

Innovative Research on Homeownership Patterns and Issues in Communities
of Color: A Focus on the Dynamics of the African American Marketplace

A Dialogue with Vada Hill, Senior Vice President
and Senior Marketing Officer, Fannie Mae

JANUARY 12, 2005
4 - 6:00 p.m.

Sponsored by The Pan African Community Endowment Fund
Housing Initiative Subcommittee

 On January 12, 2005, the Pan African Community Endowment Housing Initiative Subcommittee partnered with the local Fannie Mae office and the Governor's Emerging Markets Homeownership Initiative Task Force to present a dialogue with Vada Hill, Senior Vice President and Senior Marketing Officer for Fannie Mae of Washington, D.C. Hill is a nationally recognized marketing expert whose experience ranges from working with Procter & Gamble brands to launching a major branding effort for Taco Bell. Prior to joining Fannie Mae, he worked for Ogilvy & Mather and BBDO, two national advertising agencies. Hill discussed recent research that he directed for Fannie Mae on homeownership patterns and issues in Communities of Color. The focus of the discussion was the dynamics of the African American marketplace. Earlier in the day, he shared broad research findings with the Governor's Task Force. Hill's presentation to Pan African professionals was followed by a local panel that discussed housing issues in the Twin Cities.

Forty-seven people attended the event targeted to Pan African professionals, which was held at the Minneapolis Urban League's Plymouth Avenue headquarters. The targeted dialogue was part of a Pan African Community Endowment Housing Initiative networking effort that was designed to build strong coalitions among Pan African professionals who are actively engaged in addressing housing issues that affect the Twin Cities Pan African communities. More information on the work of the Initiative is in Attachment 1.

Hill's research examined consumer motivation and behaviors, especially as related to home buying and financial literacy. The study, titled "*Understanding and Leveraging Consumer Insights in the Financial Industry*," involved more than 10,000 consumers including more than 700 African American and 600 Hispanic households. The research reveals that African-Americans and Latinos are significantly different in their motivation when compared to whites in the mortgage arena. Hill said that by understanding the distinctions, lenders could more effectively link with African American and Hispanic consumer groups. Conversely, if African Americans and Hispanics have a better understanding of their motivations and behavior, they can probably improve their chances of having more satisfying home buying experiences. It may be easier, according to Hill, for Pan African and Hispanic housing professionals to meet the needs and expectations of consumers who are African American and Hispanic.

Study Population and Questions

A 19-page questionnaire was mailed to consumers across a range of criteria, including: 1.) Personality characteristics; 2.) Habits and attitudes about banking and finance, credit and technology; 3.) Driving consumer currencies (e.g., how consumers make tradeoffs -- in shopping for a home loan, among such factors as "saving money," "saving time," "saving energy," "importance of brand," and "getting a yes"; and 4.) Mortgage/refinancing knowledge and experience.

The original survey included Caucasians/whites, African-Americans and English-Dominant Hispanics. Later, the survey was translated into Spanish to allow researchers to understand Bilingual and Spanish-Dominant Hispanic groups. This extension of the study resulted in an additional 1,010 Spanish-Dominant and 760 Bilingual Hispanic households. All survey participants had to be at least 19 years of age and have a household income of at least \$30,000.

Vada Hill primarily shares the research findings with Fannie Mae constituents and related audiences. The data and demographic slides presented by Vada Hill on January 12 are proprietary and are NOT available for public dissemination. Fannie Mae has made an Executive Summary of the study available and it is Attachment 2. The following key points from the January 12th presentation are consultant notes.

Key Points from Vada Hill's Presentation

Vada Hill mentioned differences between African American, Latino and Caucasian/white consumers, but the focus of his presentation at the Pan African Community Endowment sponsored dialogue was African Americans. Key points presented regarding African Americans were:

- A trusted advisor is extremely important to African Americans. Trusted advisors are more important than other factors such as the lowest APR (annual percentage rate) available for a home mortgage.
- In African American communities, the trusted advisor is often the realtor, pastor, friend, or family member who leads the consumer to a mortgage loan officer.
- Race sometimes becomes a proxy for knowing the trusted advisor, but that does not mean every African American is a trusted advisor. Being of the same race is considered beneficial because the consumer wants to feel they will be understood and that whomever they are working with will think like them.
- African Americans focus on how they want to feel following the home buying experience. They want to complete the experience with their self-esteem intact. There is residual fear of having a negative response to their credit even though the fear may be unfounded. Interest in protecting self-esteem and the fear of how the mortgage staff might respond to an African American loan application was seen across the economic classes (e.g., African Americans earning more than \$100,000 annually were worried about their credit being perceived negatively during the mortgage experience.)
- African Americans are more concerned with getting a “yes” than any other factor. Loan officers who understand this dynamic are in positions to take advantage of the consumer, because a “yes” can mean more points, longer mortgages, higher interest rates.
- African Americans need to know their FICO Score (credit score developed by and named for Fair Isaac & Company) as well as they know other data related to their financial security (e.g., salary, expected age at retirement, and health data). Many African Americans assume they have a lower FICO score than they actually have and they act according to the reduced expectations that go along with having a lower score. Consumers should know whether they have a good or average FICO score just like they know whether their cholesterol is good or bad. See Attachment 3, “FICO Scores,” from myfico.com for general information on FICO scores.
- Friends and Family are very important referral sources for African American consumers. African American consumers care about whether mortgage staff, bankers, realtors, etc.; know someone that the consumer knows (e.g., “Do I know someone who knows you?” is a common question). African Americans care about where mortgage staff, bankers, realtors, etc., may have gone to school with them or a family member. The study suggests that if mortgage staff, bankers, realtors, etc., ever helped one African American family member, that would be a more important consideration to the consumer than the length of the loan or APR.

Panel Presentation and Audience Discussion

Sherrie Pugh, Executive Director *Northside Residents Redevelopment Council (NRRC)*; Hussein Samatar, Executive Director *African Development Center* and Marvin Smith, realtor with *Coldwell Banker* and founder of the *Cross-Cultural Homeownership Alliance* provided comments regarding housing issues facing Pan African communities in the Twin Cities. Panelist commented on Pan African consumers' reliance on a trusted advisor; consumers' strong connection to hearing "yes" from mortgage staff, bankers, realtors, etc.; family and friend referral networks; consumers' greater reliance on relationships when compared to their dependence on data such as FICO scores; and differences between African American and African immigrants in the home buying process. The panelists agree with the survey findings on African Americans, emphasizing that the Pan African community in the twin Cities is not generally knowledgeable about FICO scores and how they relate to credit management. Panelist said that limited attention to FICO scores and credit management leaves most Pan Africans vulnerable to loans and loan officers who might take advantage of their lack of knowledge.

Key Points from Panel and Audience

- Minnesota's immigrant community is young, dynamic, interested in education and there is a lot of promise for success. The African Development Center works with the community on economic development, small business development, and home ownership. The Center has a home ownership workshop for immigrants. Eight participants have completed the workshop and half of them have purchased homes.
- Significant language barriers and religion create challenges for some African immigrants. Muslims are not experienced with the traditional home mortgage process and the different mortgage vehicles that are specifically available for Muslims.
- Some aspects of the home buying experience for African immigrants are very similar to African Americans. They rely on friends, family members and trusted advisors.
- There is a need to employ more people of color at all levels of the housing system, especially employees who screen and make decisions for African American homebuyers. Too often, African Americans rely on the wrong people or the wrong information when making a home buying decision.
- In Minnesota (which has one of the highest homeownership rates in the country -- in 2002 the rate was 77.3%), the home ownership rate for communities of color is below the national average of 46%, and Minnesota's African Americans lag behind other communities of color in Minnesota with a homeownership rate of 32% -- change is necessary.
- Twin Cities' African American housing professionals have encountered challenges trying to increase homeownership among African Americans. Professionals encounter a lot of ignorance and apathy, and a lot of classism. African Americans often qualify for homes in the range of \$130,000 – \$140,000 but, some African Americans don't want to live where they are qualified to live. Responses such as, "I don't want to live over North," were heard from some who were qualified for homes in North Minneapolis.
- Twin Cities' African American housing professionals have also encountered a large percentage of African Americans who would rather rent than own homes. Some didn't understand that they could afford to buy.

- Discrimination does happen to Twin Cities' African Americans in the home mortgage process and many African Americans have problems with their FICO scores that inhibit their success in the process. Many FICO problems can be addressed, but there is not a high level of financial literacy in the community that would support behavior change when using credit -- which makes the trusted advisor's role more difficult.
- Audience members questioned the role of underwriting in the home buying process (e.g., Does underwriting play a role in loan discrimination?) Underwriting is a very powerful secret society that really sets the standards for who gets a loan and who doesn't, according to one audience member. Another referenced the digital divide that is real for the Pan African community. Everyone does not have a computer and many people are not Internet literate. Much resource material is stored on the Internet.

Requests and Recommendations

Audience members requested additional information on problems faced by the Twin Cities' Pan African communities and made three recommendations. They requested data on the type of education needed for communities to be well informed about FICO scores and other financial matters that are related to home buying. Audience members also asked the sponsors to provide a list of Twin Cities' home buying resources that the Pan African community can easily access.

Recommendations were: (1.) Support a public awareness campaign that is specifically designed to help the Pan African community better understand FICO scores; 2.) Encourage public schools to teach financial literacy (e.g., Some young people need to change their current emphasis from owning a new car such as a BMW and getting credit cards to buying a home as soon as possible.); 3.) Find ways to promote *restorative credit* (similar to restorative justice) so community members can improve their credit scores.

Resources and Links

The Housing Initiative Subcommittee offers the following links in response to requests for information on FICO scores, credit reports and emerging homeownership resources. Additional links to nonprofit housing organizations, government agencies, and foundations that support affordable housing in the Twin Cities can be found in Attachment 4:

Credit reports	A free credit report can be obtained from	www.consumerinfo.com
FICO scores	FICO scores can be found at the Suze Orman website in addition to www.myfico.com	www.suzeorman.com
Homeownership	Fannie Mae offers numerous reports and resources (Fannie Mae's 2003 National Homeownership Survey, includes data for African Americans and English dominant Latinos)	www.fanniemae.com
Minnesota Emerging Markets	Governor's Task Force on Emerging Markets Homeownership Initiative	www.mhfa.state.mn.us/homes/EMHI.htm
African American Homeownership	Advice and Assistance for First Time Homebuyers Highlights the January Issue of BLACK ENTERPRISE magazine	www.blackenterprise.com
Homeownership in Minnesota	The Homeownership Center is a great local resource for frequently asked questions	www.hocmn.org

Attachments

1. The Pan African Community Endowment and the Housing Initiative
 2. Fannie Mae Executive Summary
 3. FICO Scores from www.myfico.com
 4. Selected nonprofit housing organizations, government, and foundation resources

I. The Pan African Community Endowment and the Housing Initiative

The Pan African Community Endowment is a *SpectrumTrust* fund located at The Saint Paul Foundation that specifically targets the Twin Cities Pan African community. The Pan African Community Endowment was founded in 1993 to promote philanthropy within the Pan African community and to develop philanthropic resources appropriate to the community's history, culture and traditions. Since 1996, the endowment has awarded grants totaling \$520,000 to 132 organizations and is currently focusing grantmaking in three areas: 1) Health Disparities, 2) Affordable Housing, and 3) Disparities in the Criminal Justice System.

Pan African Community Endowment Housing Initiative

In 2003, the Pan African Community Endowment governing committee appointed the Housing Initiative Subcommittee and charged it with identifying and supporting ideas and activities that could improve public awareness of housing issues that impact the Pan African community. The Subcommittee translated its charge into the following activities:

- Creating a common voice for certain housing matters affecting the Pan African community by . . .
 - Convening others who work with the Pan African community to discuss and develop strategies to address housing issues.
 - Making annual housing grants with a goal of improving public awareness of housing issues.
- Funding and publicizing innovative research, and organizing, and advocacy activities that support efforts to address housing issues faced by the Pan African community.

The Subcommittee is comprised of a broad array of housing and affordable housing professionals and is currently seeking members from the Twin Cities Pan African communities who work in the housing field. Interested people should contact the Pan African Community Endowment for more information.

A sample of recent Housing Initiative Subcommittee activities:

- Grants to organizations providing financial literacy services to African and African American residents, including a seed grant to the African Development Center, a housing and economic development organization that primarily serves African immigrants to the Twin Cities.
- Emergency funding to an alliance of housing advocates for a direct mail community education campaign to stop the demolition of 900 units of affordable housing in Brooklyn Park. The demolition of the targeted affordable housing would have disproportionately affected Brooklyn Park Pan African residents.
- Funding support for a study of "Sub-prime Lending and Foreclosure in the Twin Cities," research conducted by Dr. Jeff Crump, Professor of Housing Studies at the University of Minnesota. The study provides empirical analysis of homeownership in underserved populations.
- A meeting with the local sponsors of the "Don't Borrow Trouble Campaign" to share Dr. Crump's research and discuss ways to broaden the campaign's connections with the Twin Cities Pan African community.
- A partnership with Fannie Mae and the Governor's Emerging Homeownership Marketing Task Force to present a dialogue with Vada Hill, Senior Vice President and Senior Marketing Officer, Fannie Mae.

Contact: The Pan African Community Endowment at (651) 224-5463 for additional information

2. Fannie Mae: Executive Summary Consumer Segmentation Study

Objective

Determine what motivates consumers in the mortgage and financial arenas

Background

- Nationally representative study conducted among over 9300 consumers; including over 700 African-American and 600 Hispanic households.
- 19 page mailed questionnaire queried consumers across a range of criteria, including:
 1. personality characteristics;
 2. habits and attitudes about banking and finance, credit and technology;
 3. driving consumer currencies -- how consumers make tradeoffs -- in shopping for a home loan, among such factors as "saving money", "saving time", "saving energy", "importance of brand", and "getting a yes"; and
 4. mortgage/refinancing knowledge and experience.
- The original study captured the attitudes of Whites, African-Americans and English-Dominant Hispanics. The survey was translated into Spanish to allow us to understand the Bilingual and Spanish-Dominant Hispanic groups as well. This extension of the study resulted in an additional 1,010 Spanish-Dominant and 760 Bilingual Hispanic households.

Findings/Insights

Overall

- The traditional model which segments consumers by first time buyers, repeat buyers and refinancers is relatively meaningless; there are many more similarities than differences among the three groups.
- Six meaningfully different consumer segments emerged from the study
- Some (Financially Challenged and Affluent, Angry and Ignored) are angry -- fundamentally alienated and frustrated -- while others (Technophiles, Friends and Family and Financially Confident) are confident and connected in their relationships with the financial and mortgage arenas
 1. Financially Challenged
 2. Affluent, Angry and Ignored
 3. Technophiles
 4. Friends and Family
 5. Technophobes
 6. Financially Confident
- The segments have dramatically different:
 1. Levels of satisfaction with the current mortgage process;

2. Motivators (e.g. saving money vs. saving time, etc) in what's important to them in shopping for a home loan; and
3. Levels of reliance on people versus technology in accessing a mortgage.

African-Americans

- African-Americans significantly skew to the “Financially Challenged” and “Friends and Family” segments; one out of four and one out of three African-Americans fall into these two groups, respectively.
- Money and finance are significantly greater sources of stress for African-Americans versus Whites.
- The motivator of “Getting a Yes” is of critical importance to African-Americans in shopping for a home loan.
- The significantly greater importance to African-Americans of “Getting a Yes” in shopping for a home loan leads to:
 1. An aversion to using their bank as the vehicle for obtaining a mortgage;
 2. A overwhelming reliance on the realtor and mortgage broker; and
 3. The criticality of working with someone of the same race in this process.
- African-American mortgage holders are significantly less satisfied than Whites across almost every phase and against every criteria

Hispanics

- Like African-Americans, Hispanics also skew to the “Financially Challenged” and “Friends and Family” segments. One out of four English-Dominant Hispanics fall into the “Financially Challenged” segment, while one out of five fall into the “Friends and Family” segment. The Spanish-Dominant and Bilingual groups have an even greater skew to “Friends and Family” with almost half of these households being classified in this segment.
- English-Dominant and Bilingual Hispanic attitudes and behaviors toward homeownership and mortgage experiences are similar to African-Americans in most areas.
- Spanish-Dominant Hispanics are more alienated from the financial system than English-Dominant and Bilingual Hispanics.
- Many Spanish-Dominant Hispanics do not fully understand or participate in the U.S. financial and credit systems (i.e. no credit, savings, investments, etc.). This behavior is most prevalent in those Hispanics coming to the U.S. from countries where there is little confidence in the banking system and where the credit system does not have the same impact on mortgage approval decisions.

- Spanish-Dominant Hispanics rely more on trusted advisors (realtors, mortgage brokers, credit counselors) and family than all other ethnic groups for help in making their mortgage decisions.
- Spanish-Dominant Hispanics prefer to work with people and firms that speak Spanish
- Other key demographic drivers for Spanish-Dominant homeownership include:
 - Number of years in country for foreign-born Hispanics
 - Language Dominance
 - Marriage and higher income levels

3. FICO Scores from myfico.com

A credit score is a number that lenders use to estimate risk. Experience has shown them that borrowers with higher scores are less likely to default on a loan.

A FICO score is a credit score developed by Fair Isaac & Company (FICO). Credit scoring is a method of determining the likelihood that credit users will pay their bills. Fair, Isaac began its pioneering work with credit scoring in the late 1950s and, since then, scoring has become widely accepted by lenders as a reliable means of credit evaluation.

FICO scores are your credit rating. Most lenders base approval on them. You have three FICO scores, one for each credit bureau, Experian, Trans Union, Equifax. Some lenders use one of these three scores, while other lenders may use the middle score.

As you improve your FICO® scores, you pay less when you buy on credit - whether purchasing a home loan, cell phone, a car loan, or signing up for credit cards. For example, on a \$150,000 30-year, fixed-rate mortgage:

Your FICO® Score	Your interest rate	Your monthly payment
720-850	5.66%	\$867
700-719	5.78%	\$879
675-699	6.32%	\$930
620-674	7.47%	\$1,046
560-619	8.53%	\$1,157
500-559	9.29%	\$1,238

Actual Rates - Updated Daily

Credit scores (usually) range from 340 to 820. The higher your score, the less risk a lender believes you will be. As your score climbs, the interest rate you are offered will probably decline.

Here's an Overview of Credit Scores Among the U.S. Population in 2003:	
	Up to 499: 1%
	500 - 549: 5%
	550 - 599: 7%
	600 - 649: 11%
	650 - 699: 16%
	700 - 749: 20%
	750 - 799: 29%
	Over 800: 11%

4. Selected Nonprofit Housing Organizations, Government, and Foundation Links

To find out more about affordable housing in the greater Twin Cities area, visit these housing, government and foundation links that provide reference materials on affordable housing and information on funding resources.

Nonprofit Housing Organizations

Central Community Housing Trust

<http://www.ccht.org>

Central Neighborhood Improvement Association

<http://library.sidewalk3.com/central/home.html>

Center for Urban and Regional Affairs, University of Minnesota

<http://www1.umn.edu/cura/>

Common Bond Communities

<http://www.commonbond.org/>

Corporation for Supportive Housing

<http://www.csh.org>

The Don't Borrow Trouble Campaign

<http://www.dontborrowtroublemn.org>

East Side Neighborhood Development Company

<http://www.esndc.org/>

Fannie Mae Foundation

<http://www.fanniemaefoundation.org>

Federal Home Loan Bank of Des Moines

<http://www.fhlbdm.com>

FREDDIE MAC

<http://www.freddiemac.com/>

Greater Minnesota Housing Fund

<http://www.gmhf.com>

Housing Link

<http://www.housinglink.org>

Housing Minnesota

<http://housingminnesota.org/>

HUD Minnesota

<http://www.hud.gov/local/index.cfm?state=mn>

League of Minnesota Cities

<http://www.lmnc.org>

Local Initiatives Support Corporation

<http://www.liscnet.org/>

Metropolitan Council

<http://www.metrocouncil.org>

Metropolitan Interfaith Council on Affordable Housing (MICAH)

<http://www.micah.org>

Minneapolis Community Development Agency

<http://www.mcda.org>

Minneapolis Consortium of Community Developers

<http://www.cando.org>

Minnesota Affordable Housing Directory

<http://www.mhfa.state.mn.us/homes/AHD.htm>

Minnesota Affordable Homes Congress

<http://www.mtn.org/mahc> [site under development]

Minnesota Housing Finance Agency

<http://www.mhfa.state.mn.us>

Minnesota AIDS Project

<http://www.mnaidsproject.org/>

Minnesota Indian Women's Resource Center

<http://miwrc.org/default.html>

Minnesota Public Housing Authority

<http://www.mphaonline.org/>

Mortgage Association Minnesota

<http://www.mortgageedu.com/>

Mortgage Bankers Association of MN
<http://www.interest.com/mbamn>

National Association of Housing and Redevelopment Officials
<http://www.nahro.org>

National Low-Income Housing Coalition
<http://www.nlihc.org>

Northside Residents Redevelopment Council, Inc.
www.nrrc.org

Twin Cities Habitat for Humanity
<http://www.tchabitat.org/>

Government Agencies

Association of Minnesota Counties
<http://www.mncounties.org>

City of Minneapolis
<http://www.ci.minneapolis.mn.us>

City of Saint Paul
<http://www.ci.saint-paul.mn.us/>

Hennepin County
<http://www.co.hennepin.mn.us/>

Ramsey County
<http://www.co.ramsey.mn.us/>

Saint Paul Housing Information Office
<http://www.ci.saint-paul.mn.us/depts/hio/>
<http://www.ci.saint-paul.mn.us/housing/information/>

The Veterans Administration
<http://www.homeloans.va.gov/>

Foundations

Minnesota Council Of Non Profits [Foundation Directory]
<http://www.mncn.org/index.htm>

Amherst H. Wilder Foundation

<http://www.wilder.org/>

Catholic Charities

<http://www.ccspm.org/>

H.B. Fuller Company Foundation

http://www.hbfuller.com/About_HB_Fuller/Community/index.shtml

Otto Bremer Foundation

<http://fdncenter.org/grantmaker/bremer/index.html>

General Mills Foundation

<http://www.genmills.com/>

Greater Twin Cities United Way

www.unitedwaytwincities.org

The McKnight Foundation

<http://www.mcknight.org>

The Minneapolis Foundation

<http://www.mplsfoundation.org>

Northwest Area Foundation

<http://www.nwaf.org>

The Jay Rose & Phillips Family Foundation

<http://www.phillipsfnd.org>

The Saint Paul Foundation [Pan African Community Endowment Fund]

<http://www.tspf.org>

U.S. Bancorp Foundation

http://www.usbank.com/comm_relations

Wells Fargo Housing Foundation Minnesota

http://www.wellsfargo.com/about/wfhf/about_wfhf.jhtml