

Attention: Comments/FR-6342-N-01  
Julia R. Gordon  
Assistant Secretary for Housing - Federal Housing Commissioner  
Department of Housing and Urban Development (HUD)  
451 7th Street, SW  
Washington, D.C. 20410

December 5, 2022

**Re: Request for Information (RFI) to identify barriers to the origination of small-dollar mortgages and consider the development of policies and programs that better support and expand affordable homeownership opportunities in underserved markets with lower housing prices.**

Dear Commissioner Gordon:

UnidosUS is a nonprofit, nonpartisan organization that serves as the nation's largest Hispanic\* civil rights and advocacy organization. Since 1968, we have challenged the social, economic, and political barriers that affect Latinos through our unique combination of expert research, advocacy, programs, and an [Affiliate Network](#) of nearly 300 community-based organizations across the United States and Puerto Rico.

The UnidosUS Wealth and Housing Alliance (UWHA) (formerly the National Homeownership Network, or NHN) is the nation's largest network of community-based organizations working to empower Latino wealth-building through homeownership. The UWHA network is a HUD-approved housing counseling intermediary and trains hundreds of housing counselors to emphasize culturally competent counseling. Established in 1997, it includes 50 independent community-based organizations that support more than 60,000 families a year. This network of community-based financial and housing counseling agencies provides a deep understanding of Latinos' homeownership challenges and opportunities.

In addition to direct services and counseling, UnidosUS also publishes reports, provides testimony, and advocates for policies that expand access to credit, make financial services more inclusive, and increase homeownership rates of low-income people and the Latino community.

Given our extensive work and experience with the Hispanic community on homeownership, we appreciate this opportunity to submit comments in response to the Request for Information (RFI) on ways to better support and expand affordable homeownership opportunities in underserved markets with lower housing prices by the Federal Housing Administration (FHA).

---

\* The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout our materials to refer to persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, Spanish, and other Hispanic descent; they may be of any race. Our materials may also refer to this population as "Latinx" to represent the diversity of gender identities and expressions that are present in the community.

Below we outline how Latinos are disproportionately likely to be first-time homebuyers in need of small-dollar mortgages, demonstrate the need for small-dollar mortgage products, and provide insights from our UWHA and Affiliate Networks.

### **Hispanics are a growing and influential sector in the U.S. housing market**

Latinos are the only demographic group projected to increase homeownership rates over the next 20 years. The Urban Institute predicts that “by 2040, more than 20 percent of young households will be Hispanic—triple the share in 1990”<sup>1</sup> and that between 2020 and 2040, 70% of all new homeowners will be Latino.<sup>2</sup> Their access to housing opportunities will have a significant role in shaping the nation’s future housing market.

But Hispanics face barriers on the path to homeownership. Compared to whites, Latinos are younger and have lower levels of income and wealth. They also have lower credit scores on average and larger and multigenerational families.<sup>3</sup> In part due to these characteristics, they are also more likely to be first-time homebuyers: the primary demographic in need of small-dollar loans.

The reality is that homeownership remains sadly out of reach for too many Latino families. In 2017, more than 30% of Latino adults reported experiencing discrimination while searching for an apartment or buying a home,<sup>4</sup> and Latinos are more than twice as likely as whites to be denied—or fear being denied—a home loan.<sup>5</sup> Furthermore, in 2018, Latinos reported that they experienced numerous obstacles to buying a home, including low credit scores, the inability to afford a down payment, and insufficient income for monthly payments.<sup>6</sup> As a result of these and other factors, the Hispanic-white wealth gap has barely changed in the last several decades.

For these reasons, improving access to small-dollar mortgages needed to finance first-time homeownership is critical for prospective Latino homebuyers. Without safe and affordable financing for first-time homebuyers, the full potential of Hispanic homebuyers will be denied.

### **Our research shows that safe sources for small-dollar lending are essential to facilitate first-time homeownership for Latinos**

In fall 2022, UnidosUS conducted a questionnaire of our UWHA and Affiliate network to provide general feedback on small-dollar mortgage loans and input on specific questions in the RFI. When asked about the consequences of the lack of available small-dollar mortgage loans and the effect on the Latino community, the respondents highlighted a key issue in addition to the specific questions in the RFI.

Respondents noted Latinos have a strong desire to become homeowners, and many Hispanic families are positioned to transition from renting to owning, but Lack of access to small-dollar loans leads residents to use informal or nonconventional financing mechanisms to obtain

homeownership. The Latino community is already more likely to use alternative financing: 34% of Hispanic borrowers reported using at least one alternative arrangement compared with 19% of non-Hispanic white borrowers.<sup>7</sup> Alternative financing methods too often come with higher costs and risky borrowing. This is an all-too-familiar story for Latino families pursuing homeownership and causes them to experience higher costs and increased risks compared to other borrowers. A more robust and accessible small-dollar mortgage market would provide Latino first-time homebuyers safe and reliable financing options.

See below for comments relating to specific questions in the RFI:

**Question 1: Communities have reported a lack of available financing for small-balance mortgage loans in some areas. Have you observed this to be true and is there a particular mortgage loan amount below which the problem is most acute?**

Lack of access to small mortgages is a widespread issue. UnidosUS housing counseling organizations in Arizona, Georgia, and Washington indicated that there is a lack of available financing for small-dollar mortgages. Generally, rural residents are more likely to live in regions with lower housing prices than urban residents. The Latino population has been shifting away from states with historically large Latino populations for decades, and rural America is becoming more racially and ethnically diverse over the last decade.<sup>8</sup> Given that Latinos are increasingly moving to rural areas of the country and are disproportionately likely to have lower incomes, the demand for small mortgage loan products from Latinos will continue to increase.

Regarding loan amounts, UnidosUS housing counseling agencies made clear that, in addition to extremely small loans, a focus on loans that are higher than \$70,000 is needed to ensure that first-time homebuyers can access starter homes in more expensive markets to better support and expand affordable homeownership opportunities.

Lower-cost properties in urban, suburban, and rural communities do exist, but access to the funds needed to finance them is not readily available. As home prices continue to rise nationally, what constitutes a “small mortgage” is a moving target. If there is continued inflation, the “small mortgage” target will shift upwards, but services to lower-end markets will continue to be insufficient because homes priced at the bottom of the home-price distribution will be less profitable to mortgage originators than larger and more expensive homes.

For these reasons, organizations in the UWHA network highlighted the need for loan products below \$200,000 to support the efforts and dreams of first-time Latino homebuyers.<sup>9</sup>

## **Question 2: What housing supply market conditions and purchasing characteristics affect the availability of, and demand for, small mortgages?**

The primary market condition affecting the availability of small-dollar mortgages is the mismatch between the near-fixed cost that is associated with loan origination regardless of loan size, and the fact that most originators receive a percentage of the loan as payment. It is more profitable for lenders to originate loans at the higher end of the market, where they receive a percentage of a larger amount and have the same or similar fixed costs.

This dynamic disincentivizes originators from making small loans. The result of this disincentive is clearly seen in the 2019 Home Mortgage Disclosure Act (HMDA) data. Applications for small dollar mortgages (below \$100,000) had increased denial rates when compared to applications for larger loans (at least \$100,000) in 2019. Yet, poor credit scores are not the reason for the higher denial rates for small-dollar loans. The Urban Institute shows that after controlling for applicant credit profiles, the gap in denial rates between loan sizes is still considerable, varying from 29 to 52%. The reason for denials is that the lower return on investment for smaller mortgages reduces the benefits to government and conventional lenders to provide small-dollar products.<sup>10</sup> Fundamentally, the market incentive structure is not producing a sufficient number of small-dollar loans. Of total home sales below \$100,000 in 2019, only 23.2% were purchased with a mortgage, compared with 73.5% of homes priced at or above \$100,000.<sup>11</sup>

Regarding the demand for small-dollar mortgages, as noted above, there is a high demand for small mortgages among members of the Latino community. The community is disproportionately younger and strongly desires homeownership and will constitute the majority of first-time homebuyers over the next several decades. First-time homebuyers disproportionately need access to smaller loans to be able to purchase starter homes which are at the lower end of the home-price distribution.

Small-dollar loan products which meet the culturally specific needs of likely first-time homebuyers will help ensure robust demand. For example, limited English proficiency (LEP) consumers experience significant harms because of inability to access information in their preferred language. In a 2020 Americans for Financial Reform survey of eighty consumer advocates from around the country, nearly half of respondents had encountered LEP consumers who had difficulty when obtaining a mortgage loan because documents were provided only in English.<sup>12</sup> More than half of the LEP population speak Spanish as their primary language.<sup>13</sup> Consideration for language access and other barriers will support these future Latino homeowners.

An additional factor that may affect the demand side for smaller dollar mortgages is increased opportunities to access safe and affordably priced non-traditional housing such as accessory dwelling units and manufactured housing. As these units become more mainstream it is important to ensure that an affordable lending structure is available to increase the production and sale of manufactured housing as an affordable option.<sup>14</sup> These innovative forms of housing are an important tool to overcome the housing supply crisis, but without safe and affordable financing, first-time homebuyers will be priced out of this burgeoning market.

**Conclusion:** During the ongoing affordable housing crisis, small-dollar mortgages are a necessity for many prospective first-time and low-income homebuyers searching for starter homes at the lower end of the home-price distribution. Yet, small-dollar loans are rare, often pushing would-be borrowers to riskier options. Even when future homeowners can apply for a small-dollar loan, they are more likely to be denied than potential homeowners applying for larger loans.

The FHA has a key role to overcome barriers and improve access to small-dollar mortgages. Despite rises in home prices nationally, mortgages for the bottom of the home-price distribution are a tool to make homeownership a possibility for Latino families struggling to pay rent and build wealth.

For questions or follow-up, please contact Sam Kenney, Senior Housing Policy Analyst at [skenney@unidos.org](mailto:skenney@unidos.org)

---

<sup>1</sup> Laurie Goodman and Edward Golding, "Institutional Investors Have a Comparative Advantage in Purchasing Homes that Need Repair," *Urban Wire* (blog), Urban Institute, October 20, 2021, <https://www.urban.org/urban-wire/institutional-investors-have-comparative-advantage-purchasing-homes-need-repair>.

<sup>2</sup> Laurie Goodman and Jun Zhu, "The Number of Hispanic Households Will Skyrocket by 2040. How Can the Housing Industry Support Their Needs?" *Urban Wire* (blog), Urban Institute, February 25, 2021, <https://www.urban.org/urban-wire/number-hispanic-households-will-skyrocket-2040-how-can-housing-industry-support-their-needs>.

<sup>3</sup> Laurie Goodman and Jun Zhu, *The Future of Headship and Homeownership* (Washington, DC: Urban Institute, January 2021), [https://www.urban.org/sites/default/files/publication/103501/the-future-of-headship-and-homeownership\\_0.pdf](https://www.urban.org/sites/default/files/publication/103501/the-future-of-headship-and-homeownership_0.pdf).

<sup>4</sup> Harvard T.H. Chan School of Public Health, "Poll Finds One-Third of Latinos Say They Have Experienced Discrimination in Their Jobs and When Seeking Housing," press release, November 1, 2017, <https://www.hsph.harvard.edu/news/press-releases/poll-latinos-discrimination/>.

<sup>5</sup> Stephanie Presch, "Rolling Back the Disparate Impact Rule Could Harm the Ability of Latino Families to Access Affordable Homes," *UnidosUS blog*, May 9, 2019, <https://www.unidosus.org/blog/2019/05/09/disparate-impact-rule-trump-administration/>.

<sup>6</sup> Marisa Calderon, *2018 State of Hispanic Homeownership Report* (San Diego: National Association of Hispanic Real Estate Professionals, February 2020), <https://nahrep.org/downloads/2018-state-of-hispanic-homeownership-report.pdf>.

<sup>7</sup> The Pew Charitable Trusts, "What Has Research Shown About Alternative Home Financing in the U.S.?" (2022), <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2022/04/what-has-research-shown-about-alternative-home-financing-in-the-us>.

<sup>8</sup> <https://www.brookings.edu/blog/the-avenue/2021/09/28/mapping-rural-americas-diversity-and-demographic-change/>

<sup>9</sup> Trapasso, Clare, "Lots of Homes Under \$100K Are for Sale, but Most Buyers Can't Get One for This Reason", Realtor.com, December 2020, <https://www.realtor.com/news/trends/small-dollar-mortgages-help-communities-of-color/>

<sup>10</sup> Laurie Goodman and Bing Bai, "Why do lenders deny small-dollar mortgages at higher rates?", July 31, 2018, available at <https://www.urban.org/urban-wire/why-do-lenders-deny-small-dollar-mortgages-higher-rates>.

- 
- <sup>11</sup> Zhu, Linna and Ballesteros, Rita, "Making FHA Small-Dollar Mortgages More Accessible Could Make Homeownership More Equitable", Urban Institute, April 2021, <https://www.urban.org/urban-wire/making-fha-small-dollar-mortgages-more-accessible-could-make-homeownership-more-equitable>
- <sup>12</sup> Americans for Financial Reform Coalition Comments in Response to the Consumer Financial Protection Bureau's Request for Information on the Equal Credit Opportunity Act and Regulation B (Dec. 1, 2020), Survey of Housing Counselors and Legal Services Advocates, Appendix A, p. 31, available here [Group Comments to the CFPB re: Request for Information on the Equal Credit Opportunity Act and Regulation B \(nclc.org\)](#).
- <sup>13</sup> <https://www.census.gov/library/visualizations/interactive/people-that-speak-english-less-than-very-well.html>
- <sup>14</sup> McCargo, Alanna, Et. Al, "Small-Dollar Mortgages for Single-Family Residential Properties", Urban Institute, April 2018, [https://www.urban.org/sites/default/files/publication/98261/small\\_dollar\\_mortgages\\_for\\_single\\_family\\_residential\\_properties\\_2.pdf](https://www.urban.org/sites/default/files/publication/98261/small_dollar_mortgages_for_single_family_residential_properties_2.pdf)