



**Prepared Testimony of Gary E. Acosta, Chairman
National Association of Hispanic Real Estate Professionals
On
HUD's Proposal to Reform RESPA
Before the
Committee on Banking, Housing, and Urban Affairs
U. S. Senate
Tuesday, April 8, 2003**

Chairman Shelby, ranking member Sarbanes, members of this committee, I am Gary Acosta, the president of SDF Realty in San Diego California and the Chairman of the National Association of Hispanic Real Estate Professionals (NAHREP), a non-profit trade association dedicated to increasing the Hispanic homeownership rate. NAHREP is the nations fastest growing real estate trade organization and is a partner in President Bush's "Blueprint for the American Dream" minority homeownership initiative. We appreciate the opportunity to address the committee today on the views and planned actions of the Department of Housing and Urban Development (HUD) on the proposed amendments to the regulations implementing the Real Estate Settlement Procedures Act (RESPA).

NAHREP has over 10,000 members in 43 states. Our members come from all segments of the housing industry including but not limited to real estate agents and mortgage professionals. NAHREP provides professional education, industry representation, publications and technology solutions for those real estate professionals primarily dedicated to serving Hispanic homebuyers.

Hispanic homebuyers are underserved

Today, the homeownership rate in the U.S stands at 68%; however for Hispanic Americans it is about 47%. This disparity is driven by a number of factors including the lack of competitive mortgage financing in those markets. In addition, NAHREP estimates that approximately 80% of Hispanic homebuyers are first time buyers – double the percentage of the overall market. Particularly for the first time buyer, the purchase of a home is both a complicated and emotional experience, which often creates a more labor-intensive real estate transaction for the professional.

According to a recent study produced by Pepperdine University and the La Jolla Institute, up to 65% of Hispanic homebuyers prefer to communicate in Spanish, a skill possessed by a small percentage of real estate professionals. Additionally, many Hispanic consumers have thin credit files, little money for down payment, and multiple sources of income. In order to serve this market effectively, mortgage and real estate professionals must have specialized skills and have keen understanding of this market.

Accordingly, NAHREP supports policy and legislation that increases awareness, reduces cost, and simplifies the process of buying a home. In this regard, NAHREP applauds President Bush, and Secretary Martinez for their demonstrated commitment to make homeownership attainable for more Hispanics, minorities and other underserved Americans. In particular, we strongly support Secretary Martinez' effort to simplify and improve the process of obtaining home mortgages, and to reduce the costs for future homebuyers.

Hispanic consumers are primarily served by Small Business Professionals

A recent NAHREP member survey indicated that 81% of our members who are real estate agents "regularly use the services of a mortgage broker to arrange financing for their clients". Latinos are more likely to use mortgage brokers and other small business professionals because they tend to live and work in the communities they serve and have strong language skills and cultural understanding. Today's mortgage industry is increasingly a formula driven, high volume, low margin business. Larger players generally lack the flexibility and diverse personnel necessary to adequately serve homebuyers that don't always "fit in the box". For this reason, NAHREP believes that the growth in Hispanic homeownership will depend on Hispanic-owned small businesses in those communities.

HUD's proposed rules may have an unintended impact on small real estate and mortgage companies

NAHREP recognizes that HUD's proposed rules are designed to simplify the mortgage finance process and eliminate opportunities for predatory lending practices. NAHREP shares HUD's conviction that consumers should receive accurate information when choosing a mortgage originator in order to make an educated decision regarding mortgage products and services. We also believe that this outcome for the consumer could not be possible without real competition in the mortgage market. However, we see the potential for both the Enhanced Good Faith Estimate and the Guaranteed Mortgage Package to have unintended and detrimental effects on small real estate and mortgage companies that may prove to undermine the intended benefits to some consumers. As mentioned, it is the small real estate companies and mortgage brokers who often are committed to serving the Hispanic members of their communities and will be the drivers of increased homeownership for Hispanics. Placing small business owners at a disadvantage will ultimately hurt homeownership opportunities for the minorities NAHREP and others want to reach.

NAHREP Concerns with the Proposed Enhanced Good Faith Estimate

This proposed rule in connection with the Enhanced Good Faith Estimate (GFE) results in “different treatment of compensation in loans originated by lenders and those originated by mortgage brokers”. This unequal treatment will create an uneven playing field among mortgage originators and disadvantage mortgage brokers compared to mortgage banks and lenders. In effect, a mortgage loan originated by a mortgage broker– who already has additional disclosure requirements – may look more expensive to the consumer than an identical loan originated through a direct lender. Even though mortgage bankers and national banks do compensate staff for mortgage originations, under the proposed rule neither are required to disclose this compensation. In some cases, a consumer could select a more expensive product by assuming that the loan with no disclosed compensation to the originator is always a better deal.

The proposed changes to the GFE include a mandate to guarantee third party costs within a “ten percent or “zero” tolerance. NAHREP believes this is critical to helping consumers identify the best mortgage possible. Holding mortgage originators responsible for making accurate disclosures to consumers within three days of application is appropriate and reasonable and will eliminate abuse of the GFE.

However, loan originators do not have control over certain third-party costs. There are many examples of legitimate, unexpected costs that arise between application and closing. To require the originator to absorb all unanticipated expenses would almost certainly pose a greater burden on a small broker than on a larger mortgage lender.

NAHREP recommends that when a price increases or a fee is added that changes the original GFE, a new GFE should be provided to the consumer within a reasonable timeframe along with an explanation of the change. This must take place before the consumer is at the settlement table.

NAHREP Concerns with the Guaranteed Mortgage Package

NAHREP also cautions HUD to consider the impact to small businesses of the proposed Guaranteed Mortgage Package (GMP). While we cannot know the exact impact to the marketplace of a GMP, we believe the packaging of settlement services offers a much greater business opportunity for large lenders than for small mortgage brokers or small real estate services providers and could ultimately hurt the consumers served by the small businesses.

It is also possible that the GMP may eliminate the choice of Hispanic consumers to select settlement services that specialize in working with Spanish speaking consumers.

NAHREP appreciates the opportunity to share our views

The housing sector has been one of the few bright spots in our economy and Hispanic homebuyers have fueled the strength of our housing industry. Over the next two decades,

nearly 80% of all new homebuyers will be minorities and/or immigrants. Again, I appreciate the opportunity to be here today to express NAHREP's support for Secretary Martinez' effort to improve the process and reduce the cost of mortgage finance. The cautions I have expressed today are intended to insure this effort results in the best possible outcome for consumers and the mortgage finance industry. I look forward to working with this committee and HUD to ensure that a final rule will encourage more minority-owned small businesses to enter the real estate and real estate finance market and thereby help to increase homeownership opportunities particularly for minority families. Thank you.