

# ON THE BRINK

*Today's first-time home buyers need financial stamina to hang on*

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**C**OCKRELL HILL, Texas – Fifty years ago, cheap housing and a strong economy brought a generation of first-time homeowners to this tiny working-class town tucked inside Dallas.

Fifty years ago, in 1949, Henry A. Gillenwater, then a floor supervisor at a local aircraft plant, cashed in his war bonds to make a down payment of \$2,750, or 41%, on his \$6,750 house.

“Took me eight years to save so much,” Mr. Gillenwater, now 85 years old, recalls.

Today, a few blocks away, a new generation of first-time home buyers such as Veronica and Luis Zuazua is helping fuel a second housing boom.

In 1997, the couple bought a \$70,000 home in a new development of simple one-story brick houses with a down payment of \$2,500, or 3.6%, much less than the conventional 20% down.

Now, as in the post-World War II boom, a strong U.S. economy and a supply of reasonably priced houses has made home ownership attractive. Mortgage interest rates, though not as low as in the 1950s, when they averaged a little more than 5%, are now around 6.75% and haven't been above 9% in more than three years.

These low rates have coaxed many middle-income buyers into the property market. This helped push homeownership rates, which soared in the postwar boom years to 61% by 1960 from 42% in 1940, to a record 66.8% in the third quarter. But today there is a significant difference: the explosion in low-down-payment mortgage lending.

In the past few years, lenders, with the support of the federal government, community groups and the country's biggest mortgage buy-

ers, have lowered the bar on down payments to open up opportunities for low-income families traditionally left out of the housing market.

While military veterans in the ranks of postwar home buyers had access to government programs that subsidized their down payments, these new entry-level mortgages are available to a broad range of potential buyers.

About a third of new mortgage loans made in 1998 were extended to borrowers with down payments of less than 10% – many with as little as 3% down, according to the Mortgage Bankers Association of America in Washington. Some programs even allow the cash to be borrowed from relatives.

Though distinct from the higher-interest-rate loans aimed at consumers with poor credit – another factor in the current boom – low-down-payment loans don't necessarily require a good credit record; showing prompt rent and utility payments can do the trick.

Partly as a result, immigrants, minorities and low-income families are buying homes like never before. The percentage of Hispanics owning a home in the U.S. jumped to 44.9% in the third quarter from 40.3% at the beginning of 1994, while homeownership among blacks climbed to 46.6% from 42.1%.

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**B**UT AS THE nation's economy shows signs of slowing, some consumer groups worry whether this new class of homeowner has the financial stamina to hang on.

Low-down-payment mortgages became widely available after Fannie Mae and Freddie Mac began to loosen their loan-approval guidelines.

In essence, the two quasigovernmental companies, which buy more than half of the nation's mortgage loans, agreed to include such loans in the pool of mortgages they buy from lenders, and subse-

quently guarantee and securitize.

The change made lenders much more willing to originate the riskier low-down-payment loans because it enabled them to hand off the added risks to one of the two government-chartered guarantors.

This past November, Fannie Mae said it had underwritten \$1.8 billion under one such mortgage program in just five months, almost two-thirds of the mortgages going to first-time home buyers.

The policy shift has contributed to a wave of home building and helped to revive neighborhoods such as this long-neglected corner in the metropolitan Dallas area.

## A Wave of Building

In addition to the new Las Haciendas development of 400 homes, where the Zuazuas live, existing-home sales are up around Cockrell Hill, and the new elementary school is already adding portable classrooms to handle an overflow of students.

Outside the red brick walls of Las Haciendas, signs in English and Spanish tout monthly payments starting at \$630. Many homeowners got in through federally funded grants from the city of Dallas that subsidize down payments or closing costs.

Others qualified to buy their \$60,000-to-\$100,000 homes with an initial outlay of \$1,195 — including down payment and closing costs — through a special loan package the developers purchased from a lender.

For those of better means, such as David and Trisha Inurrigarro, buying their Las Haciendas home was almost as easy as buying a car.

Mr. Inurrigarro, 23 years old, works for a small consumer lender. Ms. Inurrigarro, 21, is an office worker in a law firm. She jokes that she was allowed to buy a house before she could legally buy liquor. Buying the \$74,000 home took \$2,500 down — an amount she had socked away for a new car. A city grant matched her \$2,500.

With a combined annual income between \$40,000 and \$50,000, the Inurrigarros can easily make their \$700 monthly payments, though the commitment seems a bit overwhelming. "Man, I'm in debt now for 30 years," Mr. Inurrigarro says. "I have no concept of 30 years."

## Squeezing Buyers

Las Haciendas developers Jeff and Donna Bosse are adept at finding ways to squeeze buyers into new homes. The Bosses were remodelers who became builders after noticing that recently renovated homes on the city's south side were snapped up as soon as they hit the market. Demand hasn't been a problem — virtually all their customers come to them. The challenge is matching loans with borrowers who have spotty credit or little cash on hand.

So far, the new programs have suc-

ceeded in turning low-income families into property owners. But some critics question whether these new owners, buoyed by the past few years of economic growth, could withstand a downturn. Compared with the buyers of the post-war years, and with their more-affluent contemporaries, these homeowners live closer to the financial edge.

## Established Thresholds

For example, Hilda Duarte, community liaison for Mary McLeod Bethune Elementary School, says more than half of the children from Las Haciendas qualify for free or reduced-price school meals because their families receive

those who made even slightly larger down payments.

Such initial results trouble consumer watchdogs. They contend that some overzealous lenders are giving out mortgages to borrowers who aren't ready for the responsibility, leaving the new homeowners vulnerable when economic conditions inevitably weaken.

"Clearly, this is a problem that needs the country's attention," says Stephen Brobeck, executive director of the Consumer Federation of America, which advocates more-selective lending and more independent counseling for home buyers.

But back in Cockrell Hill, neither the

old nor new generations of home buyers are strangers to economic adversity. On Flo Avenue, three blocks away from Las Haciendas, Melvin and Louise Ware rented their road's then-solitary house back in 1951 with an agreement that they would watch over the land and feed their landlord's livestock.

Eight years later, when homes began going up along the street, the Wares bought one for \$25,000 using money from the sale of Mr. Ware's mother's house. They had rented for years because saving for the big down payment proved too hard. "I'd rather spend my money than save," admits Mr. Ware, 84, a former teletype operator for the Associated Press.

## A Longer Road

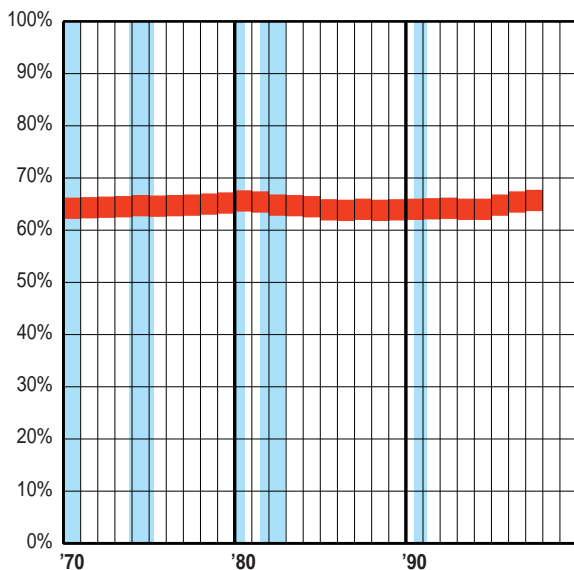
Two blocks down Flo, Dorothy Robinson had an even longer road to home ownership. Like Mr. Gillenwater and others who took part in her generation's housing boom, she came from a rural background and remembers wearing clothes from a New Deal program and eating biscuits made with coarse graham flour.

She came to the city for a job and found a husband, but the marriage failed. She met her second husband while working at a bakery, and they bought their modest four-bedroom house in 1959, after saving several years for a down payment. Even then, Ms. Robinson and her husband couldn't afford the \$500 in closing costs; the builder let them pay it off in monthly installments.

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## Steady As She Goes

The home ownership rate in the U.S. has stayed at about 65% during the past 30 years.



Source: Fannie Mae

government aid or their household incomes fall below established thresholds.

"Just because they're homeowners doesn't mean they're not needy. In fact, some of them are more needy, because now they have mortgage payments," Ms. Duarte says.

A weak economy could lead to a delinquency rate well above the current rate of about 4.3%.

Mortgage insurance company MGIC Investment Corp. conducted a study that showed that people who put just 3% down on their homes — when low-down-payment mortgages first appeared — defaulted at about twice the rate of

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**F**OR THE NEWCOMERS, like the Zuazuas, Las Haciendas represents a chance to move up in the world. Mr. Zuazua, 22, grew up in what local Latinos call “La Bajada”: the lowlands, in low-income and high-crime West Dallas.

“My parents couldn’t give me a good house or nice things,” Mr. Zuazua says one Friday evening while working on his front lawn. “But they raised me right.”

The Zuazuas weren’t sure at first they could afford the house they picked out from Las Haciendas’s sample books of brick colors, carpet styles and the like. While Ms. Zuazua had a good job with a direct-mail company, Mr. Zuazua was a student at the local junior college and played pro soccer with the Dallas Toros, which paid less than \$100 a week.

## ■ Late-Night Discussions

After some long, late-night discussions, Mr. Zuazua says he finally told his wife, “Look, if you qualify for the house, I’ll start working. For sure I’ll get a job, and we’ll be OK.” To their surprise, she qualified. Mr. Zuazua got a job with his wife’s employer, and the couple cut back on expenses to make their down payment.

With one son and another child on the way, he wants his children to have a different life. “Someday we’re going to show them a comparison of how they grew up to how we grew up,” Mr. Zuazua says.

Like Mr. Zuazua, Jorge Gonzalez, a 23-year-old bill collector, left home when he was 16 years

old to prove his independence.

“I didn’t want to be told what to do,” Mr. Gonzalez explains now. He sold marijuana and small amounts of cocaine to make a living, but soon found himself with only his 1982 Buick Regal as a place to live.

He decided to clean up his life after a nasty confrontation with a group armed with knives and a shotgun. Mr. Gonzalez worked a string of

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odd jobs before he got his current post two years ago. Last spring, Mr. Gonzalez, a father of two and a stepfather of one, saw the signs for Las Haciendas. In June, he and his girlfriend bought a \$79,000 home there.

## ■ Bewildering New Roles

Old-timers who stuck through the area’s three decades of decline now complain about the surge in traffic such new arrivals have brought. And some of the newcomers themselves seem bewildered by their new roles.

At the first-ever meeting of the Las Hacen-

das homeowners association, children play in an adjoining room while the Bosses, the complex’s developers, tell residents, in English and Spanish, why they should voluntarily contribute to an association to help keep up the neighborhood.

With a standing-room crowd, Mr. Bosse patiently explains that the \$35 annual fee to maintain the neighborhood won’t be part of their mortgage payments.

Many of the three dozen attendees have just come in from work and shake their heads when the meeting dissolves into a dozen separate conversations. For many, the concept of such an association is foreign. “I can’t understand what they’re saying,” says one young man as he heads for the door.

## ■ Differing Perspectives

From their differing perspectives, the old residents and new arrivals harbor different hopes for the future. Ms. Robinson, who is now 72, and has her house paid off, is thinking about moving back to the country. The influx of young buyers has made the old neighborhood noisier than ever, she says.

Meanwhile, Mr. Gonzalez stands in his small front yard and kicks grass in annoyance at a lone sapling that was killed by the city’s brutal summer heat wave. He hopes someday to refinance to a 15-year mortgage so that he can pay off his home faster.

“All I can say is, I’ve worked hard for what I have now,” Mr. Gonzalez asserts quietly. “Sure, we could lose our jobs,” he shrugs. “We got this house quickly, and we could lose it quickly. That’s how fast things can change.” ♦ 11/1/98