

## Financial burden of homeownership spread unequally

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When it comes to homeownership, Hispanics in New Jersey, single parents in California and senior citizens in Rhode Island all have something in common: More than a third have an unaffordable mortgage.

Inequality in America has traditionally followed familiar patterns of race, age and education. Those long-standing gaps have been magnified by the real estate boom and now the historic bust, according to an Associated Press analysis of 2007 Census Bureau data.

While minorities have made significant gains in wealth and home ownership since 1990, "things are going into reverse gear," and now the homeownership rate for blacks and Hispanics is falling, said Edward Wolff, a New York University economist who studies income and wealth distribution.

Nearly 9.5 million households, or nearly one out of every five of the nearly 52 million homeowners with a mortgage, spend 38 percent or more of their pretax income on their mortgage payment, property taxes and insurance, the AP's analysis found. That's the new threshold to qualify for the loan assistance program launched last month by Fannie Mae and Freddie Mac, the mortgage finance companies now under government control.

Not surprisingly, the most financially burdened are in California, Florida, Nevada and the Northeast, areas hardest hit by soaring home prices and now foreclosures.

Yet in every state, there are many pockets of homeowners who are just one unexpected medical bill or car repair from falling behind on their mortgages and setting the foreclosure clock ticking.

The AP's analysis reveals the enormous scope of the U.S. housing market bust and how unevenly the burdens are spread, both geographically and demographically. And the situation is worsening — a record 10 percent of U.S. homeowners with a mortgage are at least one payment behind or were in foreclosure as of last fall, compared with 7.5 percent a year earlier and just under 6 percent in 2006.

The burden is clearly more arduous among minority households, the AP analysis found.

Just under a third of Hispanic homeowners spend at least 38 percent of their income on housing expenses, compared with about a quarter of Asian and black households and nearly 16 percent of white households.

In much of the country, the trend is more pronounced. For example, included among those who spent at least 38 percent of their income on housing are:

About 40 percent of black borrowers in California, Nevada, Oregon and Massachusetts.

More than 30 percent of Asian borrowers in California and Florida.

Nearly half of Hispanic homeowners in Rhode Island and at least 40 percent in Alaska, California, Florida, Hawaii, Maryland, New Jersey and New York.

Many Latino families wound up with expensive subprime mortgages because they often have cash income and no bank account, said Janis Bowdler, associate director for wealth building at National Council of La Raza in Washington.

It is common for Latino families to have stable incomes, but limited credit histories — and hence lower credit scores, which lenders use to gauge risk. Many have multiple sources of income, some of it in cash.

During the housing boom, consumer advocates say it was both faster and more profitable for mortgage brokers and loan officers to put Hispanic families in loans that didn't require proof of income, but charged higher interest rates.

"They had them out the door in a fraction of the time," Bowdler said. "They were definitely getting more expensive loans."

Now, Hispanic households like the Cazares family of Visalia, Calif are caught up in the mortgage crisis. Out of work for more than a year after contracting a rare disease caused by an airborne fungus, Joel, 36, brings in \$550 every two weeks in disability payments. His wife Maria, 34, makes about twice that much money weekly by working as a hair stylist.

They haven't made their \$2,500 home loan payment in four months. The couple, who have three kids, have been waiting since October for a loan modification from IndyMac Federal Bank, which was seized by the federal government last July. They hope it will bring their payment down to a more manageable level of around of \$1,500.

In the meantime, they buy supersized bags of generic cereal to make ends meet. They've canceled their Internet service and are only using one of their



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two cars, a pickup truck, because it gets better gas mileage.

Our money's like a piece of gum," Joel Cazares said. "We're making it stretch as far and as long as we can."

The AP's analysis also found that education level is highly correlated with income and mortgage expenses. Nearly one in three of those without a high school or college diploma spend at least 38 percent of their income on housing, compared with only 12 percent of those with advanced degrees, the AP analysis found.

In addition, seniors spent a far higher share of their income on housing than any other age group.

While about half of seniors own their homes outright, the other half often face financial challenges and diminished earning potential.

Among seniors with a mortgage, nearly three in 10 spend at least 38 percent of their income on housing, according to the AP analysis. The stress is most severe in nine states: California, Washington D.C., Florida, Massachusetts, Nevada, New Jersey, New York, Rhode Island and Vermont.

As the pain from the mortgage crisis spreads, Washington is abuzz with talk of new efforts to stabilize the housing market and stop the freefall in home prices. President-elect Barack Obama has pledged to direct up to \$100 billion in financial bailout money toward a sweeping effort to prevent foreclosures.

Frustrated housing counselors around the country say that if the Bush administration had grasped the severity of the foreclosure crisis earlier and enacted more ambitious programs long ago, the pain for American families and the economy might not be so severe.

"So far, we haven't seen the mortgage products or resources that we really need to help people who are at risk of losing their homes," said Brenda Clement, executive director of the Housing Action Coalition of Rhode Island.

To be sure, housing counselors acknowledge that some borrowers only have themselves to blame. They clearly got in over their heads and many knowingly took out risky loans. But they also say that mortgage brokers and lenders took advantage of the elderly, immigrants and the unsophisticated.

For decades, the government and most lenders considered homeowners who spent 30 percent or more of their income on housing to be financially strapped.

But that rule of thumb got thrown out the window during the housing boom. When prices were soaring, many Americans could only afford to buy a home by taking out ever-riskier home loans. Lenders were happy to cooperate, because if the homeowner defaulted, the property could still be sold for enough money to cover the loan.

House-rich and giddy, American attitudes about debt and the risks that go with it changed dramatically.

"The average American is in hock up to his eyeballs," said David Wyss, chief economist at Standard & Poor's in New York.

That's especially true now that prices are falling and around 13 million households, or about one in four with a mortgage, owes more to the bank than their properties are worth, according to Mark Zandi, chief economist at economic forecasting firm Moody's Economy.com

One of those "underwater" borrowers is Heather Noble, 36, who lives outside Detroit and can see five foreclosures from her front porch. A single mother, she struggled to make her mortgage payment since being laid off from her job in October 2007.

Late last summer, she started a \$17-an-hour job handling billing for a doctor's office, but making her home loan payment of around \$1,000 a month was a stretch because her take-home pay is at most \$1,600 a month, depending on the amount of time she works.

Starting last spring, she spent hour after hour on the phone talking to what she describes as "every human being and division possible" at JPMorgan Chase & Co., before obtaining approval for a loan modification.

Noble's modification had been held up until the fall, and she was actually blocked from making her monthly payment until the Associated Press made an inquiry into her case. "In the large volumes that we're handling, we occasionally will miss something," spokesman Tom Kelly said.

Her two home loans have now been modified. Effective Feb 1., her new monthly payment will be a much more affordable \$683 a month.

"That I can pay," she said. "Now I can pay my bills and stay current and not worry about losing my house."

Among single parents like Noble, more than a quarter in Michigan and about 27 percent nationwide spend at least 38 percent of their income on housing. And in California the strain is far worse: About four in 10 single parents meet that threshold.

And what worries Avis Holmes, director of Detroit Non-Profit Housing Corp. in Detroit, is that much of the government's financial aid isn't targeted at those who are in the greatest danger of losing their homes.

So far, Holmes said, "there are no rescue funds for the homeowners."

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AP Data Specialist Allen Chen contributed to this report.

(This version CORRECTS amount of Cazares family income in graf 18, name of Indymac Federal Bank in graf 19.)

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