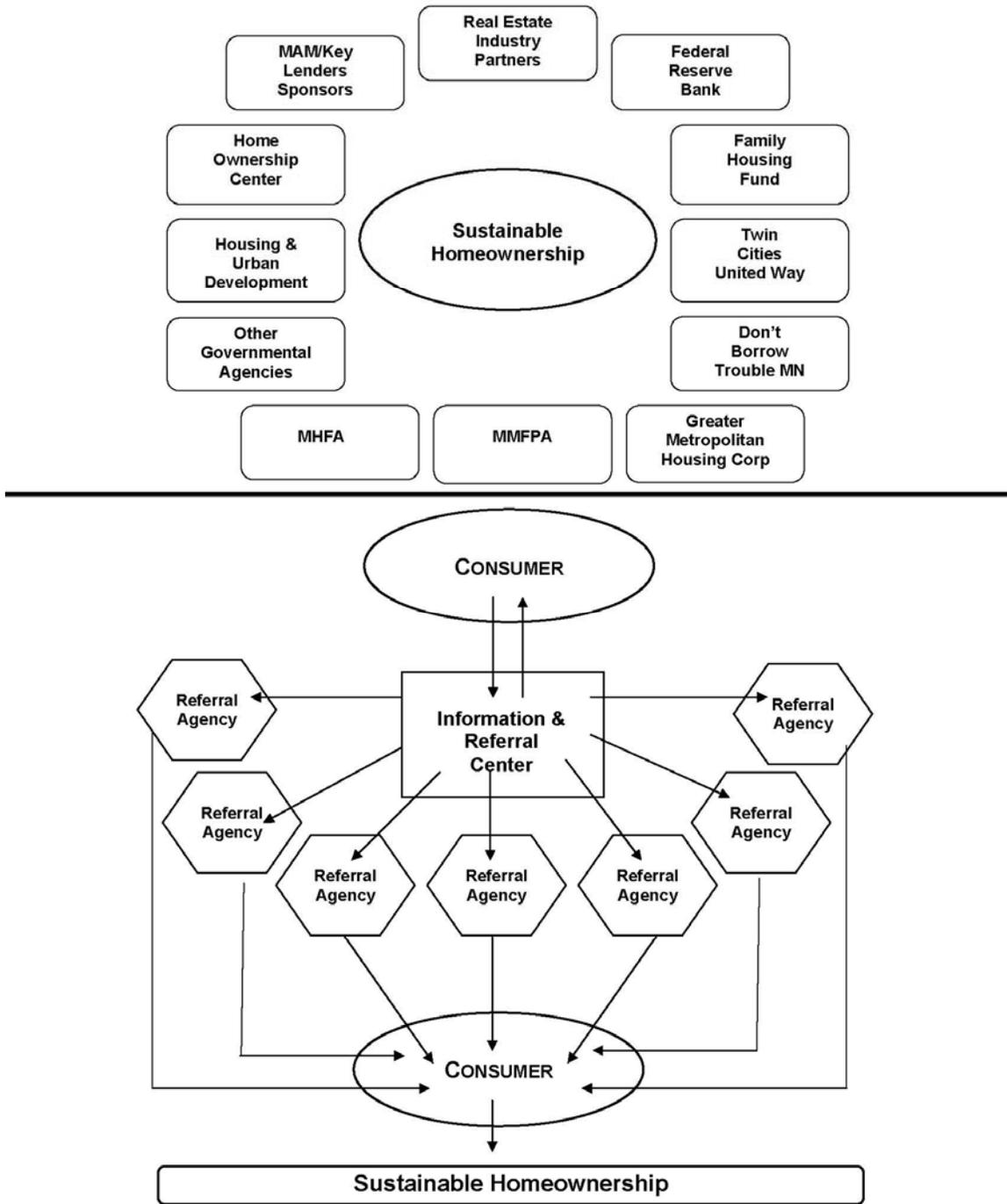
Primary Convener

1. Family Housing Fund
2. Greater Twin Cities United Way
3. Minnesota Mortgage Foreclosure Prevention Association

Initiative Participants

1. EMHI Councils
2. Federal Reserve Bank of Minneapolis
3. GMAC
4. Mortgage Association of Minnesota
5. Select mortgage lenders

Figure 5: Post-Purchase Services Alliance Chart



Strategy 8: Partner with Schools to Expand Financial Empowerment

Business Plan Element: Expand and Tailor Outreach

Business Plan Strategy: Develop and/or expand financial empowerment curricula delivered through schools and targeted to schools with students and parents that are likely to become emerging market homebuyers.

Primary Homeownership Barriers Addressed:

- Cultural factors, preferences and immigration
- Information, marketing and outreach
- Homebuyer counseling and financial education

Information and Background

Background

The EMHI Advisory Group and Committee established expanding and tailoring outreach to emerging markets as a business plan element that addresses a number of barriers to emerging market homeownership. One of the strategies identified toward this end was to partner with schools to expand financial empowerment curricula so that current and future emerging market consumers may make informed financial decisions both regarding housing tenure choices and other financial transactions that may have an impact on the ability to choose homeownership as a tenure choice.

Qualitative research conducted under EMHI suggests that knowledge gaps regarding financial matters generally and the homebuying process in particular are barriers to achieving homeownership for individuals who wish to make that choice. It has been demonstrated and affirmed in EMHI that poor financial decisions made during school-age years can have an adverse and long-term impact on banking practices, debt habits and credit histories. In addition, and in particular for new immigrants, students in school are an important source of information and learning for parents and other adult family members about available financial and housing opportunities in their communities.

As a result, curricula and courses focusing on financial empowerment, including the homebuying process, for students as part of their education are likely to be effective in improving the possibility that students and their families will make good financial choices and be good consumers in the homebuying experience.

Objective

Increase the financial empowerment of elementary and secondary school students by providing curricula and courses in the schools, with specific information included pertaining to the homebuying process. Provide parents and other family members with financial empowerment learning opportunities, including information on the homebuying process, through programs at schools and through information provided to students for use by parents and other family members.

Proposed Outcomes:

- Provide information on the EMHI business plan to the leadership of major elementary and secondary education organizations.
- Meet with leaders of major education organizations to assess current level of financial empowerment/homebuyer education for the purpose of deterring status of current efforts and opportunities for enhancements.
- Integrate secondary financial components with adult outreach strategies through the schools in one or more of the pilot areas of expanding and tailoring outreach under EMHI.

Evaluation: Progress toward meeting objectives and outcomes as defined in this scope of work will be regularly reviewed by the EMHI Director and EMHI Governance Group, with input from the EMHI Community Councils.

Service Area: Information provided statewide. Initial efforts will focus on selected pilot areas.

Targeted Emerging Markets: To be determined

Lead Convener

1. Minnesota Housing Finance Agency

Primary Convener

1. Federal Reserve Bank of Minneapolis

Initiative Participants

1. EMHI Councils
2. Home Ownership Center
3. Independent Community Bankers of Minnesota
4. Minnesota Credit Union Network
5. Mortgage Guaranty Insurance Corporation

Innovate Structural Support

The third element of the business plan recommends a commitment to innovating structural support in efforts to provide homeownership opportunities for emerging markets throughout the state. This element of the business plan has three key strategies: expanding access to entry cost assistance, developing emerging market friendly financing products and processes, and acknowledging systemic issues of racism and housing supply.

While all of the strategies under this business plan element are important, it is likely that developing emerging market friendly financing products and processes is the most complex. While substantial innovations in mortgage underwriting techniques have been clearly documented, and increased product offerings tailored to first-time homebuyer needs feature no- or low-downpayment requirements, product and process improvements could be further developed to better serve emerging markets. It is anticipated that this is the area of the business plan that will rely on a number of pilot efforts uniquely designed to sensitively serve emerging markets, as discussed earlier. It is essential to the success of the business plan that such pilot efforts be thoughtfully developed and implemented, and then evaluated to ascertain pilot strengths, weaknesses, and possibilities for replication. While a number of such pilot efforts will very probably build off of existing successful efforts, some are likely to be more complicated. In all instances, while products may be specifically created to address the particular need of a member of an emerging market, none of the products will be limited to one group or another. Products will be available for everyone who qualifies for them. Examples of two such pilots are provided below.

The need for an interest-averse product available locally in the Minnesota market has been cited throughout the qualitative analysis phase of EMHI. The lack of such a product was the primary discussion element at the Recent African Immigrant focus group conducted as part of the research phase for this business plan.⁴⁹ Demographic data further supports the growth of the recent African immigrant market in Minnesota. Somalis are the third largest immigrant group in Minnesota, according to estimates by the State Demographic Center, and while not every person of the Islamic faith may select an interest-averse mortgage product, a significant number of recent African and Middle-Eastern immigrants would purchase a home if such a product were available.

The need to develop a mortgage product for individuals who are not citizens of the United States or who are not lawful permanent or nonpermanent residents of the United States has been raised as an issue of concern for many emerging markets.⁵⁰

⁴⁹ The Focus Group report summarizes notes from Recent African Immigrant focus group. The report can be accessed at the following web link:

http://www.mhfa.state.mn.us/homes/EMHI_Focus_Group_Report.pdf

⁵⁰ The Focus Group report summarizes notes from focus groups held with loan originators where the need for an ITIN product was noted. The report can be accessed at the same link mentioned in the previous footnote.

A number of financial institutions around the country are providing mortgages to undocumented immigrants, i.e., those who are not citizens or cannot prove lawful permanent or nonpermanent residence and these mortgages are being used by a significant number of Hispanic households. This has been referred to in the mortgage community as "ITIN lending," though this is a somewhat misleading term because lawful permanent or nonpermanent residents can receive ITIN numbers.⁵¹ ITIN stands for Individual Taxpayer Identification Numbers that are issued by the IRS to foreign nationals and resident and non resident aliens who request it for tax payment obligations. Many lenders, however, are unwilling to do "ITIN lending." One of the reasons for this may be a desire not to be involved in the national debate on immigration policy.

This business plan recommends continued monitoring of local and national efforts around research and product development. The following objectives were discussed as part of this business plan element.

- Expand entry cost assistance resources
- Develop emerging market friendly financing products and processes
- Acknowledge issues of housing supply
- Acknowledge issues of racism

Each of these objectives is further described next.

⁵¹ Examples of individuals who may hold or need an ITIN include: resident and non-resident aliens filing a U.S. tax return and not eligible for a social security number; dependents or spouse of a resident or non-resident U.S. alien; or, dependents or spouse of a non-resident visa holder. Many individuals of various racial and ethnic backgrounds are issued an ITIN and could presumably benefit from an ITIN product.

Strategy 9: Expand Entry Cost Assistance Resources

Business Plan Element: Innovate Structural Support

Business Plan Strategy: Expand entry cost assistance resources and assure effective targeting of resources to emerging markets.

Primary Homeownership Barrier Addressed:

- Wealth/downpayment

Information and Background

Background

One of the strategies identified toward innovating structural support was to expand access to entry cost assistance for potential emerging market homebuyers.

Entry cost assistance refers to financial assistance provided to assist potential homebuyers with necessary home downpayment or mortgage closing cost assistance. Under a somewhat broader definition, so-called “affordability gap” resources are also a form entry cost assistance. Such assistance is primarily, but not exclusively, provided by public sector entities, with the largest amount of assistance coming from state government through a variety of programs, and lesser amounts coming from the federal government, philanthropic conduits, and private sector entities. Recently, interest has been expressed in “employer-sponsored” entry cost assistance programs.

In recent years, there have been a variety of efforts to make entry cost assistance documents and processes “conforming” to the extent possible given resources provided. There have also been efforts to carefully target these resources, with considerable emphasis on reaching emerging markets. It is important to EMHI that these efforts be reviewed and continued.

Objective

Increase sources and access for entry cost assistance to fund home purchases for emerging market consumers with limited financial resources.

Proposed Outcomes:

- Release “American Dream Downpayment Assistance” resources allocated to state with focus on reaching emerging market homeowners. At least TBD % of households served with such resources are from emerging markets.
- Review targeting of Minnesota Housing Finance Agency entry cost assistance resources. At least TBD % of households served with such resources are from emerging markets.

Evaluation: Progress toward meeting objectives and outcomes as defined in this scope of work will be regularly reviewed by the EMHI Director and EMHI Governance Group, with input from the EMHI Community Councils.

Service Area: Statewide

Targeted Emerging Markets: All

Lead Convener

1. Minnesota Housing Finance Agency

Primary Convener

1. Department of Housing and Urban Development
2. Family Housing Fund
3. Greater Minnesota Housing Fund

Initiative Participants

1. EMHI Councils
2. Greater Twin Cities United Way
3. Home Ownership Center
4. Select Mortgage Lenders

Strategy 10: Develop Emerging Market Friendly Financing Products and Processes

Business Plan Element Innovate Structural Support

Business Plan Strategy: Develop culturally-sensitive mortgage products and adopt culturally-sensitive mortgage processes (includes underwriting).

Primary Homeownership Barriers Addressed:

- Credit and lending practices
- Cultural factors, preferences & immigrations
- Information, marketing & outreach

Information and Background

Background

One of the strategies identified toward innovating structural support was developing emerging market friendly financing products and processes.

In recent years, there has been general acknowledgement of the need for culturally-sensitive business practices both in terms of products and processes designed to reach emerging markets. A number of lenders have adapted their business approach in recognition of the fact that attracting emerging business is profitable in the short term and essential to remaining viable in the long term. Secondary markets and individual lenders have expanded their product lines, adapted alternate underwriting approaches and increased the cultural competency of their staff to position themselves to attract such business.

Yet, there is still a great deal to be learned in these areas, and the adoption of culturally-sensitive products and processes by the real estate finance industry in its entirety is essential to meet the goals of the business plan. As a result, a system of creating and evaluating pilot efforts is anticipated under this business plan objective.

Objective

Create, adapt and pilot alternative, culturally-sensitive products and underwriting practices that adjust to the backgrounds of emerging market consumers and address cultural barriers to homeownership.

Proposed Outcomes:

- Develop TBD number of pilot efforts, in conjunction with EMHI Community Councils.
- Appropriate outcomes will be established for individual pilots as they are developed. These outcomes will be identified through consultation with EMHI Community Councils and the lending and real estate industry.

Evaluation: Progress toward meeting objectives and outcomes as defined in this scope of work will be regularly reviewed by the EMHI Director and EMHI Governance Group, with input from the EMHI Community Councils.

Service Area: Statewide

Targeted Emerging Markets: All

Lead Convener

1. EMHI Director

Primary Convener

1. TBD

Initiative Participants

1. EMHI Councils
2. TBD

Strategy 11: Acknowledge Issues of Housing Supply

Business Plan Element: Innovate Structural Support

Business Plan Strategy: Conduct a market analysis to better understand demand and supply conditions affecting emerging market homeownership attainment in Minnesota.

Primary Homeownership Barrier Addressed:

- Wealth/downpayment

Information and Background

Background

One of the strategies identified toward innovating structural support was to review data and issues pertaining to the availability of affordable housing supply for emerging market homeowners and to encourage the development of affordable, work force housing.

During early Advisory Group and Committee discussions, it was noted that households in emerging market groups were disproportionately low- and moderate-income. In many Minnesota housing markets, there have been tremendous increases in housing appreciation in recent years. As a result, concern was raised that the availability of affordable housing stock would be a barrier to homeownership attainment among emerging markets.

It was generally agreed by EMHI participants that initiatives such as EMHI could not, in and of themselves, have an impact on market forces pertaining to housing supply. However, it was requested that the business plan contain an analysis of the availability of affordable housing, though it was acknowledged that an in-depth analysis was beyond the scope of the initiative. The preliminary results of the supply analysis conducted under EMHI, while predicated on a number of assumptions pertaining to household income, median home prices and mortgage underwriting criteria, present a degree of optimism. While the supply of affordable ownership stock clearly constrains some emerging market populations, particularly those at lower income levels and who reside in metropolitan markets, a significant percentage of emerging market renters earning \$30,000 or more appear to be earning enough income to be able to purchase the median priced home in a variety of Minnesota cities. A discussion of this preliminary analysis is located in appendix D.

Incident to the business plan, more substantial work pertaining to this issue is required. Therefore, a scope of work was developed to initiate a more thorough market analysis whereby the demand for ownership units by emerging market populations will be examined and this demand will be compared to existing supply or available supply projections to identify gaps.

Objective

Conduct a market analysis pertaining to the availability of, and demand for, homeownership among emerging markets.

Proposed Outcomes:

- Conduct and complete a homeownership market analysis by TBD. Compare potential homeownership demand to existing supply or available supply projections, to identify gaps. As part of the analysis, identify barriers to the development and/or availability of affordable homeownership units.

Evaluation: Progress toward meeting objectives and outcomes as defined in this scope of work will be regularly reviewed by the EMHI Director and EMHI Governance Group, with input from the EMHI Community Councils.

Service Area: Statewide

Targeted Emerging Markets: All

Lead Convener

1. Federal Reserve Bank of Minneapolis

Primary Convener

1. Minnesota Housing Finance Agency
2. Minnesota Housing Partnership

Initiative Participants

1. Department of Housing and Urban Development
2. Family Housing Fund
3. Greater Minnesota Housing Fund

Strategy 12: Acknowledge Issues of Racism

Business Plan Element: Innovate Structural Support

Business Plan Strategy: Expand and continue a statewide dialogue on race including, but not limited to, discussion of racial and ethnic housing gaps.

Primary Homeownership Barrier Addressed:

- Discrimination

Information and Background

Background

One of the strategies identified toward innovating structural support was to establish EMHI as a catalyst for frank, positive and productive conversations on racial and ethnic issues throughout Minnesota.

Momentum is building around the state of Minnesota to convene and provide opportunities to talk candidly about issues of race and immigration. The YMCA, the Citizen's League, the St. Paul Foundation and the Minneapolis Foundation are actively engaged in creating opportunities for civic discourse around these issues. An effort to expand dialogue around immigration trends in Minnesota is being led by the Minneapolis Foundation. The centerpiece of the Discovering Common Ground initiative are publicly sponsored forums that provide an opportunity to dialogue about specific issues connected to immigration; a public art exhibit; and the development of informational materials about immigration in Minnesota.⁵²

Early in the process of considering elements of an EMHI business plan, the EMHI Committee, Advisory Committee and other stakeholders reached consensus that it is important to acknowledge racism as a cause of Minnesota's minority homeownership gap. It is acknowledged that there must be continued dialogue about issues of race generally and, in particular, housing-related racial issues. Although EMHI cannot solve or eliminate racism, it can serve as a platform for continued dialogue on race and ethnicity issues across sectors and support ongoing community efforts to acknowledge and address racism

Objective

Provide ongoing opportunities for EMHI participants to learn about the impact of racism in Minnesota. Link EMHI with efforts more specifically developed to address racial issues so that these efforts can benefit from information and experience obtained through EMHI.

⁵² To learn more about this initiative, visit the Minneapolis Foundation's web site at: www.mplsfoundation.org/immigration/about.htm.

Proposed Outcomes:

- Organizations and groups addressing racial and ethnic disparities are met with and provided the EMHI business plan. These organizations include the Minneapolis Foundation, the Saint Paul Foundation, and the Itasca Group. Linkages between EMHI and efforts undertaken by these organizations are explored.
- EMHI participants are informed and encouraged to participate in the efforts of other organizations that are seeking to address the issues of race.
- EMHI-specific issues pertaining to housing and race should be regularly reviewed under the EMHI governance structure.

Service Area: Statewide

Targeted Emerging Markets: All

Lead Convener

1. EMHI Director

Primary Convener

1. Cross Cultural Homeownership Alliance
2. Minnesota Housing Partnership

Initiative Participants

1. EMHI Councils
2. TBD

Financial Structure

- *Affordable mortgage capital is available to achieve the purposes of the Emerging Markets Homeownership Initiative. It must be applied well.*
- *The comprehensive, collaborative nature of the business plan approach may attract financial resources to the Emerging Markets Homeownership Initiative.*

The development of this business plan highlights the need to better use existing resources in a more focused and thoughtful manner to advance strategies designed to eliminate homeownership disparities in Minnesota. The most important financial resources necessary to meet business plan goals are already available. The key to increasing the homeownership rate for any market is a ready supply of affordable mortgage capital. In Minnesota, mortgage capital is available through both public- and private sector mortgage lenders and secondary markets. Furthermore, both the public- and private sector secondary markets have consistently demonstrated a willingness to innovate their products in support of goals as anticipated under the business plan. And a number of Minnesota lenders have already implemented portfolio products that are uniquely designed to reach emerging markets.

As noted earlier, it will be critical to the success of the initiative for lenders to creatively use the capital resources that are available and work toward establishing and potentially expanding pilot projects that are specifically designed to reach emerging markets. In a number of instances, this will require the proposal of new or the adoption of existing alternate underwriting techniques. However, in other instances, it will require the development of new products, such as interest-averse or ITIN mortgage loans.

Mortgage enhancements are also important to the accomplishments of business plan goals. Minnesota is a unique state in the abundance of entry cost assistance resources that are available. However, a strategy in the business plan calls for a review of these resources to assure that they are both sufficient and well-targeted to meet the needs of emerging markets. Furthermore, expansion of other strategies, such as employer assistance programs, may be beneficial toward meeting business plan goals. If entry cost assistance resources are to be effective in reaching emerging markets, the business plan anticipates that efforts will be made to simplify their delivery, standardize their documentation so that they are readily understandable, increase public information pertaining to their availability, and consider ways of linking sources of entry cost funding with products that resonate with emerging markets.

Beyond the necessity of mortgage capital, the business plan anticipates the development and implementation of initiatives to build a better infrastructure under which emerging market homeownership may increase. Depending on the specific proposal, the initiative may be developed on a statewide or pilot effort basis. In some cases, the initiative may be developed by EMHI participants through an “in-kind” approach and may generate revenue in its implementation sufficient to sustain itself (e.g. development of a certification program or creation of an EMHI website). In other cases, financial resources will have to be raised from private, philanthropic or public resources to allow

implementation (e.g. development and implementation of the EMHI marketing plan). One absolutely critical area for such funding is the development and support of the EMHI organizational structure that will both coordinate business plan initiatives and work to assure initiative accountability.

As previously noted, EMHI is a one-of-a-kind effort. It is unique in the comprehensiveness of its approach and in the collaborative nature of the development and implementation of the business plan. The business plan elements, strategies and outcomes are in many cases interdependent. It is anticipated that the importance and the uniqueness of EMHI will attract a wide variety of financial resources with a concerted fundraising effort.

A charge of the Governance Group is to finalize scopes of work and corresponding financial commitments that will support implementation of the twelve strategies identified in this business plan.

CONCLUSION

- *The Emerging Markets Homeownership Initiative is a collective call to action by both the community and the real estate industry. Participants are ready to respond.*

Minnesota is widely recognized as a state that has a high “quality of life.” While this means a number of different things to different people, it is a phrase that Minnesotans wear comfortably. It is also a phrase that is not simply used by Minnesotans in a boastful way, but that has been bestowed upon the state by a variety of different publications through a variety of different indices.

One of the reasons that Minnesota has a high quality of life is that it approaches its problems and issues with an eye toward solutions. Minnesotans don’t tend to admire problems or rush to judgment or blame. Rather, Minnesotans develop a process, review data, develop solution sets, and implement.

The Emerging Markets Homeownership Initiative has developed *A Business Plan to Increase Homeownership in Minnesota’s Emerging Markets*, and will implement it in the best Minnesota tradition. It is a plan that contains actionable, achievable and impactful business elements and strategies. It is a plan that has been developed out of the commitment of hundreds of hours of individuals passionately committed to addressing this issue. It is a plan that addresses both philosophical and pragmatic issues: Minnesota should not accept racial homeownership gaps on principal, but it’s also bad for business and our economy if we would. Allowing such conditions to persist is unjust and simply makes no sense.

Most importantly, *The Emerging Markets Homeownership Initiative: A Business Plan to Increase Homeownership in Minnesota’s Emerging Markets* is, indeed, the plan that of both emerging market communities and the homeownership industry. It has been vetted through an inclusive, lively, rigorous and direct process in which community and industry stakeholders have shared and learned. It is a plan that “stands on the shoulders” of efforts to address these issues throughout the state, and which has learned from the successes and shortcomings of these efforts. As a result, it is a plan that can succeed through the focus and good will of its participants.

TECHNICAL APPENDICES

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APPENDIX A: HOMEOWNERSHIP RATES BY AGE AND INCOME

Demographic and socioeconomic factors correlate strongly with homeownership. Age and income are two of the most influential determinants of homeownership that researchers can quantify. As age and income increase, so do homeownership rates. Homeownership rates were analyzed by age and income in Minnesota. The analysis, from 2000 Census data, is distributed along four income and three age cohort groupings.⁵³

Income Categories

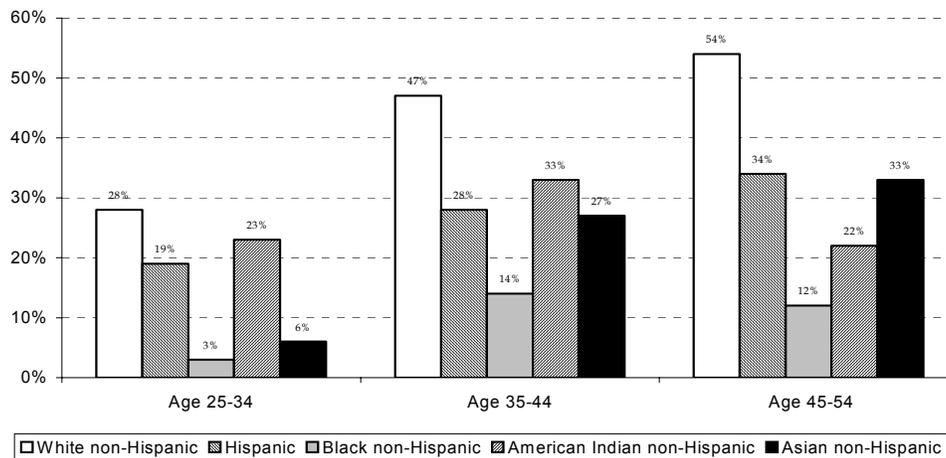
- Under \$20,000
- \$20,000 to \$39,999
- \$40,000 to \$59,999
- \$60,000 to \$79,999

Age Cohort Categories

- 25 to 34 years
- 35 to 44 years
- 45 to 54 years

Non-Hispanic whites experience higher homeownership rates in each age category at every income level studied. At the lowest income category studied, households earning under \$20,000 a year, low-income non-Hispanic white households consistently have higher homeownership rates for each age cohort studied. African-Americans in this income bracket consistently rank lowest with regard to homeownership attainment in each age bracket, at least 20 percentage points behind non-Hispanic whites of a similar age.

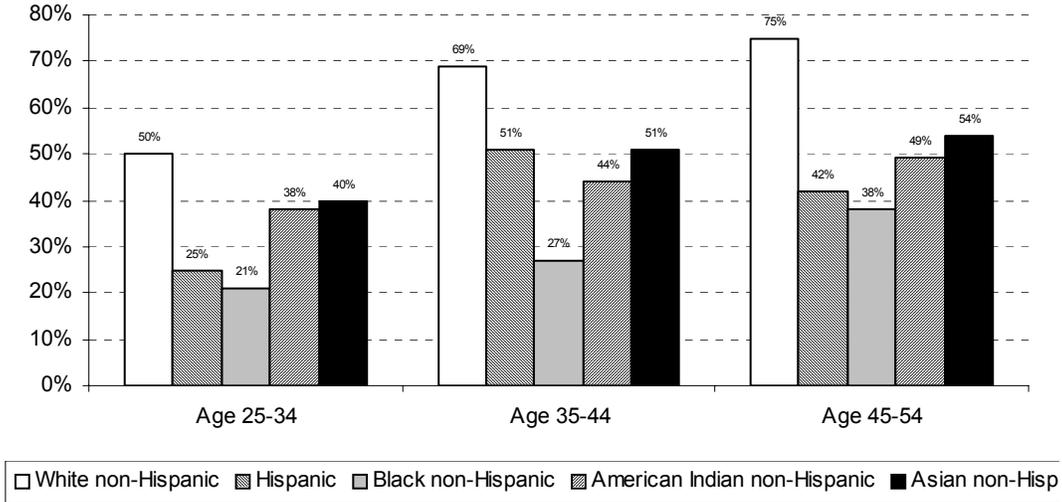
Homeownership Attainment in Minnesota for Incomes \$20,000 or Less (2000)



As incomes rise, homeownership rates increase significantly. Notably, for young (ages 25-34) non-Hispanic whites earning between \$20,000 to \$40,000, the homeownership rate increases to 50 percent. Emerging market households in this age and income category also experience an increase in homeownership, most notably Asians, whose homeownership rates increase over 30 percentage points from the \$20,000 and under income grouping. However, homeownership gaps continue to persist in this age and income bracket and range from 10 percent (Asians) to 29 percent (African-Americans).

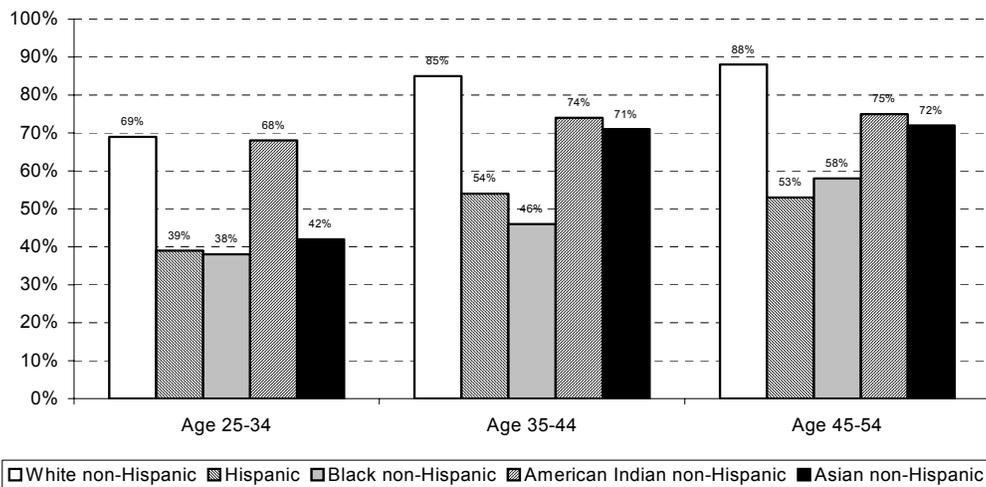
⁵³ U.S. Bureau of the Census (2000) 5% PUMS for Minnesota, and MHFA staff tabulations.

Homeownership Attainment in Minnesota for Incomes \$20,000 to \$39,999 (2000)



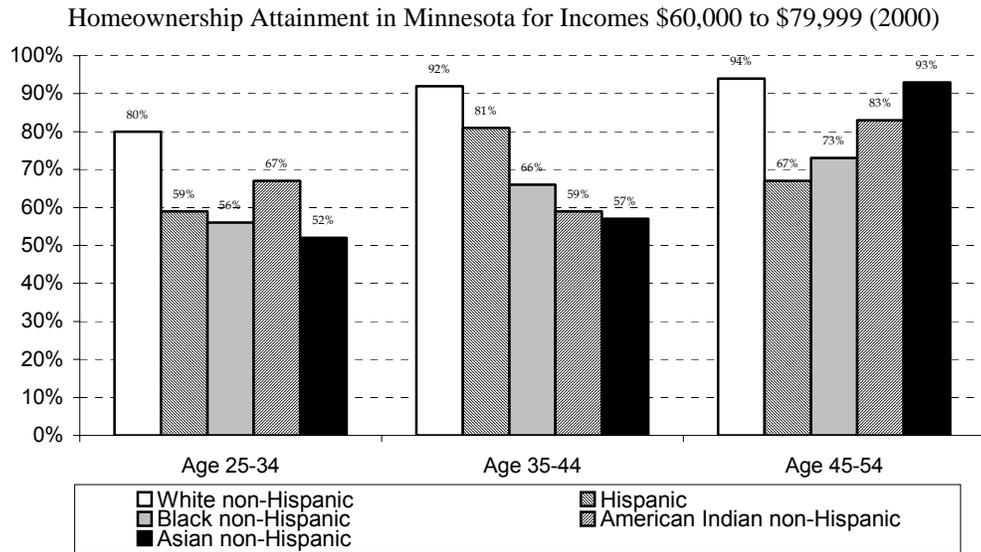
An analysis of homeownership rates for the 25-34 age cohort with incomes in the \$40,000 to \$60,000 range reveals a persistent homeownership gap between non-Hispanic whites and emerging market households. In particular, homeownership rates for African-Americans, Hispanics and Asians continue to lag the non-Hispanic white rate by over 25 percentage points.

Homeownership Attainment in Minnesota for Incomes \$40,000 to \$59,999 (2000)



Reviewing homeownership attainment by the three age cohorts for the highest income households studied, those earning between \$60,000 and \$80,000, demonstrates a persistent homeownership gap in each age cohort. The non-Hispanic white homeownership rate reaches an astounding 94 percent at this income level for those in the 45-54 age cohort. Remarkably, 93 percent of Asians in this age cohort are homeowners. However, other racial and ethnic groups of a similar age and income still lag non-Hispanic whites by 11 percentage points (Native Americans) or more. Hispanic

homeownership lags non-Hispanic whites by 21 percentage points and African-Americans lag by 27 percentage points.

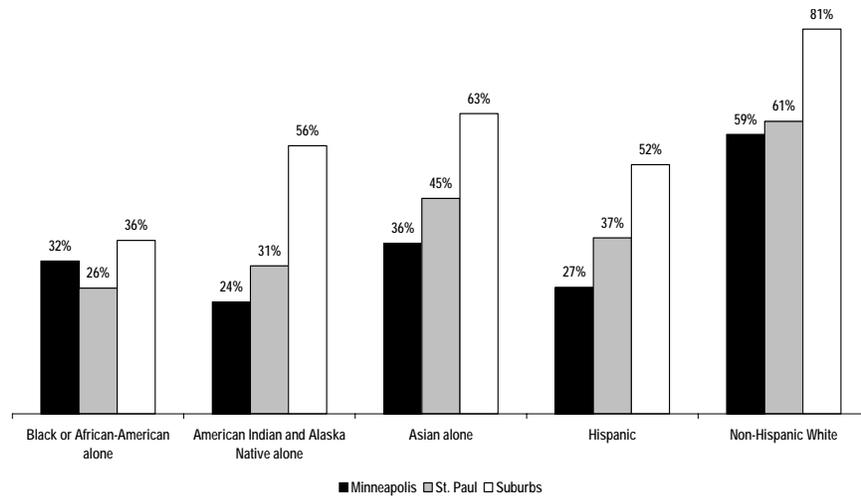


The analysis presented in this section demonstrates that while homeownership attainment increases for all racial and ethnic groups with age and increased income, persistent homeownership gaps are found at all age in income levels.

APPENDIX B: HOMEOWNERSHIP RATES IN MINNESOTA COMMUNITIES

Homeownership rates for households in emerging markets are consistently lower than for non-Hispanic whites in a variety of areas around the state. In Minneapolis, which has an overall homeownership rate of 51 percent in 2000, no racial and ethnic groups achieved a homeownership rate above 40 percent.⁵⁴ Thirty-six percent of Asians and 32 percent of African-Americans are homeowners in the city, while just 27 percent of Hispanics and only 24 percent of Native Americans are homeowners. Most racial and ethnic groups fare slightly better in St. Paul, which has an overall homeownership rate of 55 percent in 2000. Most notably, the Asian homeownership rate in St. Paul is 45 percent. However, just 26 percent of African-Americans in St. Paul are homeowners, six percentage points lower than African-American counterparts in Minneapolis. While homeownership rates rise significantly in suburban communities for most racial and ethnic groups, African-American homeownership continues to lag non-Hispanic white homeownership quite significantly, by 45 percentage points in suburban Twin Cities communities.

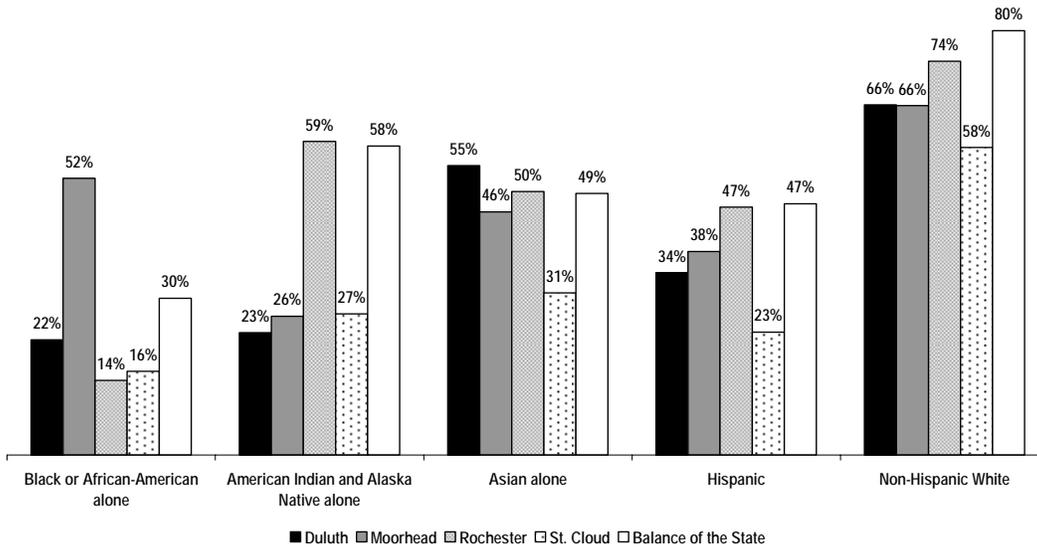
Racial and Ethnic Homeownership Rates in Select Twin Cities Areas (2000)



Emerging market populations also trail non-Hispanic white homeownership attainment in Greater Minnesota. Homeownership rates for African-Americans, Asians, Hispanics and Native Americans were analyzed for the following Greater Minnesota metropolitan statistical areas (MSAs): Duluth, Moorhead, Rochester and St. Cloud. In addition, homeownership rates were also calculated for the balance of the state, which includes every county excluding those counties that include a metropolitan statistical area. In analyzing homeownership rates in Greater Minnesota areas, it is important to note that some cities have relatively small populations of some racial and ethnic groups. For example, Moorhead has a small African-American population but a sizable Native American population. Rochester, on the other hand, has a small Native American population but large African-American and Asian populations.

⁵⁴ U.S. Bureau of the Census 2000, 5% PUMS for Minnesota and MHFA staff tabulations.

Racial and Ethnic Homeownership Rates in Select Greater Minnesota Areas



Homeownership rates for all racial and ethnic groups in Greater Minnesota areas studied lag non-Hispanic white homeownership rates. In the Duluth market, just 22 percent of African-Americans, 23 percent of Native Americans and 34 percent of Hispanics own their own homes, compared to 66 percent of non-Hispanic whites. While 55 percent of Asians are homeowners in this market, their homeownership attainment level still trails non-Hispanic whites by 11 percentage points. In the St. Cloud market, just 16 percent of African-Americans are homeowners, 23 percent of Hispanics, 27 percent of Native Americans and 31 percent of Asians, compared to 58 percent of non-Hispanic whites. In Rochester, the African-American homeownership rate is the lowest among the Greater Minnesota areas studied at 14 percent. However, homeownership attainment for Asians (50 percent), Hispanics (47 percent) and Native Americans (59 percent) is slightly better than the homeownership rates for these racial and ethnic groups in the other Greater Minnesota areas studied.

APPENDIX C: Homeownership Gap Rankings BY U.S. State, 2003

State	White Owners	Owners of Color	White Ownership Rate	Owners of Color Ownership	Gap	Gap Rank
Iowa	826,118	26,522	75%	33%	42%	1
South Dakota	203,191	3,839	71%	31%	40%	2
Connecticut	821,448	74,555	74%	35%	39%	3
New Hampshire	352,391	6,787	74%	37%	37%	4
North Dakota	165,859	5,041	69%	33%	36%	5
Kentucky	1,070,389	58,619	74%	37%	37%	6
Wisconsin	1,416,595	75,733	72%	39%	33%	7
Minnesota	1,461,640	80,488	79%	47%	32%	8
Nebraska	434,040	23,870	71%	39%	32%	9
New York	3,244,085	616,210	63%	31%	32%	10
Ohio	2,856,060	287,709	75%	44%	31%	11
Massachusetts	1,451,568	120,360	68%	39%	29%	12
Delaware	186,579	34,434	79%	50%	29%	13
Indiana	1,565,093	123,396	75%	46%	29%	14
Kansas	672,923	53,179	72%	43%	29%	15
Rhode Island	241,365	17,849	66%	38%	28%	16
New Jersey	1,734,574	346,629	73%	46%	27%	17
Michigan	2,530,008	363,132	79%	52%	27%	18
West Virginia	521,717	18,692	75%	48%	27%	19
Illinois	2,700,684	471,056	74%	48%	26%	20
Pennsylvania	3,135,119	311,446	75%	49%	26%	21
Alabama	1,003,114	272,191	80%	55%	25%	22
Missouri	1,452,121	155,836	74%	49%	25%	23
Louisiana	844,757	277,954	75%	50%	25%	24
Georgia	1,636,672	515,149	76%	52%	24%	25
Arkansas	635,615	94,199	72%	48%	24%	26
North Carolina	1,809,479	424,948	74%	51%	23%	27
Tennessee	1,373,990	216,755	74%	51%	23%	28
Vermont	168,506	3,922	72%	49%	23%	29
Colorado	1,147,449	104,929	73%	50%	23%	30
Florida	4,017,722	644,639	74%	52%	22%	31
Maryland	1,043,955	377,323	77%	55%	22%	32
Maine	371,140	6,721	71%	49%	22%	33
South Carolina	834,322	260,373	76%	55%	21%	34
Mississippi	528,466	210,995	77%	57%	20%	35
Virginia	1,554,686	374,346	74%	54%	20%	36
Idaho	358,157	16,101	76%	56%	20%	37
Arizona	1,204,653	194,226	72%	52%	20%	38
Montana	238,159	13,826	70%	51%	19%	39
Oregon	825,157	64,889	65%	47%	18%	40
Washington	1,359,239	173,255	67%	49%	18%	41
Alaska	115,768	27,473	66%	50%	16%	42
Utah	518,894	32,025	74%	59%	15%	43

Texas	3,937,916	979,948	68%	53%	15%	44
Wyoming	136,937	6,905	73%	60%	13%	45
Nevada	435,618	80,498	64%	52%	12%	46
Oklahoma	754,064	158,431	71%	58%	13%	47
California	5,180,034	1,702,974	61%	50%	11%	48
New Mexico	365,931	118,896	70%	67%	3%	49
Hawaii	68,034	169,355	49%	61%	-12%	50

Source: 2003 American Community Survey and MHFA staff tabulations.

APPENDIX D: TECHNICAL MEMORANDUM TO THE SUPPLY ANALYSIS

Housing Supply Analysis

One important component of understanding the homeownership gap is to analyze the supply of ownership units affordable and available to emerging market renter households—the potential pool of homeowners. The supply analysis that follows is predicated on a number of assumptions and, while additional analysis of the affordability of housing supply in various areas is warranted, this analysis provides a starting point for purposes of this business plan. Important assumptions used in this preliminary analysis include the following:

- An emerging market renter household was included in the study if their income was over \$30,000;⁵⁵
- Certificate of real estate value (CREV) data from 2002 and 2003 were used and appreciation factors were applied to the data;
- Median home price factors were calculated for eight locations throughout the state;
- Underwriting assumptions include a borrower with good credit and no debt;⁵⁶ a 100 percent loan-to-value mortgage with a six percent interest rate, and one of three different debt-to-income ratios (30 percent, 33 percent and 36 percent).

The supply of ownership units affordable to emerging market populations in eight areas around the state was studied.

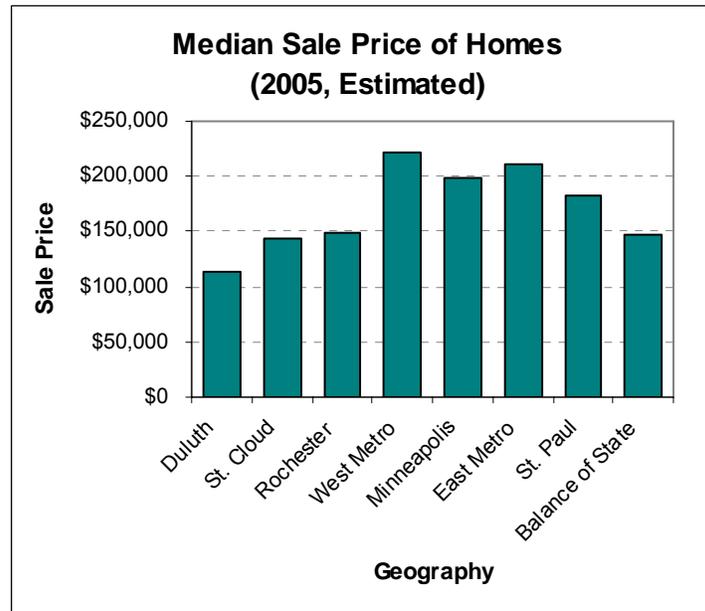
- | Greater Minnesota Geographies | Twin Cities Metropolitan Geographies |
|--|--|
| <ul style="list-style-type: none">▪ Duluth (St. Louis county)▪ Rochester (Olmsted county)▪ St. Cloud (Benton and Stearns counties)▪ Balance of the state (all counties excluding those with MSAs) | <ul style="list-style-type: none">▪ Western suburbs (Carver, suburban Hennepin and Scott counties)▪ Minneapolis▪ Eastern suburbs (Anoka, suburban Ramsey and Washington counties)▪ St. Paul |

There are four basic data components that inform the analysis including the following: renter household population, corresponding incomes, house prices by location, and an affordability analysis. Two of the more difficult data elements to evaluate were house prices and affordability estimates. In order to determine house prices, data from “certificates of real estate value” from the Minnesota Department of Revenue were used. These figures were updated to reflect appreciation gains to determine 2005 values, shown in Figure 1.

⁵⁵ This analysis recognizes that a number of emerging market households have incomes under \$30,000 and may desire the opportunity to own a home. For purposes of the preliminary analysis, emerging market renters earning above \$30,000 were included in the analysis.

⁵⁶ For purposes of the preliminary analysis of the affordability of housing supply, a “no debt” assumption was made. This assumption was chosen to facilitate the ease by which underwriting approximations could be made for purposes of this preliminary analysis. The reader is encouraged to recognize that the “no debt” assumption does not apply uniformly for all emerging market renter households earning above \$30,000.

Figure 1: Median Home Sales by Select Statewide Areas



As can be seen in Figure 1, there is a wide range in median home sale prices around the state. Prices range from a high of about \$222,000 in the Twin Cities west metropolitan suburbs to a low of \$114,000 in Duluth for the eight areas studied. Even within Twin Cities metropolitan and Greater Minnesota communities, significant price differentials exist. For example, average home prices vary within Twin Cities communities by as much as \$40,000 when prices in the west metropolitan suburbs (\$220,000) are compared with house prices in St. Paul (\$182,000). In Greater Minnesota areas, price differentials by location appear to be as vast. The range in house prices drives the differences in affordability in the various areas studied.

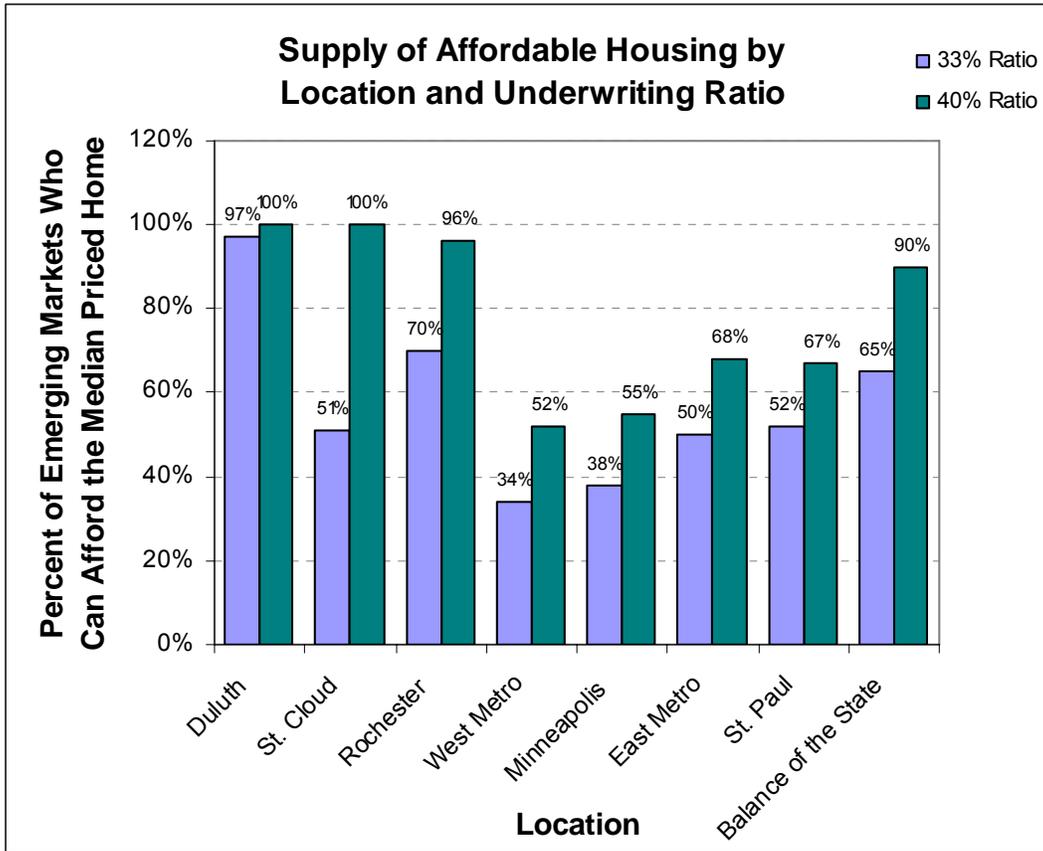
The affordability analysis requires the use of underwriting guidelines and assumptions. For purposes of this analysis, it is assumed that the borrower has good credit, no debt and is borrowing at a 100 percent loan-to-value ratio mortgage at a six percent mortgage interest rate.⁵⁷ The analysis incorporates the use of three front-end monthly payment-to-income housing ratios, which were determined in conjunction with local mortgage loan underwriters: 33 percent, 36 percent and 40 percent.⁵⁸ Underwriters felt that, given the assumptions outlined above, and depending on income and property condition, a housing ratio as high as 40 percent could be applied.⁵⁹ The percent of emerging market households who can afford the median-priced home in eight areas throughout the state is depicted in Figure 2.

⁵⁷ The market interest rate was six percent at the time of the analysis. March 16, 2005.

⁵⁸ Underwriters representing three financial institutions met to discuss appropriate underwriting ratios on March 1, 2005.

⁵⁹ It was noted in the meeting that desktop underwriting systems can allow much higher ratios; the underwriters noted cases where ratios as high as 60 percent have been used.

Figure 2: Percent of Emerging Markets Who Can Afford the Median Priced Home



Results of this analysis indicate that the available supply of ownership units affordable to emerging market households varies significantly by location around the state and by the underwriting ratio used. The percent of emerging market households that could afford the median priced home in the Twin Cities metropolitan area and surrounding suburbs are most impacted by the cost of ownership units. While a significant number of renters in the Twin Cities metropolitan area are constrained by the high cost of ownership units, over one-half of Twin Cities emerging market households could afford the median priced home in St. Paul or the Twin Cities eastern metropolitan suburbs, and one-third to 40 percent could afford a home in the Twin Cities western metropolitan suburbs or Minneapolis, by applying a 33 percent underwriting ratio. Increasing the housing ratio to 40 percent increases the percent of emerging market households that could afford a median priced home to nearly 70 percent in St. Paul and the Twin Cities eastern metropolitan suburbs, and over 50 percent in Minneapolis and the Twin Cities western metropolitan suburbs.

Liberalizing underwriting ratios appears to have the greatest impact in St. Cloud. There, just half of emerging market renter households could afford the median priced home when applying a 33 percent housing ratio. When a 40 percent ratio is applied, 100 percent of emerging market households could afford the median priced home. This is

likely attributable to the fact that there is less variance in home prices in the St. Cloud area.

Supply of Ownership Units by Affordability for Select Areas

Location	Number of Homes Selling at or Below Median	Number and Percent of Emerging Market Households Who Can Afford the Median Priced Home by Location and Underwriting Ratio					
		33% Ratio		36% Ratio		40% Ratio	
		Number	Percent	Number	Percent	Number	Percent
Duluth	2,218	405	97%	419	100%	419	100%
St. Cloud	1,988	181	51%	217	61%	358	100%
Rochester	2,206	505	70%	608	84%	690	96%
Balance of Gr. MN	23,672	3,175	65%	3,704	76%	4,404	90%
West Metro Suburbs	14,160	3,194	34%	4,020	43%	4,841	52%
Minneapolis	5,378	4,356	38%	5,339	47%	6,330	55%
East Metro Suburbs	16,506	3,085	50%	3,555	58%	4,163	68%
St. Paul	3,757	3,175	65%	3,704	76%	4,404	90%

Additional analysis on the intersection of the supply of affordable homeownership units and the affordability of emerging market renter households is warranted. The primary limitation of the supply analysis presented in this business plan is the level of geography studied. The analysis could be improved by further refining the unit of geography. Here, the smallest unit of geography is the city, but median sales prices of homes vary significantly among neighborhoods within cities. This analysis does not account for the type (single-family detached dwelling or attached condo/townhome unit), size (square footage or number of bedrooms/bathrooms), or condition of the property. Another limitation of the analysis presented here is that the distribution of the number of homes priced at or below the median is not highlighted in detail. Preliminary analysis indicates that, not only has the median sales price of homes increased rapidly in the past five years in the Twin Cities market, the number of homes for sale at or below the median has dropped significantly as well. In 2000, 50 percent of homes in the 11-county Twin Cities metropolitan area were below the median home sales price (\$148,725). By 2004, just 10 percent sold for less.⁶⁰

Notwithstanding the limitations and assumptions in this supply analysis, significant results are revealed. Namely, a sizable number of emerging market households living around the state appears to be able to afford homeownership. While the exact number of emerging market households who can afford these homeownership opportunities varies depending on underwriting assumptions and geographic location, among other factors, nearly 14,000 renter households in the Twin Cities metropolitan area and 4,000 renter households in Greater Minnesota could potentially afford the median priced home.⁶¹

⁶⁰ Minnesota Department of Revenue Certificates of Real Estate Value, 1998-2004 and MHFA staff tabulations.

⁶¹ Utilizing a 33% housing ratio. With a 40% housing ratio, nearly 20,000 renters in the Twin Cities and 6,000 renter households in Greater Minnesota could afford the median priced home.

Discussion of the Technical Analysis

The supply of affordable homes (any home selling at or below the estimated median price in 2005), as well as the number of households of color that could afford at least the median priced home, were estimated. In other words, some households could afford a home at the median price plus ten dollars, and some households could afford a home that cost five times the median price. Unfortunately, the smallest unit of geography for house prices is currently by city. This is a problem because in one part of a city, a median priced home might have three bedrooms and two bathrooms and in another part of the city, it might be a very small condominium. Moreover, just because a household has sufficient income to purchase a median priced home in no way is than an indication of demand.

The attached table summarizes the estimates. The table shows the estimated median value, the number of homes selling at or below the median, the number, and percentage of households of color that could afford at least the median priced home for each of the debt to income ratios. Minneapolis and St. Paul have the greatest mismatch between households and affordable homes. Following the table is a description of the methodology and its underlying assumptions.

Finally, these estimates represent households of color that would not require any “subsidy” to purchase the median priced home. In 2000, an estimated 18,000 to 25,000 renter households of color could have been homeowners (see Table 1). We need further research to understand why these households are not homeowners. We have previously estimated that if an additional 5,000 minority households became homeowners, their homeownership rates would rise significantly. Therefore, it will be important to understand why relatively high-income households of color have become homeowners.

Table 1-“Supply” and “Demand” Households of Color

Location	Estimated median selling price, 2005	Estimated number of homes selling at or below the median value	Estimated number of Households of Color-Afford at least the median priced home-33% ratio	Estimated percentage of households of color-afford at least the median price-33% ratio	Estimated number of Households of Color-Afford at least the median priced home-36% ratio	Estimated percentage of households of color-afford at least the median price-36% ratio	Estimated number of Households of Color-Afford at least the median priced home-40% ratio	Estimated percentage of households of color-afford at least the median price-40% ratio
Duluth (St. Louis)	\$113,673	2,218	405	97%	419	100%	419	100%
St. Cloud (Benton, Stearns)	\$144,270	1,988	181	51%	217	61%	358	100%
Rochester (Olmsted)	\$149,566	2,206	505	70%	608	84%	690	96%
West Metro (Carver, Suburban Hennepin, Scott)	\$221,725	14,160	3,194	34%	4,020	43%	4,841	52%
Minneapolis	\$197,775	5,378	4,356	38%	5,339	47%	6,330	55%
East Metro (Anoka, Suburban Ramsey, Washington)	\$211,213	16,506	3,085	50%	3,555	58%	4,163	68%
St. Paul	\$182,334	3,757	3,436	52%	3,769	57%	4,463	67%
Balance of State	\$146,300	23,672	3,175	65%	3,704	76%	4,404	90%
Total			18,337		21,631		25,668	

Methodology

These estimates involve a large number of assumptions. The assumptions can be divided into these categories: incomes, house prices, the supply of affordable homes, and estimates of households who could afford at least the median priced home. The data are from the 2000 Public Use Micro data Sample (PUMS) and the 1998 to 2003 Certificates of Real Estate Values (CREV) as collected by the Minnesota Department of Revenue.

1. Incomes:
 - a. Gross household incomes were expressed in 2004 dollars (as of December 31, 2004)
 - b. Using the percent increase in the CPI all urban wage earners (2000 to 2004)
 - c. A household was included in the study if their income was greater than \$30,000
 - i. This represents approximately the 30^h percentile of the income distribution of MRB borrowers over the past five years
 - d. They were a renter household
 - e. They were a household of color
 - f. The study **did not have a maximum income**
 - g. Mortgage Interest Rate:
 - h. 6.0%
 - i. Wells Fargo Home Mortgage March 16, 2005
2. House prices:
 - a. Existing house prices (CREV data) in 2002 and 2003 were adjusted by using the Office of Federal Housing Enterprise Oversight (OFHEO) House Price Index (HPI)-which measures house price appreciation
 - i. Price appreciation is calculated each time a homes is financed by a mortgage which is subsequently sold to either Fannie Mae or Freddie Mac
 - ii. With their mortgage limits these homes are a good proxy for price of homes that first time homebuyers might purchase
 - b. Annual appreciation rates are available for each MSA in Minnesota
 - c. For the non-MSA counties I used the state appreciation rate
 - d. This produces estimated selling prices for 2005 (as of January 1 2005)
3. Affordable Home:
 - a. Affordable home any home selling at or below the estimated median price
 - b. The median home value was calculated for these areas:
 - i. Duluth (St. Louis County)

- ii. St. Cloud (Benton and Stearns Counties)
 - iii. Rochester (Olmsted County)
 - iv. West Metro-Carver County, Suburban Hennepin County, and Scott County
 - v. The city of Minneapolis
 - vi. East Metro-Anoka County, Dakota County, Suburban Ramsey County, and Washington County)
 - vii. The city of St. Paul
 - viii. The Balance of the State
 - c. The number of homes selling at or below the median becomes the supply of affordable homes
- 4. Estimates of households that could afford at least the estimated median priced home
 - a. For each household the maximum affordable mortgage was calculated using three debt to income ratios, 33%, 36%, and 40%
 - b. A household was counted if this mortgage was equal to or greater than the median priced home

APPENDIX E: HOMEOWNERSHIP BARRIER IDENTIFICATION— Literature Review Results and Quantitative Analysis

Literature Review

A number of researchers have explored factors that contribute most notably to the homeownership barriers that racial and ethnic groups face. While researchers do not completely agree on what portion of the homeownership gap can be quantified, there is general consensus that the following factors are important determinants of homeownership: income, wealth,⁶² demographic factors, and immigrant status. Each of these homeownership determinants, not necessarily in degree of influence, is discussed below. Some may note the omission of credit quality in the discussion that immediately follows. We turn our attention to credit as an increasingly important factor in accessing homeownership later in this analysis.

Income

In an attempt to understand which factors contribute most significantly to the homeownership gap, researchers Susan Wachter and Isaac Megbolugbe classified impact factors into two broad categories: household and market endowments. The household factors include income, age, education, family type and gender while the market factors include price and location. They found that these factors, combined, explain 81 percent of the racial and ethnic gap in homeownership for blacks and 78 percent of the gap for Hispanics, with the unexplained residual attributable to racial and ethnic discrimination, among other factors.⁶³ Of the household factors, Wachter and Megbolugbe found that income had the most pronounced effect in explaining the minority homeownership gap, although marital status and the gender of the household head were also important determinants.⁶⁴

It is difficult for households with limited liquidity to access ownership opportunities in two respects. First, households may have wealth constraints that can limit their ability to supply downpayment funds. Second, they may have income constraints that limit the amount of their allowable mortgage. In this context it is important note that Wachter and Megbolugbe did not isolate wealth effects from income.⁶⁵ In fact, the researchers used permanent income in their study and, by doing so, may have overstated the effects of income because this variable included wealth and wage income.⁶⁶ Using a different data set than the American Housing Survey used by Wachter and Megbolugbe, later research does attempt to quantify wealth effects as distinct from income.

⁶² Wealth is used in many studies to estimate the effects of the downpayment constraint. See Wachter, Susan M. and Isaac F. Megbolugbe. *Impacts of Housing and Mortgage Market Discrimination*. Housing Policy Debate. V 3, I 2. Fannie Mae Foundation. 1992. P. 341.

⁶³ Ibid, p. 360.

⁶⁴ Ibid, p. 360.

⁶⁵ The authors note the omission of wealth data from the American Housing Survey they use in their study but also highlight benefits of using the AHS which include access to detailed information on house characteristics, the ability to use AHS data to analyze trends over time, and other factors. Pp. 335-336.

⁶⁶ See Wachter and Megbolugbe, p. 341. For the purposes of this literature review, and in order to compare this study with results from other research, it is important to note that income may be overstated.

Wealth

In previous research, the impact of income was documented, but not that of wealth. In 1997 researchers Linneman, Mogbolugbe, Wachter and Cho, building off earlier research, examine borrowing constraints faced by potential homebuyers to understand the role of wealth in homeownership decisions. They utilize a rich data set called the Survey of Consumer Finance, which provides detailed data on wealth.⁶⁷ They find that the impact of modifying the wealth constraint is greater than income, and conclude that wealth constraints influence household decisions to rent or own to a greater degree than income.⁶⁸ This finding contributed to additional research that attempts to understand the barriers to homeownership among pools of renters from an affordability standpoint. This research is explored further in the next section, “Affordability and Homeownership.” Before turning to that analysis, however, it is important to highlight the role demographic characteristics play in homeownership decisions.

Demographics

While the effects of income and wealth as important determinants of homeownership decisions are well documented, so is the importance of certain demographic characteristics. In a 2001 study, Stuart Rosenthal notes the impact of marital status and age on homeownership rates. He finds that, overall, married couples are 20.7 percent more likely to own a home.⁶⁹ He then analyzes the influential effects of marriage on homeownership by artificially inflating the marriage rate of blacks to the white rate. Rosenthal calculates that the black homeownership rate increases 5.55 percentage points when it is artificially equalized to the white rate.⁷⁰

Age also affects the likelihood of owning a home. Examining homeownership gaps for Hispanic and Asian households, Masnick finds that the variation in homeownership rates can be explained, in part, by younger age cohorts and higher fertility rates among these households.⁷¹ As compared to whites, Masnick finds that minorities enter homeownership at an older age (35-44 age group as compared to the 25-34 age group for whites).⁷² Furthermore, minorities continue to access homeownership opportunities at older ages as compared to whites. By the time whites reach the 45-55 age group, their net contributions to ownership are almost eliminated, whereas minority homeownership continues to increase.⁷³

⁶⁷ Linneman, Peter, Issac F. Megbolugbe, Susan M. Wachter, and Man Cho. *Do Borrowing Constraints Change U.S. Homeownership Rates?* Journal of Housing Economics. V. 6. 1997. P. 323.

⁶⁸ Ibid, p. 332.

⁶⁹ Rosenthal, Stuart S. *Eliminating Credit Barriers to Increase Homeownership: How Far Can We Go?* Joint Center for Housing Studies. Harvard University. August 2001. P. 18.

⁷⁰ Ibid. Pp. 21-22.

⁷¹ Masnick, George S., Nancy McArdle and Eric S. Belsky. *A Critical Look at Homeownership Rates in the United States Since 1994.* Joint Center for Housing Studies. Harvard University. W99-2. 1999. P. 13.

⁷² Masnick, George S. *Understanding the Minority Contribution to U.S. Owner Household Growth.* Joint Center for Housing Studies. Harvard University. November, 1998. P. 7.

⁷³ Ibid, p. 7.

Immigrant Status

Immigration also affects one's ability to own. Researchers at the Federal Reserve Bank of Chicago find that the "the longer an immigrant has lived in the U.S., the more language proficiency and familiarity with the financial system are acquired, the less the influence of the immigrant status on homeownership."⁷⁴ While immigration status creates an additional barrier to homeownership, researchers find that this effect diminishes over time.⁷⁵ One reason for the diminishing importance in immigrant status over time may be because immigrants' desire to own is strong. For example, Schoenholtz found that immigrants are three times as likely as all adults to rank buying a home as a priority.⁷⁶

Two important factors in determining immigrant homeownership status are important to note. First, the year of immigration is vital in understanding homeownership assimilation. Borjas finds that "there is a persistent decline in homeownership rates across successive immigrant cohorts, both in absolute terms and relative to the trends in homeownership observed in the native population."⁷⁷ Second, the immigrant country of origin is an important influence on homeownership rates. Borjas notes "...huge differences in skills and economic performance across national origin groups in the United States, with groups that originate in the industrialized countries performing better in the U.S. labor market than groups originating in less developed countries."⁷⁸ In analyzing homeownership rates by country of origin Borjas finds that

"Differences are not attributable to some groups having spent a longer time in the United States....For instance, even after 10 years in the United States, the homeownership rate of households originating in Canada (70.6 percent) is more than 50 percentage points larger than the homeownership rate of households originating in the Dominican Republic."⁷⁹

To better understand the effects of when immigrants came to the U.S., Borjas analyzes homeownership rates for immigrants over time. He examines the rate of three age groupings (25-34, 35-44, and 45-54), by four-year immigration time periods, beginning in 1970. He finds that younger immigrants who came to the U.S. in the 1970s became homeowners more quickly than recent immigrants in the same age brackets. For example, immigrants who arrived between 1975-1979 in the 25-35 age group experienced a 17 percent homeownership rate at the time of the 1980 census.⁸⁰ Their rate of

⁷⁴ Toussaint-Comeau, Maude and Sherrie L. Rhine. *Ethnic Immigrant Enclaves and Homeownership: A Case Study of an Urban Hispanic Community*. Federal Reserve Bank of Chicago. December 2000. P. 6.

⁷⁵ See Duda, Mark and Eric S. Belsky. *The Anatomy of the Low-Income Homeownership Boom in the 1990s*. Joint Center for Housing Studies. Harvard University. July, 2001. P. 8.

⁷⁶ Schoenholtz, Andrew I. *Reaching the Immigrant Market: Creating Homeownership Opportunities for New Americans*. April, 2004. PowerPoint presentation given at the Federal Reserve Bank of Chicago's Financial Access for Immigrants: Exploring Best Practices conference. July 21, 2004.

⁷⁷ Borjas, George J. *Homeownership in the Immigrant Population*. Research Institute for Housing American. Working Paper No. 02-01. March, 2002. P. 4.

⁷⁸ Ibid, p. 6.

⁷⁹ Ibid, p. 7.

⁸⁰ Ibid, p. 5.

homeownership had increased an additional 36 percentage points to a 53 percent rate in 1990.⁸¹ By 2000, this cohort experienced a remarkable 68 percent homeownership rate.⁸²

In contrast, more recent immigrants have not attained homeownership as quickly. For those in the 25-35 age group who arrived ten years later, between 1985-1989, just 12 percent were homeowners by the 1990 census (5 percentage points less than the immigrant cohort ten years prior).⁸³ Their homeownership rate increased 30 percent by the 2000 census (6 percentage points less than the comparable immigrant cohort group increase from one decennial census to the next).⁸⁴ The homeownership rate of this newer immigrant cohort group was 43 percent in 2000, a full ten percentage points lower than the homeownership rate attained by the comparable cohort group ten years prior in the 1980-1990 time period.⁸⁵

While some researchers have found that the immigrant effect on homeownership diminishes with time, that may not occur uniformly across all immigrant groups nor is there evidence that it will continue to do so indefinitely. In fact, Borjas' research indicates that the assimilation of immigrants into the homeownership market may be slowing.

Affordability and Homeownership

A slightly different way of understanding the racial and ethnic homeownership gap is to ask, among renters, who can afford homeownership and why? In a study that addressed why significant numbers of minority renters are underserved in the mortgage market, Listokin et al identify the primary factors that contribute to one's ability to afford homeownership. They evaluate renters' access to five types of mortgage products,⁸⁶ ranging from the historical or conventional mortgage to more liberal government insured mortgages. They also analyze home-buying capacity by renter subgroups according to racial and ethnic background⁸⁷ and find that liberalizing underwriting standards by

⁸¹ Ibid, p. 5.

⁸² Ibid, p. 5.

⁸³ Ibid, p. 5.

⁸⁴ Ibid, p. 5.

⁸⁵ Ibid, p. 5.

⁸⁶ Listokin, David, Elvin K Wyly, Brian Schmitt, and Ioan Voicu. The Potential and Limitations of Mortgage Innovation in Fostering Homeownership in the United States. Housing Policy Debate. V. 12, I 3. Fannie Mae Foundation. 2001. Pp. 478-480. The researchers evaluate affordability based on underwriting criteria of five mortgage types: a Historical Mortgage, GSE Standard Mortgage, GSE Affordable Mortgages, Portfolio Affordable Mortgages and the Government Affordable Mortgages. The Historical Mortgage uses a minimum of 10% down for a maximum 90% LTV, a FER ratio in the 25-28% range and a BER in the 33-36% range. The GSE Standard Mortgage allows a maximum 95% LTV, 28% FER and 36% BER. The GSE Affordable Mortgages allow a 97% LTV, 33% FER, 36% BER in addition to gifts that can be used to offset closing costs and sometimes the downpayment; PMI is required. Portfolio Mortgages, such a Bank of America's Neighborhood Advantage Zero Down, require no downpayment; some portfolio products have rescinded PMI and the researchers use these characteristics in their analysis. Government insured mortgages are the last category and include programs like FHA which offer high LTV ratios and are more lenient on credit underwriting. Pp. 478-480.

⁸⁷ Ibid, p. 487. Whites, blacks, Hispanics, recent immigrants, and others.

increasing loan-to-value ratios and decreasing downpayment requirements contributes significantly in absolute⁸⁸ terms to minorities' capacity to purchase a home.

“...Mortgage innovation increases the total purchasing power of whites by about 77 percent; blacks, starting from a smaller base, realize a 227 percent gain. Hispanic families, like blacks, experience a quantum increase in total purchasing power (a 140 percent gain) from mortgage innovation while the pattern for recent immigrant families resembles that of whites.”⁸⁹

However, when renters' ability to afford various priced homes is evaluated, the results suggest the need to look beyond mortgage underwriting for creative policy responses.⁹⁰ Examining homebuyer capacity by racial and ethnic subgroups in this context shows that even when the most aggressive mortgage products are utilized, just 10.7 percent of black renters enter into homeownership.⁹¹ When researchers compare Hispanics to blacks, they find Hispanics' ability to enter the mortgage market is similar or slightly lower than that of blacks. The outlook is more optimistic for recent immigrants who “fare much better and come closest to the homeownership capability of white renter families.”⁹²

What accounts for the differential picture of the ability of minority renters to own a home? Listokin et al find that it is a dual combination of income and asset barriers that contribute most significantly to ownership obstacles. They note that the lack of renter assets contributes to the inability of renters to meet downpayment threshold requirements of ownership. However, limited renter incomes also contribute to the difficulty in renters' ability to meet monthly mortgage payments. Since there are dual constraints that create affordability obstacles, they turn next to ask: Is one constraint more manifest than another?

In an affordability analysis performed by Listokin et al, they find that asset constraints are more pronounced than income.

“We find that 28.2 percent of renters who cannot afford the modestly priced home are constrained only by down payment costs and that an additional 67.5 percent are dually constrained by the downpayment and income. Only 4.4 percent of all renters are limited solely by income.”⁹³

This finding builds on the earlier work of Wachter and Megbolugbe that noted income as a significant factor in explaining the homeownership gap, but did not isolate the income effect from the wealth effect. Using a different data source than the previous studies by Wachter and Megbolugbe or Linneman et al, Listokin et al found that wealth effects

⁸⁸ According to the authors, absolute homebuying is the dollar purchasing power of renters. See page. 484.

⁸⁹ Ibid, p. 487. These gains are attributable to the historical mortgage, the GSE Standard Mortgage and the portfolio affordable mortgage. Table 4 shows the results.

⁹⁰ This is not to assert that continued underwriting innovation is unwarranted. Policy goals targeted to close the homeownership gap will need to address underwriting as one of many factors that influence homeownership rates.

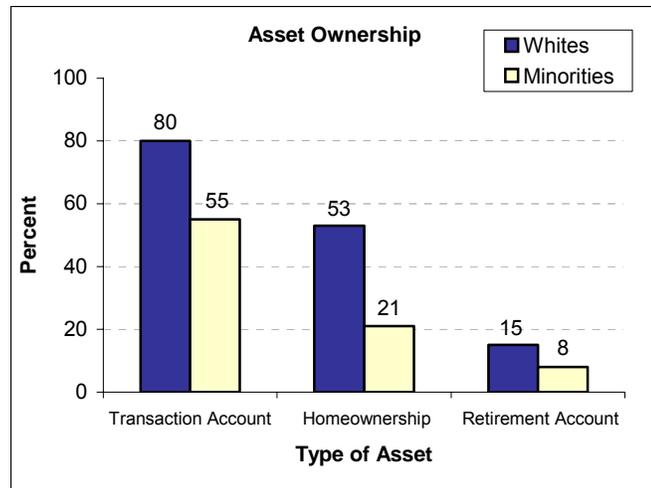
⁹¹ The researchers utilize a various target price levels of homes in their analysis. P. 491.

⁹² Ibid, p. 492.

⁹³ Ibid p. 493.

contribute more heavily to homeownership decisions than does income.⁹⁴ The implications of this finding are next viewed in the context of evaluating three types of asset ownership by minorities and non-minorities.

In a 2004 study, researchers Belsky and Calder examined asset levels by household income and found that that low-income populations, and minority populations in particular, have lower levels of asset ownership as compared to whites at the same income level. For example, when asset ownership among low-income minorities is compared to low-income whites for three broad categories, owning a transaction account, a home, or a retirement account, minorities have consistently lower levels of asset ownership. Notably, as compared to whites, 32 percent fewer minorities own homes, 25 percent fewer have a transaction account, and 7 percent fewer own a retirement account.⁹⁵



Source: Belsky, Eric and Allegra Calder. *Credit Matters: Low-Income Asset Building Challenges in a Dual Financial Service System*. Joint Center for Housing Studies. Harvard University. February, 2004.

The findings of Belsky and Calder on levels of asset ownership, combined with earlier research by Listokin et al, indicate that low-income minorities are disadvantageously positioned for homeownership opportunities given the importance of wealth and asset ownership as a determinant of homeownership.

Quantitative Analysis

Researchers note that among the most important contributing factors to homeownership are demographics and, in particular age, marital status, and immigrant status; dual income and asset constraints; and credit constraints.⁹⁶ Through various techniques, researchers have been able to quantify these factors to varying degrees in relation to their impact on the decision to rent or own. While studies are inconclusive in reaching consensus on how much of the homeownership gap can be quantified, there is general agreement in the literature that the above-mentioned factors are the most critical determinants of ownership.⁹⁷

⁹⁴ Listokin et al use the U.S. Bureau of the Census' database, Survey of Income and Program Participation (SIPP). See p. 467. Linneman et al also found the wealth effect to be significant using the Survey of Consumer Finance dataset.

⁹⁵ Belsky, Eric and Allegra Calder. *Credit Matters: Low-Income Asset Building Challenges in a Dual Financial Service System*. Joint Center for Housing Studies. Harvard University. February, 2004. P. 10.

⁹⁶ A discussion on the role of credit constraints to follow.

⁹⁷ See Gabriel, Stuart A. and Stuart S. Rosenthal. *Homeownership, Race, and the American Dream*. Lusk Center for Real Estate. University of Southern California. January 22, 2004. The researchers attribute the increase in homeownership in the 1990s to demographic and economic trends, rather than policy or

It is important to note that while researchers may not have reached consensus on the exact percentage of the homeownership gap that can be quantified there is agreement that the unexplained residual is attributable to a number of factors including discrimination; cultural behaviors, attitudes, and preferences; costs associated with land use zoning;⁹⁸ and other factors.⁹⁹

While these studies have refined the overall understanding of the racial and ethnic homeownership gap, they have been performed nationally in scope. Using a statistical regression model, the Minnesota Housing Finance Agency analyzed the household characteristics that most influence homeownership in Minnesota. Ten demographic and household characteristics were incorporated in the model.¹⁰⁰ Results indicate that these household characteristics account for 32 percent of the determinants of whether one owns or rents, with four attributes contributing to 31 percent of the determinants. The four household characteristics that contribute most significantly are income, age, marital status, and race or ethnicity.

Table 9: Homeownership Determinants

Indicators ¹⁰¹	Characteristic(s)	Cumulative
Quantifiable Determinants		
Income	17.4%	17.4%
Age	7.6%	25.0%
Married with Spouse Present	4.8%	29.8%
Race or Ethnicity	1.3%	31.1%
Unquantifiable Determinants	68.9%	100.0%

In Minnesota, of the variables that can be quantified as contributing to the variation in homeownership rates, income ranks the highest in explanatory value at 17.4 percent. Age

mortgage underwriting advances. The find that these factors explain nearly 90 percent of the increase in homeownership in the 1990s for the black as well as the Hispanic population. Of the 10% residual, they conclude that credit comprises 6 percent.

⁹⁸ For a discussion of the effect of land use see Linneman and Guyourko 1996 as cited in Linneman, Peter, Issac F. Megbolugbe, Susan M. Wachter, and Man Cho. *Do Borrowing Constraints Change U.S. Homeownership Rates?* Journal of Housing Economics. V. 6. 1997. P. 325.

⁹⁹ See: Eggers, Frederick J. and Paul E. Burke. *Can the National Homeownership Rate Be Significantly Improved By Reaching Underserved Markets?* Housing Policy Debate. V. 7, I. 1. Fannie Mae Foundation. 1996. P. 96; Rosenthal, Stuart S. *Eliminating Credit Barriers to Increase Homeownership: How Far Can We Go?* Joint Center for Housing Studies. Harvard University. August 2001. P. 23; Wachter, Susan M. and Isaac F. Megbolugbe. *Impacts of Housing and Mortgage Market Discrimination.* Housing Policy Debate. V 3, I 2. Fannie Mae Foundation. 1992. P. 360.

¹⁰⁰ The variables included: income, age, married with spouse present, race or ethnicity, geographic location of the household (center city, suburb or balance of the state), immigrant status, number of years lived in the U.S., female-headed family, number of adults in the household, and farm status (farm or rural non-farm). MHFA did not analyze wealth or credit quality effects.

¹⁰¹ MHFA staff tabulations of 2000 Census, 5% PUMS data for Minnesota, and Minnesota Department of Revenue Certificates of Real Estate Values, 1998-2003 were used in the analysis. Fannie Mae's standard mortgage assumptions were used.

ranks second at 7.6 percent, followed by marital status (4.8 percent) and race or ethnicity (1.3 percent). However, a significant portion of the variation in homeownership rates, 69 percent, remains unexplained by household characteristics.

Explaining the Unquantifiable

In the Minnesota specific model, 69 percent of the factors that determine homeownership could not be quantified by household characteristics. This finding is important and aligns with other quantitative research that notes the importance of factors such as credit history, cultural preferences, and discrimination as principal contributors to the variation in homeownership rates. Each of these factors is discussed below.

The Role of Credit

Recent research on barriers to homeownership has centered on the role of credit, the effect of which is difficult to quantify in analytical research models. There is growing evidence that credit is gaining in importance.¹⁰² Bostic et al argue that credit quality has increased in importance as a determinant of access to homeownership opportunities and that "...wealth constraints, while continuing to be the predominant barrier to homeownership, have become less so."¹⁰³ Researchers and industry experts generally agree that innovations in mortgage underwriting, namely automated underwriting and very low or no down payment mortgage products, have contributed to income as less of a factor in explaining ownership decisions.¹⁰⁴

Automated underwriting is a relatively recent phenomenon and was first launched by the GSEs beginning in 1995 with Freddie Mac's introduction of Loan Prospector. In examining results from Loan Prospector over the 1995-1999 time period, African-Americans experienced a significant increase in approvals at 48.2 percent in 1995 compared with 73.3 percent in 1999.¹⁰⁵ The approval rate for Hispanics increased from 60.3 percent to 79.3 percent over the same time period.¹⁰⁶

While the increase in approval rates resulting from advances in automated systems are advantageous for some minorities, this is not so for all, particularly those that lack credit histories. In an analysis of CRA loans, Stegman, Quercia and Lobenhofer found that 22 percent of Hispanics, four percent of whites, and three percent of blacks had no credit score. "Even though the lower incidence of credit scores among Hispanics reflects the large share of immigrants who do not have credit scores, it still means that a fraction of

¹⁰² However, not all researchers agree. In attempting to quantify the reason for increases in homeownership in the 1990s, Gabriel and Rosenthal find the effects of credit to be slight. They find that the effect of credit barriers accounted for approximately 6 percentage points in the white-minority homeownership rates for blacks and Hispanics. Gabriel, Stuart A. and Stuart S. Rosenthal. *Homeownership, Race, and the American Dream*. Lusk Center for Real Estate. University of Southern California. January, 22, 2004. P. 10.

¹⁰³ Bostic, Raphael W., Paul S. Calem, and Susan M. Wachter. *Hitting the Wall: Credit as an Impediment to Homeownership*. Joint Center for Housing Studies. Harvard University. February, 2004. P. 3.

¹⁰⁴ Phone interview with Paul Weech, Fannie Mae. August 6, 2004.

¹⁰⁵ Wharton Gates, Susan, Vanessa Gail Perry, and Peter M. Zorn. *Automated Underwriting and Lending Outcomes: The Effect of Improved Mortgage Risk Assessment on Underserved Populations*. Institute of Business and Economic Research. University of California, Berkley. 2001. P. 16.

¹⁰⁶ Ibid, p. 16.

the minority population cannot even be processed through systems that require a credit score.”¹⁰⁷ Further compounding concerns about how well those who lack credit are served in an automated underwriting environment is evidence of a deterioration in credit scores, particularly among minorities.

Bostick et al illustrate growing concern about the credit quality of low- and moderate-income populations in a recent article. Using the credit score of 660 as a threshold measure of those who are “credit constrained,” they use data from the Survey of Consumer Finance to analyze the credit quality of renters from 1989 to 2001.¹⁰⁸ They find a significant deterioration in the credit quality of minority renters over time, particularly younger minority renters. And “unlike other cases, minority deterioration occurs through virtually every age distribution; only minority senior citizen renters have increases in average credit quality.”¹⁰⁹ In 2001 they find that 55 to 65 percent of minority renters are credit constrained. Furthermore, income does not seem to influence credit quality among minority populations; higher income blacks and Hispanics also exhibit poor credit quality, “...suggesting that cultural and perhaps other factors play a role in how minorities interact with credit markets.”¹¹⁰

Cultural Factors and Preferences

There are a variety of cultural factors and housing choice preferences that impact homeownership rates. It is important to recognize that some emerging market households are not constrained by income, wealth, credit quality, or other factors that negatively influence homeownership rates of these populations. Some households prefer renting as opposed to owning. However, for other emerging market households, certain cultural factors may adversely affect their ability to own a home.

Information variances are an important component in understanding racial and ethnic homeownership gaps. Certainly non-English language speakers face significant hurdles in bridging the information divide, but information gaps exist for native English language speakers too. Many emerging market homebuyer candidates are first generation homebuyers who lack access to a network of quality housing market agents.¹¹¹ The lack of quality information at all stages of the homebuying process places many minorities in vulnerable positions relative to some housing market agents.

Many underserved ethnic and racial groups are unfamiliar with the mortgage loan application process¹¹² and some lack familiarity with financial institutions generally, although the number of low-income people with transaction accounts has increased over

¹⁰⁷ Belsky, Eric and Allegra Calder. *Credit Matters: Low-Income Asset Building Challenges in a Dual Financial Service System*. Joint Center for Housing Studies. Harvard University. February, 2004. P. 33.

¹⁰⁸ Bostnick, Raphael W., Paul S. Calem, and Susan M. Wachter. *Hitting the Wall: Credit as an Impediment to Homeownership*. Joint Center for Housing Studies. Harvard University. February, 2004. P. 3. SCF data is used from the 1989, 1995, 1998, and 2001 surveys. See p. 5.

¹⁰⁹ Ibid, p. 10.

¹¹⁰ Ibid, p. 9.

¹¹¹ *Insights into the Minority Homebuying Experience: The Mortgage Application Process*. Research Institute for Housing America. Pp. 6-7

¹¹² Ibid, p. 4.

the past decade.¹¹³ Others are unfamiliar with concepts of credit.¹¹⁴ Many new immigrants are not acculturated to using financial systems given that their countries of origin are based on cash economies. Some immigrants face serious documentation barriers that inhibit homeownership; these documentation barriers include difficulty demonstrating stable employment, verifying the source of downpayment funds,¹¹⁵ and in some cases, certifying legal status.

Discrimination

The Department of Housing and Urban Development, in conjunction with the Urban Institute, recently released results from a comprehensive housing discrimination study (2000). The study had three phases and resulted in 4,600 paired tests in 23 metropolitan statistical areas, including Minneapolis. The study notes that while blacks and Hispanics face less discrimination in the homebuying search than in previous years, discrimination remains a national problem.¹¹⁶

The study finds that white homebuyers are consistently favored over blacks in 17 percent of tests and that blacks are disadvantaged in the homebuying process in respect to four general areas: their ability to inspect homes, geographic steering, information and assistance with financing, and encouragement in the homebuying process.¹¹⁷ Notably, the study found that for blacks, the overall incidence of discrimination decreased but the prevalence of geographic steering increased. This suggests that “whites and blacks are increasingly likely to be shown homes in different neighborhoods”.¹¹⁸ Non-Hispanic whites were favored in 19.7 percent of tests and Hispanics received less assistance and information related to financing, as well as geographic steering away from non-Hispanic neighborhoods.¹¹⁹

While advances in automated underwriting may eliminate some of the subjectivity and potential bias in the actual credit decision, discrimination may affect minorities throughout the homeownership search process.

¹¹³ For a discussion of the percentage of low-income households with access to transaction accounts, see Belsky, Eric and Allegra Calder. *Credit Matters: Low-Income Asset Building Challenges in a Dual Financial Service System*. Joint Center for Housing Studies. Harvard University. February, 2004. pp. 11-12.

¹¹⁴ The National Center for La Raza notes that the credit industry is uniquely American, and as such the elements that go into a FICO score may not sufficiently determine the predictability of repayment for those from other cultural backgrounds. See Hizek, Erika, Charles Kamasaki, and Geraldine Schafer. *Increasing Hispanic Homeownership: Strategies for Programs and Public Policy*. National Council of La Raza. Issue Brief No. 7. June, 2002. p. 4.

¹¹⁵ Oppelt, Janis. *Breaking Through Language and Mortgage Barriers*. In *The New Americana: Impacts of the Increasing Latino Presence in Housing and Community Development*. Neighborworks, Neighborhood Reinvestment. August, 2003. P. 16.

¹¹⁶ The time period for the study is between 1989 and 2000.

¹¹⁷ Department of Housing and Urban Development. *Discrimination in Metropolitan Housing Markets: National Results from Phase 1, Phase 2, and Phase 3 of the Housing Discrimination Study*. 2000. P. iv. For a discussion on testing methodology, see p. ii.

¹¹⁸ *Ibid*, p. iv.

¹¹⁹ *Ibid*, p. iv.

A variety of studies highlights the types of discriminatory behavior that can be exhibited toward minorities. One audit study¹²⁰ of lenders' pre-application behavior found the evidence of the following examples of discriminatory behavior: pre-appointment requirements, the use of more strict qualification standards and ratios, exceptions that are made for whites and not minorities, higher escrow and reserve requirements for minorities, and additional guidance or constructive advice for whites that is not offered to minorities.¹²¹ There is also evidence of discriminatory behavior applied by other types of housing market agents including landlords, real estate brokers, and insurance agents, among others.

Conclusion

Researchers note that among the most important contributing factors to homeownership are demographics, and in particular age, marital status, and immigrant status; dual income and asset constraints, and credit constraints. While it is difficult to calculate with absolute precision the extent to which each of these factors contribute to the variation in homeownership rates between whites and non-whites, researchers generally find asset constraints to be the most influential. Among important factors that are more difficult to quantify are credit constraints; cultural behaviors, attitudes and preferences; discrimination; and land use factors. Qualitative research conducted as part of EMHI, discussed in the next section of the business plan, provides additional insight into these barriers.

Postscript

The Department of Housing and Urban Development recently recently commissioned Abt Associates Inc. to conduct a comprehensive study on racial and ethnic homeownership gaps. *Homeownership Gaps Among Low-Income and Minority Borrowers and Neighborhoods* was released in March, 2005 and contains extensive analysis racial and ethnic homeownership barriers. This report will be analyzed more thoroughly as implementation begins.

¹²⁰ Yinger, John. *Housing Discrimination is Still Worth Worrying About*. Housing Policy Debate. V. 9, I. 4. Fannie Mae Foundation. 1998. P. 901. Audit studies analyze discriminatory behavior in the marketing phase of a transaction.

¹²¹ Ibid, pp. 901-902.

APPENDIX F: HOMEOWNERSHIP BARRIER IDENTIFICATION—Qualitative Analysis Results

Three research methods were utilized to determine the primary homeownership barriers emerging market households in Minnesota face. An extensive literature review, followed by quantitative analysis, was conducted. This information was augmented by extensive qualitative analysis conducted in three formal phases of the business planning process:

1. Qualitative interviews with Advisory Group and Committee members;
2. Statewide public listening sessions to solicit advice from community and housing industry leaders; and
3. Targeted focus groups with select aspects of the real estate industry and diverse communities.

Although more informal in nature, yet nonetheless critical to the development of this plan, were ongoing discussions and idea-sharing with the broader public and community through interaction at numerous community-wide events¹²² and through the use of electronic media such as the EMHI website and e-mail account.

The compilation and analysis of the literature review and quantitative and qualitative research led to the identification of six core homeownership barrier focus areas of the business plan (listed below).

Table 1: EMHI Business Plan Homeownership Barrier Focus Areas

- | |
|---|
| <ol style="list-style-type: none">1. Wealth and downpayment2. Credit and lending practices3. Cultural factors, preferences and immigration4. Discrimination5. Information, marketing and outreach6. Homebuyer education/counseling and financial education |
|---|

The lack of an affordably-priced supply of ownership units was also frequently mentioned throughout the qualitative analysis research phase on EMHI as primary homeownership barrier. While this business plan acknowledges the critical role communities have in providing a continuum of housing price options for families of varying sizes and income levels, the focus of this business plan is on addressing the six primary homeownership barriers listed in Table 1.

Detailed highlights of the three qualitative research methods utilized in deriving the six primary focus areas of the EMHI business plan are discussed below. Results from the

¹²² A number of EMHI supporting events were conducted throughout the state over the past 12 months. A sampling of these include a community-wide dialogue on race sponsored by EMHI and the Citizen's League, the Minnesota Association of Realtors annual conference, the Federal Reserve Bank of Minneapolis' Community Lender Forum and Fannie Mae's forum featuring Vada Hill.

qualitative interviews conducted with EMHI Advisory Group and Committee participants are discussed first, followed by findings from the three public listening sessions. The final discussion in this section of the business plan highlights results from the ten focus groups sessions.

Qualitative Interview Results

Interview Methodology

Qualitative interviews were conducted with advisory group and committee members of the Emerging Markets Homeownership Initiative in July and August, 2004. This summary of interview findings represents responses from 75 percent of EMHI participants. Complete interview results are be found in appendix B.

It is important to note that there are inherent interpretation limitations of qualitative data. Some interviewees provided responses that they felt represented the opinions of their community members. Furthermore, interviewers filter interviewee responses and there is some risk of misrepresentation of original meaning. The reader should note that the responses are grouped according to frequency of comment and not by weight or degree of influence. Lastly, EMHI participants have varying degrees of direct and indirect knowledge about homeownership barriers faced by racial and ethnic minorities. Some EMHI participants have expertise with specific communities of color, types of transactions, or work primarily in certain geographic regions of the state.

Interview Results

EMHI participants were interviewed by one of nine interviewers. A standard interview data set was used and the summary that follows below highlights responses to the following two questions:

- *What are the barriers—both perceived and real—to homeownership for people of color?*
- *What major challenges face people of color as they look for a house?*

Interview results on homeownership barriers among emerging market populations can be grouped according to frequency in the following categories:

1. Mindset/cultural factors
2. Information gaps and sophistication of the homebuying process
3. Wealth/income
4. Comfort with, trust in, and quality of housing market agents
5. Credit
6. Systems
7. Treatment by housing market agents and others
8. Supply side factors
9. Language
10. Products and underwriting
11. Education
12. Mobility/demographic change
13. Other

The most frequently cited barriers include those related to *the mindset of emerging markets populations and cultural factors* that contribute to the difficulty in becoming a homeowner. Interviewees report a general sense of discouragement among underserved ethnic and racial groups that manifests itself in the belief that homeownership is impossible. Many noted the foreignness of the U.S. financial system for those acculturated to dealing in cash economies. Others noted savings behaviors that make it difficult to amass a downpayment; some minorities use savings to send money to familial networks in their country of origin, others make material consumer choices that inhibit long-term savings accumulation.¹²³ The challenge of meeting the needs of emerging market populations due to the complexity of cultures within cultures was also noted.

The second most commonly mentioned barriers were *information gaps among consumers and housing market agents and the complexity of the homebuying process*. Many ethnic and racial groups do not know where to start or how to begin the homebuying, or related financial planning process. Some lack financial education and are unfamiliar with loan terms. The complexity of the process, including the voluminous documents all requiring signatures, further complicate the process. Interviewees noted a lack of knowledge about available resources designed to assist homebuyers, a perception that available resources are too much work or involve too much “red tape,” and the extensive guidelines attached to first-time homebuyer programs.

Parallel to quantitative research on the homeownership gaps among underserved populations, EMHI participants often noted *wealth and income* as barriers to homeownership. Lack of sufficient income and in some cases, unstable income, combined with the high price of homes, put homeownership out of reach for many. Having sufficient savings in the form of assets, or wealth, that can be applied toward a downpayment is another barrier.

Another recurring barrier mentioned by EMHI participants is the *lack of comfort with, trust in and quality of housing market agents*. Many noted that some emerging market populations mistrust financial institutions. Others highlighted the lack of housing market agents (lenders and real estate agents among others) who share similar cultural or racial/ethnic backgrounds as the potential homebuyer. An additional barrier relates to the inconsistency of quality information provided by housing market agents, regardless of the racial or ethnic background of the agent.

Credit barriers were the next most frequently cited homeownership barrier. Interviewees noted the importance of lack of credit, and poor credit, as important barriers. The reliance on FICO scores in underwriting decisions was a notable concern.

Concerns related to systems, such as lender systems, legal status documentation systems, the profit-driven nature of homeownership transactions, or systems imposed by government and other funders, also present barriers. Mortgage originators must meet client needs while maintaining appropriate levels of production; the time available to any given loan officer is essentially at a premium, which can disadvantage new borrowers. It

¹²³ Limited income presents additional barriers which are discussed in the income/wealth category that follows.

was noted that the competitive, profit-driven nature of the homeownership industry has resulted in some unscrupulous actors that engage in predatory tactics. The lack of creativity and willingness to work with new partners to address some of the systemic barriers that prevent access to homeownership opportunities was also noted.

The next more frequently mentioned barrier was concern about the *treatment of emerging market populations by housing market agents*. It was noted that there is a perception of disinterest on the part of housing market agents because emerging markets are sometimes seen as less profitable clients. Discrimination was cited as an ongoing impediment to homeownership.

The lack of *supply of affordable housing* stock was another common concern. The limited number of affordably-priced ownership units, and in some cases, appropriately sized units, present formidable barriers. The condition of affordably priced properties was also noted; much of the affordable supply is perceived to be in a poor or substandard state.

Language barriers were the next most frequently mentioned. Language fluency and the cultural nuances of language make working with a host of housing market agents, and understanding the homebuying process, difficult. The need for interpreters was noted, as was the lack of direct translation equivalents for some words commonly used in the homebuying process.

In regard to the influence of *products and underwriting*, there were differences in opinion as to whether underwriting standards present barriers. The inflexibility of underwriting standards was noted, while the danger of pushing underwriting ratios was also highlighted. The inconsistency of approval processes was also expressed. A variety of concerns related to documentation were also stated, including issues related to legal status, and income and downpayment verification.

Educational barriers including general education, financial education, and training specifically related to credit were the next most frequently mentioned.

Some also noted that the *effects of mobility and demographic change* present barriers. Some emerging market households are more mobile and are willing to move locations for employment opportunities. For these mobile households, homeownership may not be desirable given transaction expenses associated with homeownership. It was noted that with increased demographic change, the characteristics of the first-time homebuyer are changing and that the pace of this change can be difficult keep up with.

A number of *other barriers* to homeownership were mentioned. Responses in this category range from concerns about the overall health of the economy to trends in unemployment to transportation access issues. Concerns about how to reach diverse cultures with marketing techniques and the need to encourage sustainable homeownership were also noted.

Public Listening Session Results

Listening Session Process

A series of three public listening sessions were held throughout the state in October 2004. The purpose of the sessions was to solicit public input into the homeownership barrier and strategy analysis phase of the EMHI. Over 80 individuals from around the state participated in the Duluth, Rochester or Twin Cities metropolitan area sessions. The co-conveners presented an overview of the initiative at each session, with the remaining time dedicated for discussion and audience participation.

Qualitative feedback from the three listening sessions focused on identifying the key homeownership barriers that emerging market households face, in addition to identifying potential strategies to address such barriers. The qualitative feedback obtained at the listening sessions can generally be categorized into the following homeownership barrier focus areas: wealth and downpayment; credit and lending practices; cultural factors, preferences and immigration; discrimination; information, marketing and outreach; and homebuyer education/counseling and financial education. Public comments related to each of these six barrier areas are discussed below.

1. Wealth and Downpayment

Listening session participants noted how difficult it is to amass funds for a downpayment, particularly when households have little savings or assets. Furthermore, there is a perception that one can't own a home if they lack wealth—even though there are increasingly new low or no downpayment products available. Participants noted that many emerging market homebuyers are first generation homebuyers. As such, access to downpayment funds through traditional family networks can be limited. The source of the downpayment funds, such as “mattress money,” combined with the lack of traditional banking relationships, presents another formidable barrier.

2. Credit and Lending Practices

Many participants feel that credit is the biggest barrier to homeownership—and this can take either the form of a lack of credit history altogether, or a poor credit history. Participants noted that people may be using credit, but the type and form of credit may be considered “non-traditional” by credit bureaus, and thus, not captured in a credit score. Benefits of, and concerns related to, automated underwriting were discussed. While automation has increased loan approval rates for emerging market populations, available mortgage products designed for those without credit are lacking. At the Duluth listening session in particular, participants asked if housing market agents are overly concerned with trying to fit borrowers into a specific underwriting box, and suggested that the EMHI take bold steps to look at how the box could be changed to better serve these markets.

Participants noted the lack of marketing and financial institution presence in communities with a significant emerging market population. Participants also discussed the need to share information about products and resources with consumers as well as housing market agents.

3. Cultural Factors, Preferences & Immigration

Participants highlighted the importance of customized emerging market homeownership approaches and strategies; one size will not fit all. For example, it is important that strategies distinguish between needs of recent African immigrants and African-Americans. It was also noted that it may take time for recent immigrants to be well positioned for homeownership. The lack of diversity within the homeownership industry was also noted.

4. Discrimination

Many feel that racism clearly continues to impact and effect emerging market access to homeownership. One participant noted that while it is clearly not in the best interest of housing market agents to treat others poorly, mistreatment still occurs.

5. Information, Marketing & Outreach

Current outreach methods require substantial improvement to reach emerging market populations. Alternative methods of outreach, which can better reach places frequented by emerging markets, should be explored. In many communities, there is a lack of awareness of loan products.

6. Homebuyer Education/Counseling & Financial Education

There was significant discussion at the listening sessions regarding the important role of homebuyer education and financial education. Many participants feel that money management and homeownership education should begin at an early age. There is concern that many new homeowners may be pushed into homeownership too quickly and lack sufficient “rainy day” funds that provide a necessary cushion to sustain homeownership. Participants noted that more time for individual one-on-one counseling is needed. The homeownership education infrastructure must be supported with resources.

A number of listening session participants noted the critical role that the supply of affordable ownership units has in providing ownership opportunities for first-time homebuyers. Specific concerns relate to the rapid price appreciation of homes in recent years; the high maintenance and rehab/repair costs for homes that are affordably priced; the need for appropriately sized homeownership units for larger emerging market families and the increased cost of such units; the lack of transportation or employment options for those outside of city limits; and the mismatch between the location of affordably priced homeownership units and where people choose to live.

Focus Group Results

Focus Group Background and Methodology

The Emerging Markets Homeownership Initiative conducted a series of ten focus groups with homeownership industry leaders and emerging market consumers in October and November, 2004. EMHI Advisory Group members recruited participants for each of the sessions. In total, over 150 individuals participated in the professionally-facilitated focus groups. The sessions were held at neighborhood and non-profit locations, with most of

the consumer focus groups held in the early evening hours. Four focus groups were conducted in a language other than English or utilized interpretive services: the Willmar session had a Somali interpreter, the Twin Cities Hispanic/Latino session was conducted in Spanish, the Hmong session in Hmong, and in the recent African immigrant session interpreters provided services in two African languages.

Emerging Market Consumer

Greater Minnesota

- Duluth
- Native American
- Willmar (Hispanic and Somali)

Twin Cities

- African American
- Recent African Immigrant
- Hispanic/Latino
- Hmong
- Native American

Industry

- Loan Originators
- Real Estate Professionals

The sessions utilized a standard template of questions, which were developed by the three conveners of EMHI.¹²⁴ In general, the questions asked participants to identify specific barriers to homeownership and possible strategies to improve access to homeownership opportunities.

Focus Group Summary

Participants expressed an interest in becoming a homeowner because of the greater stability ownership provides, the opportunity to improve the quality of life for one’s children and family, the pride that owning one’s own home symbolizes, and the wealth creation opportunity homeownership affords. While the focus group results reveal a clear desire to own a home among emerging market populations across the state, the results also indicate that many non-homeowners are apprehensive about the prospect of becoming a homeowner.

Each focus group yielded customized responses to questions about homeownership barriers. It is important to note that some emerging market groups face unique barriers. Native Americans noted continued difficulty accessing mortgage products for trust land. Many recent African immigrants of the Islamic faith emphasized opposition to interest payment, resulting from Islamic principles. Hmong focus group participants revealed a need for more information about available resources to assist families in the homeownership process, and to compliment their relative success in achieving homeownership through a collective, pooled income approach.

In addition, focus group participants noted the lack of an affordably priced supply of for-sale homes. An analysis of focus group results also reveals more subtle barriers, such as

¹²⁴ Qualitative focus group questions were developed in consultation with national emerging market focus group experts at Fannie Mae. The conveners wish to thank Jeanette Hailsip for her assistance.

those related to personal initiative. Many focus group participants noted that they are not looking for handouts, but lack the information/resource networks commonly available to the majority population. A number of focus group participants approached the possibility of homeownership—and relocation to a neighborhood where they may be in the minority—with fear. Would the new community accept them as neighbors and community members? Participants also noted the homeownership process requires the disclosure of personal financial information, perceived as invasive by some.

APPENDIX G: TECHNICAL MEMO TO THE HOMEOWNERSHIP RATE GOAL ANALYSIS

Introduction

This memo will describe a methodology for setting homeownership goals for minority populations in Minnesota. In addition, the memo proposes homeownership goals (i.e., a specific percentage of homeowner households) for each of the following groups: non-Hispanic Blacks, non-Hispanic American Indians, non-Hispanic Asians, and Hispanics. To produce projections of tenure choice¹²⁵ one must choose both a baseline ownership rate (as will be noted later, the baseline rate used Claritas¹²⁶ data¹²⁷ provided to us from

¹²⁵ Housing tenure refers to the financial arrangements under which someone has the right to live in a house. The most frequent forms are rental, in which rent a tenant pays rent to a landlord, and owner occupancy. The basic forms of tenure can be subdivided, for example, an owner-occupier may own a house outright, or they may have a mortgage. In the case of renters, the landlord may be a private individual, a non-profit organization, or a government body, as in public housing

¹²⁶ Claritas (pronounced 'CLAIR - uh - toss') was founded in 1971 when Jonathan Robbin repurchased General Analytics Corporation (GAC) from a California conglomerate to which he had sold it in the 1960s. When his company came back to him, Robbin renamed it for the Latin word for "brightness". Claritas is a leading provider of marketing information solutions including a wide array of marketing databases, industry-focused applications, and software for data access, planning, and targeting.

¹²⁷ Claritas Demographic Update-is a shorthand term for the massive set of demographic estimates and projections produced each year by Claritas. Estimates are prepared for the current year, and projections are prepared for dates five years in the future. Claritas produces the Update each year for many geographic levels including national, state, county, place (city/township), census tract, and block groups. The target estimate and projection date is April 1 of the relevant year. The Update includes many data items including population by age, sex, race, and Hispanic ethnicity, households by income, housing tenure, value of owner occupied housing units, income by age of householder, and households by effective buying income. What follows is a brief description of the methodology Claritas uses to produce their Update. First, they establish base counts of population and households at the national, state county, and place levels. Their estimates used the initial estimates produced by the Census Bureau. At the census tract and block group levels, they estimate change using trends in USPS deliverable address counts, military employment counts from the Defense Manpower Data Center, and trends in consumer counts from the Equifax TotalSource Database. Claritas estimates population by age and sex using a modified cohort survival method, which ages population based on age/sex specific survival probabilities, and estimates births over the estimation period. They use the cohort survival process at all areas, but in some areas, migration overrides its effects. In the absence of authoritative age-specific migration data for small areas, the Claritas method defaults to the assumption that the age/sex composition gained or lost through migration is similar to the area's "survived" population. Claritas estimates race by Hispanic ethnicity for 14 categories reflecting "single classification" race. Income estimates and projections reflect the census definition of income (i.e., money income), and are produced for current dollar values. Mean income is estimated first, then, the 2000 census income distribution is advanced to reflect the estimated rate of change in mean income. Income changes at the county level and above reflect income change estimated by the Bureau of Economic Analysis as well as income change indicated by income statistics from the Internal Revenue Service. Claritas estimates income change at the tract and block group levels based on a combination of 1) change in consumer financial information from the Equifax Consumer Marketing Database, 2) change in income summarized by the TotalSource consumer database, and 3) projections of inter-census trends. Claritas advances distributions of 2000 census income to the estimated and projected means through a process that estimates the movement of households from one income category to the next based on the specific area's rate of income growth. All Claritas income estimates are current year dollars using the "money income" definition reported in the 2000 census. In contrast to the 2000 census, which reported income for the previous calendar year (1999), Claritas income estimates are for the calendar year relevant to each set of estimates and projections. For example, 2004 income is an estimate for 2004 households. They produce income estimates for all levels of

Fannie Mae) and a cohort trend (the cohort trends were provided the State Demographic Center). Pronounced differences occur in housing tenure by age, race, or ethnicity. Whenever different populations are growing at different rates, research¹²⁸ has demonstrated that the “accuracy” of these projections improves by disaggregating populations by race or ethnicity. The existence of suitably disaggregated population projections facilitates the incorporation of these differences into housing tenure projections.

Another factor, which most directly determines housing tenure, is income. Unfortunately, reliable income projections are not consistently available or sufficiently reliable for estimates of housing tenure. However, income is closely correlated with age, race, and ethnicity-factors addressed in population projections. Thus, demographic changes serve as a good proxy for changes in income. Nevertheless, the Claritas estimates use projections of income, household growth, and international migration. Thus, projections of tenure after 2004 must rely on age as a proxy for income.

This paper also relies heavily on work done by the Joint Center for Housing Studies (Harvard University) and the State Demographic Center in Minnesota. The methodology used in this analysis was discussed with Fannie Mae research staff¹²⁹ and it was learned that Fannie Mae used similar methodology to establish goals for their American Dream Initiative. The remainder of this memo discusses the proposed methodology as well as the proposed homeownership goals.

geography by age and race. The Claritas income estimates and projections are expressed in current dollar values-which reflect how many dollars are received at the relevant year. As such, they reflect both “real” income growth (decline) and the change due to the effect of inflation. Rather than estimating the effects separately, Claritas measures the combined or net effect through input source (such as the Bureau of Economic Analysis income estimates), which themselves estimate income change in current dollars. Thus, Claritas implicitly incorporates the inflation effect built into those estimates. Note, however, the accounting for inflation is different from controlling for inflation-which requires removing the effect of inflation, to produce estimates in constant dollar values. Claritas uses an adjustment process, iterative proportional fitting, to produce estimates that are consistent across geographic levels. These adjustment techniques also ensure that characteristic distributions sum to base count totals (e.g., households by income always sums to total households). Iterative Proportional Fitting (IPF) addresses the complex problem of how best to estimate a detailed relationship represented by a multidimensional table, totals for the columns and rows can supplement unreliable information for the cells. For example, Claritas has 12 categories of income as the row totals and 11 categories of householders by age as the column totals for a 132-cell table. The objective is to produce estimates for the table’s 132 cells that sum to both the row and column marginals (totals). IPF methods, which are an elaborate form of ratio-adjustment, produce cell estimates that sum to the row and column marginals.

¹²⁸ Myers, Dowell, Pitkin, John, and Park, Julie, *Estimation of Housing Needs amid Population Growth and Change*, Housing Policy Debate, Volume 13, Issue 3, Fannie Mae Foundation, 2002

¹²⁹ Sam Khater and Paul Weech

Projections of Tenure Choice

Following discussions with Fannie Mae, the tenure rate projections of the Joint Center for Housing Studies (Joint Center) were selected for this analysis. The Joint Center published a series of housing tenure projections in October of 2000¹³⁰. In addition, Zhu Di (one of the researchers who created the Joint Center's projection) provided a copy of the Excel spreadsheet he used to produce their projections. Using Current Population Survey data (national data), the Joint Center calculated tenure choice and change in tenure choice for the years 1991 to 1999. They then projected tenure choice for non-Hispanic Whites, non-Hispanic Blacks, non-Hispanic Asians/Other, Hispanics, and all minority households. The Joint Center projected tenure choice out to 2020. The Joint Center made three projections of homeownership rates (low, middle, and high) for each of the previously described groups.

The low projection held homeownership rates constant based on homeownership rates in 1998. The high projection rested on an extrapolation of the 1993-1998 trends, a period extremely favorable to homeownership growth. The middle series is the average of the low and high series. In their report, they state that the middle series is the most realistic.

The low series was included because they do not believe homeownership rates would decline and simple aging of the population increases homeownership (although slowly). The report also states that it is extremely unlikely that the very high series would materialize in the longer-term future. In other words, it seems unlikely that the favorable conditions of the late 90s and early 21st century that spurred growth in homeownership will continue for 20 years. However, they are included in the series to illustrate the outer limits of potential ownership growth.

Their report concluded that the middle ownership series is probably the most realistic. This series is the most reasonable target for increasing homeownership under a scenario of "generally favorable economic conditions, and sustained public policy efforts to boost homeownership among underserved population groups"¹³¹.

Projections of Population

Although tenure projections that use national data will be used, the population projections are for Minnesota. The proposed methodology uses population projections¹³² by race and Hispanic origin published in January of 2005 by the Minnesota State Demographic Center. The Demographic Center employed a conventional cohort-component projection model using two different methods of projecting migration. The Demographic Center averaged the projections produced by these two methods and controlled them to their state population projections published earlier.¹³³ The cohort component method is the standard method of producing population projections. The U.S. Census Bureau provided

¹³⁰ Masnick, George, and Di, Zhu Xiao, *Updating and Extending the Joint Center Household Projections Using New Census Bureau Population Projections*, October 2000

¹³¹ Masnick, George, and Di, Zhu Xiao, *Updating and Extending the Joint Center Household Projections Using New Census Bureau Population Projections*, October 2000, p 12

¹³² *Minnesota Population Projections by Race and Hispanic Origin, 2000-2030*, January 2005

¹³³ *Minnesota Population Projections, 2000-2030*, October 2003

the 2000 modified age, race, and sex file, which the Demographic Center used as the starting population (detailed count of persons by age, race, and gender). They made assumptions about the rates of fertility, mortality, and migration during each five-year period from 2000 to 2030. Five race groups are projected: White alone, African-American alone, a combined group of Asian alone and Hawaiian and other Pacific Islander alone, American Indian alone, and two or more races. The Demographic Center also projected the Hispanic population (Hispanics may be any race).

The mortality and fertility assumptions are the same in the two methods that produced the projections of population by race and ethnicity. Mortality rates were either high or low. They assigned White alone, Asian alone, and Hispanic populations to the lower mortality group. For these three groups, the projected survival rates were the same as the rates used to project the state's total population in their 2002 projections. Using data from the National Center for Health Statistics, they assigned higher mortality rates to African-Americans and American Indians. They did assume that the survival rates for these groups would improve over time and would converge to their projected statewide value by 2030.

They calculated two sets¹³⁴ of fertility rates for each group and then averaged them to obtain a starting fertility rate. They also assumed that fertility rates would converge by 2030. For Hispanics they calculated one fertility rate. However, they assumed that Hispanic fertility would also converge by 2030.

Next, they projected migration. The first method, survival rate migration, uses mortality rates to estimate how many people alive in 1990 would be alive in 2000.¹³⁵ The difference between the expected and the observed is attributed to migration. The second method, gross migration, uses county level information on in-and-out migration.¹³⁶ The demographer's office calculated an average migration rate using the projections from the two methods. Both migration projections assumed that migration would be 60 % of the 1995 to 2000 level in the first period, 2000-2005. In subsequent five-year periods, the rates fell to 40, 30, 25, 20, and 15 % of the original values. They conclude their report with these cautions. "...many sources of error [exist] in population projections, and there are even more pitfalls in race and ethnicity projections. The initial population may be too high or too low. Projected rates of fertility, mortality, and migration are often off base."

¹³⁴ The numerator of each rate was the number of births in an 18-month period surrounding the 2000 Census. The first fertility rate calculation used the race alone numbers from the 2000 Census as the denominator. The second rate used the race alone or in combination as the denominator.

¹³⁵ The data for these projections comes from the 1990 and 2000 Modified Age, Race, and Sex files provided by the Census Bureau

¹³⁶ Aptly named, the Gross Migration file, the Census Bureau provides detailed information on in-and-out migration by age, gender, race, and Hispanic origin from 1995 to 2000

Discussion

Ultimately, two variables drive the proposed homeownership goals—the projected annual change in the homeownership rate for each minority population- 2005 to 2015 and the projected annual population increase—2005 to 2015. Using the Joint Center projections and the State Demographer’s projections it was possible to calculate an annual percent increase for each of these variables.

In order to project homeownership rates for minority households in Minnesota, the Joint Center’s tenure choice projections were combined with the State Demographic Center’s population projections. The “beginning” tenure rates use data from Claritas were provided Fannie Mae research staff. Using Claritas’ data, the homeownership rate in 2004 was calculated for each of the following groups: Non-Hispanic Blacks, Non-Hispanic Asians, Non-Hispanic American Indians, and Hispanics. The “end” tenure rates come from the Joint Center’s high tenure choice projections.

The Joint Center’s projections provided the necessary data for calculating the annual change in the homeownership rate for each group. The Joint Center projected homeownership rates for Non-Hispanic Whites, Non-Hispanic Blacks, Non-Hispanic Asians/Others, and Hispanics through 2020. For each racial or ethnic group they forecast three tenure trends— low, middle, and high. The proposed goals used the high trend forecast for 2015 (see Table 4 on page 108). Using both the homeownership rate in 2015 (high trend forecast from the Joint Center) and the Claritas 2004 estimates of homeownership rates, it was possible to calculate an annual percent increase in the homeownership rate for each minority population. For example, Non-Hispanic Blacks (in Minnesota-32% in 2004) would need to increase their homeownership rate each year by 1.58% (between 1990 and 2000, it was .62%) in order to reach the Joint Centers’ projections for their high series (US rate of 55%). In Minnesota, non-Hispanic Blacks will reach a homeownership rate of 45% (US rate in rate in 2000 48%) because their beginning rate in Minnesota is much lower than the US rate. (See Table 4 for the Joint Center’s projections by race or ethnicity and low, middle, or high).

Next, using Minnesota’s population projections by race or ethnicity it was possible to calculate an annual percent increase in population for each group. For example, the projected population of non-Hispanic Asians will increase 2.38% each year from 2005 to 2015. The methodology (using these two sources of data) allows us the establishment of homeownership rate goals for these selected minority populations. Moreover, these goals also include projected population growth for each group.

These goals assume that some combination of private and public lenders could meet these goals by 2012. These goals assume generally favorable economic conditions, and will be difficult to obtain to the extent that incomes fail to grow or interest rates rise. Meeting these goals would raise the overall minority homeownership rate from 46% in 2004 to 58% in 2012. Meeting these goals means that an additional 5,000 minority households would achieve homeownership each year between 2004 and 2012 or approximately 35, 000 households. President Bush’s administration has as a goal the creation of an “ownership society” in America. He has set a goal to increase the number of minority

homeowners by 5.5 million families by the end of the decade. Households of color in Minnesota are .7 of a percent of the US total. This means that slightly more than 36,000 households of color in Minnesota would become homeowners by the end of decade.

The tables in Appendix A summarize the data for used for the projected homeownership rates for each minority population.

Conclusion

Table 3 summarizes the proposed annual goals and the projected homeownership rates in 2012 by race or ethnicity. For example, if each year an additional 1,361 Hispanics achieved homeownership their overall homeownership rate would rise from 43 % in 2004 to 56 % in 2015. This increase assumes that each year the Hispanic homeownership rate would increase 1.77% (between 1990 and 2000, it was a -.9%) and their population would increase 3.11%.

Table 2-Homeownership Rate by Race or Ethnicity for Selected Years

Race/Ethnicity	Homeownership Rate, 2004	Homeownership Rate, 2012	Homeownership Rate, 2020¹³⁷
All Households	75%	80%	86%
All Minority Households	45%	58%	71%
Non-Hispanic Whites	78%	83%	88%
Non-Hispanic American Indians	51%	58%	65%
Hispanics	42%	56%	70%
Non-Hispanic Asians	57%	66%	78%
Non-Hispanic Blacks	32%	45%	58%

As Table 1 shows, the overall homeownership rate for minorities would rise to 58 % by 2012 and 71% by 2020. The non-Hispanic Black rate would rise to 45% (58%-2020), the non-Hispanic Asian rate 66% (78%-2020), the non-Hispanic American Indian rate 58% (65%-2020), and for Hispanics 56% (70%-2020). The table also shows that the white non-Hispanic rate would reach an astonishing 83% in 2012 and 88% in 2020. It is noteworthy that barring some unforeseen circumstances the African-American homeownership rate would still significantly lag behind other populations.

¹³⁷ These projections used the same assumptions that produced the 2012 projections

Table 3-Proposed Annual Goals

Race/Ethnicity	Annual Goal	Ownership Rate, 2004¹³⁸	Homeownership Rate in 2012
Non-Hispanic Blacks	1,454	32%	45%
Non-Hispanic Asians	1,082	60%	66%
Non-Hispanic American Indians	233	52%	58%
Hispanics	1,361	43%	56%
All Minorities	4,962 ¹³⁹	46%	58%

Tracking Progress Toward These Goals

Several data sources are available to help track progress toward meeting the goals established in this business plan. Starting in 2006 American Community Survey (replaces the long form in 2010) data will be available with enough detail to track changes in housing tenure by race or ethnicity. In addition, both HMDA (Home Mortgage Disclosure Act data) and GSE (Government Sponsored Enterprise, for example, Fannie Mae) data are available, which can help verify the American Community Survey data. Finally, there may be access to Claritas' Demographic Updates. These sources should provide the data necessary to track progress toward Minnesota's emerging market homeownership goals.

¹³⁸ Claritas, 2004

¹³⁹ This is more than the total of the four groups-because the minority total includes-Other, two or more races, and White Hispanics.

Table 4-Joint Center’s Homeownership Rate Projections

Trend/Race/Ethnicity	2000	2005	2010	2015	2020
Low/non-Hispanic Blacks	45%	46%	47%	48%	49%
Middle/non-Hispanic Blacks	46%	49%	51%	53%	55%
High/non-Hispanic Blacks	48%	52%	55%	58%	61%
Low/non-Hispanic Asians/Other	51%	52%	52%	52%	52%
Middle/non-Hispanic Asians/Other	53%	55%	56%	57%	58%
High/non-Hispanic Asians/Other	54%	58%	60%	62%	64%
Low/Hispanics	42%	43%	43%	44%	44%
Middle/Hispanics	44%	47%	49%	51%	52%
High/Hispanics	47%	51%	55%	58%	61%
Low/All Minorities	45%	46%	46%	47%	47%
Middle/All Minorities	47%	49%	51%	53%	54%
High/All Minorities	48%	52%	56%	59%	61%

Appendix A

Table 5-Non-Hispanic Blacks

Non-Hispanic Blacks	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Total	61,825	63,177	64,559	65,971	67,414	68,889	70,395	71,935	73,508	
Owners	19,965	21,403	22,893	24,439	26,042	27,703	29,424	31,207	33,054	
Renters	41,860	41,775	41,666	41,532	41,372	41,186	40,971	40,728	40,454	
Ownership Rate	32%	34%	35%	37%	39%	40%	42%	43%	45%	
Renter Rate	68%	66%	65%	63%	61%	60%	58%	57%	55%	
Increase in Owners		1,438	1,491	1,546	1,603	1,661	1,721	1,783	1,847	13,090
Tenure Rate Change	1.58%									
Annual Rate of Population Change	2.19%									

Table 6-Non-Hispanic Asians

Non-Hispanic Asians	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Total	42,050	43,051	44,076	45,125	46,200	47,299	48,426	49,578	50,759	
Owners	23,815	23,995	25,219	26,488	27,803	29,166	30,578	32,040	33,555	
Renters	18,235	19,057	18,857	18,637	18,397	18,134	17,848	17,538	17,204	
Ownership Rate	57%	56%	57%	59%	60%	62%	63%	65%	66%	
Renter Rate	43%	44%	43%	41%	40%	38%	37%	35%	34%	
Increase in Owners		180	1,224	1,269	1,315	1,363	1,412	1,463	1,515	9,674
Tenure Rate Change	1.48%									
Annual Rate of Population Change	2.38%									

Table 7-Hispanics

Hispanics	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Total	41,186	42,465	43,784	45,144	46,546	47,991	49,482	51,018	52,603	
Owners	17,258	18,547	19,899	21,318	22,805	24,364	25,998	27,710	29,503	
Renters	23,928	23,918	23,885	23,826	23,741	23,627	23,483	23,308	23,099	
Ownership Rate	42%	44%	45%	47%	49%	51%	53%	54%	56%	
Renter Rate	58%	56%	55%	53%	51%	49%	47%	46%	44%	
Increase in Owners		1,289	1,352	1,418	1,487	1,559	1,634	1,712	1,793	12,244
Tenure Rate Change	1.77%									
Annual Rate of Population Change	3.11%									

Table 8-Non-Hispanic American Indians

Non-Hispanic American Indians	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Total	16,454	16,660	16,869	17,081	17,295	17,512	17,731	17,954	18,179	
Owners	8,459	8,703	8,952	9,207	9,465	9,730	9,999	10,273	10,553	
Renters	7,995	7,957	7,917	7,874	7,830	7,782	7,733	7,681	7,626	
Ownership Rate	51%	52%	53%	54%	55%	56%	56%	57%	58%	
Renter Rate	49%	48%	47%	46%	45%	44%	44%	43%	42%	
Increase in Owners		244	249	254	259	264	269	274	280	2,093
Tenure Rate Change	0.83%									
Annual Rate of Population Change	1.25%									

Table 9-All Minorities

All Minorities	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Total	187,405	191,414	195,508	199,691	203,962	208,325	212,782	217,333	221,983	
Owners	84,137	89,834	94,853	100,045	105,417	110,972	116,717	122,656	128,797	
Renters	103,268	101,580	100,656	99,645	98,546	97,353	96,065	94,677	93,186	
Ownership Rate	45%	47%	49%	50%	52%	53%	55%	56%	58%	
Renter Rate	55%	53%	51%	50%	48%	47%	45%	44%	42%	
Increase in Owners		5,697	5,019	5,193	5,371	5,555	5,745	5,940	6,140	44,660
Tenure Rate Change	1.58%									
Annual Rate of Population Change	2.14%									

APPENDIX H: BEST PRACTICE IDENTIFICATION

Both the literature review and qualitative analysis phases of the business plan process resulted in the identification of a number of suggested strategies that may reduce homeownership disparities. Highlights outlining specific strategy recommendations from the focus groups sessions are included in Table 1 below.

Table 1: Best Practice Strategies—Listening Sessions

<p><i>1. Wealth and Downpayment</i> Provide additional resources for rehab; expand Individual Development Account programs in the state (matched savings accounts for income-eligible participants).</p> <p><i>2. Credit and Lending Practices</i> Develop statewide training and testing requirements for lending professionals such as brokers and loan officers; develop special purpose lending products (i.e. an interest averse product, an Individual Taxpayer Identification Numbers or ITIN product and a responsible sub-prime product; and implement more manual-based and alternative underwriting approaches.</p> <p><i>3. Cultural Factors, Preferences and Immigration</i> Increase diversity in the homeownership industry; improve language translation services through oral and written communication; ensure that interpretation services are of good quality.</p> <p><i>4. Discrimination</i> Think about how discrimination can be addressed when it occurs by entities outside the community; diversify the homeownership industry.</p> <p><i>5. Information, Marketing and Outreach</i> Go to where emerging market populations are; use existing employer, workforce center and faith-based networks; expand and <u>sustain</u> outreach and marketing efforts; research tactics used by predatory lenders—how are they reaching these markets; provide additional resources to homebuyer educators to implement creative outreach techniques; develop outreach tools that local communities can use; consider placement of financial institution branches in non-traditional locations (community centers, non-profits, other gathering spots); evaluate the effectiveness of outreach efforts which will help build trust.</p> <p><i>6. Homebuyer Education/Counseling and Financial Education</i> Offer user-friendly homebuyer education tools—such as web-based DVDs; multiple-language education materials need to be accessible throughout the state; partner with school systems to provide financial education; leverage the use of children as a communication vehicle to parents; highlight and showcase successful homeowners reflective of emerging market populations; consider a mentor program; provide education to homeownership industry professionals; provide ongoing education to ensure successful, sustainable homeownership. Use of basic language and vocabulary are important in making sure concepts are understood when working with immigrant communities.</p>

In addition, focus group participants also offered a number of suggested best practices, many of which overlap with recommendations listed in Table 1. Focus group participant recommendation are listed in Table 2 below.

Table 2: Best Practice Strategies—Focus Groups

Suggested Strategies

- Use a customized approach to reach specific emerging market population segments—one size will not fit all
- Downpayment savings incentive programs, such as an Individual Development Account (IDA) program like the one offered by many of the community action agencies,¹⁴⁰ work well
- Explore ways to provide more assistance for those at lower-income levels (50 percent AMI and under) via direct grants or through interest rate reductions
- Provide incentives for lenders and real estate professionals to work with emerging market populations, many of whom are first-generation homebuyers
- Implement greater lender accountability mechanisms
- Increase access to culturally competent and diverse staff at homebuyer access points; explore the use of scholarships to increase diversity within the industry
- Create a web portal that contains up-to-date information on first-time homebuyer programs
- Offer additional training opportunities for industry professionals and points of contact for emerging market clients (such as social service providers, leaders of faith-based institutions, etc.)
- Focus on demystifying the homebuying process
- Improve homebuyer and financial education to provide cultural and language specific curricula
- Showcase successful emerging market homeowners—create messages that inspire and build confidence
- Do not lose sight of the importance of sustainable, successful homeownership
- Continue to dialogue with members of the emerging market communities on how to access homeownership opportunities

¹⁴⁰ To learn more about Family Assets for Independence in Minnesota please see the following web site: <http://www.capagency.org/pages/faim.htm>

APPENDIX I: COMMUNITY AND INDUSTRY EFFORTS AROUND EMHI BUSINESS PLAN STRATEGIES

There are a number of significant community and industry efforts underway that support the three fundamental elements of this business plan. Highlights of a sampling of community and industry-based efforts are outlined below. Each example exemplifies noteworthy community or industry-led initiatives that support the fundamental elements of this business plan and its key strategies.

A. Provide Trusted Guidance

► Establish a Transitional Emerging Market Outreach Network

Community centers provide vital gathering space for community members to participate in an array of programmatic activities. They also serve as pivotal information conduits. In the Twin Cities metropolitan area, close to 90 community centers are members of one umbrella organization, the Metropolitan Alliance of Community Centers (MACC). Recognizing that community centers can play an important role in serving in a “trusted advisor” role within some communities, the Metropolitan Alliance of Community Centers has initiated “A Place to Call Home” program that brings together private sector real estate industry professionals with community organizers to dialogue and address critical questions around homeownership, such as: how to finance a home purchase; how to maintain a home; and how to prepare for an emergency.

► Institutionalize Industry Emerging Market Service Network

Recruit, Mentor and Develop Diverse Industry Service Providers

Changing the Face of Housing in Minnesota has as its mission to correct the significant under-representation of communities of color in affordable housing processes and decisions in Minnesota. The four pillars of this effort include recruitment and retention, self-assessment, education, training and organization support. Notable outcomes to date include: the development of a board and staff recruitment and retention guide, the development of culture audits, and the creation of a scholarship program with the University of Minnesota Humphrey Institute.¹⁴¹

Minnesota’s real estate industry is experiencing strong growth in the number of real estate professionals from diverse backgrounds. The Minnesota Association of Realtors, the state’s largest business trade association, has made a concentrated effort to ensure that its board of directors reflects Minnesota’s diversity. The association has made a concerted and clear effort to expand the diversity of its board, having recruited members of the Asian, African-American and Hispanic communities to serve.

¹⁴¹ To learn more about this effort, visit Changing the Face of Housing in Minnesota’s web site: www.changingthefaceofhousing.org.

B. Expand and Tailor Outreach

► Disseminate Homeownership Resource Information

Outreach and Marketing Efforts

One of the best practice efforts identified under EMHI is the concept of an “open-house affordable housing fair.” The goal of such a fair is to highlight successful first-time or low- or moderate-income homeowners, and the concept could be tailored to specific communities such as a showcase of homes purchased by Native Americans or Hmong families, for example. Currently, the highly visible “Parade of Homes” features homes primarily designed for high-end consumers. An “Affordable Home Showcase” concept is being piloted in the Rochester market in Spring, 2005, under the leadership of three collaborative partners.

The four Twin Cities metro area Realtor® associations recently sponsored the first annual Home Ownership Fair targeted to emerging market groups. The event offered a variety of exhibits by real estate companies, lenders, non-profit organizations, governmental entities and community-based organizations. Attendees were able to check their credit for free and receive on-site homeownership counseling provided by the Home Ownership Center. The event was free and open to the public. Materials were translated into a variety of languages including Hmong, Spanish, Somali and Ethiopian. Planning for the second annual Home Ownership Fair is already underway.

One finding that consistently emerged from focus group and listening session findings is the importance of tailoring marketing and outreach campaigns to specific diverse markets. One example of such an effort is a recent billboard marketing campaign designed to promote homeownership within the Hispanic community. The effort is being led by the Neighborhood Development Alliance (NeDA), the primary Spanish speaking homebuyer education provider in the Twin Cities metro area. The billboards read:

"No compres problemas...Mejor compra una casa. Informate. Preparate. Entonces compra." (Loosely translated into English means: "Don't buy a problem...buy a house. Inform yourself. Prepare yourself. Then buy.")

► Develop and Increase Full-Cycle Consumer Education

Expand Culturally- and Language-Sensitive Homebuyer Training

The African Development Center (ADC), a recently formed non-profit with a mission to work with African communities in Minnesota to promote asset-building, recently began offering homebuyer education courses in December, 2004. ADC worked collaboratively with the Home Ownership Center to customize the Home Stretch curriculum to meet the needs of diverse clients that may not have an established relationship with a financial institution; two additional hours of instruction have been added to the curriculum to provide sufficient time to review elements of financial education before the homebuyer education component begins.

Develop and Increase Full-Cycle Consumer Education

Financial Education

The Minneapolis Urban League, beginning in April, 2005, will offer a credit education curriculum called CreditSmart. The curriculum includes a chapter on becoming a homeowner and is comprehensive in scope. This credit education resource will fill an important gap in the community; the lack of understanding on the importance of credit was identified as a primary barrier to homeownership in the African-American community at the focus group held with African-American consumers.

Establish Delivery Alliances

Many recent immigrants face a number of obstacles to homeownership, including a comfort with and knowledge of the banking system in the United States. Many immigrants have operated exclusively in cash-based economies and are unfamiliar with the advantage of placing savings in regulated financial institutions. CLUES, a local Hispanic-based community organization is working to pilot the concept of a Hispanic banking fair in the Twin Cities this summer. In other markets, banking fairs developed in conjunction with trusted ethnic community organizations have been successful in reaching significant numbers of unbanked Hispanics.

C. Innovate Structural Support

► Expand Access to Entry-Cost Assistance

One effective asset building tool that can be utilized to promote homeownership opportunities are Individual Development Account (IDA) programs. IDAs are typically structured as a fast-track savings tool that utilizes matching funds to incent lower income households to save. Financial education is a key element of most IDA programs. Typically the programs are structured as two year programs and the assets accumulated over that time period are typically restricted to one of three uses: the purchase of a home; to pursue higher education or to start a small business.

Minnesota has a strong network of community providers who currently offer IDAs to qualified borrowers through the Family Assets for Independence in Minnesota (FAIM) program. This program began in 1999 and offers participants a 3:1 savings match. Eighteen Community Action Agencies, one credit union, a microenterprise Community Development Financial Institution and the Leech Lake Tribe participate in the program. Increasingly, other providers, in addition to those in the FAIM network, offer IDA accounts. Through the collaboration of a number of faith-based partners in the Twin Cities, a new IDA initiative targeted to residents of the Phillips neighborhood in Minneapolis, was recently launched. The goal is to serve 300 families through “Phillips Saves,” with a target of 105 families accessing homeownership with the help of the IDA matched savings and financial education program.¹⁴²

¹⁴² To learn more about Phillips Saves, please see the following “Frequently Asked Questions” document at this web link: www.lssmn.org/FAQ_Phillips_Saves.PDF.

IDAs are an important asset-development tool and encourages a continued commitment to link IDA offerings to emerging market communities.

► **Develop Emerging Market Friendly Products and Processes**

Develop Culturally-Sensitive Mortgage Products and Adopt Culturally-Sensitive Mortgage Processes

Interest-Averse Mortgages

While significant mortgage innovations have been made in recent years and several flexible product offerings exist to meet the needs of first-time homebuyers, credit needs . One of the most pressing credit needs in this market is for an interest-averse mortgage product for interest-averse populations. The African Development Center is currently in the process conducting a financial analysis of available interest-averse loan products, including the American Finance House-LARIBA and Guidant Financial product. It is important to note that while both LARIBA and Guidant Financial market a product to interest-averse populations, neither company has a local outlet in the Twin Cities. The African Development Center's objective for conducting a financial analysis of interest-averse products is to provide accurate and transparent pricing information to consumers who are interested in evaluating a variety of financing options available, including an interest-averse product. The ADC, which currently offers interest-averse small business financing for micro-enterprise entrepreneurs, is also exploring research and development around the creation of an interest-averse mortgage product.

Innovative Financing Techniques

Habitat for Humanity's housing development programs is widely recognized as a national model. There are 35 Habitat affiliates throughout the state and their efforts have resulted in the development of over 1,000 homes since the 1980s. The average income of a Twin Cities Habitat homeowner is just under \$26,000 a year. The development costs of Habitat homes are kept low through collaborative efforts with volunteers who provide labor, businesses that provide low-cost and donated materials and corporations and independent supporters who provide financial support. Homebuyer financing costs are kept low because they carry a zero percent interest rate loan. Furthermore, Habitat has liquidity to continue to provide zero-interest mortgage loans through the creation of a secondary market for these loans in Minnesota. The Habitat for Humanity model yields impressive results—nearly 90 percent of the mortgages made to Twin Cities Habitat homeowners last year went to emerging market households.¹⁴³

Develop Innovations in Insurance Requirements

One of the biggest threats to sustainable homeownership is the threat of an unexpected circumstance, and the effect that would have on a household's financial condition. The decision to own a home must be carefully weighed, particularly for lower- and more moderate-income families. Without adequate savings and financial cushion, a job loss or unexpected medical need could place the stability of a household's home in danger.

¹⁴³ Habitat for Humanity 2004 Annual Report. www.hfhmn.org/PublicRelations/AR_2004.pdf

While household's who hold less than 20 percent of the equity in their home are typically required to purchase private mortgage insurance (PMI), this form of insurance only protects the lender, not the household. However, innovations in insurance that protect the consumer in the case of an unexpected financial blow are now available. The Mortgage Guaranty Insurance Corporation (MGIC) and Genworth Financial Corporation offer a mortgage payment protection plan that provides coverage for the borrower in cases of involuntary unemployment and disability.

APPENDIX J: RESPONSE TO PUBLIC COMMENTS RECEIVED ON THE DRAFT EMHI BUSINESS PLAN

The Emerging Markets Homeownership Initiative released a draft business plan to increase homeownership in Minnesota's emerging markets and invited public comment on this plan beginning April 28, 2005. Seventeen public comments were received within the four week public comment period, which ended May 27, 2005. The content of the comments ranged from lenders and real estate professionals inquiring about how they could participate in the Emerging Markets Homeownership Initiative, to thoughtful analyses of a variety of strategies proposed in the plan. A summary of comments follows below.

Six comments were received asking to participate in an Emerging Markets Homeownership Initiative pilot or initiative. Interested parties varied from an independent Realtor noting interest in establishing a mentoring program for new professionals in the real estate industry, to requests by both a non-profit organization and a municipal government for consideration of an Emerging Markets Homeownership Initiative pilot in their community.

Response:

The level of interest on behalf of individuals, industry trade associations and local municipalities, each of which were represented in the comments requesting or documenting a commitment to the Emerging Markets Homeownership Initiative, underscores the commitment to encouraging access to homeownership opportunities for all Minnesotans. Central to implementation of the strategies outlined in the EMHI business plan is the development of an inclusive governance structure. EMHI pilot efforts should be thoughtfully and carefully crafted, in conjunction with input from the EMHI Governance Group, to ensure successful community-wide implementation. The Emerging Markets Homeownership Initiative looks forward to working with communities interested in initiating an EMHI pilot over the next several months.

Five comments were provided by consumers who wrote in response to an article released by the St. Paul Pioneer Press on the availability of the draft EMHI plan. Their comments included general concern over the ability to locate affordable ownership opportunities for those earning \$40,000 or under given the rapid price appreciation in the Twin Cities housing market over the past several years, to concerns over the prioritization of targeting resources to prospective emerging market homeowners.

Response:

The Emerging Markets Homeownership Initiative recognizes the need to better understand the extent to which adequately priced ownership options. As a result, the EMHI business plan outlines a scope of work for an analysis of the supply of ownership housing throughout Minnesota. This effort will be led by the Federal Reserve Bank of Minneapolis.

Housing supply is one identified factor that influences a household's ability to own; several other important factors impact the ownership decision. The Emerging Markets Homeownership Initiative, through a collaborative research and with involvement from the homeownership industry and public sectors, identified six key homeownership barriers that the homeownership industry can successfully address. These six barriers include (1) wealth and downpayment; (2) credit and lending practices; (3) immigration, cultural factors and preferences; (4) discrimination; (5) information, marketing and outreach and (6) homebuyer counseling and financial education.

The Emerging Markets Homeownership Initiative, through substantial analytical research, has found that Minnesota's racial and ethnic homeownership gap harms the quality of life for all Minnesotans. In 2000, Minnesota led the nation in its overall homeownership rate at 74%, but just 42% of emerging markets in Minnesota were homeowners. Furthermore, as demographic diversity increases throughout the state, it is critical that the homeownership industry be equipped to meet the needs of prospective emerging market buyers; the Emerging Markets Homeownership Initiative is designed to ensure access to homeownership opportunities for communities that have not benefited equally from such opportunities in the past.

It is important to note that Minnesota's status as having the highest homeownership rate in the nation is not by accident. Minnesota's homeownership industry offers a number of resources that exist to provide services to individuals who wish to become homeowners. Additional innovations under EMHI are likely to enhance homeownership opportunities for all Minnesotans, regardless of race or ethnicity.

Four comments addressed the proposed homeownership rate goals proposed in the draft EMHI business plan. One commenter questioned whether the 58% emerging market homeownership rate goal could really be actualized by 2012, given the demographic changes affecting Minnesota. One commenter asked that more aggressive homeownership rate goals be considered, given the dramatic existing homeownership rate gap, while another commenter noted the importance of establishing attainable goals. One commenter noted merit in establishing emerging market homeownership rate sub-goals by location or municipality. It was recommended that plan strengthen language around its overall goal of homeownership rate parity.

Response:

The emerging market homeownership rates goals set forth in the draft EMHI business plan have been re-evaluated and two changes appear in the final plan. While the overall emerging markets homeownership rate goal of 58% by 2012 remains unchanged, it is estimated that the homeownership gap goal, originally projected at 25% in the draft business plan, could be reduced to 23% by 2012. In the original analysis, "high" homeownership rate projections (established by Harvard University's Joint Center for Housing Studies) were used for emerging market populations and the non-Hispanic white population. Given the emphasis on developing strategies to better reach emerging market populations under EMHI, the use of "high" emerging market homeownership rate projections is justified. However, given the existing non-Hispanic white homeownership

attainment in Minnesota, which is the highest homeownership rate in the nation and in history, there is considerable uncertainty around how much higher non-Hispanic white homeownership rates can actually reach. Additionally, the purpose of EMHI is to concentrate efforts on implementing strategies to increase the emerging market homeownership rate in Minnesota. Therefore, the final EMHI business plan uses the “low” homeownership rate projections for non-Hispanic whites at 81% in 2012, with emerging market homeownership projected at 58% that same year, thereby decreasing the homeownership gap from 32% in 2000 to 23% by 2012.

The second change to the homeownership rate goal analysis results in an increase in the number of new emerging market homeowners to be served. Revised analysis indicates that if 40,000 new emerging market homeowners are served from 2006-2012, the emerging market homeownership rate will increase to 58% by 2012. The goals presented in the draft business plan (Appendix G) analyzed a 2004 to 2012 time horizon which indicated that by serving 5,000 first-time emerging market homeowners per year, the emerging market homeownership rate could be increased to 58% by 2012. However, it is important to account for implementation time before beginning to track EMHI goals. Therefore, it is recommended that EMHI formally track goal progress beginning in 2006. The homeownership rate goal analysis listed in Appendix G has been updated in the text of the business plan to reflect a 2006 benchmark start date. As a result, analysis suggests that a 58% emerging market homeownership rate is attainable by 2012 in Minnesota by serving 5,700 new emerging market homeowners for seven years (2006-2012).

It is important to emphasize that the primary goal of the EMHI business plan is to set forth strategies that will result in homeownership rate parity in Minnesota. The plan establishes interim stretch goals to 2012 that are attainable through collaborative efforts designed to increase homeownership opportunities among emerging markets. However, the plan recognizes that business, economic and demographic trends change over time. Therefore, a critical component of the EMHI business plan is the recommendation that an annual EMHI summit occur, at which time economic and demographic conditions affecting EMHI will be evaluated.

The EMHI encourages individual communities to analyze emerging market homeownership rate benchmarks and trends, and to establish goals to reach and serve emerging markets at the community level. As individual EMHI pilot efforts are identified, and with the assistance of the EMHI Governance Group, homeownership rate sub-goals by community may be established.

Three comments noted suggestions for improving the analysis of the affordability of the supply of homeownership units. Several writers noted concern with regard to assumptions that were used in the preliminary supply analysis contained in the draft business plan. Important and notable concerns include suggestions to better articulate income assumptions underlying the analysis; the suggestion that the “no debt” assumption used in the analysis is problematic and misleading; and the lack of emphasis on affordable ownership supply for lower-income emerging market households (under \$30,000 year). One commenter noted that the analysis did not include a thorough

discussion of economic factors impacting home ownership affordability that include factors such as high construction costs; rapid appreciation; and rising property taxes, insurance and association fees. This commenter also noted that a discussion of affordable ownership preservation tools, such as community land trust and limited equity coop models, was lacking.

Response:

The comments received in response to the supply analysis presented in the EMHI business plan offer numerous suggestions that can be incorporated into the scope of work for strategy 7 of the business plan: *Acknowledge Issues of Housing Supply*. The Federal Reserve Bank of Minneapolis will lead the effort to craft a more complete market analysis of the demand for, and supply of, ownership units affordable to emerging market households around the state. The preliminary supply analysis will be moved into the appendix in its entirety.

Two comments expressed concern with respect to the proposed EMHI governance structure. One commenter questioned the complexity of a structure that includes a Governance Group and four independent Community Councils. One commenter noted the complexity of cultures within cultures, suggesting that four councils focused on promoting homeownership in the African-American, Asian, Hispanic and Native American communities should be flexible enough to meet the needs of sub-cultures.

Response:

Establishing an inclusive network of community-advisors and an accountable Governance Group are critical elements to successful implementation of the Emerging Markets Homeownership Initiative. Community members have shown substantial interest in participating on the councils, as have prospective members of the Governance Group. Given the diversity of cultures and populations EMHI is designed to reach, care will be taken to provide liaison staff familiar with the objectives of EMHI to support the governance structure and the EMHI Director.

Two comments outlined suggestions for EMHI to deal proactively with issues of race and racism. One commenter provided thoughtful analysis recommending that strategy 7 of the business plan (*Acknowledge Issues of Race*) be executed in advance of strategy 1 (*Establish a Network of Trusted Advisors*). It was noted that diversity and cultural competency training for homeownership industry professionals may be required before a trusted advisor role can be established. It was also suggested that the EMHI business plan articulate a more proactive plan for dealing with issues of race. One commenter also noted that the term “emerging markets,” which is featured in the name of the initiative, may be offensive to communities of color that have resided in the United States for centuries.

Response:

Issues of race and ethnicity have been identified as central to the initiative and EMHI. A number of opportunities were made available to homeownership industry professionals to pursue meaningful dialogue on issues of race over the past year, including a forum on

race that was jointly sponsored by EMHI, the Citizens League and the Metropolitan Alliance of Community Centers. The Emerging Markets Homeownership Initiative will continue to pursue opportunities for substantive dialogue on issues of race and ethnicity.

The term “Emerging Markets Homeownership Initiative” reflects the increasing influence of communities of color and Hispanic ethnicity on a variety of business sectors in Minnesota. A number of recent studies and articles have highlighted the impact of minority buying power; a recent report issued by the Selig Center for Economic Growth at the University of Georgia reports that Minnesota is in the top ten states with the fastest growing markets for African-American, Asian and Hispanic buyers. The term is intended to reflect the opportunity that diverse markets present within the Minnesota economy. A number of other names were considered before the term “emerging markets” was selected, however other terms were deemed problematic for a variety of reasons. The Emerging Markets Homeownership Initiative is focused on increasing successful homeownership opportunities among *all* households of color and Hispanic ethnicity in Minnesota.

A central component of the plan is the development of a joint certification program, targeted to both homeownership industry lenders and real estate professionals, that would incorporate training on cultural competency, downpayment assistance resources and flexible lending products.

Two comments were provided on strategy 2 (*Establish a Trusted Advisor Network*) and the *Establish Industry Certification Program* scope of work. One commenter suggested that a code of conduct be included as one of the objectives of this scope of work. Another commenter questioned the utility in creating a training program that links real estate professionals and mortgage lenders, when each already have separate training opportunities.

Response:

The EMHI business plan recommends the creation of a certification program that would apply to the homeownership industry—of which both mortgage lenders and real estate professionals play a critical role. The implementation of this certification program will be initiated by trade associations representing these two sectors of the homeownership industry. The creation of a separate code of conduct can be evaluated by these two entities as they lead the effort to implement this scope of work.

Other Responses

A number of commenters provided suggestions with regard to specific scopes of work included in the business plan and important factors that influence successful homeownership. The issues raised by these commenters are presented below.

- Rental Housing: The EMHI business plan recognizes that several factors can, and should, affect whether one purchases a home. Personal preferences can play a role in this decision as can homebuyer readiness. EMHI wholeheartedly acknowledges the important role affordable rental housing stock plays in

communities. Whether one ultimately is able to save for the costs of homeownership while residing in rental housing, or if prefers renting over homeownership, EMHI supports a continuum of housing choices throughout Minnesota communities.

- **Affordable Housing Production:** The Federal Reserve Bank will be leading an effort to examine the demand and supply of the homeownership stock. Results of this analysis could help inform additional discussions of factors affecting affordable housing production including the following: culturally-sensitive housing and architecture needs; the importance of locational choice of ownership opportunities; the merits of a variety of ownership production/preservation tools including new construction, infill housing and rehabilitation; the critical role of building materials, and the quality therein; and the variety of long-term affordability models for communities to consider (community land trusts, limited equity co-ops, etc.).
- **Predatory Lending:** The growth of the subprime loan market, which cannot universally be equated with predatory features, is an important trend that affects this initiative. It is important that consumers access fairly priced loans, regardless of one's race or ethnicity.
- ***Expand Culturally-Sensitive Homeowners Training* Scope of Work:** It is recommended that any electronic homebuyer education course (web-based) include a "testing" component to ensure mastery of key concepts. This testing component would apply to all course takers regardless of race or ethnicity.
- ***Develop Post-Purchase Services Alliance* Scope of Work:** Advice and counsel with regard to loan refinancing is a key finding of the *Don't Borrow Trouble Campaign* in Minnesota. The proposed Post-Purchase Services Alliance includes recognition of such.
- ***Develop and Implement EMHI Website* Scope of Work:** As the website is developed, the need for translation will be considered.

APPENDIX K: EMHI BUSINESS PLAN EXECUTIVE SUMMARY



A Business Plan to Increase Homeownership in Emerging Markets 40,000 New Emerging Market Homeowners by 2012

The Issue: *Minnesota's growing diversity and its minority homeownership gap*

Minnesota is becoming increasingly diverse. The emerging market (non-white) population doubled from 6% of the population in 1990 to 12% in 2000. This was 2.5 times the growth in the United States as a whole, and demographers project the growth will continue. Minnesota is a national leader in the overall homeownership rate (77% in 2003), but a national laggard in minority homeownership rates. Minnesota's minority homeownership rate of 42% in 2000 trailed the national average of 46%. In 2003, Minnesota had a white to minority homeownership gap of 32%—the eighth largest gap among the states.

A Call to Action: *The Emerging Markets Homeownership Initiative (EMHI)*

Significant past efforts on this issue have demonstrated that a comprehensive, sustained effort by key stakeholders is required to make significant progress. As a result, in 2004, the Federal Reserve Bank of Minneapolis, the Fannie Mae Minnesota Partnership Office, and the Minnesota Housing Finance Agency convened a broad and diverse group of over 50 stakeholders (real estate professionals, lenders, builders, government, nonprofits, faith-based organizations and community groups). In June 2004, Governor Pawlenty challenged the group to develop a business plan to increase homeownership in emerging markets. In response, the group conducted and reviewed extensive quantitative and qualitative research on homeownership barriers and nationwide best practices, and held thirteen focus groups and listening sessions across the state to learn from successful and prospective homeowners what they believed would work to increase Minnesota's emerging market homeownership rate. The result of this effort is a business plan to increase homeownership in Minnesota's emerging markets that is intended to be *actionable, achievable, and impactful*.

Key Findings: *A Quality of Life Issue, A Business Opportunity, Barriers Identified*

1. Minnesota's racial homeownership gap harms the quality of life for all Minnesotans. Homeownership strengthens communities and builds wealth. An abundance of evidence demonstrates that homeownership stabilizes neighborhoods, increases civic involvement and improves educational outcomes. A home is also a principal economic asset for economic security and opportunities such as higher education and business creation. Minnesota's significant and persistent racial homeownership gap deprives potential homeowners of the individual benefits of homeownership and the remainder of the state of the collective benefit of stronger, more stable communities.

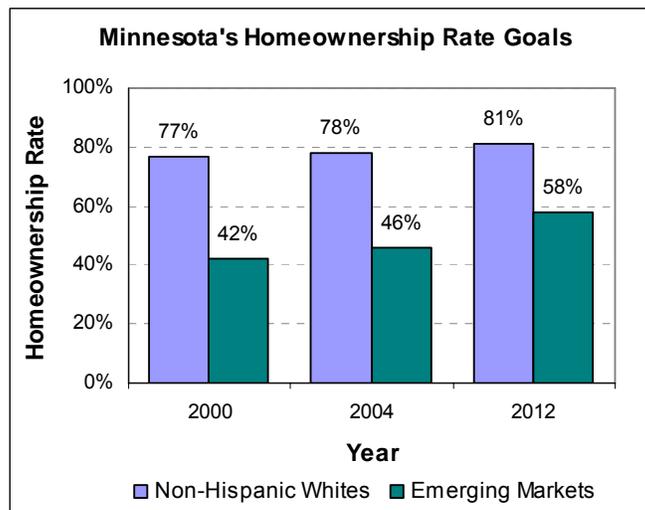
2. Emerging markets represent a business opportunity.

The population of Minnesota’s emerging markets is growing faster than the white population, and their buying power is growing faster as well. For example, the buying power of Minnesota’s black population tripled from 1990-2004, an increase unmatched by any other state. This increased buying power presents an opportunity for the homeownership industry and other businesses. Currently, emerging markets comprise 40% of first-time homebuyers, according to the National Association of Realtors.

3. There are six principal barriers to homeownership for emerging markets that can be addressed successfully by the homeownership industry and community partners:

- Wealth and downpayment
- Credit and lending practices
- Cultural factors, preferences and immigration
- Information, marketing and outreach
- Discrimination
- Homebuyer counseling and financial education

The Goal: *40,000 Emerging Market Homeowners by 2012*



Source: Harvard University’s Joint Center for Housing Studies; Claritas Data; Minnesota State Demographic Center; and MHFA Staff Tabulations

The vision of EMHI is for Minnesota to have no gap in homeownership based on race or ethnicity. The business plan sets forth an intermediate goal based on the analysis of population trends, economic conditions, and an aggressive and sustained effort to implement the strategies set forth below. This goal is for 40,000 new emerging market homeowners by 2012. If achieved, the minority homeownership rate would increase to 58% by 2012, and the gap would decline from 32% to 23%.

Strategies: *Trusted Guidance, Outreach, Innovative Structural Support*

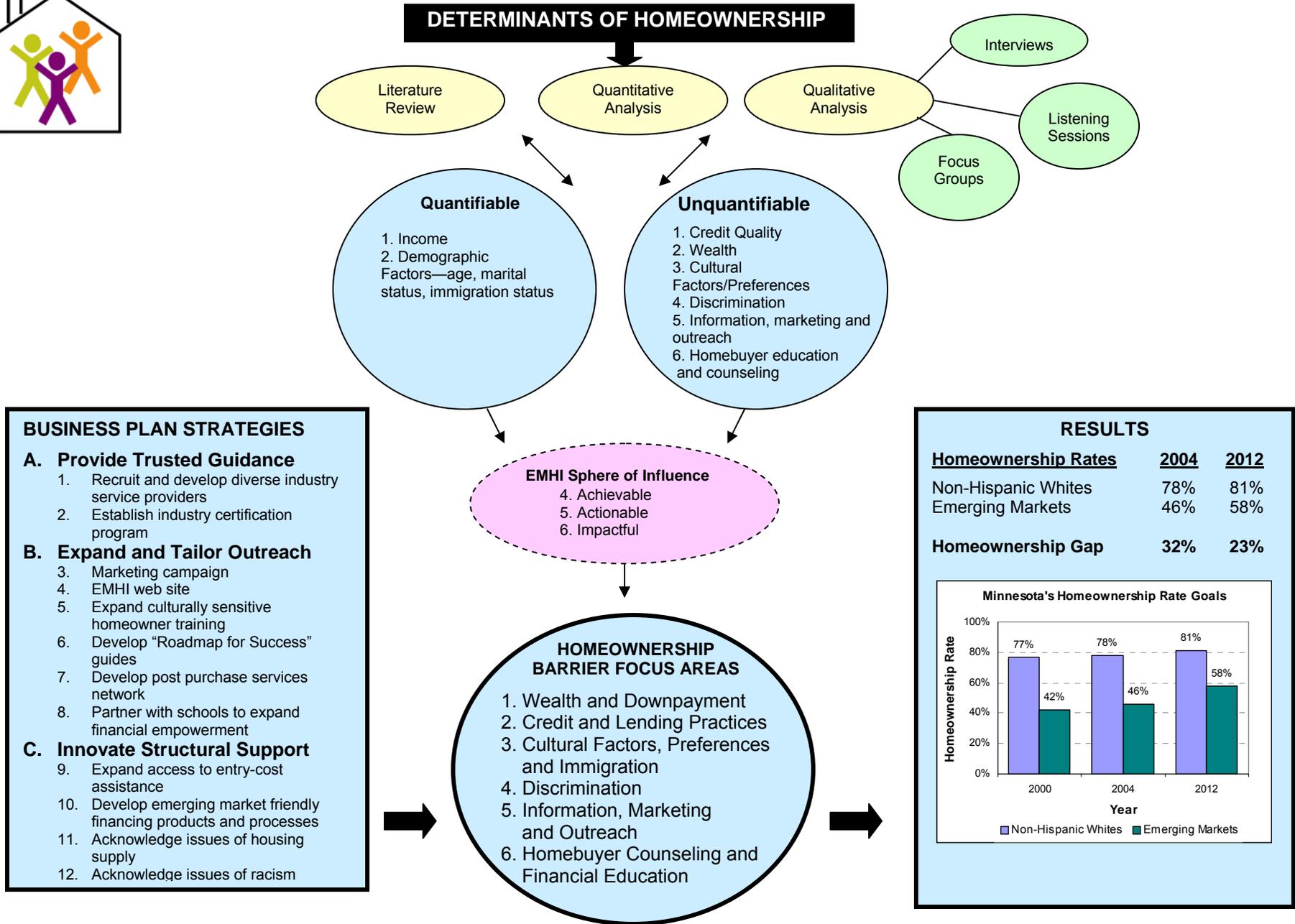
The business plan identifies twelve implementation strategies targeted to emerging markets that will enhance trust in the home buying process (e.g. recruit diverse homeownership industry professionals), expand outreach (e.g. develop culturally-sensitive homebuyer training), and grow product innovations (e.g. expand culturally-sensitive mortgage products and underwriting processes).

Implementation: *State-wide Initiatives, Pilot Projects, Governance, Accountability*

“Scopes of work” have been developed for each business plan strategy setting forth objectives and timelines. Each of the strategies will be implemented on a state-wide or pilot basis to determine their effectiveness. The stakeholders involved in developing EMHI and others are committing to take responsibility for specific tasks in each scope of work. Implementation will be led by a Governance Group with the continued support and input of a broad-based advisory group and committee. Advisory councils have been established for emerging market communities. The Governance Group will engage a Director who will be responsible for overseeing implementation of the business plan, and tracking progress on the “scopes of work” and stakeholder commitments. An annual “EMHI Summit” will be held to report to stakeholders on progress and to propose any necessary adjustments to the business plan. It is anticipated that EMHI stakeholders will fund the necessary organizational infrastructure from existing resources. As specific scopes of work are implemented, resource issues will be addressed.

See the accompanying charts for a description of (1) the EMHI strategic business plan framework and (2) the EMHI governance structure. A complete version of the business plan is available at the following web page: www.mhfa.state.mn.us/homes/EMHI_Business_Plan.pdf.

Chart 1: Emerging Markets Homeownership Initiative Business Plan Strategic Framework
40,000 New Emerging Market Homeowners by 2012



See next page for a listing of EMHI participants

Emerging Markets Homeownership Initiative Participants

Conveners

Federal Reserve Bank of Minneapolis
Fannie Mae Minnesota Partnership Office
Minnesota Housing Finance Agency

Committee Participants

Bremer Bank	Minnesota Association of Mortgage Brokers
US Bank	Minnesota Association of Realtors
Wells Fargo Bank	Minnesota Bankers Association
Home Ownership Center	Mortgage Association of Minnesota
Independent Community Bankers of Minnesota	

Advisory Group Participants

African American Family Services	Metropolitan Alliance of Community Centers
African Development Center	Metropolitan Council
American Indian OIC	Mille Lacs Band of Ojibwe - Community Development - Housing
Bremer Bank	Minneapolis Area Association of Realtors
Bremer Foundation	Minneapolis Public Housing Authority
Builders Outreach Foundation	Minneapolis Urban League
Center for Asians and Pacific Islanders	Minnesota Coalition of Community Land Trusts
Chicanos Latinos Unidos En Servicios	Minnesota Credit Union Network
City of Minneapolis	Minnesota Housing Partnership
City of St. Paul	Minnesota Manufactured Housing Association
Cross Cultural Home Ownership Alliance	Mortgage Guaranty Insurance Company
Department of Housing and Urban Development	Multicultural Network of Real Estate Professionals
Don't Borrow Trouble	National Association of Housing and Redevelopment Officials (MN)
Duluth Local Initiatives Support Corporation	Neighborhood Development Alliance
Family Housing Fund	Pohlad Family Foundation
First Homes	St. Paul Area Association of Realtors
Freddie Mac	St. Paul Urban League
Greater Minnesota Housing Fund	TCF Bank
Greater Twin Cities United Way	United Migrant Opportunity Services, Inc.
Habitat for Humanity MN	US Bank
Hmong American Partnership	USDA Rural Development
Joint Religious Legislative Coalition	Wells Fargo Bank
Local Initiatives Support Corporation	

Public Involvement

Public Listening Sessions

1. Duluth
2. Twin Cities Metropolitan Area
3. Rochester

Focus Group Sessions

Homeownership Industry

1. Real Estate Professionals
2. Loan Originators

Emerging Market Consumers

Greater Minnesota

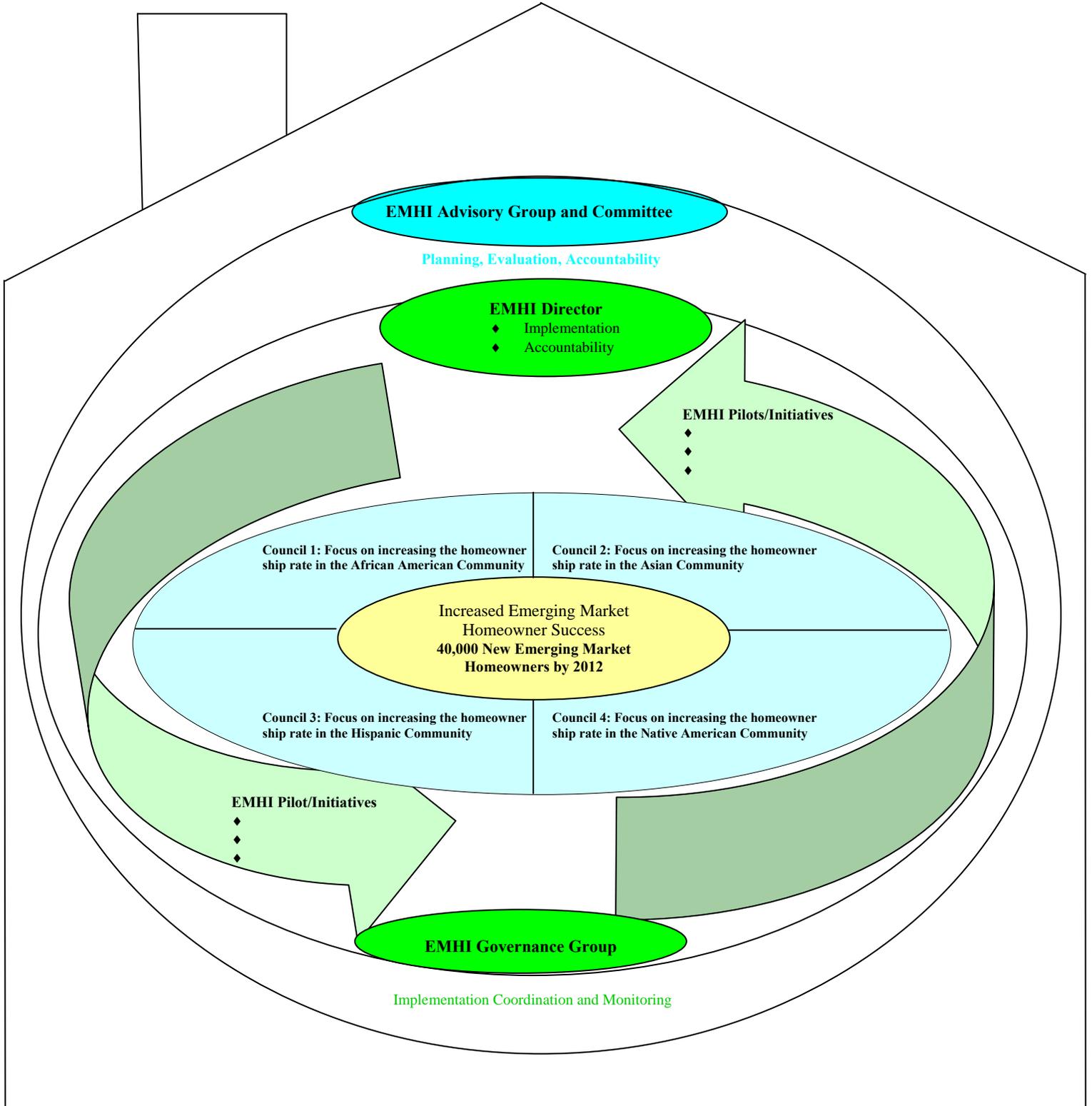
1. Duluth
2. Native American
3. Willmar (Hispanic and Somali)

Twin Cities Metropolitan Area

1. African American
2. Asian
3. Hispanic
4. Recent African Immigrant
5. Native American

Chart 2

EMERGING MARKETS HOMEOWNERSHIP INITIATIVE Governance Structure



Emerging Markets Homeownership Initiative Governance Structure

Advisory Group and Committee

Staffing: The Committee and Advisory Group are comprised of representatives from organizations that developed the EMHI business plan.

Duties and Responsibilities: The Committee and Advisory Group review the progress towards meeting the overall goals on EMHI initiatives and pilots at least annually. The Committee and Advisory Group advise the Governance Group and Director on both the progress and future direction of EMHI.

Governance Group

Staffing: The Governance Group is comprised of one representative from each of the convening organizations, three representatives appointed by the Committee with one member representing mortgage lenders, one member representing real estate professionals, and one member representing homeowner educators/counselors, and six representatives appointed by the Advisory Group. The Governance Group will reflect the diversity of the communities served by EMHI.

Duties and Responsibilities: The Governance Group provides ongoing review, oversight and direction on the business plan, including assuring progress towards achieving EMHI goals as well as the operational and financial status of initiatives and pilots. This Group provides direction and support to the Director, and shall be responsible for retention and evaluation of the Director. The Group also supports fundraising efforts for EMHI. The Governance Group shall meet at least once per month.

Director

Staffing: The Director is the chief executive responsible for EMHI, and is hired by the EMHI conveners.

Duties and Responsibilities: The Director is primarily responsible for the implementation of the business plan on a statewide basis. The Director coordinates the work of individuals and organizations which make substantive contributions to the initiatives and pilots developed and implemented under the business plan, and tracks the results of these efforts. The Director convenes and facilitates the Community Councils together with other groups that may have an impact on achievement of goals under the business plan. The Director is responsible for establishing and maintaining the EMHI “brand” and image in cooperation with the Governance Group, and is the primary spokesperson for EMHI. The Director is primarily responsible for fundraising on behalf of the initiative.

Community Councils

Staffing: Four EMHI Community Councils are comprised of nine to twelve individuals representing the African-American, Native American, Asian and Latino communities in Minnesota. The councils are recruited by the Director with the advice of the Governance Group.

Duties and Responsibilities: The councils provide advice to the Director to assure effective implementation of the strategies under each element of the business plan as it pertains to the community represented by each council. Council members are advocates for their community by raising issues pertaining to the initiative and assuring that initiatives and pilots are designed to address community needs. Council members are also liaisons to the communities they represent by assuring effective communication to the community pertaining to EMHI, convening and building bridges between the community and EMHI, and acting as the primary point of contact between the community and EMHI.

Evaluation and Tracking

An EMHI summit, to be held annually, will provide an opportunity to monitor progress in achieving business plan objectives and goals. Participants in the summit will include the EMHI Advisory Group, Committee, Governance Group, Director and Community Councils. The EMHI summit will review the impact that underlying economic conditions, including the interest rate and the affordability of the statewide housing supply, have on achievement of EMHI goals.

END OF REPORT

