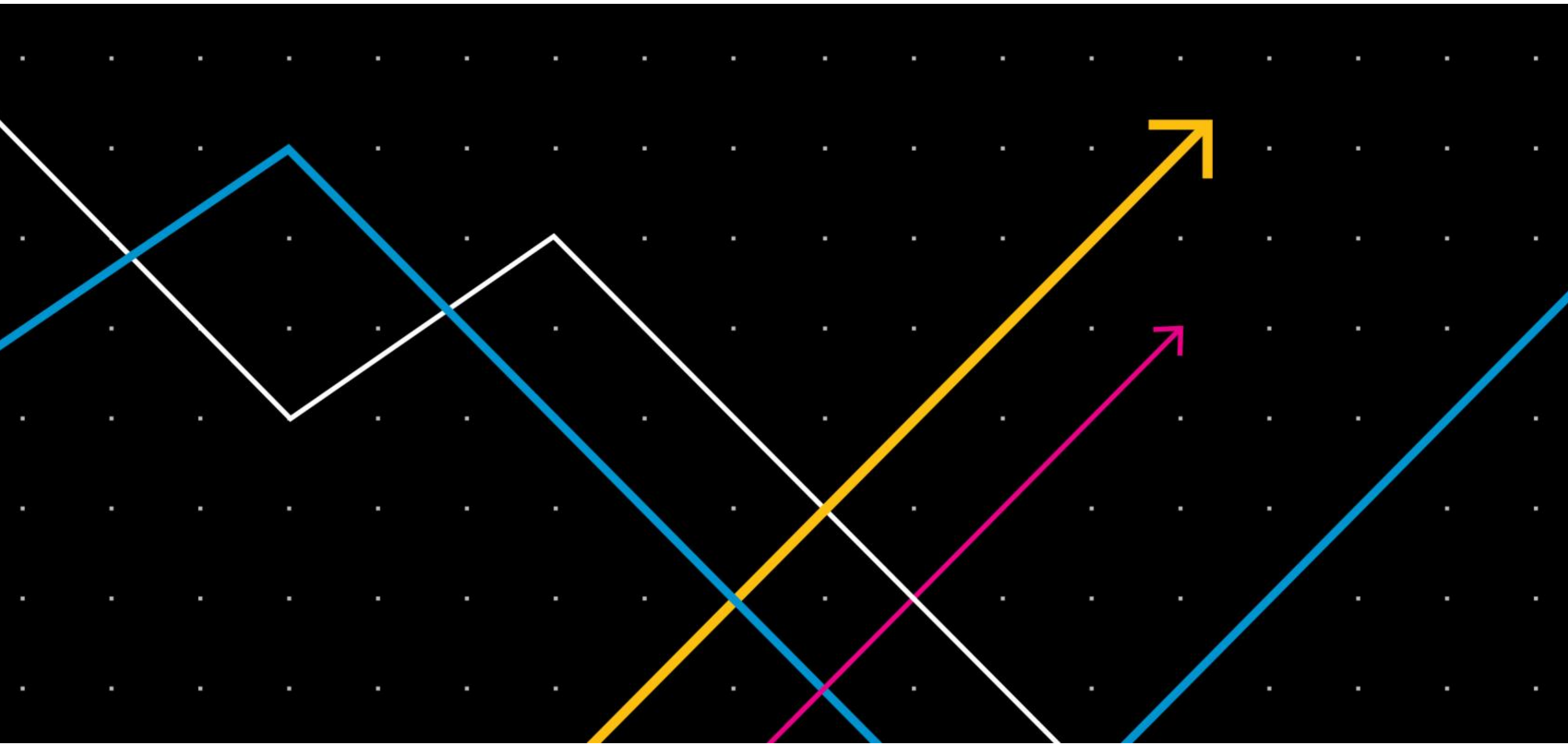

RESEARCH REPORT

Barriers to Accessing Mortgage Credit

Exploring Mortgage Underwriting for Latino Homebuyers

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June 2024

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Barriers to Accessing Mortgage Credit

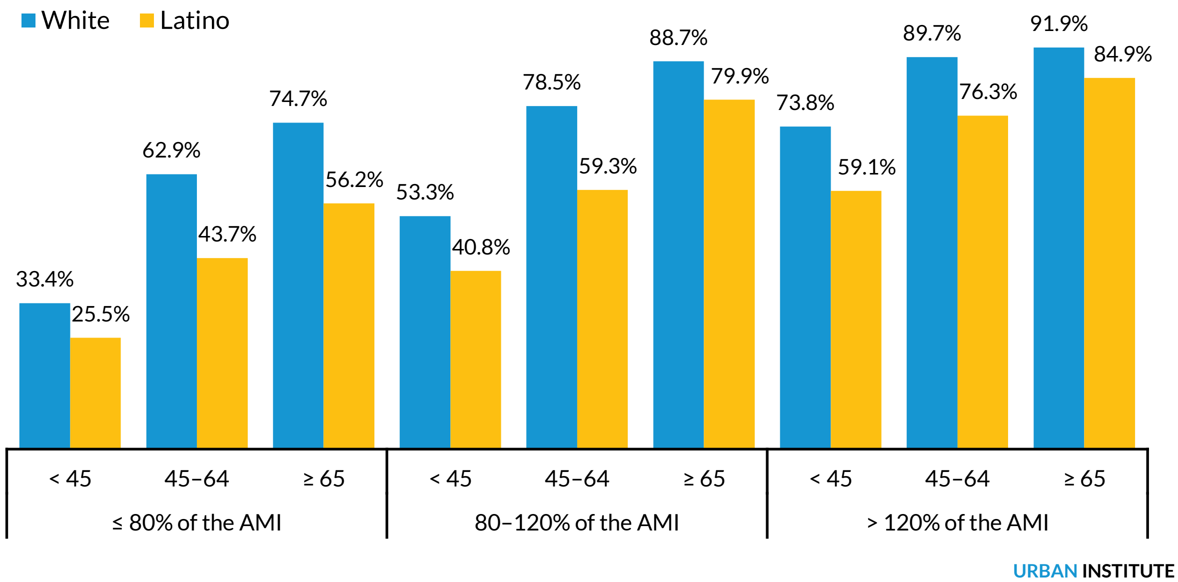
This report examines barriers Latino homebuyers face in the mortgage underwriting process and explores what could be done to enhance homeownership opportunities for Latino homebuyers.

Between 2020 and 2040, more than half the growth in households—8.6 million of the 16.1 million net new households—will be Latino households (Goodman and Zhu 2021). Latino homeownership rates have continued to increase since 2014, reaching 51.1 percent in 2022. During those eight years, the Latino homeownership rate increased by 6.1 percentage points, the highest increase among all racial and ethnic groups. But the current Latino homeownership rate still lags far behind the white homeownership rate, which was 73.1 percent in 2022.

Latino households tend to be younger than white households, so we control for both age and income to see whether the homeownership gap remains. Although the gap narrows, there is still a noticeable homeownership gap within the same income and age categories (figure 1). The largest gap is among the lowest-income households (earning up to 80 percent of the area median income) ages 45 to 64; the homeownership rate for those households is 43.7 percent for Latino households compared with 62.9 percent for white households.[1] But even among the highest-income group, we find that Latino homeownership is still lower than white homeownership, suggesting that income and age differences do not fully explain why Latino households continue to lag behind white households in accessing homeownership.

FIGURE 1

White and Latino Homeownership Rates, by Income and Age



Source: 2022 American Community Survey.
Note: AMI = area median income.

To understand why the homeownership gap remains, we look at the key factors used to evaluate borrowers in mortgage underwriting: debt-to-income (DTI) ratio, credit history, and down payment. Our data analysis finds the following:

- **DTI ratio.** DTI ratio is the most-common reason for mortgage denial among Latino homebuyers. The recent rise in interest rates has led to a higher denial rate among Latino households, and the share of those who have been denied because of the DTI ratio has also risen. For Latino households, mortgage debt accounts for a high share of overall household debt. As Latino households are more concentrated in high-cost markets, their DTI ratio is more sensitive to home price and interest rate increases. Although Latino households have the greatest share of multiearner households, they are less likely than white households to apply with a coborrower, indicating barriers to applying jointly.
- **Credit history.** Credit history is the second-most-common reason for mortgage denial among Latino homebuyers, and more than 40 percent of Latino households cite a low credit score as a primary reason for not being a homeowner. Latino consumers are more likely than others to have low credit scores or to be credit invisible, partly because they are more likely to have had limited interactions with the formal financial system. Historical discrimination, cultural

differences, and a lack of trust in credit-building pathways and practices all play roles in Latino households' credit histories.

- **Down payment.** Lack of intergenerational wealth can result in a lack of access to resources for a down payment, which can also increase the likelihood of denial by increasing the DTI ratio. The median wealth among white households ($284,310) was more than four times the median wealth among Latino households ($62,120) in 2022. Among renters, around 54 percent of Latino households are considered housing cost burdened, compared with just 45 percent of white households. High loan-to-value (LTV) ratios also affect mortgage costs. The median LTV ratio on purchase mortgage loans for white borrowers was 86.2 percent compared with 93.9 percent for Latino borrowers in 2022. More than two-thirds of renters cited saving for a down payment as a major obstacle to accessing homeownership (Goodman et al. 2018).

At the end of each section that examines one of the three factors, we provide policy recommendations that can mitigate barriers to Latino homebuyers' accessing homeownership. We also briefly discuss two other challenges Latino homebuyers face: language barriers and limited ITIN lending.

The three factors we focus on are also a by-product of historical discriminatory systems that have prevented Latino households from accessing homeownership and building wealth. For example, the reason Latino households have less wealth than white households is related to explicit discriminatory policies, such as redlining,[2] that prevented Latino households from obtaining a home. As homeownership and wealth pass from generation to generation (Choi, Zhu, and Goodman 2018), the blatant racial discrimination in the past still affects today's Latino homebuyers. This highlights the need for targeted solutions to undo the harm caused by previous structural racism.

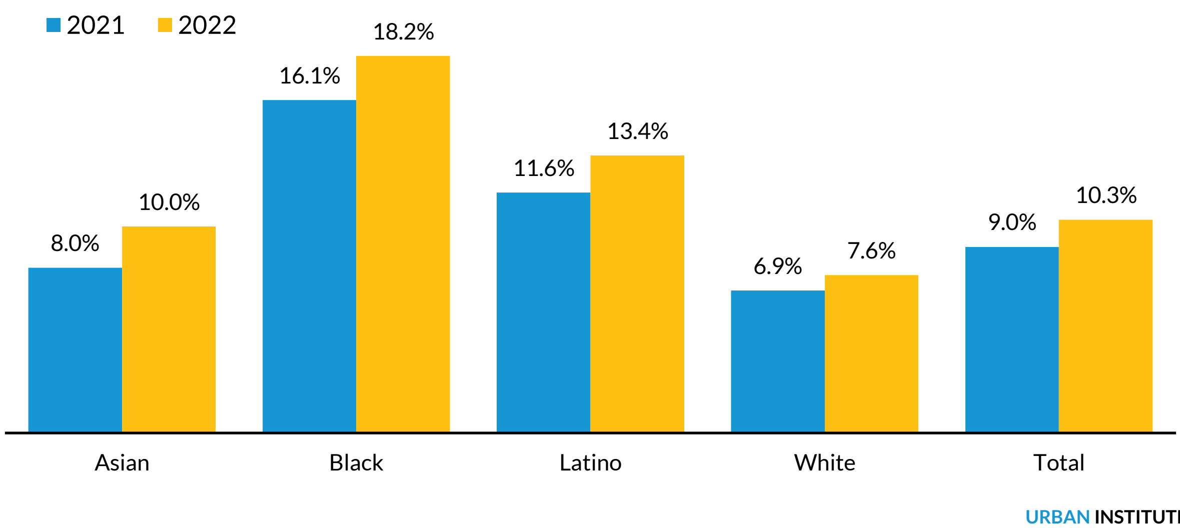
Debt-to-Income Ratio

The DTI ratio is the portion of the borrower's monthly gross income spent on repaying monthly occurring debt, including mortgage payments, outstanding credit card balances, and auto and other loan payments. This ratio is used in mortgage underwriting to evaluate households' ability to repay monthly mortgage payments, including mortgage principal, interest, homeowner's insurance, and property taxes.[3] Most lenders view a DTI ratio of 43 percent or less as a "good" ratio to qualify for a mortgage.[4]

From 2021 to 2022, the number of mortgage originations for purchase loans of one-to-four-unit homes dropped 18.1 percent. For Latino households, home purchase mortgages dropped from 561,000 to 461,000, a 17.8 percent decline. During these years, the mortgage denial rate also went up (figure 2). For Latino borrowers, the denial rate increased by almost 2 percentage points, a slightly smaller increase compared with that among Black and Asian borrowers but a larger increase than among white borrowers (0.7 percentage points).

FIGURE 2

Mortgage Denial Rates, by Race or Ethnicity

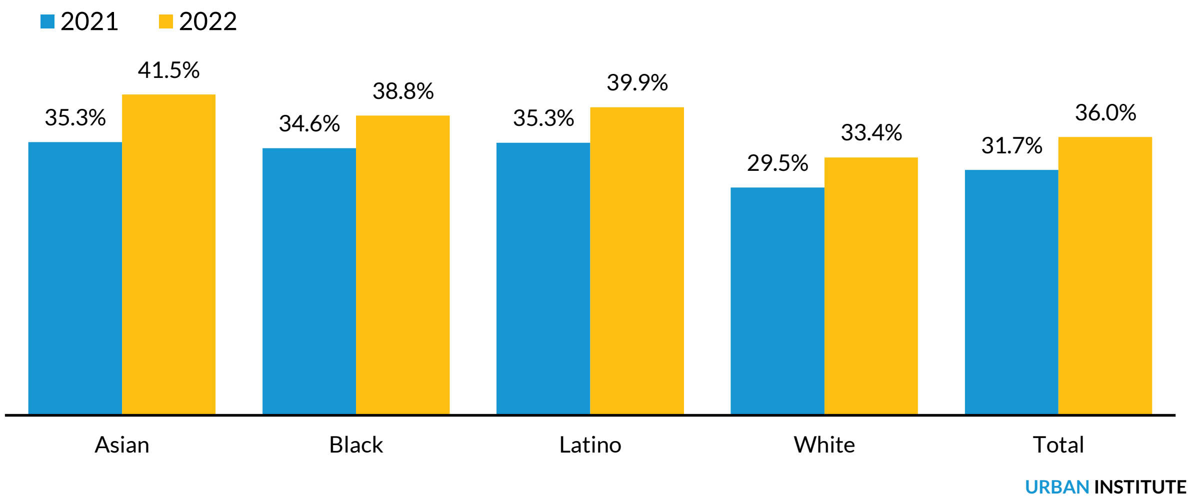


Source: 2021 and 2022 Home Mortgage Disclosure Act data.
Note: Home purchase loans only.

The DTI ratio was the most-common reason for mortgage denial, and the share of loans denied because of a high DTI ratio also jumped from 2021 to 2022 (figure 3). This increase was greater for Latino and Asian borrowers, who are concentrated in high-cost markets such as California, New York, and Texas.[5] In the past decade, rising home prices attributable to a housing supply shortage have increased the level of debt homebuyers need to take on to access homeownership (Choi, Walsh, and Goodman 2020). The sharp rise in interest rates has also increased monthly payments, which has resulted in higher DTI ratios since 2022.

FIGURE 3

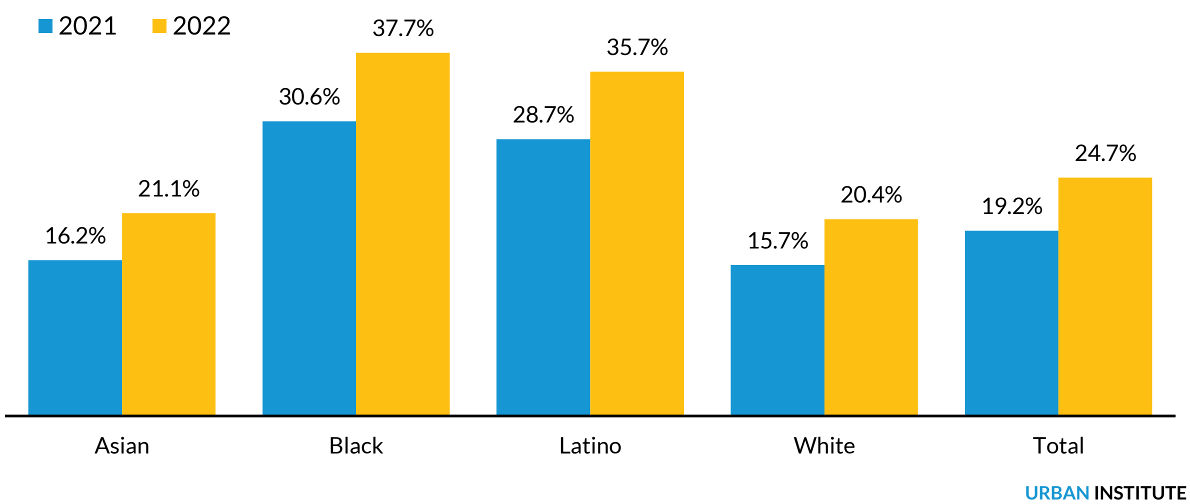
Share of Borrowers Denied Because of Debt-to-Income Ratio



Source: 2021 and 2022 Home Mortgage Disclosure Act data.
Note: Home purchase loans only.

FIGURE 4

Share of Homebuyers with Debt-to-Income Ratios above 45 Percent



Source: 2021 and 2022 Home Mortgage Disclosure Act data.
Note: Home purchase loans only.

Among those who bought homes, Latino and Black homebuyers had a higher share of those with DTI ratios above 45 percent (figure 4). This share also increased the most for those two groups, showing that more recent Latino and Black homebuyers have higher debt payments relative to income.

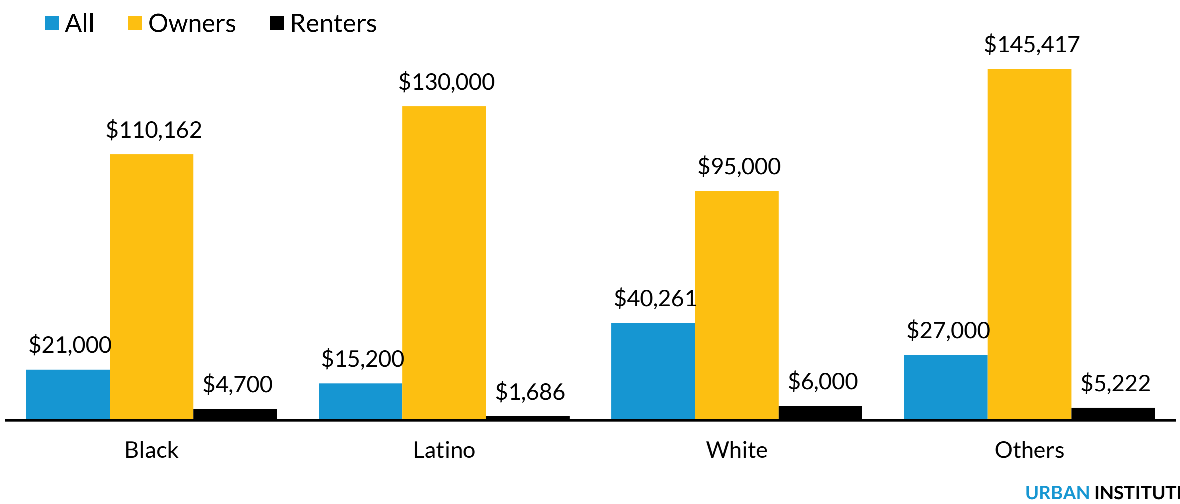
Next, we look at debt and income separately to see what is driving higher DTI ratios among Latino households.

Debt

According to the 2022 Survey of Consumer Finances, the median debt among Latino households was around $15,000, the lowest amount among all racial and ethnic groups (figure 5). But once we break out households by tenure, we find that Latino homeowners have the second-highest median debt ($130,000), after households that are racial and ethnic groups other than Black or white, which includes Asian households. Among renters, the median debt for Latino households was less than $1,700, suggesting that the high DTI ratio for Latino mortgage applicants in figure 4 is more likely to be driven by mortgage debt than by other types of debt.

FIGURE 5

Median Household Debt, by Race, Ethnicity, and Tenure

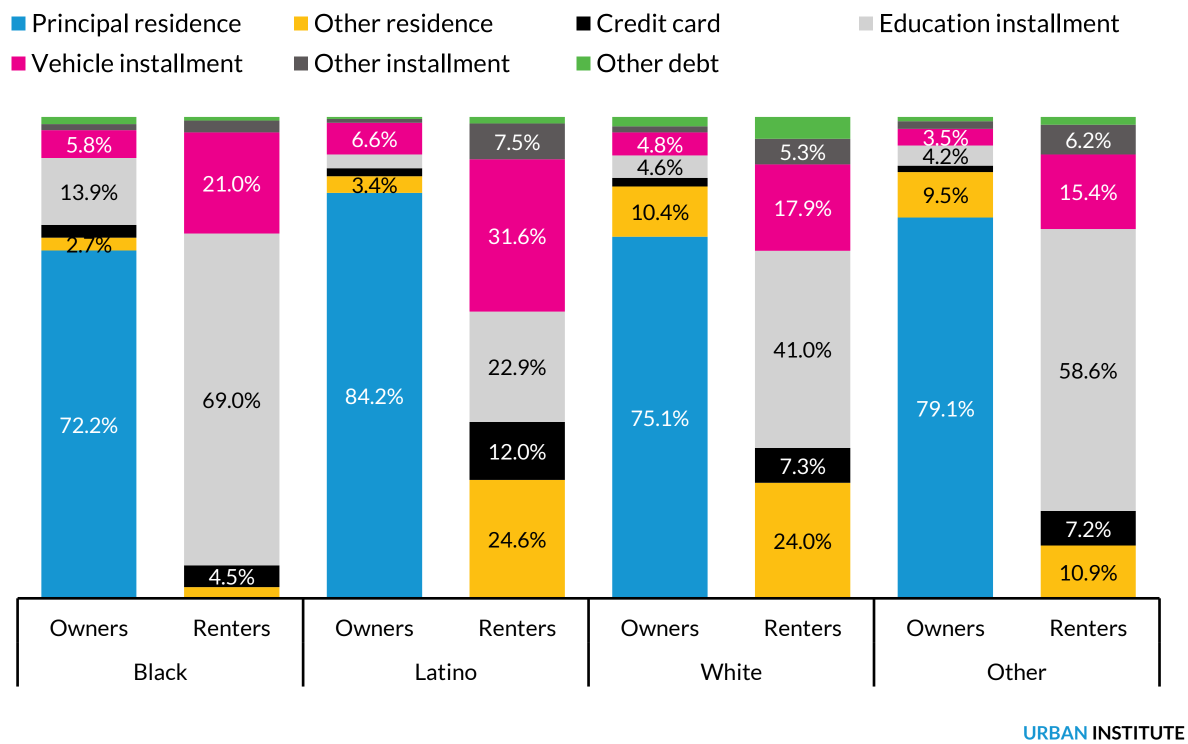


Source: 2022 Survey of Consumer Finances.
Note: Asian households account for the largest share of households in the "others" category.

The debt composition confirms this (figure 6). Among all homeowners, Latino households have the greatest share of their debt on principal residence (84.2 percent). For Latino renters, auto loans accounted for the greatest share among all debt categories. Meanwhile, education debt accounted for a significantly lower share of loans among Latino owners and renters than among other groups. These findings suggest that for Latino households, barriers to accessing mortgages on the debt side are mostly occurring from the rise in mortgage debt because of high home prices (especially in areas where Latino households are concentrated) and high interest rates.

FIGURE 6

Debt Composition, by Race, Ethnicity, and Tenure



Source: 2022 Survey of Consumer Finances.
Note: Asian households account for the largest share of "other" households.

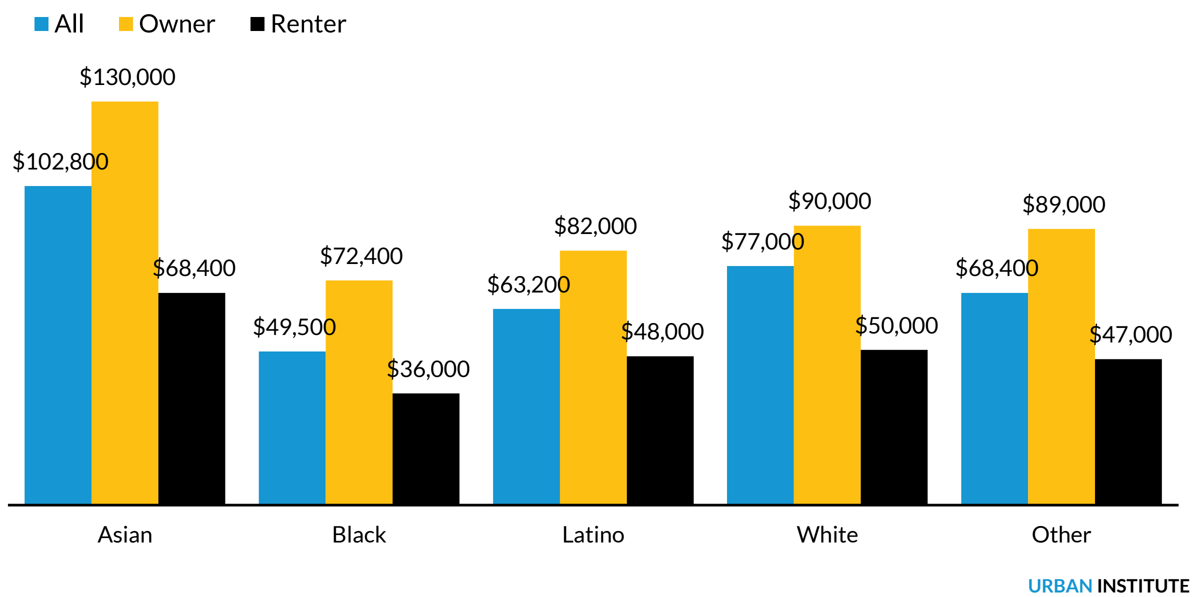
Latino households may not have many debt payments to report to the credit bureaus for several reasons. Specifically, Latino households are more likely to live in neighborhoods without bank branches,[6] and instead of getting loans from banks, many choose instead to borrow from family and friends (UnidosUS, n.d.-a); participate in giving circles, or tandas (Quiñones and Grier-Reed 2024); or access capital in ways that are not reported in credit scoring. This may be a result of a lack of access to formal banking services and because of cultural norms. Research and surveys have also found that Latino households are often averse to the culture of debt in the US that underlies the credit system and are reluctant to accumulate debt, particularly if they or their families come from countries where this is not the norm (UnidosUS, n.d.-a). Latinos are significantly more likely to conduct transactions in cash or using debit cards as opposed to credit (NCLR 2015).

Income

The 2022 median household income among Latino households was around $63,000, about $14,000 lower than among white households and almost $14,000 higher than among Black households (figure 7). Smaller gaps between Latino and white households were shown among renters. This suggests that racial disparities in income and debt among renters cannot fully explain why Latino homebuyers make up a significantly higher share of those with DTI ratios above 45 percent (figure 4) and are more likely to be denied because of having a high DTI ratio (figure 3). Part of the reason is location. Though more Latino households are willing to move to a more affordable location (NAHREP, n.d.-a), they are disproportionately concentrated in coastal areas (e.g., California and Florida) and larger cities (e.g., Los Angeles and Miami), where home prices are high (NAHREP, n.d.-b). In these markets, Latino homebuyers need to take on more mortgage debt relative to income. Another important reason is the lack of wealth. Latino households have substantially less wealth than white households do, which leads to lower down payments and higher loan balances, which increases DTI ratios.

FIGURE 7

Median Household Income, by Race, Ethnicity, and Tenure



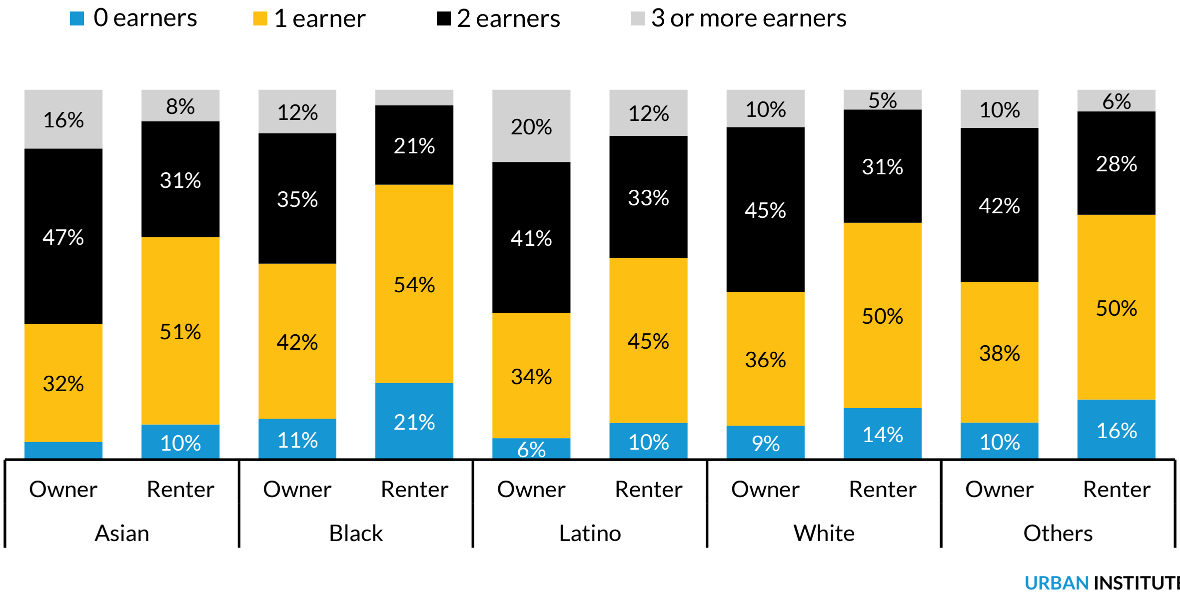
Source: 2022 American Community Survey.

Median household income among Latino households is elevated, mainly because of larger household size and higher average number of income earners in the household rather than higher individual income. In fact, in 2022, employed Latino individuals ages 16 to 65 had the lowest median wage income among all racial and ethnic groups. Median wage income was $34,300 for Latino individuals compared with $55,000 for Asian individuals, $50,000 for white individuals, and $38,000 for Black individuals. This is partly because of the younger average age for the Latino population, but it also reflects racial economic disparities in the labor market.

Though the average household size is declining for all racial and ethnic groups, Latino households[7] still have the largest average household size (3.2 people). The average size of Asian households was around 3 people, and for households from the remaining racial and ethnic groups, the average size was around 2.5 people. Along with higher average household size, Latinos and Asians are more likely to live in multigenerational households. About 63 percent of Latino households and 57 percent of Asian households are households with two or more generations, compared with 50 percent of Black households and 44 percent of white households. A higher average household size and greater share of multigenerational households result in a higher share of households with more than two earners for both owners and renters (figure 8). Overall, about 53 percent of Latino households and 54 percent of Asian households had more than two earners in the household, compared with 49 percent of white households and 34 percent of Black households. Latino households also have the highest share of households with more than three income earners. About 16 percent of Latino households have more than three earners, while this share is 13.0 percent, 7.2 percent, and 8.8 percent for Asian, Black, and white households, respectively. Both Latino renters and homeowners have the highest share of households with more than three income earners.

FIGURE 8

Number of Earners in the Household, by Race, Ethnicity, and Tenure



Source: 2022 American Community Survey.
Note: Households with heads ages 16 to 65.

But despite having a greater share of multiearner households, Latino mortgage-borrowing households have a lower share of those who apply with coapplicants than white households. In 2022 Home Mortgage Disclosure Act data, the share of mortgage applicants with a coapplicant was around 42 percent for Latino households, similar to the share of Asian applicants and lower than the share of white applicants, of whom more than 47 percent applied with a coapplicant. This suggests there may be some Latino households who are filing with only one borrower despite having multiple borrowers. As rising interest rates have made homes less affordable, the share of coborrowers among all applicants in 2022 increased by 3 percentage points from a year before. For Latino applicants, this increase was around 2 percentage points.

Though there are no legal limits to the number of borrowers who can jointly apply for a home loan, Latino households might not be applying together with all members of the household for several reasons. Multiple surveys show that Latino populations have the highest share of those who are working in the gig economy (UnidosUS, n.d.-b).[8] The share ranges from 30 to 40 percent of the Latino population, which is a nontrivial share. Even among those with W-2 forms, there are likely to be many Latino individuals who have additional income on the side. But the current mortgage system makes it challenging to include these incomes in mortgage underwriting unless they are consistent and well documented (box 1). Excluding certain income affects the overall household income used to calculate the DTI ratio for Latino households. Additionally, Latino individuals are more likely to have no FICO score or a low score. So a household earner with no or a low FICO score might not join the application, even if this means forgoing the income. There are also limitations on including the incomes of borrowers with Individual Taxpayer Identification Numbers (ITINs), which can also affect the number of borrowers jointly applying for mortgages and lower household income of Latino mortgage applicants. All these are plausible reasons, but more in-depth research is needed to identify why Latino borrowers are less likely to have coborrowers, despite having the highest share of multiearner households.

BOX 1

Policy Solutions to Overcome DTI Ratio Barriers

1. Facilitate the Capturing of Nontraditional Forms of Income in Mortgage Underwriting

According to a 2016 Federal Reserve study, Latino renters are significantly more likely than other renters to engage in some enterprising or informal work activity.[a] Below are government-sponsored enterprise (GSE) and Federal Housing Administration (FHA) underwriting guidelines on these different forms of income, which show the challenges of including non-W-2 incomes, such as incomes from 1099, cash, and gig-economy sources:

- **Self-employment or informal income.** Self-employed households face additional barriers to obtaining mortgages despite having relatively high incomes, likely because of greater income volatility and higher likelihood of mismatch between tax return and bank account information.[b] Self-employed workers must often provide tax stubs, bank statements, or business balance sheets instead of W-2s to verify income. For example, the self-employment income requirements for the GSEs are otherwise similar to W-2 income (i.e., generally two years of history, though one year can be permitted in some circumstances), but in some cases, they also require additional information about the financial strength of the borrower's business as well as market demand for the business's services to assess the consistency of a borrower's future income.[c]
- **Secondary employment income.** The GSEs and the FHA both allow lenders to consider income from a second job, with similar requirements as a primary income.[d] But people might engage in secondary employment on a temporary or inconsistent basis to supplement a primary income and thus may not be able to demonstrate two years of income receipt or provide documentation to prove income stability. Seasonal income is still considered, and in February 2021, Fannie Mae eased the verification requirements for this type of employment.[e]
- **Guarantors, cosigners, and nonoccupant borrowers.** Many Latino families have more than two earners contributing to a mortgage, but to sign onto the loan, each borrower's income, debts, and credit are considered.[f] This poses problems when a potential coborrower can contribute to a mortgage but might not qualify because of credit or debt limits. Borrowers whose coborrower

is an ITIN holder face additional barriers, as they would not qualify for a traditional mortgage if they needed the coborrower's income to qualify.[g]

Investments in data aggregation technology that facilitates the extraction of income data from bank statements can help capture nontraditional forms of income otherwise not reflected in a W-2. Ultimately, further research is needed to understand the mismatch between Latino primary earners and mortgage coborrowers, to inform policy intervention.

2. Give Greater Weight to the Highest Credit Score

Until recently, both GSEs and the FHA took the lowest median credit score among all borrowers who jointly applied for a mortgage. Currently, Fannie Mae requires lenders to use the average of the median credit scores of all borrowers on an application. Although this change could somewhat improve the credit score of Latino households, it is likely to discourage coapplication in Latino households that are more likely to have a coapplicant with no or a low FICO score compared with white households because of a lack of credit history. The GSEs and the FHA could consider selecting the highest median credit score of all borrowers and use the second credit score as a bonus. This could help more Latino households apply with coborrowers, increase their gross income, and lower their DTI ratio.

[a] Barbara Robles and Marysol McGee, *Exploring Online and Offline Informal Work: Findings from the Enterprising and Informal Work Activities (EIWA) Survey* (Washington, DC: Federal Reserve Board, Divisions of Research and Statistics and Monetary Affairs, 2016).
[b] Karan Kaul, Laurie Goodman, and Jun Zhu, "The Continued Impact of the Housing Crisis on Self-Employed Households" (Washington, DC: Urban Institute, 2018).
[c] "Selling Guide: Part B, Origination through Closing," Fannie Mae, May 1, 2024, https://selling-guide.fanniemae.com/Selling-Guide/Origination-thru-Closing/; and "5304.1: Stable Monthly Income and Documentation Requirements for Self-Employed Borrowers," Freddie Mac Single-Family, February 7, 2024, https://guide.freddiemac.com/app/guide/section/5304.1.
[d] "Selling Guide: Part B, Origination through Closing," Fannie Mae; "5303.2: Primary and Secondary Employment and Income," Freddie Mac Single-Family, May 1, 2024, https://guide.freddiemac.com/app/guide/content/a_id/1000652; and Federal Housing Administration (FHA), *FHA Single Family Housing Policy Handbook* (Washington, DC: FHA, 2024), 223–25.
[e] Fannie Mae, "*Selling Guide* Announcement (SEL-2021-01)" (Washington, DC: Fannie Mae, 2021).
[f] "Selling Guide, B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers on the Subject Transaction (09/02/2020)," Fannie Mae, May 1, 2024, https://selling-guide.fanniemae.com/1032991971; "5103.1: Mortgages Including a Non-Occupying Borrower," Freddie Mac Single-Family, March 6, 2024, https://guide.freddiemac.com/app/guide/section/5103.1; and FHA, *FHA Single Family Housing Policy Handbook*.
[g] Laurie Goodman, Aniket Mehrotra, and Amalie Zinn, "ITIN Mortgages: Barriers and Opportunities to Advance Latino Homeownership" (Washington, DC: Urban Institute, 2024).

Credit History

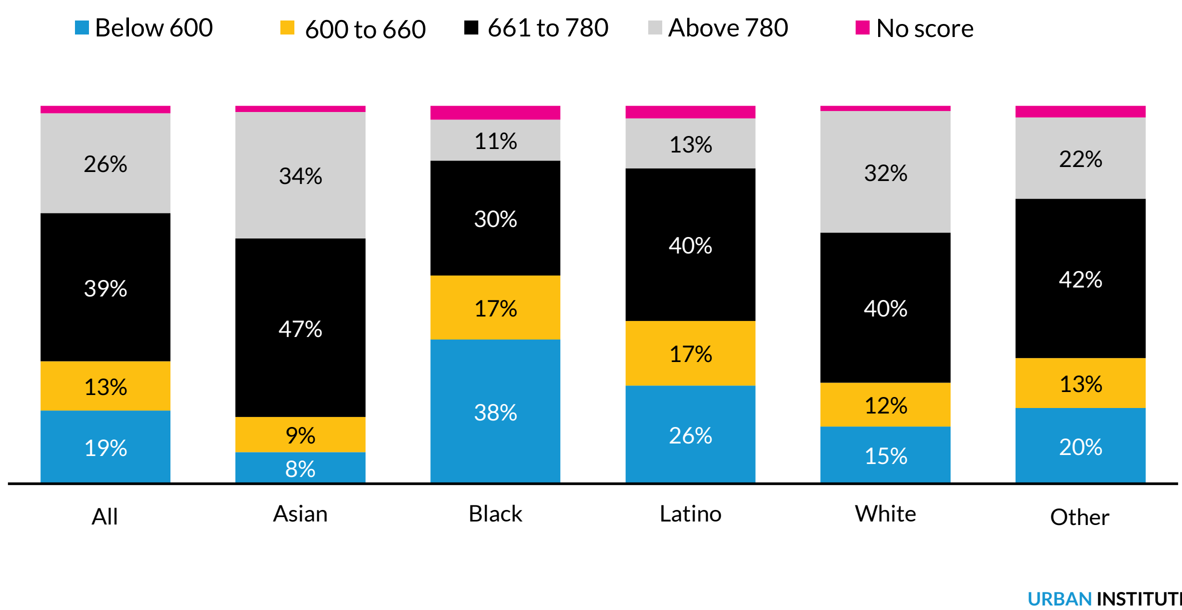
The second-most-common reason for purchase mortgage denial for Latino applicants is credit history. Latino households have lower credit scores than white households, on average. The data also show that young adults in predominantly Latino communities have lower credit scores than young adults in predominantly white communities.[9] From 2010 to 2021, more than one-quarter of young adults in

Latino communities experienced a credit score decline, compared with 21 percent of young adults in white communities. When it comes to those on the lowest end of the credit score distribution, 1 in 9 Latino consumers has a credit score below 620, compared with 1 in 19 white consumers.[10] Survey data show that 42 percent of Latino people identified a low credit score as the primary reason for not having bought a home (UnidosUS, n.d.-a).

In 2022, more than a quarter of Latino consumers had VantageScores below 600, compared with less than 20 percent of the entire population (figure 9). Only 13 percent of Latino consumers had credit scores above 780, compared with 26 percent of the entire population. White consumers had higher credit scores, on average. For the traditional FICO score—which is currently used in mortgage underwriting, though changes are on the way to include both VantageScores and FICO scores—the share of Latino consumers without a credit score was over 27 percent in 2018 (Choi et al. 2022). The FICO version used in underwriting is an old version of FICO, but the newer versions of it can likely score more borrowers. VantageScore shows a substantially lower share of the population without a credit score than FICO because, unlike FICO, it scores consumers with less than six months of credit history using machine learning techniques.

FIGURE 9

Share of the Population, by Race, Ethnicity, and Credit Score Bucket



Source: 2022 VantageScores (via Freddie Mac).

As of 2015, the Consumer Financial Protection Bureau reported that Latino people were disproportionately likely to be among the 26 million people who were credit invisible and among the 19 million who had unscorable credit records because of thin files or old information (CFPB 2016). Although young people were also more likely to be credit invisible, higher rates of credit invisibility held for Latino people across the age distribution, indicating that ethnicity likely plays some role, as opposed to just age. Including VantageScores in mortgage underwriting could lower the share of borrowers with missing FICO scores. VantageScore data from 2022 show that its methodology can provide scores to 5.2 million Latino consumers with a missing FICO score. But less than a third of these consumers receive scores above 620, suggesting that for many consumers, their new credit score would not be high enough to access homeownership (Choi et al. 2022). This highlights that applying new machine learning techniques alone will not expand access to credit to many credit-invisible Latino consumers because of considerable disparities in the underlying data used in credit scoring.

There are multiple reasons Latino households have lower credit scores or are credit invisible. First, Latino households are less likely to interact with the credit system, which makes it difficult to build credit. Credit scores also improve with length of credit history, but this means recent immigrants or those who have otherwise been denied access to credit often have lower scores. An immigrant may have a strong history of on-time payments in their home country, but when they come to the US, they start with no credit score, despite potentially being a strong candidate for a loan. Some organizations, like Nova Credit, try to fix this issue by transferring credit history from another country to the US.[11] Additionally, although rent is a monthly housing payment, not a unlike mortgage payment, on-time rental payment history is currently not reflected in credit scores for most renters, while on-time mortgage payments contribute to credit scores for homeowners.

In theory, credit scores should be agnostic to a person's race or ethnicity. It should reflect only information from their credit file. But credit scores are only facially race neutral. A person's credit score reflects their financial opportunity in the United States and their interaction with the country's formal debt system, both of which are highly racialized. Research has found that Latino applicants are more likely than white applicants to have been denied loans, even when controlling for borrower characteristics, including credit scores (Popick 2022). Borrowers who are not approved for loans do not have the opportunity to build or improve credit through loan repayment. Among those approved for loans, significant literature has found that Latino borrowers are more likely than white borrowers to pay higher interest rates, even when controlling for borrower characteristics, which increases the probability of default for all borrowers (Popick 2022). Discrimination in lending makes it more difficult for Latino households to establish and build credit and more likely to take a hit to their credit because of late payments or defaults.

It is well established that "wealth begets wealth"—that is, having wealth enables one to make more wealth-building investments, such as buying a home, investing in the stock market, or starting a small business (Darity et al. 2018). But less discussed is how credit begets credit, even though the length of credit history and types of credit used are both direct inputs to traditional credit scores (Rice and Swesnik 2012). Having a good credit score enables a person to access homeownership, which can then improve their credit score with on-time mortgage payments, for example. A higher credit score can help a person get a lower interest rate on a loan or a credit card, which can help ensure they can pay in full and on time, in turn increasing their credit score. Similarly, a lack of credit hinders a consumer from accessing credit. Being credit invisible or having a low credit score can prevent an applicant from being approved for a credit card or a loan, which could in turn help them improve their credit.[12] Opening up the credit scoring system to account for a wider variety of payments, savings, and experiences can go a long way toward helping Latino people build credit and access all the opportunities that are tied to it, including homeownership.

Improving the credit scoring system to better capture Latino households could take several forms. Perhaps the most intuitive change would be to incorporate positive rental payment history into credit scoring (Choi et al. 2022). Positive payments on nondebt items—such as telecommunications, utilities, and rent—are not included in credit scores, but negative nondebt information is often included in credit reports, such as collections. But most Latino renters pay their rent on time, according to the data. From July 2020 to July 2021, 62.9 percent of renters made 12 months of on-time rental payments, according to data from the Understanding America Study. This includes a period during the pandemic in which Latino households were disproportionately likely to experience job and income loss.[13]

Research shows that incorporating a "positive" rental payment history would provide the biggest credit boost for those with low or no credit. For example, including 12 months of on-time rental payments could increase credit scores by an average of 42 points for consumers with scores below 600 and by 41 points for those with credit scores between 600 and 660 (Choi et al. 2022). The average credit score among those with no or thin credit files became 676 when including 12 months of positive rental payment history, while those with credit scores above 780 experienced only a 7-point increase, on average. These boosts would be enough for many applicants with low or no credit scores—who are disproportionately likely to be Latino—to get approved for a mortgage.

Despite efforts to improve rent reporting to credit bureaus, implementing the change would take a long time, and the pace of rent reporting would differ across tenants. Currently, less than 5 percent of on-time rent payments are being reported to the credit bureaus, and the new incentives for landlord rent reporting or free rent reporting services for tenants are mostly happening in large multifamily rental housing.[14] A higher share of Latino renters live in two-to-four-unit homes, and it may take more time for those living in these smaller rental properties to report their on-time payments.[15]

Another approach to incorporating rental payments directly into mortgage underwriting is by having the borrower provide documentation of positive payment histories. But this approach is cumbersome and time consuming. An emerging solution is the use of consumer-permissioned cash-flow data—that is, information on savings, bill payment, income received, overdrafts, and amounts accumulated across accounts that the consumer explicitly allows to be used in underwriting and credit decisionmaking. Research suggests that cash-flow data can improve underwriting and outcomes, particularly for those on the lower end of the credit score distribution (or for those who are credit invisible) and can improve loan performance.[16] Real-time transfer of cash-flow data can also help lenders assess creditworthiness more quickly than the batch basis of credit reports. And for consumers who have previously fallen into a financial hole but have since recovered, their cash flow will reflect recovery sooner than their credit report. As of 2022, both Fannie Mae and Freddie Mac have made it possible to evaluate on-time rental payment histories for consumers who have failed to pass the traditional lending standards through their automated underwriting system.[17] Based on consumer consent, the two government-sponsored enterprises (GSEs) can obtain bank statements through an approved third-party vendor to examine rental payment history. But Latino consumers might not trust the formal financial system because of experiences of discrimination and harm, and they may be less inclined to provide consent, which could be a significant barrier (Zinn et al. 2023). The FHA also announced it would begin to permit the consideration of positive rental payment history for first-time homebuyers in determining eligibility for an FHA-insured mortgage. In 2023, the FHA required lenders to report these data and incorporated these data in its automated underwriting system.

According to the 2022 Equitable Housing Finance Plan performance report, both GSEs reported that this program disproportionately helped applicants of color. In Fannie Mae's report, 49.6 percent of those who were approved through evaluating positive rental payment history in 2022 were applicants of color, compared with 34.4 percent of applicants who purchased a home through loans Fannie Mae acquired. Latino borrowers accounted for 21.8 percent of applicants who were approved through incorporating positive rent reporting, much higher than 15.1 percent of the share of Latino applicants in the Fannie Mae–acquired loans (Fannie Mae, n.d.). Overall, 2,917 Fannie Mae applicants benefited from the use of positive rental payment history, 539 of whom were Latino. For Freddie Mac, 60.4 percent of those who were approved through cash-flow underwriting were borrowers of color, and Latino borrowers accounted for 33.7 percent of those approved (Freddie Mac 2023). Ultimately, nearly 24,000 borrowers were notified that they could use cash-flow data in their credit decisions, but less than 1,700 provided the data to Freddie Mac. Nearly 500 of those applicants were approved, and just 31 were funded, 12 of whom were Latino, showing there is more work to be done to understand why Latino households are not sharing their cash-flow data and to ensure Latino households can benefit from this update. Additionally, early analysis from the US Department of Housing and Urban Development shows that more than 1,700 FHA mortgage applications were accepted because of positive rental payment history after 10 months of accepting these data and 5 months of mandating them. Borrowers were more likely to be first-time homebuyers, have lower credit scores, and have less wealth.[18]

Our previous analysis also finds that borrowers of color disproportionately benefit from evaluating rental payment history through bank accounts, with more than 20 percent of Latino homebuyers who were previously denied potentially being approved by this process (Choi et al. 2022). Overall, this shows that including rental payment information through cash-flow underwriting can benefit Latino homebuyers. If 20 percent of Latino homebuyers who were denied mortgages in 2022 were approved through cash-flow underwriting, we would have 24,792 more Latino homeowners, and if 30 percent of the denied Latino borrowers were approved, we would have 37,188 more borrowers, though this number would also depend on the availability of homes to purchase.

Moving forward, lenders could look beyond rental payment history and include telephone and utility payment history to expand the "creditworthy" rating to consumers with thin credit histories. Moreover, although initial explorations into the promise of cash-flow underwriting are promising, there are drawbacks and potential issues to consider. Although most Latinos have a relationship to a bank or have a bank account, Latino households are still more likely to be unbanked, so their cash-flow data would not be accessible to underwriters. As of 2021, 9.3 percent of Latino households were unbanked, compared with 2.1 percent of white households and 4.5 percent of all households.[19] Among those with bank accounts, Latino households are among the least likely to use their bank accounts to pay bills or receive income, limiting the potential of cash-flow underwriting benefits. Ensuring that cash-flow underwriting can benefit Latino consumers will require improving the banking system and making sure it is trustworthy and accessible for Latino people (Zinn et al. 2023).

The other way to improve credit scoring is to remove low-quality data that harm consumers. Incorrect data on credit reports are disproportionately likely to affect people in Latino communities, and it can be difficult for consumers to advocate for their credit report to be changed if they are unaware of their rights[20] and particularly if there are language barriers (Choi et al. 2023). Individuals' credit scores can be harmed, for example, if negative information for a consumer with the same name is attributed to them, which occurs often, because determining which individual behavior is attributed to whom is more expensive than correcting such errors when reported, in many cases. Sometimes the same debts are listed more than once under different names on a person's credit report, which can negatively affect a person's credit score based on pure error. Making it easier for people to discover whether there is incorrect information attributed to them and get their report corrected is an important part of improving credit scoring for Latino households and improving their access to mortgage credit. Further, tweaking credit scoring systems to allow for debts or missed payments to be removed after a shorter time can improve outcomes for Latino consumers, who tend to have thinner credit files, so one mistake or late payment from years prior can make a big difference.[21]

Today's credit scoring system is not race neutral. But thoughtful, race-neutral changes can be made—such as incorporating positive rental payment history, utility, and other routine payments and removing low-quality or incorrect data—to improve outcomes for Latino consumers, who are among the most negatively affected by the current credit scoring system. These changes must be paired with financial education and outreach to be most effective and to empower the most vulnerable consumers.

BOX 2

Policy Solutions to Overcome Credit Barriers

Despite delays to implementation, the Federal Housing Finance Agency's decision to incorporate VantageScore 4.0 and FICO 10T credit scores, which incorporate rental payments in the scoring models, will allow rent payments to be included in mortgage underwriting.

The GSEs' and the FHA's updates to their respective automated underwriting systems have facilitated the use of rental payment history in mortgage underwriting, allowing for automated aggregations of rental payment data instead of having to manually underwrite a loan. These updates could benefit Latino households, who are more likely to have no or low credit scores, but there needs to be more work to fully realize the benefits. Currently, only a small fraction of renters report rental payment history to the credit bureaus, and only a small portion of denied borrowers approve bank account data to be used in mortgage underwriting.

1. Provide Incentives for Positive Rent Reporting

As of 2021, only 5 percent of renter households have their rental payment history on file with all three major credit reporting agencies, and these data are mostly reported when a renter has a late payment, which would hurt a consumer's credit score.[a] Generally, only larger, multifamily properties have the resources to report rental payment history data, and there is little incentive for landlords to report it.[b]

The GSEs have created pilot programs to provide landlords incentives to report on-time positive rental payments through either free or subsidized rent reporting services for multifamily borrowers and closing cost credits on their loans.[c] These programs should be continued and expanded. GSE programs are opt-out, where consumers are automatically enrolled in rent reporting but are automatically unenrolled if they miss payments, to ensure consumers' credit histories are not harmed. Although there are debates over opt-in versus opt-out programs, opt-in programs so far have not been successful in facilitating rent reporting, indicating the need for enhancing consumer awareness.[d] Opt-out programs should also clearly communicate with consumers, so they understand what information is being reported to the credit bureaus and how that information will affect their credit scores.

In addition to the GSEs, state and local housing finance agencies can play this role. California, Colorado, and the District of Columbia have all enacted rent reporting laws that require landlords to offer the option to report all rental payment history for a small fee, after obtaining tenant consent.[e] Modeling this legislation in other states can help while ensuring that only positive on-time rental payment data are reported. Congress could also require landlords receiving housing subsidies to provide rent reporting options to their tenants.

2. Expand Cash-Flow Underwriting Innovations That Incorporate Rental and Other Payment History

Fannie Mae and Freddie Mac both enabled their automated underwriting systems to incorporate rental payment history and cash-flow data as part of their Equitable Housing Finance Plans in 2021 and 2022, respectively.

The GSEs should continue to expand these programs and make them permanent, after studying the causes of low reporting rates among households of color. The pilots have looked at bank statements for consumers who have initially been denied, but the GSEs could make bank statements a part of the initial underwriting process, not only for applicants who already experienced mortgage denial. This change could enhance the likelihood of borrowers with thin or no credit applying and being approved for mortgages.

In addition to rent payments, the GSEs could consider incorporating other regular payment histories in mortgage underwriting, such as utility and telecommunication payments.

3. Increase Consumer Awareness of the Benefits of Rent Reporting and Sharing Bank Account Data

Survey data from Avail indicate that many consumers lack knowledge of the potential impacts of rent reporting on credit scores and whether their rental payment history is being reported to the credit bureaus.[f] Start-ups such as Avail, Bilt, and Esusu have begun to play a significant role in educating renters, and the US Department of Housing and Urban Development and housing counselors can do the same.

The GSEs also should enhance consumer understanding of the benefits of sharing bank account data. Fannie Mae has launched an outreach strategy to enhance consumer awareness, but more work is needed.[g] Currently, the number of consumers who agree to share data is substantially low. This may be because of a deeply rooted lack of trust in the financial system, especially among households of color,[h] or that many of those who were denied are less likely to have the 12 months of on-time rental payment history that could help change their credit decision.[i] More research is needed to understand why.

[a] Caitlin Young, "What Can Policymakers Do to Advance the Use of Rental Payment Data in Mortgage Underwriting?" Housing Matters, May 31, 2023, https://housingmatters.urban.org/articles/what-can-policymakers-do-advance-use-rental-payment-data-mortgage-underwriting.
[b] Young, "What Can Policymakers Do"; and Jung Hyun Choi, Michael Stegman, Laurie Goodman, Janneke Ratcliffe, Karan Kaul, Rita Ballesteros, Caitlin Young, Daniel Pang, and Liam Reynolds, *Reducing the Black-White Homeownership Gap through Underwriting Innovations: The Potential Impact of Alternative Data in Mortgage Underwriting* (Washington, DC: Urban Institute, 2022).
[c] "Credit Building Through Rent Reporting," Freddie Mac, accessed May 20, 2024, https://mf.freddiemac.com/about/credit-building.
[d] Choi et al., *Reducing the Black-White Homeownership Gap*.
[e] Kelly Thompson Cochran, Michael Stegman, and Colin Foos, "Overview: Access to Rental Data for Underwriting Mortgage Credit" (Washington, DC: Urban Institute, n.d.).
[f] Jung Hyun Choi, Laurie Goodman, and Daniel Pang, "Rent Reporting Can Help Build Credit. Why Aren't Smaller-Property Tenants Opting In?" *Urban Wire* (blog), Urban Institute, March 25, 2024, https://www.urban.org/urban-wire/rent-reporting-can-help-build-credit-why-arent-smaller-property-tenants-opting.
[g] Fannie Mae, *Equitable Housing Finance Plan: 2022 Performance Report* (Washington, DC: Fannie Mae, n.d.).
[h] Amalie Zinn, Michael Neal, Luisa Godinez-Puig, and Vanessa G. Perry, "Trust Me, I'm a Bank: What We Know and Don't Know about Trust, Baking Relationships, and Access to Financial Services" (Washington, DC: Urban Institute, 2023).
[i] Choi et al., *Reducing the Black-White Homeownership Gap*.

Down Payment

The limited ability to finance a down payment is one of the biggest barriers when pursuing homeownership. Prior studies find that renters most frequently mention lack of funds for a down payment as the major barrier to homeownership (Goodman et al. 2018). Lenders often require some down payment amount to qualify for a mortgage loan. Although some conventional loan products can be purchased with as little as 3 percent down, many potential applicants are not aware of this. Additionally, the current competitive housing market makes these loan types more difficult to obtain, as sellers are often hesitant to accept offers from buyers putting down less than 20 percent. And even when a down payment less than 20 percent is required, the borrower ends up paying much more over the life of the loan, including significantly increased interest and private mortgage insurance payments.

Although it is hard to quantify, the lack of down payment financing and the lack of knowledge about low–down payment options would have discouraged many Latino households from applying for a mortgage in the first place. In addition, among those who have applied, Latino households have historically taken on more mortgage debt relative to the value of their home on purchase mortgage loans. Along with location, a lower average down payment for accepted mortgage borrowers contributes to this.

Table 1 shows the median LTV ratios of purchase mortgage originations from 2018 to 2022 by race and ethnicity, which is calculated by taking the loan amount on a purchase mortgage as a share of the property value for the secured home. Subtracting the LTV ratio from 100 percent results in the down payment share of the property value, which is lower for Latino households than for white households. In 2022, Latino households' median down payment was 6.1 percent of the home price, compared with 13.8 percent for white homebuyers.

Except for Asian borrowers, who have the highest down payment share, the down payment share has increased over time as the housing market became exceedingly competitive with supply falling substantially below demand. The surge in interest rates also pressured homebuyers to put more down to lower the DTI ratio, which was the most common reason for mortgage denial in 2022. Although FHA loans allow lower down payments, the FHA share of loans has continuously declined in the past several years, as sellers become more reluctant to accept offers from homebuyers with FHA mortgages.[22]

Larger down payments also lower monthly payments, which have increased significantly with rising interest rates. Though Latino households increased their down payment share from 5.4 percent in 2018 to 6.1 percent in 2022, the Latino-white down payment gap has widened. In 2018, down payment shares for Latino households were around 5.3 percentage points below those for white households, and the gap increased to 7.7 percentage points by 2022.

TABLE 1

Median Purchase Mortgage Loan-to-Value Ratios, by Race or Ethnicity

	Total	White	Black	Latino	Asian
2018	89.2%	89.2%	96.6%	94.6%	79.7%
2019	89.6%	89.6%	96.7%	94.9%	79.9%
2020	90.2%	90.2%	96.7%	95.3%	80.2%
2021	88.2%	88.2%	96.4%	94.6%	79.8%
2022	86.2%	86.2%	95.9%	93.9%	80.0%

Source: 2018–22 Home Mortgage Disclosure Act data.

Larger down payment amounts at origination provide several benefits for homebuyers, including lower principal loan amounts and, consequently, lower interest payments over the life of the loan.[23] In addition to taking out more debt relative to the value of their homes at origination, Latino households also struggle more to pay their mortgage debt over the life of the loan. Table 2 shows that the median outstanding primary home–secured debt for Latino households was $175,000 in 2022, higher than the median levels for white households ($153,000). When considering that loan amounts for Latino households ($315,000) are also lower than for white households ($345,000), on average, the level of outstanding debt relative to loan size is even greater.

TABLE 2

Outstanding Home-Secured Debt for Primary Residences

	Total	White	Black	Latino	Other
2010	$148,870	$152,970	$116,090	$121,560	$198,040
2013	$146,380	$150,190	$114,550	$159,100	$197,290
2016	$136,900	$141,840	$96,200	$122,100	$185,010
2019	$156,490	$150,700	$134,470	$150,700	$208,660
2022	$156,000	$153,000	$111,000	$175,000	$200,000

Source: 2010–22 Surveys of Consumer Finances.

As interest rates and home price conditions remain elevated in the current market, down payments can be an important tool for increasing affordable homeownership opportunities for Latino renters and first-time homebuyers. A household's ability to pay for a down payment is largely a function of borrower wealth and income.

In 2022, white households had a median net worth of approximately $284,310, compared with just $62,120 for Latino households, and a median family income of $81,070, compared with $46,480 for Latino households.[24] One major reason for these wealth disparities is that Hispanic households are less likely to receive financial assistance from family or friends when buying a home (Stegman and Loftin 2021).

Federal Reserve data show that in 2017, nearly 30 percent of white families received an inheritance or gift, compared with about 7 percent of Latino families.[25] Additionally, among those receiving an inheritance or gift, white families also tended to receive larger inheritances than Latino families did. Without such inheritance benefits, saving for a down payment is difficult. Moody's Analytics estimates that it would take the typical renter about 14 years to save $15,000 for a down payment at current renter household savings rates (Parrott and Zandi 2021).

While white families have more wealth and the ability to pass on their wealth to future generations, Latino households often take on additional financial burdens by, for example, assisting less financially secure friends and family members. According to the 2022 Survey of Consumer Finances, the median wealth among white households was $284,310, compared with just $62,120 for Latino households. As high inflation continues to burden low-income households, Latino households are more likely to rely on friends or family members for financial support. According to data from the Census Household Pulse

Survey, 15.5 percent of Latino households, versus 10.9 percent of white households, had to ask friends or family for financial help to manage rising costs at the end of 2022.[26] Out of 19 possible survey responses to this question, this financial reliance on friends or family had the second-largest gap between white and Latino households, behind shopping at stores with lower prices. Thus, even when wealthier Latino households can earn more, they might often use a significant proportion of their finances to support family members and will continue to face challenges, such as higher default rates on loans and living cost burdens.

Latino renters also have significantly higher rent cost burdens than white renters (i.e., spending at least 30 percent of their monthly earnings on rental costs, including utilities and insurance payments). In 2022, around 54 percent of Latino renters were rent cost burdened, compared with just 45 percent of white renters (table 3). The high cost burden among Latino households makes it difficult to save for a down payment.

TABLE 3

Share of Cost-Burdened Renters

	Total	White	Black	Latino	Asian
2022	49.2%	45.0%	56.9%	53.6%	43.7%

Source: 2022 American Community Survey data.

This lower ability to pay creates a major barrier for Latino households seeking to enter homeownership, especially with a significant down payment. Access to such resources as down payment assistance programs will be critical for bridging these gaps and supporting future Latino homebuyers. Additionally, use of down payment assistance programs remains low (NAHREP, n.d.-b). Among the 510 top-producing Latino real estate agents across the country surveyed by the National Association of Hispanic Real Estate Professionals in 2022, 63 percent indicated that less than 10 percent of their Latino homebuyers used down payment assistance programs during the year. Fifty-one percent of agents said that their first-time homebuyers faced affordability challenges and decided to wait for the market to improve before purchasing a home, but the most popular strategies to overcome affordability challenges among those who could buy in the current market were down payment assistance and purchasing with a coborrower on the loan. For buyers who could use down payment assistance, lender partners were the most popular way of finding out about programs in each market.

BOX 3

Policy Solutions to Overcome Down Payment Barriers

1. Expand Awareness of Down Payment Assistance Programs

Down payment assistance is a standard tool to overcome households' primary barriers to accessing homeownership, but only a small share of households use this assistance. For example, only about 15 percent of FHA borrowers used government down payment assistance in 2023.[a] Expanding awareness about assistance options available to Latino households is key to closing this gap: for example, Freddie Mac's new DPA One tool, released in 2023, centralizes all state down payment assistance programs in one database.[b] Down Payment Resource also offers resources to connect with assistance programs.[c] Housing counselors and real estate agents also play a critical role in building awareness.

2. Implement and Expand Special Purpose Credit Programs

Special purpose credit programs (SPCPs)—targeted programs through which lenders can legally extend credit on more favorable terms to groups who have been historically disadvantaged by discriminatory policies—can directly benefit Latino households in qualifying for mortgages. Although SPCPs have been allowed through the 1974 Equal Credit Opportunity Act, it has gained interest in recent years, as addressing racial disparities in homeownership became more important for policymakers and industry players.[d] Place-based down payment assistance programs are the most common SPCPs, while some institutions, including the Federal Home Loan Bank of Boston, are implementing people-based down payment and closing cost assistance for people of color.[e] SPCPs can also be tailored based on market-specific disparities in DTI requirements and credit, such as by loosening DTI requirements and employing credit scoring innovations.[f] Every relevant government agency has endorsed SPCPs as a legal and effective tool to close racial homeownership disparities, and Urban Institute data tools can help lenders navigate the process of creating an SPCP.[g] The GSEs have piloted programs to buy SPCP loans, and these should continue to be expanded as a key way to promote access to credit to Latino households.

3. Implement First-Generation Down Payment Assistance Programs

On the demand side, the most effective way to target Latino homebuyers and other homebuyers of color is to offer down payment and closing cost assistance specifically for first-generation homebuyers.

Since 2021, this continues to be a priority of the Biden administration and Senate Democrats, with an allocation made in the president's fiscal year 2025 budget and a fourth iteration of the Downpayment Toward Equity Act being proposed in the Senate in March 2024. Furthermore, Fannie Mae and Freddie Mac have both provided an industry-standard definition of "first-generation homebuyer" in their Equitable Housing Finance Plans: those who have not had any property ownership interest, nor whose parents have had any ownership interest, in the past three years. By this definition, Urban Institute analysis shows that 1.36 million Latino households could qualify for a first-generation DPA program.[h]

States and localities are playing a particular role in advancing these programs while a federal-level program is stalled in Congress. A record number of jurisdictions implemented their programs in 2023, and continued adoption of the GSEs' industry definition will ensure that Latino households without intergenerational wealth receive assistance, including those that previously owned but lost their home to foreclosure.[i]

4. Explore Innovative Programs to Lower the Up-Front Costs of Homebuying

Policymakers can explore other policy and programmatic tools to reduce the up-front burden of homebuying, including down payment and closing costs. Another less explored tool is tax-free savings accounts for saving for a down payment and closing costs—as proposed under the American Dream Downpayment Act—similar to Section 529 accounts for educational expenses.[j] To target low-wealth households, policymakers could consider matched savings for first-generation homebuyers.[k]

[a] FHA (Federal Housing Administration), *FHA Annual Report to Congress Regarding the Financial Status of the Federal Housing Administration Mutual Mortgage Insurance Fund* (Washington, DC: FHA, n.d.), table D-10.
[b] See the website for Freddie Mac's down payment assistance at https://dpaone.freddiemac.com/.
[c] See https://downpaymentresource.com/.
[d] Jung Hyun Choi, Liam Reynolds, and Vanessa G. Perry, "How Place-Based Special Purpose Credit Programs Can Reduce the Racial Homeownership Gap," *Urban Wire* (blog), Urban Institute, February 1, 2022, https://www.urban.org/urban-wire/how-place-based-special-purpose-credit-programs-can-reduce-racial-homeownership-gap.
[e] "Frequently Asked Questions for Members," FHLBank Boston, accessed May 21, 2024, https://www.fhlbboston.com/fhlbank-boston/lift-up-homeownership-member-faqs#/.
[f] Aniket Mehrotra, Daniel Pang, Jun Zhu, Jung Hyun Choi, and Janneke Ratcliffe, *Evidence of Disparities in Access to Mortgage Credit* (Washington, DC: Urban Institute, 2024).
[g] "Interagency Statement on Special Purpose Credit Programs under the Equal Credit Opportunity Act and Regulation B," Federal Deposit Insurance Corporation, February 22, 2022, https://www.fdic.gov/news/financial-institution-letters/2022/fil22008.html; and Jun Zhu, Daniel Pang, John Walsh, Aniket Mehrotra, Jung Hyun Choi, and Janneke Ratcliffe, "The Special Purpose Credit Program Data Toolkit," Urban Institute, accessed May 21, 2024, https://www.urban.org/projects/special-purpose-credit-program-data-toolkit.
[h] Aniket Mehrotra, Jung Hyun Choi, and Janneke Ratcliffe, "First-Generation Homebuyers Face Significant Obstacles to Homeownership. To Help, Programs Can Define What 'First-Generation' Means," *Urban Wire* (blog), Urban Institute, November 17, 2023, https://www.urban.org/urban-wire/first-generation-homebuyers-face-significant-obstacles-homeownership-help-programs-can.
[i] Mehrotra, Choi, and Ratcliffe, "First-Generation Homebuyers."
[j] American Dream Down Payment Act of 2020, S. 4414, 116th Cong. (2020).
[k] Jim Parrott and Mark Zandi, "Opinion: How to Solve the Nation's Affordable Housing Crisis," CNN, February 12, 2024, https://www.cnn.com/2024/02/12/opinions/affordable-housing-market-buyers-parrott-zandi/index.html.

Other Barriers to Accessing Mortgage Credit

Our prior research finds considerable barriers for two groups of Latino households: limited English proficiency (LEP) households and Individual Tax Identification Number (ITIN) holder households.

LEP Households

Although Latinos in the US are proficient in English, the Latino population has a relatively high share of LEP households. In the 2022 American Community Survey, 14.4 percent of Latino respondents said they either do not speak English or do not speak it well, the highest share among all racial and ethnic groups. According to recent Urban research (Choi et al. 2023) that examines the barriers to homeownership, the 2022 homeownership rate among LEP households was 39.4 percent, almost 28 percentage points lower than among English proficient (EP) households. Even after controlling for households' demographic and socioeconomic characteristics and location, we find that LEP households are about 6.2 percentage points less likely to be homeowners than EP households. Without language barriers, the homeownership rate among LEP households could increase to 45.6 percent (294,000 more homeowners).

The LEP population and number of households have both increased roughly threefold since 1980, and about 70 percent of LEP households speak Spanish. More than half of these households are concentrated in California, New York, and Texas, so geographically targeted efforts to improve language access can be an effective strategy. Research has found that translating mortgage documents improves the welfare of Latino borrowers with limited English proficiency without introducing additional risk to the market (Liu 2023). As Latino households make up a larger share of the population, ensuring their access to documents and information in their preferred language will be even more critical to the equity and soundness of the housing and mortgage markets.

ITIN Holders

ITIN holders, or those who do not have a Social Security number or work authorization in the United States, are largely Latino, and many more could qualify for a mortgage if credit was equally available for them as for Social Security number holders. The current supply of ITIN mortgages is small, largely because of a lack of a meaningful secondary market: the GSEs do not buy, and the FHA does not insure, mortgages made to ITIN holders if the borrower does not legally reside in the US, which excludes most ITIN mortgage borrowers from liquidity support from these entities. Urban Institute research finds that the current ITIN mortgage market is small—5,000 to 6,000 loans per year—but could be significantly expanded to 73,000 to 88,000 loans per year if supply-side barriers were removed. Additionally, the demand is constrained by higher interest rates and down payment requirements set by lenders, as well as relatively lower incomes among ITIN holders (Goodman, Mehrotra, and Zinn 2024).

BOX 4

Other Policy Solutions to Consider

1. Continue Improving Resources to Support Limited English Proficiency Households

Our prior research finds that the FHFA, GSEs, and CFPB have taken numerous actions to decrease language barriers in the mortgage market.[a] More work is needed to increase LEP consumers' awareness of available resources to understand the homebuying process, including mortgage terms and options. Improving language diversity among loan officers and real estate agents and providing incentives to these professionals to take the time to serve LEP households could also be beneficial. Finally, because LEP populations are geographically concentrated, lenders could strategically target areas where Spanish-speaking LEP populations are located and provide information, such as available down payment assistance, in Spanish.

2. Address Supply and Demand Barriers in the ITIN Mortgage Market

Having the GSEs and the FHA modify their legal residence requirements for ITIN holders would create a significant secondary market for ITIN loans and help expand the market by allowing more lenders to sell off these loans and originate more. Extending eligibility for assistance programs—such as down payment assistance, homestead exemptions, and mortgage credit certificates—to ITIN holders can also alleviate affordability constraints.[b]

3. Expand Housing Counseling and Outreach to Latino Households

Research also shows that there needs to be more efforts to improve Latino households' understanding of the complicated homebuying process. This includes enhancing knowledge of the US credit system, the benefits of rent reporting to the credit bureaus, and using down payment programs. Housing counseling, regional outreach, and training could play an important role in bridging the information gap.

[a] Jung Hyun Choi, Amalie Zinn, Laurie Goodman, and Noreana Limón, *Language Proficiency and Homeownership Access* (Washington, DC: Urban Institute, 2023).

[b] Laurie Goodman, Aniket Mehrotra, and Amalie Zinn, "ITIN Mortgages: Barriers and Opportunities to Advance Latino Homeownership" (Washington, DC: Urban Institute, 2024).

Conclusion

Latino households face unique barriers to accessing mortgage credit in each of the three key determinants of mortgage underwriting. This report examines the barriers and proposes potential solutions to help Latino households access homeownership. Below, we summarize the key policies and actions that various stakeholders could work on to mitigate the barriers Latino households face in mortgage underwriting.

TABLE 4

Key Policies and Actions to Mitigate Barriers to Homeownership for Latino Households

Policy area	Key policies and actions	Key actors
DTI ratio	▪ Facilitate the capturing of nontraditional forms of income in mortgage underwriting.	▪ GSEs, FHA
	▪ Put greater weight on the higher credit score among coapplicants.	▪ GSEs, FHA
Credit	▪ Provide incentives for rent reporting to credit bureaus.	▪ GSEs, HUD, state and local governments
	▪ Expand cash-flow underwriting innovations that incorporate positive rental payments and other payment history, such as telecommmunications and utility payments.	▪ GSEs, FHA
	▪ Increase consumer awareness of the benefits of rent reporting and sharing bank account data.	▪ GSEs, HUD, and housing counselors
Down payment	▪ Expand awareness of down payment assistance programs. ▪ Implement first-generation down payment assistance programs. ▪ Implement special purpose credit programs.	▪ GSEs, state and local HFAs, Down Payment Resource ▪ Congress, state and local governments, lenders, and HFAs
Other	▪ Address supply- and demand-side barriers in the ITIN mortgage market. ▪ Continue improving resources to support limited English proficiency households. ▪ Expand housing counseling and outreach to Latino households.	▪ GSEs, federal regulators, lenders, and housing counselors

Note: DTI = debt-to-income; FHA = Federal Housing Administration; GSE = government-sponsored enterprise; HFA = housing finance agency; HUD = US Department of Housing and Urban Development; ITIN = Individual Taxpayer Identification Number.

We have aimed to provide a broad analysis for each of the three determinants in this report, but we could further conduct an in-depth analysis to gain more specific knowledge about the barriers Latino homebuyers face in mortgage underwriting. For example, we could examine why Latino households are less likely than white households to apply with a coborrower or why many do not share bank account data that could give them a second chance to receive a mortgage. We could also explore Latino households by their immigration status, years they lived in the US, or their country of origin to examine whether different groups of Latino households have different challenges in obtaining homeownership.

Latino households will increasingly dominate the future homebuying market. Our research projects that 70 percent of net new homeowners between 2020 and 2040 will be Latino households.[27] It is critical to understand the needs of this growing population in the housing market and design and implement programs and policies to better serve them to access homeownership and build generational wealth.

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