The Asian Real Estate Association of America (AREAA) has created this 3-point policy plan outlining issues of vital importance to both the Asian American and Pacific Islander (AAPI) community, and the nation as a whole. Our organization strongly recommends the following actions designed to create a positive investment climate for the economy, reinforce the recent gains in the housing market, and avoid placing unnecessary burdens on small business owners.
Adoption of Alternative Credit Scoring Models
Support the FHA Alternative Credit Pilot Program Reauthorization Act of 2015 (H.R. 123)

The Asian Real Estate Association of America urges bipartisan support of H.R. 123, introduced by Representative Al Green (D-TX), the “Federal Housing Administration (FHA) Alternative Credit Pilot Program Reauthorization Act of 2015.” This bill amends the National Housing Act to extend from five to ten years the pilot program to establish an automated process for providing alternative credit rating information on mortgagors and prospective mortgagors for mortgages on 1 to 4 unit family residences who have insufficient credit histories for determining their creditworthiness.

This is an extension of Section 2124 of the “Housing and Economic Recovery Act of 2008 (HERA),” which directed the Secretary of HUD to create a pilot program at FHA to automate alternative credit rating information such as rent payment and utility payments. AREAA had worked with Congressman Al Green on this Section of HERA.

Other urgent matters occupied FHA’s attention during the Great Recession and the authorization for this pilot program expired in July 2013. The economy is now in recovery and AREAA strongly supports extending authorization to create this pilot program which will more accurately measure creditworthiness, thereby increasing the number of potential home buyers.

The Asian American and Pacific Islander (AAPI) community is now the largest minority participant in the housing mortgage market, both in terms of number and dollars1. However, there are still hundreds of thousands in this community being left out of the housing market because they do not fit the traditional credit scoring models. Your credit score is the critical access point when trying to enter the housing market; with a poor score, or none at all, you stand little to no chance of obtaining a loan. Yet many in the AAPI community come from a background that avoids debt, leading many to have little to no credit history. With new credit scoring models that incorporate additional predictive metrics and payment history, many of these “thin file” individuals would be able to obtain credit and enter the housing market as a critical first step to achieving the American Dream of financial independence. These new scoring models have near unanimous industry support, and would help bolster the struggling recovery of the housing market.

Despite the success of certain segments of the AAPI population, there are still hundreds of thousands more that cannot qualify for a mortgage. This is not because they have bad credit, but rather because they have no credit at all. Many in this community have no credit card bills to pay or automobile payments to make, and curiously, regular payments for rent and utilities are not counted toward your credit score. Further, due to the heterogeneous complexion of the term “Asian”, it can be misapplied and cause confusion. In fact, when accounting for all socioeconomic

---

characteristics and preferences, the Courchane study found that, holding other factors equal, Asian Americans are more likely to be denied a loan application than any other minority group.

On April 1st, 2015, AREAA, along with the National Association of Realtors®, the National Association of Hispanic Real Estate Professionals, and the National Association of Real Estate Brokers, convened a credit symposium with industry leaders across all spectrums of real estate. The overwhelming sentiment was for change. Traditional credit scoring prevents millions of Americans, mostly younger and minority, from achieving the American Dream of homeownership.

New scoring models, such as FICO 9 and VantageScore 3.0, place less emphasis on items such as unpaid medical bills and missed payments on debts that have since been paid off, and include common sense items such as rent and utility payments. These new models would help give a more accurate picture of a person’s willingness and ability to repay a mortgage, and could help many establish a credit score initially.

It is AREAA’s position that these new credit models must be seriously considered by Congress. The new systems have proven in studies to be just as, if not more, accurate in predicting a person’s ability to repay. This is not a “loosening” or “weakening” of lending standards; it is an acknowledgement that not all people come from the same backgrounds or practice the same financial activities. Simply put, these new models would bring credit scoring into the 21st century, and allow credit scoring companies to more fairly and accurately score millions of Americans.

Despite the success of certain segments of the AAPI population, there are still hundreds of thousands more that cannot apply for a mortgage. This is not because they have bad credit, but rather because they have no credit at all.

---

Asian investors have become the dominant force in global real estate purchases; with China, Japan, and India leading the way. As this region continues to increase its economic prosperity, it is logical to assume its influence will continue to grow. With the US economic recovery beginning to gain momentum, the projected rise of these developing economies reinforces the importance of providing an investment climate that attracts this much needed source of capital. AREAA believes that one way to assure this capital is to make the successful EB-5 program permanent and to increase the amount of Employment Based Visas made available each year. This program creates permanent American jobs through its employment requirements by providing investors with a clear incentive to invest in the United States. The EB-5 program is currently at risk of expiring Sept. 30, 2015. We believe that Congress needs to permanently authorize this program which has a proven record for stimulating the economy and creating tens of thousands of jobs. The EB5 program was created in 1990 to help spur economic development by granting overseas investors “Permanent Resident” (informally referred to as Green Card) status, if they a) invest over $500,000 in a Target Employment Area, or $1 million for a new business venture; and b) create at least 10 new permanent jobs. According to the United States Citizenship and Immigration Services, since 1990, the EB-5 program (Employment Based Fifth Visa) has created nearly 60,000 jobs with over $8.5 billion in investment. And this number is on the rise, as the program has only truly begun to thrive over the past 2 years as Chinese laws on outbound investment have relaxed. In fact, 2014 was the first year the program reached its maximum allotted visa opportunities. Currently before Congress is the American Entrepreneurship and Investment Act (HR 616), a bipartisan piece of legislation authored by Reps. Jared Polis (D-CO) and Mark Amodei (R-NV). This proposed legislation seeks to permanently authorize the EB-5 program, as well as fix some of the common complaints such as allowing states to determine Target Employment Areas, streamlining processing times, and increasing transparency of both expectations and requirements by the USCIS for regional centers and investors. AREAA strongly recommends Congressional support of this bill as it encourages economic growth, job creation,
1031 Exchanges, the Lifeblood of Investment
Reject budget proposal to limit and/or eliminate 1031 Exchanges

The President’s 2016 Budget includes a startling recommendation to reduce or even eliminate IRC Section 1031 which, among other things, allows for tax-deferred transactions of like-kind real estate. Tax-deferred real estate transactions are a major decision-making factor for businesses and investors when considering upgrading their facilities, securing a larger building to accommodate their expanding business, or investing in new rental properties.

According to the US Department of Commerce’s Minority Business Development Agency, Asian Americans own roughly 1.5 million of the 5.8 million minority firms in the US, account for $506 billion in total yearly revenue, and employ 2.8 million Americans. Clearly, the 1031 Tax Deferral rules have contributed greatly to the success of this community and have allowed these Americans to be self-sufficient and active contributors to society. Placing extra tax responsibilities on these businesses would be burdensome, and unnecessary; especially when taking into account that these are not ‘tax free’ transactions, but rather ‘tax deferred’.

An estimated 30% of all real estate transactions involve a 1031 exchange. The proposed limits and potential elimination of IRC Section 1031 would have a profound impact on not only the housing market, but the US economy as a whole. Since 1921, and further cemented under the Starker ruling of 1979, Congress has held the position that real estate investment should be promoted, and “taxpayers should not be held hostage out of fear of the tax consequences of selling.” Asian American investors and business owners are no different than anyone else. Removing the tax-deferred option would be a devastating blow that would likely halt further investment in or sale of real estate for both investment and commercial purposes.

There is an abundance of support for 1031 exchanges among those in the real estate industry. It is an incredibly powerful, revenue neutral economic tool used to encourage business and investment transactions in real estate. Capping or eliminating this program would be extremely harmful to the economic and housing recovery, and could potentially put the gains made over the past seven years in jeopardy. In the strongest of terms, AREAA supports keeping IRC Section 1031 intact.

According to the United States Citizenship and Immigration Services, since 1990, the EB-5 Program (Employment Based Fifth Visa) has created nearly 60,000 jobs and over $8.5 billion in investment.

ABOUT AREAA

Founded in 2003, the Asian Real Estate Association of America (AREAA) is a national professional trade organization dedicated to promoting sustainable homeownership opportunities in Asian American communities by creating a powerful national voice for the housing and real estate professionals that serve this dynamic market.

AREAA will accomplish this mission by:

Advocating for policy positions at the national level that will reduce homeownership barriers facing the Asian American community.

Increasing business opportunities for mortgage and real estate professionals that serve this growing community.

Who We Are
AREAA’s membership represents a broad array of real estate, mortgage and housing-related professionals that serve the diverse Asian American market. With members that serve nearly all segments of the Asian American population, AREAA is the only trade association dedicated to representing the interests of the Asian real estate market nationwide. Currently, the association serves over 15,000 members in 17 states and Canada with 35 affiliate chapters.

Expanding Homeownership Opportunities and Supporting Business Growth
AREAA pursues initiatives that will expand homeownership opportunities for more Asian and immigrant families, increase business opportunities for our members, and deliver tangible results for our national partners. Over the next two decades, Asian Americans will be one of the fastest growing populations in the country. Because most Asian Americans are largely first generation Americans, they face significant language, cultural and knowledge barriers which have kept the homeownership rate relatively unchanged over the past two decades. AREAA will initiate national and regional efforts to address these challenges.