



# Unlocking Doors: The Promise and Peril of Using Alternative Data in Mortgage Underwriting

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# Data for More Inclusive Mortgage Finance

- The Black-White homeownership gap is greater than when the Fair Housing Act was enacted and contributes substantially to the 8X gap in net worth among Black and White families.
- Access to credit is a major hurdle, particularly for consumers with little or no traditional credit history.
- Renters are 7x more likely to be unscorable under the most widely used models, making it difficult for first-time mortgage applicants to get approved.
- The majority of Black (58%) and Hispanic (53%) households are renters, compared to about one-third of Whites.

# Research on the Impact of Rental Payment History

- Rental payment history was widely used to underwrite first-time homebuyers before reliance on credit bureau reports and automated underwriting systems became so entrenched.
- Recent research has focused on the impact of positive payment history on credit scores among subsidized housing tenants, finding largely positive results:
  - Significant reductions in the number of unscorable consumers, with substantial numbers having prime or near-prime scores.
  - Large score improvements for many previously scoreable consumers, though a small fraction experience score declines.

# New Data Channels Are Emerging

- Different initiatives are focusing on different touch points:
  - Some are working with landlords to make it easier to report data to credit bureaus.
  - Some are working with individual lenders to pull bank account data with consumers' permission during the underwriting process.
  - Some are marketing directly to consumers to sign up for credit bureau reporting that pulls from payment processing, bank account, or other data sources.
- Not all lenders can readily access all channels, so consumers can find disconnects when attempting to apply for credit.

# Second Generation Issues Are Emerging

- Ability to scale data initiatives, particularly among smaller landlords and lower-income consumers.
- Whether and how to expand the scope of data initiatives, which are largely focused on positive payments history and opt-in structures.
- Access to larger data pools to help develop more nuanced models.
- Data quality and standardization for both traditional and new channels.
- Consumer protections, particularly for customer-permissioned channels that involve sharing of bank log-in credentials.



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