

LATINO HOMEOWNERSHIP HANGING IN THE BALANCE: WHY LATINOS ARE DENIED MORTGAGES

INTRODUCTION

Hispanic* Americans represent a growing and influential population in the housing market; they are projected to make up 40% of new households and half of new homeowners in the coming decade.¹ Yet, data from the Home Mortgage Disclosure Act (HMDA) paints an uncertain picture of how Latinos will keep pace in the future mortgage market, pointing to persistent inequities that may prevent eligible Latinos from meeting these projections. In 2017, more than 160,000 Latinos became homeowners.² This kept the homeownership rate the same at 46% since 2016, and still nearly four percentage points below the rate before the onset of the Great Recession that resulted in the Latino community losing more than 66% of their net housing wealth.³ The HMDA data shows that Latinos are denied a mortgage more often than Whites and at a higher rate than home loan borrowers overall.⁴

Examining mortgage denial rates and reasons can help policymakers and the public identify unequal lending patterns in the housing market. This information, along with the type of loans made, changes in the number of loans, the race/ethnicity and income of borrowers denied and approved for loans is available to a wide range of housing market stakeholders, including consumers, regulators, policymakers, financial companies, and community-based organizations and is a critical tool in assessing how more eligible individuals, including Latinos, can gain greater access to affordable homeownership opportunities. Using loan denial data from the 2017 HMDA, UnidosUS identified the main reasons Latinos were denied a mortgage, the reasons top home lenders denied them a mortgage, and important trends that continue to hinder their path to homeownership.⁵ Where applicable, insights from 2007, 2010, and 2016 HMDA data are included.

Denial Rates and Reasons

The mortgage denial rate for Latinos has decreased significantly since the Great Recession. In 2007, Latinos were about three times as likely to be denied a mortgage to buy a home as Whites. Latinos were denied at a rate of 29.5%, while Whites were denied at a rate of 13.3%. By 2017, the Latino denial rate had fallen to 13.5%. Yet, Latinos were still more likely to be denied a mortgage than Whites: the denial rate for Whites was 8.8%. Latino borrowers were more likely than White borrowers to be denied a

* The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout this statement to refer to persons of Mexican, Puerto Rican, Cuban, Central American, Dominican, Spanish, and other Hispanic descent; they may be of any race.

mortgage because of issues with debt-to-income ratio (DTI),* employment history, and a lack of sufficient cash.⁶

- Latinos were denied a conventional mortgage at a higher rate than Whites:** In 2017, more than 60% of all home loans issued were conventional loan products.⁷ Latinos received slightly more conventional loans in 2017, yet they were denied this type of loan at a higher rate (13.5%) than Whites (7.9%).⁸ Latino borrowers are less likely to have the cash for a 20% down payment, creating a barrier for them to qualify.
- Latinos were denied a government-insured loan at a higher rate than Whites:** In 2017, more than 55% of home loans that Latinos received were non-conventional or insured by the federal government.[†] Latinos received fewer nonconventional loans than they did in 2016 (59.8%). They were also denied at a higher rate (13.4%) than Whites (10.3%).

Table 1. Top Three Home Lenders: Snapshot of Mortgage Approvals and Denials in 2017⁹

Indicator	Name of Lender		
	Wells Fargo	Quicken Loans (non-bank)	JP Morgan Chase
# Total Applications (home purchase mortgages)	191,739	154,520	77,632
# Total Mortgages (home purchase)	136,000	105,000	56,000
% Conventional Mortgages	90.30%	64.90%	96.80%
% Mortgages Approved to Whites	64.2%	48.7%	59.5%
# Mortgages Denied to Whites	(10%)	(23.9%)	(10%)
# Mortgages Approved to Latinos	(8%)	(6%)	(7.5%)
# Mortgages Denied to Latinos	(17%)	(28%)	(16%)
Top Reason Latinos Denied a Mortgage	Debt-to-income ratio (1,205 applications)	Collateral (1,058 applications)	Debt-to-income ratio (499 applications)

* A borrower’s debt-to-income ratio is equal to their monthly debt payments divided by gross monthly income. More available at: <https://www.consumerfinance.gov/ask-cfpb/what-is-a-debt-to-income-ratio-why-is-the-43-debt-to-income-ratio-important-en-1791/>

† A nonconventional mortgage is any mortgage that is insured by the Federal Housing Administration, or guaranteed by the U.S. Department of Veterans Affairs, the Rural Housing Service, or the Farm Service Agency.

TOP THREE DENIAL REASONS

In 2017, Latinos were most often denied a mortgage for three reasons: 1) DTI, 2) credit history, and 3) collateral.

1) Debt-to-Income Ratio

In 2017, Latinos were denied both conventional and nonconventional mortgages due to issues with their DTI at a rate of 24.3%. The denial rate has increased since 2010.¹⁰ This rate was nearly three percentage points higher than the rate of Whites (21.6%) and more than two percentage points higher than the rate for borrowers overall (22.8%). Latinos were more often denied conventional mortgages because of DTI (26%) than for nonconventional mortgages (23%). Yet, Latinos were denied both types of mortgages because of DTI at rates that were higher than for Whites and borrowers overall. See Table 2.

Table 2. Mortgage Denial Rate due to DTI by Borrower Category and Mortgage Type

Mortgage Type	Borrower Category		
	Latinos	Whites	All Borrowers
Conventional and Nonconventional	24.3%	21.6%	22.8%
Conventional	26.4%	23.6%	24.6%
Nonconventional	22.6%	18.6%	20.5%

Source: Home Mortgage Disclosure Act, 2017

- Lenders use DTI to measure the borrower’s ability to manage monthly payments to repay the money they borrowed; they may consider borrowers with a higher DTI as more likely to have trouble repaying a mortgage. Rising home prices, especially in high-cost cities, may require borrowers to apply for mortgages that are larger in value, and would lead to a significantly high DTI. While Latinos tend to have lower credit scores, Latinos are more likely than Whites to have a DTI that is higher than 45%.¹¹ Until recently, only lenders offering nonconventional loans would make mortgages to borrowers with a DTI above 45%. In 2017, Fannie Mae started to buy loans with a DTI up to 50%.¹² This change might increase the number of mortgages made to Latinos and other underserved borrowers who would otherwise be denied for having a higher DTI.

Mounting Student Loan Debt is a Barrier

In 2016, four in ten adults under 30 years of age had student loan debt.¹³ Americans carried collectively more than \$1 trillion dollars in student loans, making this debt the second largest household debt obligation next to a mortgage.¹⁴ Recent studies confirm that borrowers face challenges associated with student loan debt, including a negative impact on their credit score and an increase in their DTI.¹⁵ Further, 20% of all Hispanic first-time college entrants in 2004 had defaulted on their loans within 12 years, nearly eight percentage points higher than White entrants.¹⁶ This default rate was more than seven percentage points higher than Hispanic students entering eight years prior.

2) Credit History

In 2017, Latinos were denied a mortgage due to issues with their credit history at a rate of 14.9%, a decrease of nearly three percentage points since 2010.¹⁷ This rate was almost two percentage points lower than the denial rate of Whites and for borrowers overall. Issues with their credit standing were more of a barrier for Latinos applying for conventional loans (16%) than those applying for nonconventional mortgages (14%). See Table 3.

Table 3. Mortgage Denial Rate due to Credit History by Borrower Category and Mortgage Type

Mortgage Type	Borrower Category		
	Latinos	Whites	All Borrowers
Conventional and Nonconventional	14.9%	16.8%	17%
Conventional	16%	16.8%	16.8%
Nonconventional	14%	16.8%	17.2%

Source: Home Mortgage Disclosure Act, 2017

- While Latinos are less likely vulnerable to be denied a loan due to credit history than others, Latino borrowers are more often credit invisible and have lower credit scores than White borrowers. This makes Latinos appear to be a greater credit risk.¹⁸ While many Latinos have a credit history, they are more likely to have an unscored file due to a reluctance to take on long-term credit or open multiple credit accounts.¹⁹ Consequently, a conventional loan may be even more out of reach for Latino borrowers with a lower credit score. Mortgage insurance companies and the Enterprises* charge additional fees to lenders, based on the loan’s credit score. These fees to lenders also affect the cost of the loan for the borrower, in many cases raising costs for borrowers with lower credit scores and lower levels of wealth.²⁰

* The Enterprises are Fannie Mae and Freddie Mac, two companies that buy mortgages from lenders. They hold these mortgages in portfolios or package loans into mortgage-backed securities that may be sold. More available at: <https://www.fhfa.gov/SupervisionRegulation/FannieMaeandFreddieMac/Pages/About-Fannie-Mae---Freddie-Mac.aspx>

3) Collateral*

In 2017, Latinos were denied a mortgage due to issues with collateral at a rate of 12%. This was lower than the rate experienced by Whites and for borrowers overall. Latinos were denied conventional mortgages because of collateral at a rate of 15%, significantly higher than for nonconventional mortgages. See Table 4.

Table 4. Mortgage Denial Rate due to Collateral by Borrower Category and Mortgage Type

Mortgage Type	Borrower Category		
	Latinos	Whites	All Borrowers
Conventional and Nonconventional	12%	15.5%	14.4%
Conventional	15%	17.8%	16.9%
Nonconventional	9.5%	12.2%	11.3%

Source: Home Mortgage Disclosure Act, 2017

- Borrowers can be denied a mortgage if they lack enough collateral to secure a mortgage.²¹ The amount of the mortgage is based on the home seller's asking price or a price the buyer and seller agree upon. If an independent, third-party appraisal determines the value of the home is lower than the agreed-upon sales price, then the lender may deny the loan, or require that the buyer make up the difference with cash.

CONCLUSION

Each year, the release of HMDA data sheds light on home lending patterns and persistent gaps in homeownership. HMDA data continues to be an important measure of the mortgage market's response to the credit needs of American families, and a fair lending tool that helps identify and end discrimination. The 2017 mortgage denial data show that Latinos have achieved some gains in access to credit in recent years. Yet, a narrowing gap in denial rates among Latinos and borrowers overall raises concerns about overly restrictive lending conditions. An increasing denial rate due to DTI also raises concerns about how lenders measure future home buyers' ability to pay a mortgage and must be addressed to ensure that eligible borrowers can buy a home.

While historical discriminatory practices such as redlining have ended, HMDA data shows that the system currently in place continues to exclude many communities of color, and low-and moderate-income borrowers. The future of the housing market will depend on the ability of eligible individuals in often-excluded groups to obtain an affordable mortgage to buy a home. To ensure that the market is serving those individuals, the entities issuing mortgages need to release comprehensive information about their mortgage lending practices.

As policymakers begin to consider reforming the housing finance market, there is great opportunity to do so in a way that increases access to affordable mortgage products and upholds fair and nondiscriminatory lending practices. This includes preserving the collection of mortgage lending activities and making the

* Collateral is a property or asset that a borrower offers as a way for a lender to secure the loan. For a mortgage, the collateral is the house purchased with the funds from the mortgage. More available at: <http://www.dictionary.com/browse/collateral> and https://files.consumerfinance.gov/f/201503_cfpb_your-home-loan-toolkit-web.pdf

information public to hold lenders accountable for meeting the needs of Latino borrowers. Only then can more American families build wealth, bolster the housing market, and continue to grow the economy.

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- ⁴ Consumer Financial Protection Bureau, “Data Point: 2017 Mortgage Market Activity and Trends,” <https://www.consumerfinance.gov/data-research/research-reports/cfpb-data-point-mortgage-market-activity-and-trends/> (accessed May 16, 2018).
- ⁵ Ibid.
- ⁶ Ibid.
- ⁷ Ibid.
- ⁸ Ibid.
- ⁹ Consumer Financial Protection Bureau, “Data Point: 2017 Mortgage Market Activity and Trends,” https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/bcftp_hmda_2017-mortgage-market-activity-trends_report.pdf and Consumer Financial Protection Bureau, “Custom Datasets,” <https://www.consumerfinance.gov/data-research/hmda/explore/> (accessed May 16, 2018).
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- ¹² Fannie Mae. *Selling Guide*, December 19, 2017, <https://www.fanniemae.com/content/guide/selling/b3/6/02.html> (accessed May 16, 2018).
- ¹³ Anthony Cilluffo, *5 Facts about Student Loans* (Washington, DC: Pew Research Center, 2017), <http://www.pewresearch.org/fact-tank/2017/08/24/5-facts-about-student-loans/> (accessed May 16, 2018).
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