

Latino Homeownership Hanging in the Balance: Observations from the Home Mortgage Disclosure Act

Hispanic* Americans represent a growing and influential population in the housing market and in the broader United States economy. Hispanics are projected to make up 22% of the nation's population and 40% of new households by 2030, making them a central segment of the economy.¹

Since 2010, growth in Latino homeownership has accounted for 60% of total homeownership growth in the United States,² and Latinos are expected to compose half of new homeowners in the coming decade. Nearly a decade after the financial crisis, Hispanic households are slowly continuing to recover. In 2016, Hispanic median income increased to a record high of \$47,675, while median net worth grew for the first time since 2007.³ These income and wealth gains helped propel more than 200,000 Latinos into homeownership.⁴

However, the same year as these economic gains, the Latino homeownership rate was only 46%, well below a rate that approached 50% before the foreclosure crisis wiped out more than two-thirds of Latino net housing wealth.⁵ Stagnant Latino homeownership could negatively impact the housing sector, which contributes nearly 20% to the nation's economy.⁶ Creating homeownership opportunities in low- and moderate-income Latino communities has been an UnidosUS priority more than a decade. And, for more than 20 years, UnidosUS has managed a network of community-based housing counseling providers that have helped more than 35,000 families become first-time homebuyers since it began. While policymakers continue to debate options for reforming the housing finance system, there is some concern that most proposals fall far short of what is necessary to support an inclusive housing market for all.⁷

* 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.

Using home loan data from the 2016 Home Mortgage Disclosure Act (HMDA), UnidosUS identified key indicators that show how Latinos fare in the mortgage market.⁸ For some indicators, we also include 2010 and 2015 HMDA data. Taken together, this data reveals trends that support or hinder Latinos’ access to homeownership. For example, in 2016, Hispanics made up 17.8% of the nation’s population, yet received less than 9% of home mortgage loans made that year.⁹ While the Latino population has grown by 13% since 2010, the number of home loans made to Latinos grew by less than one percentage point.¹⁰ Examining Latino homeownership across a range of indicators can help policymakers prepare for future demographic shifts in the housing market and ensure that more American families, including Latinos, have access to homeownership and the opportunity to bolster their economic security.

Table 1

Snapshot of 2016 Home Mortgage Disclosure Act Data¹¹

	Latino Borrowers	All Borrowers
 Home Purchase Loans	304,744 (8.8%)	3,545,000 (51.3%)
 Government-Insured Home Purchase Loans (i.e. Federal Housing Administration)	182,237 (13.6%)	1,340,000 (37.7%)
 Conventional Home Purchase Loans	122,507 (5.8%)	2,123,000 (59.8%)
 Denial Rate for Home Purchase Loan Applications	14.9%	11.4%

Trends that support Latinos’ access to homeownership

Latinos have seen gains in homeownership since 2010: Between 2010 and 2016, more than 1.1 million Latinos became new homeowners, and accounted for more than 60% of homeownership growth in the United States. In 2016, Latinos received 8.8% of home loans to help finance a home purchase, a slight increase from 8.1% in 2010.

Fewer Latinos are denied a mortgage than six years ago: Many more Latino families have successfully entered the mortgage market recently. In 2016, Latinos were denied a mortgage at a rate of 14.9%, more than six percentage points lower than the rate in 2010, which was 21.8%.

Increase in low-down payment loans with flexible underwriting: In 2016, nearly 90% of mortgages made to families earning modest incomes by housing finance agencies were low-down payment loans.¹² In recent years, Fannie Mae and Freddie Mac* have designed affordable mortgage programs to help families with lower incomes and less wealth, including many

* Freddie Mac and Fannie Mae are government-sponsored enterprises that are the largest secondary mortgage market participants. They purchase and securitize the home loans that lenders make to mortgage loan applicants. More information available at: <https://www.fhfa.gov/SupervisionRegulation/FannieMaeandFreddieMac/Pages/About-Fannie-Mae---Freddie-Mac.aspx>.

Latinos, become eligible to buy a home. They feature loans requiring smaller down payments and create flexibility in the kinds of information—including rental and utility payments—lenders can use to more effectively evaluate non-traditional borrowers, including Latinos, who are more likely to be credit invisible and live in households with family members who use cash in many financial transactions.¹³

Trends that hinder Latinos' access to homeownership

Latinos are more likely to be denied a mortgage than Whites: In 2016, Hispanic borrowers were denied a mortgage at a rate of 14.9%, as compared with the rate of denial to Whites, 9.4%. This represents a six-percentage point difference between Hispanic and White denial rates, as compared with a difference of nearly nine percentage points in 2010. Studies show that Hispanic mortgage applicants were more than twice as likely as Whites to be denied mortgage credit or to fear denial, and remain at a disadvantage in a credit system that favors consumers who already have an established credit score.¹⁴

Latinos receive few conventional* mortgages: Latinos received slightly more conventional loans in 2016 (5.8%) than in 2015 (5.1%), but their share of all conventional loans was paltry: Whites received more than 70% of conventional loans made. This disparity in distribution could be explained by the stark difference in denial rate for conventional loans between Latino and White borrowers. In 2016, Latinos were denied a conventional loan at a rate of 15.4%, compared with a rate of 8.4% for Whites. The disparity is concerning because most home loans (61%) made in 2016 were conventional loans.¹⁵

Latinos are more likely to receive a non-conventional loan and pay more for a mortgage: In 2016, nearly 60% of mortgages made to Latino families were insured by the federal government.¹⁶ While loans insured by the Federal Housing Administration (FHA) are designed to allow families with fewer resources for a down payment to buy a home, these loans may be higher-priced as they require mortgage insurance that increases the cost of the mortgage over time.¹⁷ In addition, nearly 18% of all loans made to Latinos—conventional and nonconventional combined—were higher-priced,[†] compared with only 6.2% of loans made to Whites.

Latinos have lower home loan values: In 2016, Hispanic families borrowed an average of \$220,000 to finance their home purchase, an increase of \$11,000 over the average amount in 2015. Yet, the average loan was well below the largest amount in 2006 (\$238,000) and more than \$20,000 lower than the average loan of White borrowers (\$246,000). As the housing market recovers, home lenders have few incentives to make loans to lower-wealth families, including Latino families, who are likely to apply for a smaller-sized loan. In today's market, smaller-sized loans, such as those between \$50,000 and \$100,000, are less appealing because they have smaller profit margins. Lenders spend the same amount of time and money issuing a larger-sized loan as a loan of lesser value; yet receive less income from the smaller loan.¹⁸

* A conventional loan is any mortgage loan that is not insured or guaranteed by the government (such as under Federal Housing Administration, Department of Veterans Affairs, or Department of Agriculture loan programs). More information available at: <https://www.consumerfinance.gov/ask-cfpb/what-is-a-conventional-loan-en-117/>.

† A loan is defined as higher-priced if the loan's annual percentage rate (APR) is higher than the benchmark rate, the Average Prime Offer Rate (APOR). According to the CFPB, a higher-priced first-lien mortgage is higher-priced if the APR is 1.5 percentage points higher than the APOR. More information available at: <https://www.consumerfinance.gov/ask-cfpb/what-is-a-higher-priced-mortgage-loan-en-1797/>

UnidosUS Homeownership Network

The UnidosUS homeownership network is comprised of approximately 50 HUD-approved housing counseling agencies. It is the largest network of community-based organizations working together to promote Latino wealth-building through homeownership. Housing counselors within the network are professionally trained to help families navigate the mortgage and home-buying process, identify and understand the financing options for which they can qualify, and prepare them for sustainable homeownership. Counselors provide group homebuyer education, one-on-one home purchase counseling and other housing counseling services, in at least two languages, English and Spanish. In 2016, the UnidosUS homeownership network achieved the following results:

- Nearly 50,000 families, the majority of whom were Latino, received housing counseling services.
- More than 10,000 families received pre-purchase homebuyer education in a group setting and approximately 9,900 families received one-on-one home purchase counseling.
- Of the 9,900 families that received one-on-one home purchase counseling, 1,600 were able to buy a home.

Despite extensive counseling from organizations in the UnidosUS network, few families purchased a home. This low rate of conversion to homeownership is due to several key factors: Families needed to save more for a down payment, borrowers needed to improve their credit profile, and applicants were denied mortgage credit when they applied.

What Latino Voters Are Saying About Homeownership¹⁹

- 94% of Latino voters say that creating more homeownership opportunities is important for the President and Congress to address.
- 92% of Latino voters say they want to own a home, yet nearly 47% say that finding an affordable place to live in the neighborhood where they want to live is probably not possible or out of reach of their financial capabilities.

Conclusion

Each year, the release of HMDA data sheds light on who is receiving home mortgages and where gaps in homeownership persist. HMDA data is an important tool used by communities, lenders, regulators, and policymakers to understand how the mortgage market is serving American homeowners and identify disparities and improvements in home lending. The 2016 data show that Latinos have achieved some modest gains in access to credit in recent years, but these gains are still far below the homeownership gains Latinos had achieved before the financial crisis.

Ongoing disparities in mortgage lending, such as a system that favors borrowers with pristine credit and homes with large loan values, stack the deck against eligible Latinos and other American families earning a modest income. The future of the housing market will depend on the ability of often-excluded individuals, including Latinos and other low-and moderate-income Americans to obtain an affordable mortgage. As policymakers begin to consider reforming the housing finance system, there is great opportunity to do so in a way that increases access to safe and affordable mortgage products and closes existing gaps along racial and ethnic lines. Doing so will enable our economy to truly benefit from the contributions Latinos are projected to make. Only then can more American families build wealth, bolster the housing market, and continue to grow the economy.

Endnotes

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