Housing and Urban Development

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> [The Department of Housing and Urban Development] HUD's mission is to increase homeownership, support community development and increase access to affordable housing free from discrimination. To fulfill this mission, HUD will embrace high standards of ethics, management and accountability and forge new partnerships—particularly with faith-based and community organizations—that leverage resources and improve HUD's ability to be effective on the community level. http://www.hud.gov/library/bookshelf12/hudmission.cfm

Immigrants have had an enormous impact on the housing markets of American cities. Among cities with populations above 250,000, the rate of housing overcrowding—defined as more than one person per room—is higher in cities with large immigrant populations. In cities with low foreign-born populations (that is, under 7.5 percent of the population), only 3.7 percent of housing units were overcrowded in 2000. In cities where immigrants made up 15 percent or more of the population, 14.9 percent of units are overcrowded.

Immigration Fiscal Impact Statement

Similarly, homeownership rates are lower in cities with large foreign-born populations. There may be many reasons for this besides a large immigrant population. For example, immigrant gateway cities such as Chicago, New York, and Los Angeles have relatively high housing costs along with large stocks of rental apartments. But multiple regression analyses, which control for city size and the availability of rental properties, show that a one percentage point increase in foreign-born population corresponds to a 0.5 percent rise in overcrowding housing units and a 0.35 percent decline in the rate of homeownership. http://www.huduser.org/Periodicals/CITYSCPE/VOL3NUM3/article7.pdf

Many HUD mortgage programs and policies are designed to increase homeownership rates among low-income immigrants and minorities. Federal Housing Administration (FHA) insurance permits persons unable to qualify for conventional financing to purchase homes through mortgages provided by private lenders but insured against default by the federal government. All you need to qualify for an FHA mortgage on most of our homes is a down payment of $200 to $300 and marginal income. Little effort is made to verify the IDs of mortgagees.

Consequently federal mortgage insurance has enabled poor minorities and illegal aliens to purchase houses in neighborhoods they can't afford. It's like somebody owning a used car he doesn't have much money invested in. If something unexpected happens—a major repair or a job layoff—they just walk away from their homes. The result is a neighborhood full of abandoned, boarded-up housing—the ugly reminders of FHA's misguided mortgage policy.

What's worse, FHA mortgage programs have been fraudulently exploited by real estate speculators for personal gain. Mortgage fraud schemes involving the quick resale of property at inflated prices are common. Immigrants are often unwitting victims, purchasing homes they cannot afford. In many cases, however, immigrant home "buyers" have themselves profited from the mortgage fraud.

Federal Housing Administration (FHA)

FHA was created in 1934 to resolve the housing crisis brought on by the Depression. At that time many banks were insolvent, causing a drastic decline in home loans and ownership. Home mortgages were short-term (3 to 5 years) balloon instruments, with loan to value ratios (Luvs) below 50 to 60 percent. Lenders foreclosed on the homes of unemployed mortgagees; refinancing was not available.

FHA lowers the cost and increases the availability of housing credit through a system of mortgage insurance. FHA mortgage insurance is substantially less expensive than conventional mortgage insurance and is available to people whose low credit scores would disqualify them for conventional loans. Luvs are as high as 97 percent. Thus in the event of a mortgage default, as much as 97 percent of the appraised value of the mortgaged property is transferred to the lenders; the remaining 3 percent is received from the original down payment for the home.

By protecting banks from financial loss, FHA mortgage insurance has helped expand home ownership from 40 percent in the 1930s to nearly 70 percent today. But subsidized mortgage insurance has also created a "moral hazard" —that is, an environment where both borrowers and lenders feel they can engage in risky practices without incurring economic losses. Outright fraud involving low-income immigrants and minority home buyers is the result.

In Colorado, for example, a ring of mortgage brokers, realtors, appraisers, and loan officers in local banks recruited hundreds of illegal immigrants to act as "straw buyers," the lowest players in the FHA mortgage fraud game. The illegals were supplied with stolen identities, including driver's licenses, Social Security cards, and income tax returns. Some were given green cards of legal immigrants. What couldn't be stolen was forged.

The false documents enabled the illegal immigrant straw buyers to "buy" homes they had no intention of living in. The seller—usually a real estate speculator—had usually just purchased the property at a much lower price. The speculator and his accomplices—bank officers, appraisers, loan officers, and real estate attorneys—fraudulently qualified their illegal immigrant recruits to purchase properties at inflated prices.

Some 300 single family homes in the Denver area are known to have been involved. In 191 of these transactions, every single qualifying document was fake. So far, 38 percent of the mortgage loans have gone into foreclosure. Millions of dollars have been lost.

(The *Denver Post* reports that an estimated 20,000 illegal immigrants hold FHA-insured loans in the metro Denver area—implying a far larger mortgage fraud could be in the cards.)

Illegal flipping schemes have also been reported in New York, Baltimore, Chicago, and Los Angeles. (These are HUD's "Housing Fraud Initiative" locations; the fraud is national in scope.)

HUD's Inspector General describes the telltale signs of such fraud:

> When we see properties with FHA mortgage insurance bought and sold the same day for a 50 percent or 100 percent profit, we can be reasonably certain that something is wrong. In most cases, the profit results from false and fraudulent documentation provided by one or more of the parties to the transaction, such as the lender and/or the appraiser. In almost every case where we've seen a property flip, that is, a wide disparity between the purchase price and the resale price of a property, and a short turnaround between the two transactions—something illegal has happened. Unfortunately, these flips feed on each other, as the inflated value of one flipped property often becomes the valuation measure for the next property. Before long, these transactions have a devastating effect on neighborhoods.

http://www.hud.gov/offices/oig/data/mmi.pdf

The FHA is itself culpable for much of the mortgage mess. By making it easy for immigrants to obtain mortgage insurance, the agency also made it easier for such fraudulent practices to flourish. Here are some examples:

No real down payment. Mortgages insured by the FHA require a 3 percent down payment. In the past, only family and friends were allowed to provide down payment assistance. But in 1998, the FHA started letting sellers cover down payments via a "gift" from a charitable, non-profit organization. Eight years later, even HUD acknowledges that such organizations are frequently for-profit fronts controlled by unscrupulous sellers. The seller typically raises his price to recoup the down payment money, and an appraiser OKs a slightly higher house value. With no money invested in the house, the buyer has less incentive to make things work—even if he sincerely wants to live in the house. http://www.homelandstupidity.us/2006/12/11/rocky-mountain-mortgage-fraud-fever/

The slums of Detroit, Chicago, and Newark showcase the legacy of America's public housing and urban "renewal" policies.

Illegal alien mortgagees. With federal policy so focused on home sales, FHA makes little or no effort to verify the identities of home buyers. Loan papers may include a resident alien card, a Social Security number, W-2 forms, and even an income history from an employer. These documents are easily forged; Social Security numbers are stolen. Document fraud is widespread, with some rings reportedly operating out of real estate offices. A 2004 study by the Washington, D.C.-based National Association of Hispanic Real Estate Professionals (NAHREP) estimated that more than 200,000 illegal immigrants from Latin America have qualified for FHA loans. A NAHREP board member asserts that "Being in the country legally or not is not an issue when you are buying a house." http://originatortimes.com/content/templates/standard.

aspx?articleid=2202&zoneid=5

Appraisal fraud unchecked. Inflated appraisals are crucial to successful mortgage fraud. HUD regulations require oversight of each appraiser's performance, stipulating that 10 percent of all appraisals be reviewed in detail by FHA field staff. These controls are not followed because "they do not have enough staff to monitor appraisers or to sanction poor performers," according to testimony by HUD's Inspector General. http://www.hud.gov/offices/oig/data/mmi.pdf

Nationally, delinquency rates on FHA loans doubled between 2000 and 2005. Delinquency rates on FHA loans have surpassed even high-interest subprime loans for three years. FHA loans have been foreclosing at double the rate of loans backed by the U.S. Department of Veterans Affairs. http://www.denverpost.com/search/ci_4228048?source=email

Despite the high default rate, FHA's mortgage insurance fund is solvent. (FHA spending was a *negative* $654 million in fiscal year (FY) 2006, indicating that premiums exceeded default costs.) One reason for the financial health of the mortgage insurance fund is that FHA collects both an upfront premium charge and an annual premium of 1.50 percent of the outstanding mortgage principal balance. The premium structure protects taxpayers from incurring the direct costs of FHA mortgage defaults.

However, there are opportunity costs associated with FHA's involvement in the housing market. Nearly half of FHA's metropolitan area business is located in central cities, a percentage that is much higher than that of conventional loans. The FHA also lends to a higher percentage of blacks, Hispanics, and illegal immigrants. http://en.wikipedia.org/wiki/Federal_Housing_Administration

Individuals who do not live in urban areas, who are not minorities or illegal immigrants, have a tougher time finding mortgage money because of the FHA's efforts on behalf of those groups.

The fiscal impact of FHA is also felt by individuals who own property in neighborhoods beset by mortgage fraud. First, there is a distortion of the local real estate market with an artificial boom of properties doubling in value. Then these homes suddenly go into foreclosure or are abandoned or used as crack houses. Some neighborhoods struggle for years to recover from this economic dislocation. Property values go down. Local governments and school districts are plagued by declining property tax revenues.

Despite the extent of the fraud and its destructive impact on neighborhoods, plus the cost to those whose identities are stolen, penalties have generally been light. In Denver, for example, the convicted real estate scammers paid only a small restitution to HUD as part of their sentencing package. Illegal immigrants who acted as straw buyers are now being arrested. Officials claim they'll be deported. But in Washington, D.C. there has been no investigation of HUD or its FHA unit.

HUD is truly the gift that keeps on giving. ■