CHAPTER 11: HOUSING CHALLENGES ON THE BORDER

Lack of affordable housing on the Texas-Mexico Border is a problem that has grown over the past 25 years. A dramatic increase in the population coupled with a high poverty rate leaves many on the Border unable to afford decent housing. Additionally, abusive financial practices that hinder the acquisition of wealth necessary to own a home further exacerbates the situation. Texas' Border, the new frontier of the nation, is experiencing a housing crisis.

A Growing Population Strains Affordable Housing Resources

According to the U.S. Census Bureau, Texas= 43 Border counties have added more than 258,000 new residents since 2000, and more than 700,000 since 1990. And, from 1995 to 2020, the area's population is expected to increase by almost 60 percent, from 4 million to 6.3 million. Yet, the supply of affordable housing has not kept pace with that growth. As a result, a large number of families in today=s Border population of over 4.3 million people find they cannot afford the cost of a decent home.

Nearly 10 percent of Texas' population lives in the Border cities of El Paso, Del Rio, Eagle Pass, Laredo, McAllen and Brownsville; and, almost two million people reside in just six of the 43 Border counties. As the chart *Population Changes in the Border Counties* shows, both urban and rural areas are growing rapidly. While the state=s population grew 23 percent, excluding only El Paso, all of the Border counties= population growth rates surpassed this state figure. Moreover, when considering the population influence of sister Border communities in Mexico, the population explosion is even more evident. In the last 10 years, the populations of El Paso-Ciudad Juarez grew by 38 percent, Laredo-Nuevo Laredo by 48 percent, and the McAllen-Reynosa area by 38 percent.[1]

Population Change in Border Counties

County	Population in 2000	Percent Change from 1990 to 2000
Cameron	335,227	29
Hidalgo	569,463	49
Starr	53,597	32
Webb	193,117	45
Maverick	47,297	30
El Paso	679,622	15

Source: Texas Low Income Housing Information Service

The number of Texas households has increased rapidly as a result of population growth and the large number of baby-boomers who have entered household-formation age. The number of households increased by 44 percent in the 1970s, 23 percent during the 1980s, and 22 percent in the 1990s, resulting in nearly 7.4 million in Texas households by 2000.[2]

While the population has exploded and the number of households has increased, the availability of affordable housing has not kept pace. Housing problems fall most heavily on those households in the bottom fifth of the income distribution; yet, only 34 percent of the renters in this quintile receive housing assistance[3]. Even families in households with incomes well above the poverty line often struggle to find housing that meets their needs at costs they can afford. Nationally, between 1997 and 2001, the number of lower-middle and middle-income households spending more than half their incomes on housing surged to more than 700,000.[4]

Additionally, the already scarce supply of smaller, less-costly housing is shrinking, particularly among two- to four-unit apartment buildings. Regulatory and environmental constraints on land are driving up land costs in and around the nation's metropolitan areas, limiting development of affordable housing. Restrictive regulations and public resistance to high-density development make it difficult to replace or add lower-cost units. Prospects for additional income supports or housing subsidies are equally bleak. As the federal deficit balloons, the calls to cut spending on social and housing programs are growing even as the demand for and costs of these programs continues to escalate. Thus, in the Texas Border Region, population growth demands an increase in affordable housing, but regulatory and social constraints hinder its development, creating a crisis.

Poverty and the Housing Crisis

Poverty is strongly related to housing problems B both substandard housing and excessive housing cost. Families near and below the poverty level simply cannot pay the costs of decent housing in the private market. Moreover, in Texas, there is less than one subsidized housing unit for every five qualified families, leading families to either pay an excessive amount of their income for housing or live in substandard or overcrowded housing.

The effects of the housing crisis on the Border are even graver, where 22.4 percent of families live in poverty compared to 12 percent statewide. According to the Texas Comptroller of Public Accounts, the percentage of Border families in poverty is down from 1997, when nearly 27 percent of Border residents were living in poverty. However, other sources relate that the real number of Border families living in poverty has actually increased. As the chart *Changes in Poverty Levels* shows, during the past decade, there have been modest increases in the number of families, as well as actual number of persons, living in poverty in the major Border counties, with the exception of Maverick County, which experienced only a slight decrease.

Changes in Family Poverty Levels

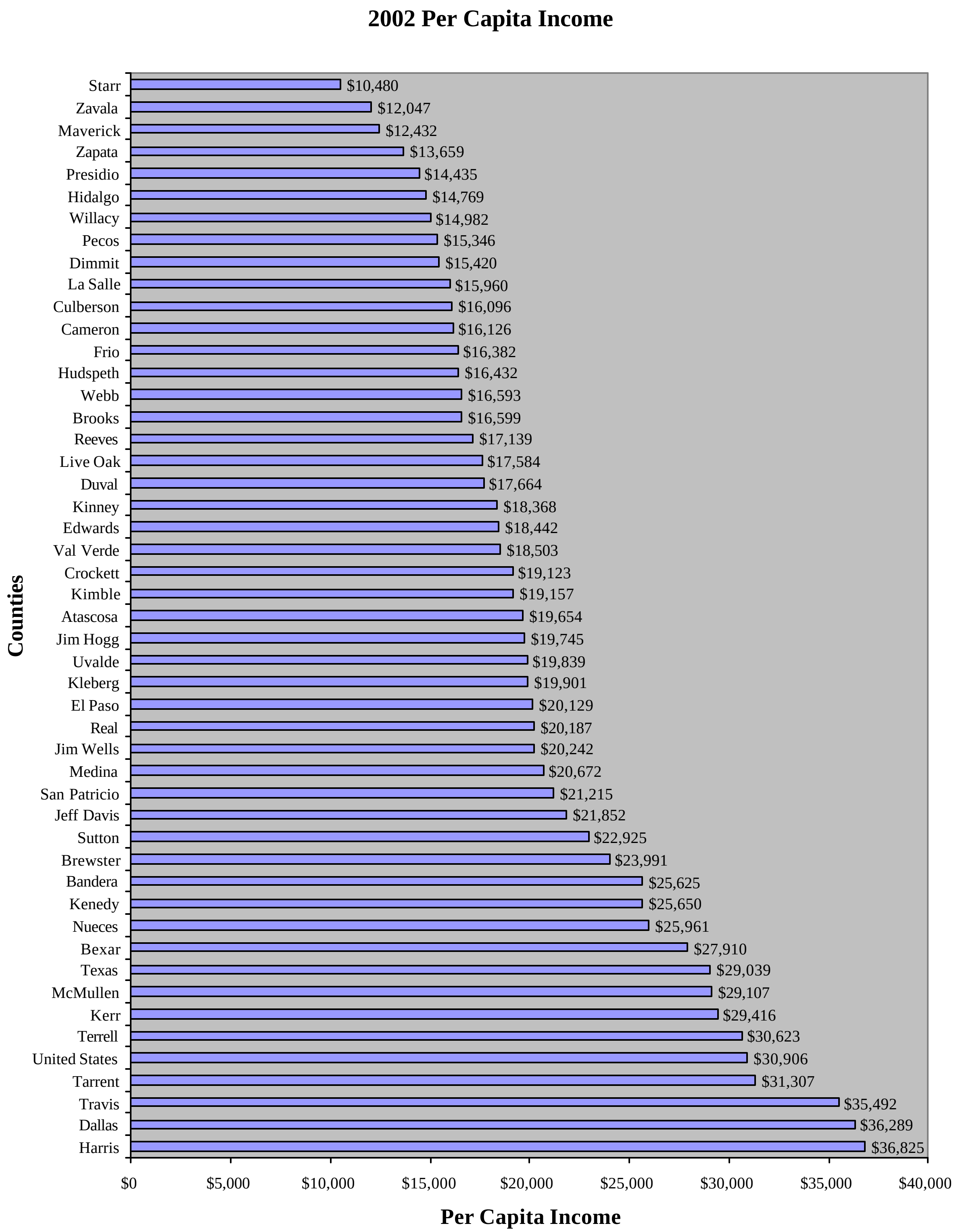
County	Number of Families Below Poverty 1989	Number of Families Below Poverty 2000	Percent of Families in Poverty 2000
Cameron	20,544	22,648	28.2

Hidalgo	32,172	41,725	31.3
Starr	5,217	6,003	47.4
Webb	9,838	11,661	26.7
Maverick	3,768	3,601	32.0
El Paso	32,259	34,264	20.5
County Average, Statewide	---	---	12.0

Source: Texas Low-Income Housing Information Service

In fact, Texas' entire Border Region is plagued by poverty with a per capita income far below the national average, and a marked lack of affordable housing exacerbates an already tenuous economic environment. For decades, per capita income along the Texas-Mexico Border has plummeted so low that in certain areas of the Border it is now the lowest in the nation, ranging from 38 percent of the U.S. per capita income in Eagle Pass to 60 percent in El Paso, compared with a state average of 94 percent.[5]

Moreover, across the nation, per capita income differences have been narrowing because percent gains at the lower levels have been increasing at a faster rate than those at higher income levels. However, this is not the case along the Border. As the chart *Per Capita Income, 2002* on the next page shows, income in every county along the Border hovered below or near the State per capita average. In 2002, when the State average per capita income was around $30,000, only three counties had higher averages. In fact, five Border counties had an average per capita income that was less than 50 percent of the state average. Thousands of Texans were living on less than $15,000 a year in 2002. With the average cost of housing totaling over $7,000 a year, those Border residents struggling to break the poverty cycle are greatly hindered.[6]



Source: United States Census

Poor Housing Conditions

Substandard housing abounds across Texas. From the older neighborhoods of big cities and small towns to the fast growing colonias along the Rio Grande, communities contain dilapidated, deteriorating housing. Unfortunately, this is often the only affordable housing available to low-income families. "Worst case housing needs" are defined by the U.S. Department of Housing & Urban Development as families who spend more than one-half of their income on housing or live in severely inadequate housing. The number of Texans with worst-case housing needs has reached an all time high of more than 650,000 households and 78,128 households in Texas lack complete plumbing or kitchen facilities.

Due to the high-level of poverty in the Border Region, colonias, impoverished and unincorporated subdivisions, flourish along the 1,248 mile stretch from Cameron County to El Paso County. Beginning in the 1950s, colonia developers sold property to low-income families with little or no infrastructure so that residents could build their homes piecemeal with whatever materials they could find or afford. As a result, the more than 1,400 colonias that line the Border suffer from faulty construction, open sewage, lack of sanitary water, dusty unpaved roads, and no plumbing.

Over the past decade, Border counties experienced some progress in eliminating the worst housing conditions. The chart *Units Lacking Plumbing Facilities* shows the number of houses that lacked complete plumbing facilities was cut in half over the decade. Although this number declined it is still alarming at the total of 11,627 houses in these six counties alone. And, many houses that have plumbing facilities in place may still lack access to reliable water service, as many residents do not have hookups to their houses because they cannot pass inspections to qualify, and lack the money to make the needed repairs to meet codes. By as recently as June 2000, only 54 percent of the Texas colonia residents surveyed had sewer service and more than 50 percent reported having to obtain drinking water from sources other than taps.

Units Lacking Plumbing Facilities

County	Units Lacking Plumbing, 2000
Cameron	1,870
Hidalgo	4,844
Starr	679
Webb	1,493
Maverick	408
El Paso	2,333
TOTAL	**11,627**

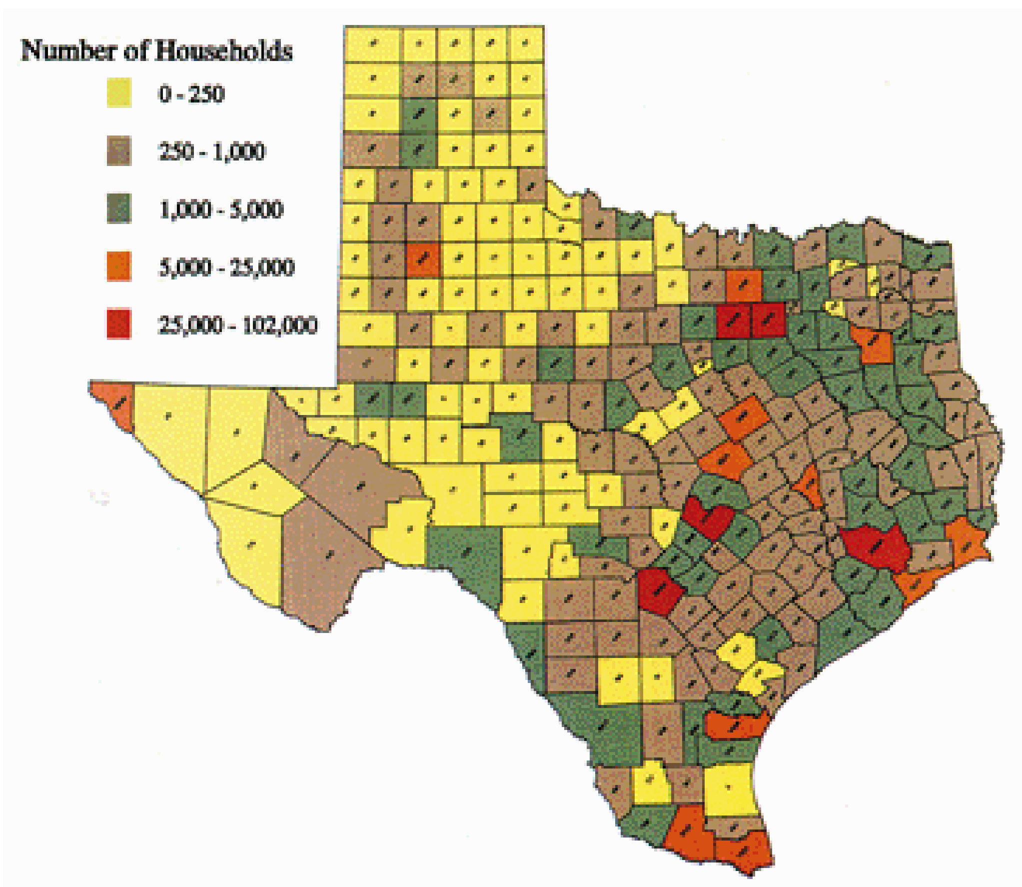
Source: Texas Low-Income Housing Information Service.

The State has taken steps to address the conditions of colonias, authorizing grants and loans for infrastructure projects; and in 1995, legislation was passed to prohibit developers from selling lots without water and wastewater treatment services. Unfortunately, many regions containing these colonias still lack the staffing, political will, and other resources to enforce this law.

Housing Affordability

According to the Texas Low Income Housing Information Service, the concept of "affordable housing" assumes a federal housing standard that a household pay no more than 30 percent of its income for housing.[7] Nationwide, three out of ten households now have housing affordability problems. 14.3 million households are severely cost-burdened, spending more than 50 percent of their incomes on housing, and another 17.3 million households are moderately cost-burdened, spending 30 to 50 percent of incomes on housing.[8] Of the 2 million renters in Texas, 17 percent spend more than half of their total income on rent. Among very low income families in Texas who earn less than half of the local median family income, 42 percent -- 228,057 families -- spend more than one-half of their income on rent. The map *Number of Households Spending More than 50 percent of their Income on Housing Costs* illustrates the breakdown of areas where housing affordability is particularly scarce.

Number of Households Spending More Than 50 Percent of Their Income on Housing Costs

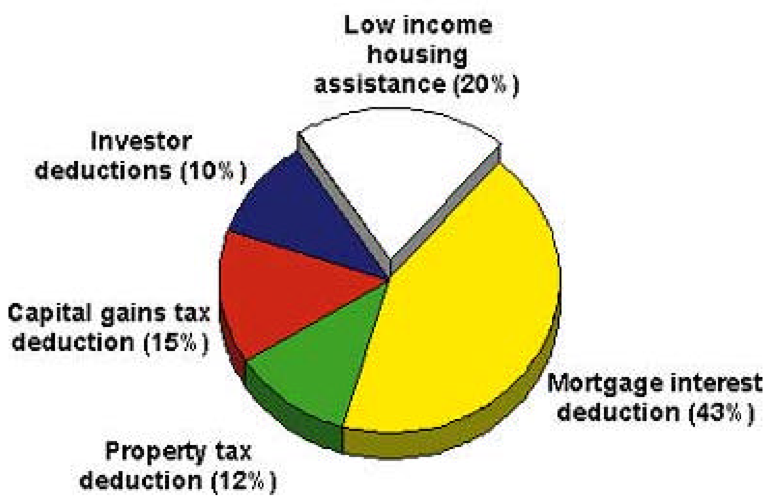


Source: Texas Low Income Housing Information Service

In fact, in Texas, a family supported by one full-time minimum wage earner will find that the rent for a moderate, one-bedroom apartment far exceeds his budget in every Texas metropolitan area. A minimum wage worker would have to work an average of 87 hours a week to afford a modest two-bedroom apartment in Texas.[9] Moreover, for Border communities, today's economy does not offer promise that affordability pressures will ease.

Low incomes, high poverty rates and few affordable housing options create a great need for subsidized housing. According to the United States Census Bureau, and Housing and Urban Development, five out of six low income Texas families who qualify for government housing assistance do not receive it because of the shortage of subsidized housing in Texas. Moreover, as the graph *Federal Tax Expenditures for Housing* shows, only 20 cents of every dollar of federal tax expenditures for housing is spent on low-income housing assistance. The other 80 percent of federal housing dollars are dedicated to reimbursing taxpayers in all tax brackets who meet the criteria to claim income tax deductions. Finally, Texas spends a paltry $3 million of state general revenue funds for low-income housing, where other states, who have dedicated sources of revenue, can earmark millions. For example, Ohio has a Housing Trust Fund of $30 million and Florida has a Fund of about $350 million. Developing and making available more subsidized housing units for low income Texans is essential in ensuring we have healthy productive families.

Federal Tax Expenditures for Housing



Source: Texas Low Income Housing Information Service.

Home Ownership and Rental

Low interest rates, mortgage innovations, and home price appreciation have helped push the national homeownership rate up to 68 percent.[10] Home price appreciation and new housing construction have lifted aggregate real home equity.[11] Despite the high level of poverty, the outlook for housing ownership along the Border is positive. The chart *Homeownership and Rental Trends*, on the next page, demonstrates that in several Border counties there has been a strong increase in owner-occupied housing over the past decade.

Home Ownership and Rental Trends

County	Homeownership Rate, 2000	Percent Increase in Homeownership Units, 1990 to 2000	Percent Increase in Rental Units, 1990 to 2000
Cameron	68%	37	20
Hidalgo	73%	58	37
Starr	78%	41	45
Webb	66%	60	29
Maverick	70%	39	24
El Paso	64%	28	4

Source: Texas Low-Income Housing Information Service

Compared to the statewide homeownership rate of 63.8 percent, the rate in most Border counties is high. In the six counties above, for example, homeownership ranged from 63.6 percent in El Paso to nearly 80 percent in Starr County.

Yet, despite the positive data for homeownership rates on the Border, the reality for homeowners is still far from ideal. Specifically, homeowners along the Border are subject to exorbitant housing costs and are more heavily burdened by these costs than other Texans as a whole. While approximately 14 percent of all Texas homeowners pay more than 35 percent of their income for homeowner related costs, homeowners in the largest Border counties pay quite a bit more, with between 15 and 19 percent of owners paying more than 35 percent of their income for their homes.

Renters experience an even greater housing cost burden. Statewide, 27 percent of renters pay more than 35 percent of their income for rent B a decrease from 29 percent in 1990. Similarly, among the most populous Border counties, most showed a reduction in the percentage of renters burdened with payments exceeding 35 percent of their income. However, while the percentage of renters paying excessive amounts of their income for housing has gone down, the total number of renters paying such amounts has increased. The huge growth in the number of households in Border counties has more than offset the percentage declines.

The chart *Household Size and Percent Income Accounting for Home-Related Costs*, on the next page, shows that Hidalgo County experienced a significant decrease in the percentage of rent-burdened households from 34 percent in 1990 to 29 percent in 2000. However, the growth in the number of households over this period means that while there were 9,001 rent-burdened households in Hidalgo County in 1990, there were 12,179 in 2000.

Household Size and Percent Income Accounting for Home-Related Costs

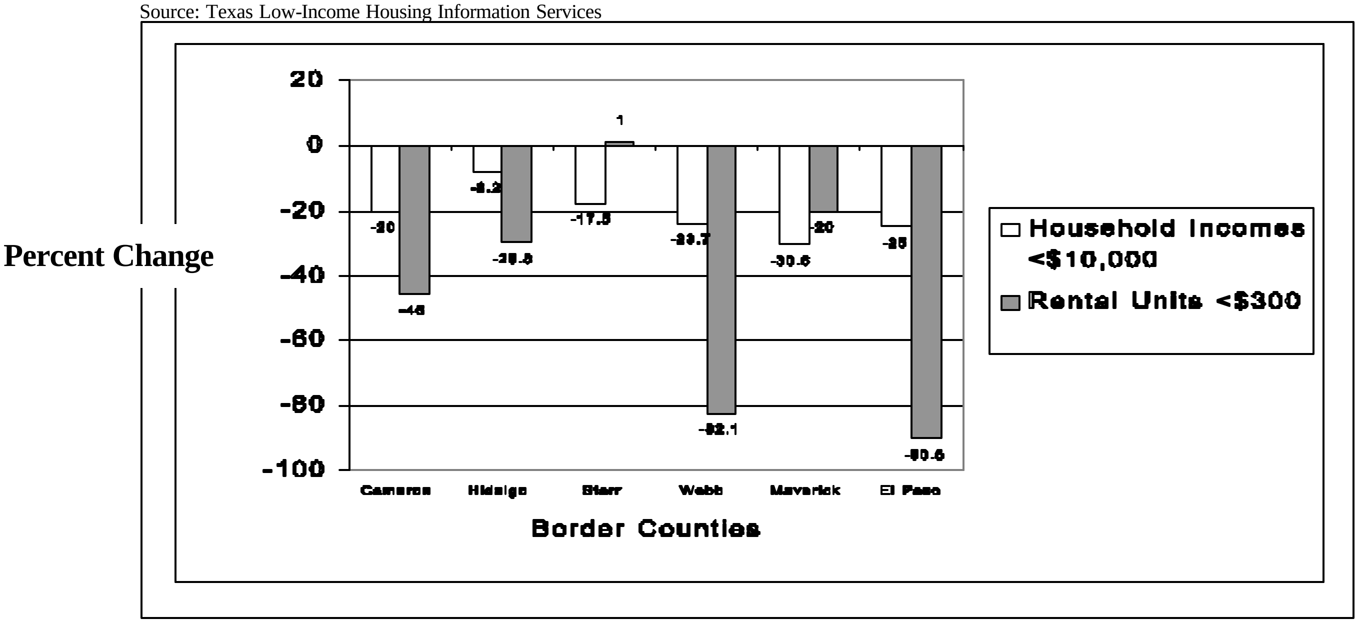
County	Persons per Household	Renters Paying > 35 Percent of Income for Housing, 1990	Renters Paying > 35 Percent of Income for Housing, 2000	Owners Paying > 35 Percent of Income for Housing, 2000
Cameron	3.4	34.7%	30.4%	15.2%
Hidalgo	3.6	34.4%	28.9%	15.7%
Starr	3.7	49.9%	28.9%	14.1%
Webb	3.8	35.9%	30.7%	19.1%
Maverick	3.6	36.6%	30.9%	13.4%
El Paso	3.2	30.7%	31.2%	15.6%
Statewide	---	29.3%	27.1%	13.6%

Source: Texas Low-Income Housing Information Services.

Further adding to the housing affordability crisis is the fact that while the number of low-income families who need access to lower-cost housing has grown, since 1990, there has been a reduction in rental housing available for less than $300 per month. In other words, there is an increasing gap between those who need lower cost housing and the affordable units available. This gap is greatest in the Border counties with the largest populations. The chart *Changes in Number of Households with Income Less than $10,000 and Rental Units Less than $300* illustrates this point.

Changes in Number of Households with Income Less than $10,000 and Rental Units Less than $300

Source: Texas Low-Income Housing Information Services



Issues Affecting Affordable Housing Availability

There are other pertinent factors that affect affordable housing availability besides per capita income and poverty rates. Confusing and overlapping jurisdictional obligations often leave gaps in services and leave communities without adequate services. Additionally, private lenders contribute to the problem by viewing housing funding through a strictly business lens which limits access to capital for mortgages for many middle- and low-income families. Additionally, in low income communities, unscrupulous lenders often target vulnerable borrowers.

Confusing Jurisdictions - Who Helps?

Taking into account the continual downward trend in housing affordability, the public and private sectors are trying to alleviate the housing problem in Texas and throughout the United States through various programs. The Texas Department of Housing and Community Affairs (TDHCA), the Department of Housing and Urban Development (HUD), the Fannie Mae Corporation, the Freddie Mac Corporation, and other various department programs are involved in this effort.

TDHCA implements two programs named Home Investment Partnerships Program (HOME) funded by the federal HUD agency, and Housing Trust Fund (HTF). These programs focus on providing decent and low-cost housing for extremely low-, very low-, and low-income households to remedy homelessness, deteriorating housing stock, and excessive rent burdens. HOME also assists in building a foundation for relationships between state and local governments and private and nonprofit organizations to further help Texans' housing needs. TDHCA employs a third program through the Office of Colonia Initiatives (OCI) which concentrates on the Texas-Mexico Border Region. The OCI aims to help individuals who live in Colonias, subdivisions in unincorporated areas within 150 miles of the Border, and with an income at or below 60 percent of the annual median family income (AMFI). Similarly, Low Income Housing Tax Credits (LIHTC) exist to benefit very low-income households which are at or below 60 AMFI.

The Texas Department of Housing and Community Affairs also engages in multiple housing finance programs for Texans from moderate to very low incomes. The first of these programs is the Multifamily Bond Program and the First Time Homebuyer Program, which helps moderate, low, and very low income households to finance housing and to purchase first homes, respectively. The Down Payment Assistance Program aids households at or below 80 percent AMFI for subordinate lien financing and households at or below 60 percent AMFI for grants. The Department also provides the Texas Statewide Homebuyer Education Program with counseling services for Texans with various needs.

HUD serves state and local governments by allocating a large portion of their budget to implement various fundamental housing and community development programs. HUD provides assistance to single-family home owner-occupants and to multifamily housing through Single Family and Multi-family Housing Mortgage Insurance Programs. This Department also offers a Community Development Block Grant

(CDBG) program to facilitate various neighborhood and community revitalization projects. Section 8 Housing Assistance Payments, Section 8 Family Unification Program (Section 8-FUP), and Section 8 Family Self-Sufficiency Program Coordinators are all various types of grants which help alleviate living expenses. Various other grants include the formula grants Public Housing Operating Subsidy and Public Housing Modernization - Comprehensive Grants Program (CGP) and competitive grants such as the HOPE VI - Revitalization Grants and Comprehensive Improvement Assistance Program (CIAP). HUD assists in housing for Native Americans such as the Indian Housing Block Grants (IHBG) and the Indian Community Development Block Grant Program (ICDBG). Grants for people with special needs are realized through the Supportive Housing For the Elderly (Section 202), the Supportive Housing For Persons With Disabilities (Section 811), the Section 8 Mainstream Program, the Section 8 Designated Housing, Elderly/Disabled Service Coordinator Funds (EDSCF), and Housing Opportunities for Persons with AIDS (HOPWA).

The third entity which plays a major role in increasing the availability and affordability of housing for low, moderate, and middle-income Americans is the Fannie Mae Corporation. This association assists low to moderate income owner and renter families with mortgage purchasing by the Single Family Mortgage Products, the Multifamily Mortgage Products, Affordable and Special Needs Housing Product, and Community Development Lending. Low and moderate income households also benefit from the Single Family Public Finance program which assists in the purchase of tax exempt revenue bonds and the Investment Tools Program.

Another corporation created by Congress to provide housing aid is the Freddie Mac Corporation. This organization ultimately provides renters and homeowners with improved access to home financing and less expensive housing costs. The Freddie Mac Corporation facilitates mortgage purchasing benefiting low to moderate income single family owner occupants and/or low to moderate renters in the Affordable Lending and Community Development Lending Programs.

The public sector also provides assistance with loans and grants through a range of other departments. The Office of Rural Community Affairs and U.S. Department of Agriculture offer different community development programs which consist of loans and project grants for housing in rural and farm related areas. The U.S. Department of Veterans Affairs also offers veteran housing programs by providing grants and loans for veterans in need of housing assistance. The Texas General Land Office (GLO), the Texas Department on Aging, the Texas Department of Mental Health and Mental Retardation, and the Texas Department of Human Services all provide loans, grants, and financial or other services which help residents obtain or retain affordable housing. Technical assistance and information about all forms of grants are available through the State Grants Team and the Office of the Attorney General, which assists in dispute resolution concerning housing for Texas residents.

Although the public and private sectors have taken strides to improve the affordable housing issue, more assistance is still needed. Problems such as predatory lending and high rates of subprime lending hinder the progress achieved by these aid programs.

Home Refinance Loans: subprime lenders

The decline in lower cost rental units places increasing pressure on lower wage workers to resort to paying excessive housing costs. Poverty or lower incomes may drive individuals to seek home loans through non-traditional, more expensive avenues. In other words, when a family cannot afford to have adequate plumbing and electricity or has been forced, because of limited access to resources, to build on a plot of land that has not been surveyed, that person will not get homeowner's insurance or title insurance, will not have access to any affordable housing financing packages offered through Fannie Mae, and will be relegated to the expensive and oppressive subprime lending market. A subprime mortgage loan is a loan that has a higher interest rate and fee than a prime loan. According to Fannie Mae, subprime mortgages are routinely three to four percentage points or more higher than a comparable prime market loan.

There are legitimate reasons for subprime loans. For example, a subprime, higher interest loan is the market=s way of providing credit to borrowers who pose a greater risk of default. However, targeting households or referring them to the subprime market in cases where applicants could have reasonably qualified for prime market loans undermines the long-term asset-building potential of those households. Each additional interest point on a home mortgage means tens of thousands of dollars on the total cost of a mortgage over the life of the loan. These higher payments reduce funds families have for education or other critical living expenses. The textbox *Impact of Subprime Borrowing on a Typical Household* gives an example of a subprime loan.

Impact of Subprime Borrowing on a Typical Household

A home priced at $85,000, with a five percent down payment will require a mortgage of slightly under $81,000. For every percentage point of interest over a base rate of eight percent interest on a 30 year loan, the borrower will pay $687 per year more. Over the 30 year term of this nine percent loan, the extra amount paid reaches $21,000.

If the same household obtained a loan at six percent, they would have $57,572 for other discretionary purposes over the life of the loan. A loan with a 12 percent rate, by contrast, would require payment of an additional $85,712 over the 30 year period. And investing the difference in payments in a savings account each month would yield considerably more over a 30 year period.

Source: Federal National Mortgage Association Explanation

Despite the legitimate lending need for a subprime lending market, the overall growth of that lending market is cause for concern. The table *Increase in Loans Nationwide* shows that subprime lending has grown faster than prime lending in the past year, primarily due to the fact that subprime lenders continue to originate growing numbers of refinance loans.[12]

Increase in Loans Nationwide

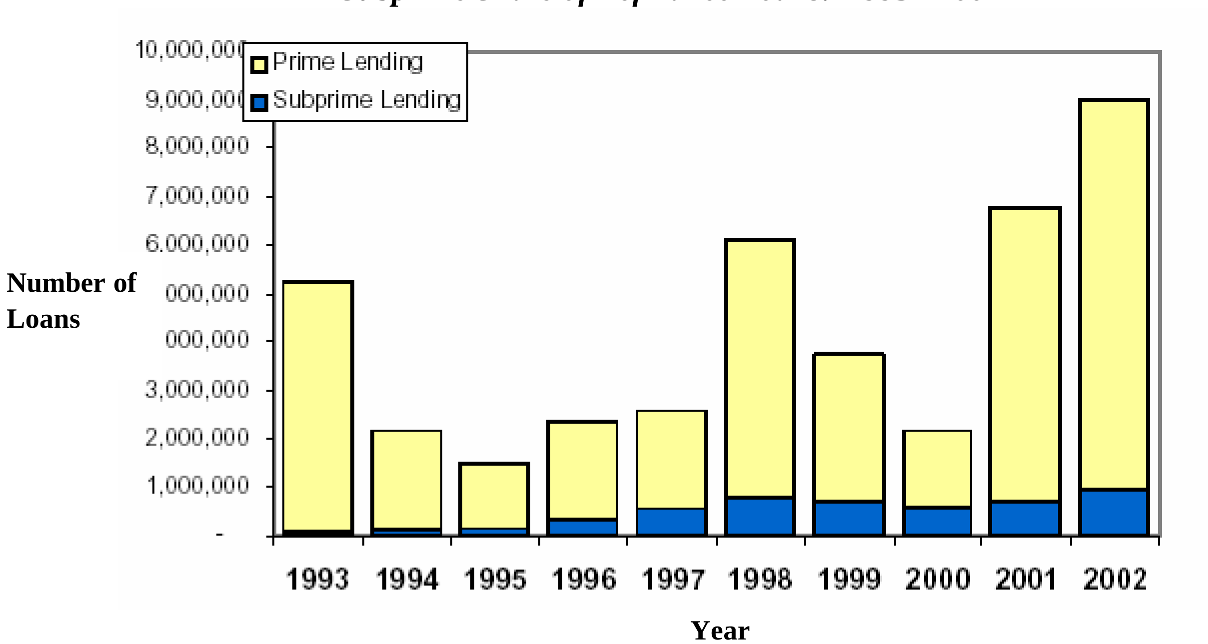
	Number Originated in 2001	**Number Originated in 2002**	**Percent Increase**
Prime Loans	700,638	933,025	33%

Subprime Loans	6,073,987	8,062,713	25%

Source: ACORN

Moreover, as the chart *Subprime Share of Refinance Loans: 1993 - 2002* shows, subprime lending volume has generally increased steadily since 1993, with the exception of moderate drops in 1999 and 2000. The subprime share of all refinance lending has decreased from a high of 22 percent in 2000, due to the sharp fall in interest rates in 2001 and 2002.

Subprime Share of Refinance Loans: 1993 - 2002



Source: ACORN

Subprime lending particularly plagues Texas' Border Region. A May 2002 national study provided startling data about subprime home refinance loans in the Texas Border region. The study reports that several Texas Border cities have the highest rates of subprime home mortgage refinance loans in the nation, with El Paso, ranking worst among the nation's 311 major cities.[13]

The chart on the next page, *MSA Ranking by Overall Percentage of Subprime Refinance Loans* shows that out of 331 MSAs nationwide, 11 out of the 30 MSAs with the largest percentages of subprime loans are in Texas; seven of these 11 are in the top 10, four of which are in Texas Border cities. Nationally, subprime lending comprises about 25 percent of all refinance lending.

MSA Ranking by Overall Percentage of Subprime Refinance Loans

Rank	MSA Name	Population	Conventional Refinance Loans	Percent Subprime
1	**El Paso, TX**	**679,622**	**1,767**	**47.82**
2	**Corpus Christi, TX**	**380,783**	**1,061**	**46.84**
3	**Laredo, TX**	**193,117**	**342**	**45.32**
4	**Killeen-Temple, TX**	**312,952**	**683**	**44.80**
5	**Beaumont-Port Arthur, TX**	**385,090**	**1,160**	**44.48**
6	Miami, FL	2,253,362	10,701	42.67
7	Columbus, GA-AL	274,624	1,799	42.63
8	**San Antonio, TX**	**1,592,383**	**5,270**	**41.90**
9	Memphis, TN-AR-MS	1,135,614	7,577	41.86
10	**Galveston-Texas City, TX**	**250,158**	**944**	**41.63**
11	Fayetteville, NC	302,963	1,814	41.23
12	Enid, OK	57,813	427	40,75
13	Jamestown, NY	139,750	737	40.71
14	Rocky Mount, NC	143.026	872	39.68
15	Buffalo-Niagara Falls, NY	1,170,111	5,218	39.36
16	Daytona Beach, FL	493.175	3.477	38.77
17	Danville, VA	110,156	802	38.53
18	**McAllen-Edinburg-Mission, TX**	**569,463**	**1,345**	**37.62**
19	Sumter, SC	104,646	734	37.33
20	**Victoria, TX**	**84,088**	**220**	**37.27**
21	Goldsboro, NC	113,329	681	37.00
22	Lakeland-Winter Haven, FL	483,924	3,234	36.92
23	Florence, SC	125,761	963	36.55
24	Pine Bluff, AR	84,278	364	36.54
25	New York, NY	9,312,235	23,104	36.50
26	Orlando, FL	1,644,561	10,275	36.18
27	Hickory-Morganton-Lenoir, NC	341,851	3,481	36.08
28	Charlotte-Gastonia-Rock Hill, NC-SC	1,499,293	14,789	36.07
29	**Brownsville-Harlingen-San Benito, TX**	**335,227**	**795**	**35.97**
30	**Houston, TX**	**4,177,646**	**14,552**	**35.70**

Source: Texas Low Income Housing Information Services, using data from the May 2002 *Risk or Race? Racial Disparities and the Subprime Refinance Market* report by the Center for Community Change.

Predatory Lending

While not all subprime lenders are predatory, just about all predatory loans are subprime, and the subprime industry is a fertile breeding ground for abusive practices. Subprime loans are properly given to people who are unable to obtain a conventional prime loan at the standard bank rate because of credit problems or other circumstances. It is appropriate for such loans to have higher interest rates to compensate for the potentially greater risk that these borrowers represent, and such risk-based pricing can fulfill an important market need. Predatory lending occurs when loan terms or conditions become abusive or when borrowers who should qualify for credit on better terms are targeted instead for higher cost loans.

Predatory lenders impose unfair and abusive loan terms on borrowers, often through aggressive sales tactic and/or taking advantage of borrowers' lack of understanding of extremely complicated transactions. Predatory loans turn the dream of homeownership into a nightmare and in the worst instances end in foreclosure. The damage done by predatory lenders is increased by the fact that predatory loans are made in such concentrated volume in poor and minority neighborhoods where better loans are not readily available, and the loss of equity, and foreclosure can devastate already fragile communities. In fact, predatory lending threatens to reverse the progress that has been made in increasing homeownership rates among minority and lower income families. Predatory lenders bombard homeowners in many communities with refinance offers that lead to loans at high rates, with inflated fees and other abusive terms. By stripping equity and increasing indebtedness, these practices cause homeowners to lose their equity, rather than use it for their benefit.

Targeting Minority Borrowers

The rise in subprime and predatory lending has been most dramatic in minority communities. Half of all refinance loans made in predominantly black neighborhoods are subprime, compared to just nine percent in predominantly white neighborhoods. Subprime lending, with its higher prices and associated abuses, is becoming the dominant form of lending in minority communities. On the Border, the greatest volume of subprime lending today is in home refinance loans, although a growing number are home purchase loans. The bulk of these loans come from colonia developers. Residents of colonias increasingly use subprime home refinance loans to finance completion of their homes.

The study cited above, *Risk or Race? Disparities and the Subprime Refinance Market*, also reported that minority borrowers historically suffer from the highest percentages of subprime home refinance loans. Moreover, although home loans to minorities are growing at double-digit rates, blacks and Hispanics are still about twice as likely as non-Hispanic whites to be rejected when they apply for a mortgage.[14]

Due to the large population of Hispanics in the Border Region and Texas as a whole, high rates of subprime lending can have profound implications for the state. In fact, the highest percentages in the nation of subprime loans given to Hispanics are seen in El Paso with 52 percent and San Antonio with 51 percent. The chart *Percentage of Subprime Loans for All-Hispanic Census Tracts*, on the next page, shows the ten MSAs with the largest percentages of subprime loans made to Hispanic borrowers**C**four of the ten worst are in Texas.

Percentage of Subprime Refinance Loans for All-Hispanic Census Tracts

Rank	MSA Name	Population	Conventional Refinance Loans	Percent Subprime
1	**Corpus Christi, TX**	380,783	118	75
2	**San Antonio, TX**	1,592,383	678	60
3	**El Paso, TX**	678,622	534	59
4	**Albuquerque, NM**	712,738	210	52
5	**Laredo, TX**	193,117	267	48
6	**Brownsville-Harlingen, TX**	335,227	229	43
7	**McAllen-Edinburg, TX**	569,463	649	42
8	**Tucson, AZ**	843,746	225	41
9	**Miami, FL**	2,253,362	1,929	41
10	**Orange County, CA**	2,846,289	101	38

Source: Texas Low Income Housing Information Services, using data from the Center for Community Change

Hispanic census tracts reflect an inordinately high percentage of subprime lending. While creditworthiness may be a consideration in the use of subprime lenders in these cities, additional data must certainly be obtained and examined to reach a full explanation as to why Hispanic residents in Texas Border cities have such exceptional percentages of subprime loans. Evidence has emerged that Hispanic communities are actually being targeted by subprime and predatory lenders.

In one instance, a major mortgage lender, Citigroup and its subsidiary CitiFinancial were accused of engaging in systematic and widespread deceptive and abusive practices. In 2002, Citigroup settled with the Federal Trade Commission for over $200 million. Allegations against Citigroup include targeting low-income, mainly black and Hispanic communities for abusive sales tactics. In another instance, in a lawsuit against Household International, Inc., a nationwide mortgage lender, the court ordered Household to "provide Spanish language loan documents in all branch offices that are certified by Household to conduct Spanish language transactions… Household shall also make available a one-page loan disclosure of key terms in Spanish in certified branch offices to those Borrowers whose primary language is Spanish."[15]

According to anecdotal evidence, Household International, Inc. was engaged in predatory lending practices that preyed on borrowers with limited English proficiency by purposefully developing loan materials that were confusing to Spanish readers and speakers. In general, lenders can often target Spanish speaking borrowers with little detection, as this community is easily marginalized.

Conclusion

Housing is one of the strongest indicators of quality of life in our country and building equity in one=s home is one of the largest asset building mechanisms available to the average family. When a family does not have access to any affordable housing financing packages and is relegated to the expensive and oppressive subprime lending market, either because of a poor credit history or substandard housing conditions, the family will pay a greater proportion of its income on housing. As a result, a family's ability to build equity and increase its wealth is hindered. Throughout the Border Region, the lack of affordable, decent housing and the limited ability to access the prime lending market has left many Hispanics struggling to build wealth and break the cycle of poverty. Public policy in Texas should focus on removing these barriers, and providing equal opportunity for all Texans.

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[10] Id. The Center for Demographic and Socioeconomic Research and Education.

[11] Ibid.

[12] ACORN, *Separate and Unequal: Predatory Lending in America* (February 2004, p. 13).

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[14] Ibid.

[15] The State of Texas v. Household International, Inc. No. 2002-5653, 2002 El Paso County Court, El Paso, Texas.