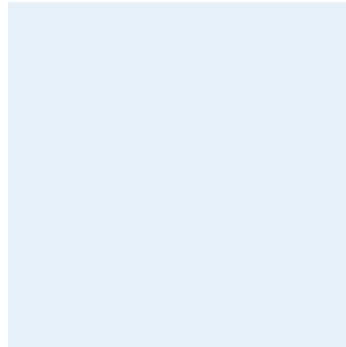
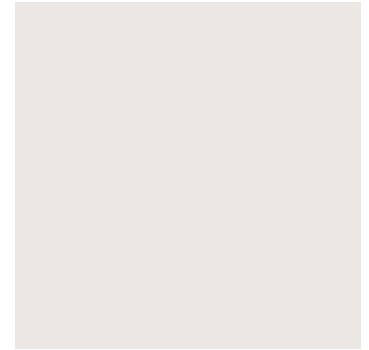
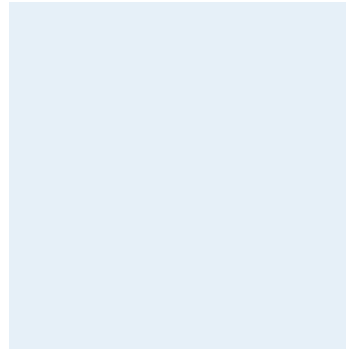


➤ Homeward Bound
*An In-Depth Look at
Asian Homebuyers in
the United States*



Corporate Relations and Housing Outreach



We make home possibleSM

Table of Contents

About Freddie Mac	3
Acknowledgment	3
Executive Summary	4
Introduction	5
Scope of the Study.	6
Key Findings.	7
The 20 Percent Factor	11
Preferences for Lenders, Mortgage Brokers, and Real Estate Agents	18
Other Relevant Behaviors and Beliefs Revealed by the Focus Groups	21
Conclusion	22

About Freddie Mac

Freddie Mac is a stockholder-owned company established by Congress in 1970 to support homeownership and rental housing. Freddie Mac fulfills its mission by purchasing residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage-related securities and debt instruments in the capital markets. Over the years, Freddie Mac has made home possible for one in six homebuyers and nearly four million renters in America. www.FreddieMac.com

Acknowledgment

We would like to thank Asia Link Consulting Group for conducting the focus groups.

Special thanks also go out to organizations that supported the research and the validation of the findings: Asian Americans for Equality, Asian American Institute, Asian Americans for Community Involvement, Asian Community Development Corporation, Asian Pacific Planning & Policy Council (A3PCON) Housing and Economic Development Committee, Congressional Asian Pacific American Caucus, Asian Real Estate Association of America, National Coalition of Asian Pacific American Community Development, Search to Involve Pilipino Americans and the UCLA Asian American Studies Center.

The following information and conclusions were prepared for Freddie Mac's use. This document is provided to you for your convenience. Freddie Mac makes no representations or warranties with respect to the information and conclusions contained herein.



Homeward Bound

An In-Depth Look at Asian Homebuyers in the United States

Executive Summary

Asians represent the second fastest growing minority population in the United States. Although many of these immigrant households will become homeowners in the coming decades, very little is known about this growing market.

To gain a better understanding of the cultural norms and expectations of Asian first-time homebuyers, Freddie Mac conducted focus groups involving Chinese, Korean, Vietnamese, Asian Indian, Filipino, and American-born Asian consumers and real estate professionals. Although the study revealed many differences among ethnicities, this report highlights recurring themes across groups that may lead to a greater understanding of the needs and expectations of Asian consumers. The key findings include:

- Most participants said they need to feel financially ready, stable, and secure before they can consider buying a home.
- Most participants expressed an aversion to debt and said that finding the most cost-conscious financing package is an essential part of buying a home.
- Most participants said that a lack of knowledge about the homebuying process could delay or prevent them from purchasing a home, and they indicated that this lack of knowledge made them more likely to rely on real estate professionals to guide them through the process.

Introduction

Expanding housing opportunities for all families is at the core of Freddie Mac's mission. Our challenge is to meet the housing needs of all families, including minority families. Facing the rapidly changing demographics of U.S. households, the real estate and residential mortgage industries also are searching for the best ways to reach and serve the burgeoning minority market.

Today, Asians make up a significant segment of this growing market. According to recent U.S. Census Bureau data, Asians make up one of the fastest growing population segments in the United States. With a growth rate of 69 percent, Asians are growing at a rate second only to the Latino population. Census 2000 reports that Asians now number close to 12 million, or approximately 4.2 percent of the total U.S. population. According to Harvard University's Joint Center for Housing Studies, Asians and Pacific Islanders are expected to account for 13 percent in household growth, or about 3.5 million new households. And over the next two decades, about two-thirds of these new households, or approximately 2.3 million, will become homeowners. At 59.9 percent, the homeownership rate for Asians and Pacific Islanders is higher than that of Latinos and other minority groups, but it lags behind the national average of 69.1 percent and the rate for non-Hispanic Whites (75.7 percent).

In an effort to gain greater insight into what motivates Asians to become homeowners, as well as what may prevent them from doing so, Freddie Mac sponsored a focus group study involving several Asian ethnic groups. Although the study revealed many differences among the groups studied, this report focuses on the commonalities and recurring themes that may lead to more effective approaches for reaching Asian consumers. Ultimately, knowledge of what encourages or discourages the Asian community in the homebuying process will help us better serve this growing market.

Scope of the Study

The study, which was conducted from February 2005 to July 2005, included nearly 300 respondents. The 30 focus groups were made up of 8 to 10 participants, including several Asian real estate professionals.

The pool of focus group participants consisted primarily of Chinese, Korean, Vietnamese, Asian Indian, and Filipino immigrants. One focus group, the mixed Asian group, included Chinese, Korean, and Vietnamese Asians who were born in the United States or who had arrived in this country by age 10.

Chinese, Korean, and American-born Asian focus groups were held in Los Angeles and New York City; the Vietnamese groups were held in Los Angeles and Houston; and the Asian Indian and Filipino sessions took place in Los Angeles, New York City, and Northern New Jersey.

Consumer Participants

The focus groups included men and women, ranging in age from 25 to 50. Participants were the primary or joint decision makers on financial matters in their households, renters in the market to buy their first home, or recent first-time homebuyers with mortgages under \$360,000. (This loan limit was chosen in accordance with the 2005 single-family loan limit for Fannie Mae and Freddie Mac, as determined by the Office of Federal Housing Enterprise Oversight.)

All participants, except for the American-born mixed Asian group, were foreign-born and had resided in the United States for at least three years. We conducted the Chinese, Korean, and Vietnamese groups in the participants' native languages. The Asian Indian and Filipino groups were fluent English speakers; therefore, sessions were conducted in English.

We conducted focus groups for Filipino and Asian Indian participants separately from the Chinese, Korean, and Vietnamese groups. The participants in the Filipino and Asian Indian groups were somewhat younger, skewing toward their 20s and 30s. Their fluency in English differentiated them from the other Asian immigrants who faced the added challenge of having to overcome a language barrier during the homebuying process.

The Asian Indian and Filipino participants also gave some significantly different responses when compared with those of the Chinese, Korean, and Vietnamese participants. We will highlight those differences, along with behaviors and beliefs that appear to be associated with each specific ethnic group.

Real Estate Professional Participants

Real estate professional participants were licensed real estate agents who had been selling residential real estate in the United States for three or more years. We stipulated that 60 percent of the participants' clients had to be Chinese, Korean, Vietnamese, Filipino, or Asian Indian. At least 80 percent of participants' home sales to clients must have been financed at \$360,000 or less. Finally, real estate participants must have made recommendations to clients about mortgage products and lenders, and they must have developed strong relationships with mortgage brokers.

Key Findings

The study uncovered certain cultural norms, beliefs, and behaviors associated with Asians (and their status as immigrants) that affect their feelings of readiness to purchase a home. These factors, which may delay an Asian consumer's timeline for buying a home by years and may discourage eligible

low- to moderate-income buyers from entering the market altogether, may begin to explain why the homeownership rate among Asians is lower than that of non-Hispanic whites.

“We planned to buy a house for a long time, but we waited [to save] more money. We stayed in an apartment a long time, so we realized it was time for a house.”

(Vietnamese Homeowner, Houston)

1 **Factor**

Most participants said they need to feel financially ready, stable, and secure before they can consider buying a home.

Participants described the many challenges they face as immigrants to a new land. These challenges include being unfamiliar with the financial system in the United States and, for Chinese, Korean, and Vietnamese immigrants, not speaking the language.

Above all, participants described their need for stability and security as a major factor affecting their readiness to buy a home. Participants defined readiness in different ways, such as the following:

- Most participants described financial readiness as having enough money for the down payment and/or being able to safely afford the monthly mortgage payments.
- For others, being ready may mean having a steady job, feeling established in an area, or obtaining a Green Card.
- For business owners, financial readiness may mean having a business that has reached a certain level of stability.
- For some participants, being ready means having enough to pay for a child's college education and having enough savings set aside for emergencies.

Some participants said the combination of achieving these financial goals, combined with certain life events, such as marriage or having a child, motivated them to purchase a home. While a home represents long-term stability and security—a tangible asset that will appreciate in value—most participants said they are not likely to rush into buying a home until they feel financially ready to do so.

“ We have been here for a few years, and we want to establish a good foundation. You have to make money, and the kids go to school, so you can't just buy.”

(Chinese Renter, Los Angeles)

“I had wanted to purchase a home for a long time, but my husband wanted to establish a business first. The business went up or down, and we kept postponing the time to buy a home.”

(Korean Homeowner, New York)

For most focus group participants, the source of the down payment comes primarily from savings. However, a good number also said they have funds from other sources, such as monetary gifts or loans from family. A small but notable number of participants said their

parents had helped or planned to help with the down payment. Borrowing from friends is also an acceptable, common practice. In addition, participants noted that funds may be sent from their homeland, including money from family or their own money kept there.

Chinese, Korean, and Vietnamese Responses

Chinese, Korean, and Vietnamese participants were more likely to attach a deeper emotional significance to homeownership and were less likely to see a home as solely an investment commodity to be bought and sold for profit. This is not to say that these groups do not view their homes as an investment; most said they are aware of the financial benefits of homeownership. Among Chinese, Korean, and Vietnamese participants, Koreans tended to view their homes more as an investment.

The study revealed significant differences in how Chinese, Korean, and Vietnamese participants defined having “enough money” for a down payment, compared with how Asian Indians and Filipinos responded. Most Chinese, Korean, and Vietnamese participants described themselves as much more financially conservative or averse to debt than Americans. The majority said having “enough money” for a down payment meant being financially stable enough to borrow as little as possible and pay off their mortgage as soon as possible.

An overwhelming majority of Chinese, Korean, and Vietnamese respondents had already or planned to put down at least 20 percent of the cost when purchasing a home. Several participants had already or planned to put down more than 20 percent—as much as 50 percent.

Asian Indian and Filipino Responses

Among Asian Indians and Filipinos, while life events such as getting married, having children, and having access to good schools may contribute to their decision to buy a home, these events ranked behind the practical aspects of owning a home as motivators for home purchase. Because the great majority of participants said they view homeownership as an important investment, two factors must converge before they decide to buy: They must believe they can afford a home, and they must be convinced of the financial advantages of being a homeowner.

Among Asian Indian participants, a larger portion than in the Chinese, Korean, and Vietnamese groups stated that they planned a down payment of just 5 to 15 percent primarily because they do not wish to tie up funds in the house. Filipino participants expressed an even higher degree of willingness to put down less than 20 percent.

The 20 Percent Factor



Many participants said they put down 20 percent because they thought that was the “standard.” The reasons for putting down a larger down payment included the desire to:

Avoid Mortgage Insurance Premiums

Although not all participants were aware of or fully familiar with mortgage insurance (MI), the great majority either knew about or had a vague notion that MI is required for down payments lower than 20 percent. Participants indicated that they do not want to pay MI, even if it means delaying their home purchase.

Lower Monthly Payments

Many participants stated that they wanted to avoid the pressure of high monthly payments. Apparently, participants perceived that making a larger down payment would reduce stress because their long-term monthly payments would be more affordable.

Mitigate Credit Challenges

Participants held the perception that having a well-established credit history and/or the right credit score were not as important if you have a higher down payment.

Although most participants did not appear to have any credit issues, renters in some groups appeared to be the least knowledgeable about the role of credit and how to build a good credit history. Some participants said they were accustomed to spending cash rather than using credit cards because they do not like to be in debt. The real estate agents particularly emphasized that some of their clients are not familiar with the importance of building good credit.

Avoid Income and Asset Verification

A substantial number of Asians own cash businesses; unverifiable income presents an additional challenge in obtaining a mortgage loan. Some Chinese,

Vietnamese, and Korean participants believe that a higher down payment eliminates the need for income and asset verification.

Compete in a Seller's Real Estate Market

Many participants also said they believe that a larger down payment will help them in a competitive real estate market (e.g., Los Angeles and New York) where prices escalate quickly and multiple bidders compete for desirable properties. A few participants stated that real estate professionals instructed them to come up with a 20 percent down payment because sellers prefer buyers with a high down payment. The perception is that a higher down payment will improve the chances for loan approval and lead to closing the sale.

Other Factors

Besides not having enough money, participants described several other factors that prevented them from buying a home as soon as they decided to purchase. These factors included wanting to be better educated about the benefits of homeownership, waiting for lower interest rates, building good credit, and failing to consider rising property values.



Most participants expressed an aversion to debt and said that finding the most cost-conscious financing package is an essential part of buying a home.

Many participants stated that having a down payment and monthly payments they can afford is one part of getting the most cost-conscious financing package; however, participants revealed different views of which loan terms are most cost-effective.

Chinese, Korean, and Vietnamese Responses

For Chinese, Korean, and Vietnamese participants, being cost conscious means taking out shorter-term loans, preferably at a fixed rate. These participants said they are most likely to take out conventional, fixed-rate loans. A

“Those [who take out adjustable-rate loans] are very adventurous people.”

(Vietnamese Homeowner, Los Angeles)

fixed rate appears to be preferable to adjustable, partially because participants wanted predictable monthly payments.

In addition, many real estate professional

participants stated that their clients are very wary of adjustable mortgage loans because they do not understand how they work. Although some consumer participants were familiar with FHA loans and lower down payment options, they said they were not interested in those types of loans. Many Chinese, Korean, and Vietnamese participants are so determined to pay a higher down payment that, when asked whether they would consider a lower down payment for a highly desirable property, the majority said they would be reluctant to consider it.

Many Chinese, Korean, and Vietnamese participants also said that, along with having the larger down payment, they are inclined to take out shorter-term loans to build equity faster in their home. Participants said they preferred 15- to 30-year loan terms.

“My wife and I decided 15 years [loan term]. I wanted to pay it off as soon as possible. Life is too uncertain. Pay it off as soon as you can.”

(Asian American Homeowner, Los Angeles)

Although participants expressed positive feelings about a mortgage because it allowed them to purchase a home, their inclination was to pay it off as quickly as possible. In fact, most participants said they want to pay off the mortgage as soon as possible regardless of how long they think they will live in the home. Most of these participants said they planned to live in their first home between 5 to 10 years. The majority of participants view their first home as a “starter” home (i.e., they intend to trade up to a bigger home or a better location).

Asian Indian and Filipino Responses

Unlike Chinese, Vietnamese, and Korean participants, the majority of Asian Indian and Filipino participants said they prefer to obtain a 30-year fixed mortgage (versus a 15-year fixed mortgage). Some participants said they would choose other options with shorter (e.g., 10-year) terms and also choose variable rates (e.g., 3- to 5-year). A few participants said they have 15-year fixed mortgages. Some real estate participants said that older buyers who can afford it will go with the 15-year fixed term, while younger buyers tend to choose terms of 30 years.

Most of the Filipino real estate agents said that the majority of their clients take out 40-year, 0-percent down loans. Our findings confirm that Asian Indian and Filipino participants indicated that the lowest mortgage rate is the primary factor when considering the terms of a mortgage. However, like Chinese, Korean, and Vietnamese participants, having a fixed rate is preferred so that they know what to expect with each monthly payment.

Most participants said that a lack of knowledge about the homebuying process could delay or prevent them from purchasing a home, and they indicated that this lack of knowledge made them more likely to rely on real estate professionals to guide them through the process.

The great majority of participants, homeowners and renters alike, said they would like to have more information about the homebuying and financing process, along with guidance on which information is pertinent to them. While most buyers indicated they knew about down payments, monthly payments, and interest rates, the majority was unfamiliar with the specifics of the homebuying process, such as how loans get approved, which documents are needed, and the possibility of additional or undisclosed fees.



“ [I would have bought sooner] if I knew more about the process. I thought it was a very difficult process to go through and scary. If I had known more, it would’ve been easier.”

(Filipino Homeowner, New York)

Getting Ready to Buy a Home

Focus group participants said that when they are ready to buy a home, they often start by researching neighborhoods in which they are interested and finding out about the prices. Participants said their primary sources of information at

this initial stage are family, friends, and co-workers, especially those who have previously purchased a home.

A majority of participants, especially fluent English speakers, said they also use the Internet in their search for real estate agents, properties, or interest rates. Other sources of information include in-language newspapers and fliers that are commonly distributed in local ethnic supermarkets and stores. Some participants said they get information from their banks. Most renters indicated that they are much less knowledgeable than homeowners about the homebuying process.

Participants said they are willing to approach real estate agents that have been referred to them or who they have seen advertised. Real estate participants said they find that Asian clients are more likely to do more research and cross-checking of information than the general population. In addition, focus group participants indicated greater family involvement in the homebuying process. For example, family members such as parents and siblings tend to weigh in on the search for a home and the decision to buy.

The Role of the Real Estate Professional

The majority of focus group participants said they greatly value the services of real estate professionals, especially agents. Many participants said it is important to find an agent who they feel they can trust; however, the degree to which they tend to depend on their agent varies across ethnic groups.

Chinese, Korean, and Vietnamese Responses

Many Chinese, Korean, and Vietnamese participants said they expect the real estate agent to help them with the details of the homebuying and financing process.

Some participants, particularly both the Vietnamese homeowner and renter groups in Los Angeles, said they do not have the time to learn on their own and strongly prefer to rely on a professional, such as a real estate agent, mortgage broker, or lender, to do everything for them.

The Vietnamese participants appeared to be the least informed about the financing process and the most likely to rely on and trust their real estate agents and lenders during the homebuying process.

In addition, participant responses indicate that buyers who are older and have a language barrier are more likely to feel overwhelmed by the process and may rely more heavily on their real estate agents for help. When compared with Korean participants, Chinese respondents appeared to be more independent or self-reliant in the homebuying process.

Asian Indian and Filipino Responses

The majority of Asian Indians expressed a greater knowledge about the homebuying process than other ethnic groups included in the study and, as a result, may not require as much information or guidance. Some Indian participants said they plan to approach mortgage brokers to learn about financing and whether they can afford a home before they even approach a real estate agent. Some said they may not even use a real estate agent. The majority of this group said they expect agents to help them find a home but not necessarily to assist in the financing process.

Filipino participants said they require a wider spectrum of education, including the basics of how to build good credit. Both groups said they are interested in receiving more details about closing and inspection fees and about financing options such as zero-down or zero-interest loans.

When asked whether they prefer the real estate agent to be of their own ethnicity, most participants said it made no difference. However, many Filipino participants said they feel more comfortable speaking Tagalog/Taglish with agents from their own country—not because of any difficulty with English, but because they feel more comfortable with them.



Preferences for Lenders, Mortgage Brokers, and Real Estate Agents

The respondents who were familiar with the difference between mortgage brokers and lenders were split on which they prefer. Those who said they prefer lenders said they think lenders have more “credibility” and charge less because they are “cutting out the middle man.” Those who prefer mortgage brokers said they think they are getting the best deal because these brokers shop around for the best rates on their behalf.

Many real estate agent participants said they have a clear preference for mortgage brokers because the agents feel they have more control over the relationship and how things are handled, and because the agents may send clients to brokers who specialize in certain areas, such as impaired credit or low down payment loans.

Most of the real estate agent participants said they are familiar with FHA and other government-backed loans, but they see disadvantages to them, including the following:

- They require too much paperwork and time to process. (This perception was based mostly on hearsay rather than first-hand experience.)
- Most Asians do not qualify for the stringent requirements of such loans.
- Sellers will not consider buyers with such loans because they require more disclosures and are perceived to be financially less attractive than conventional loans with higher down payments.
- Asian clients are uncomfortable with such loans.
- Asians are nervous when it comes to dealing with the government, even for loans, and want to avoid it.

Differences Among the Groups

Of all the groups, the New York participants tended to depend less on real estate agents, and shopped around more for real estate agents and mortgages. Their responses indicated that they do more research on their own and demonstrated a greater knowledge of the homebuying process than their counterparts in Los Angeles and Houston.

Chinese and Korean participants in New York showed more independence than Chinese participants in Los Angeles. For example, participants in New York said they do not expect the real estate agent to handle any aspect of the financing process, whereas the Los Angeles respondents said they expect their agents to guide them through the entire process, including financing.

Preference for Asian Real Estate Agents

Among Chinese, Korean, and Vietnamese immigrant buyers, and even among some non-immigrants, participants indicated a preference to use Asian agents, even if they are not from the buyer's country. Two key reasons drive this preference:

- Ease of communication—virtually all participants said they prefer to do business in their native language, even if some are proficient in English.

“ [The real estate agent is] very important. They have to help us. We ask for their help from the beginning to when we buy the house. ”

(Vietnamese Renter, Houston)

- An unspoken understanding of cultural ways—participants indicated that real estate agents from the same country or from other parts of Asia seem to better understand buyers' ways and needs.

Many participants said they expect real estate agents from their own country to be more involved in helping them than other real estate agents would be. Real estate participants concurred that, in general, they end up doing more hand-holding with their Asian clients than with other clients.



Other Relevant Behaviors and Beliefs Revealed by the Focus Groups

Participants revealed other beliefs and behaviors that appear to be associated with specific segments of the focus groups, including:

Chinese Participants

The Chinese participants are familiar with how to establish a credit history and know how to go about establishing good credit in the United States. They explain that they take out credit cards and loans and make regular payments to establish a good history. At least half appear to be familiar with specific credit scores needed to be considered a good credit risk.

Korean Participants

Korean participants, who had a greater tendency than Chinese or Vietnamese participants to be small business owners, are more likely to prioritize their businesses before homeownership.

Vietnamese Participants

The knowledge about the role of credit and how to build a good credit history is uneven among the Vietnamese. Some are knowledgeable, while others are not. In particular, the Houston renter group appears to be the least knowledgeable. The Houston homeowners know more after having gone through the homebuying process.

Filipino and Asian Indian Participants

Unlike Chinese, Korean, and Vietnamese participants, Asian Indian and Filipino participants said that some Asian Indians and Filipinos do not plan to stay in the United States, particularly for their retirement, or they may go back to their native country after making some money. These two segments also appear to be more likely to send money back home.

Multiple families may live in one household, thus delaying home purchase for some of those families. It is acceptable, even desirable, among Filipino and Asian Indian immigrant families to live together, primarily to save money. Also, children even when married, may live with their parents and may not feel the need to live independently until they have children of their own.

Conclusion

Focus groups such as these can help us better understand the motivations and cultural factors influencing Asian homebuyers. This study is a step in the right direction toward gathering information about this growing market, but more research needs to be done if we are to fully comprehend how to best serve these consumers. Freddie Mac is dedicated to leading the industry in addressing the homeownership barriers faced by Asian and other minority households, and we hope that this study will encourage others to join the effort.

