

# **Barriers to Homeownership: Mortgage Loan Denials in Travis County, Texas**

## **Background**

A racial homeownership gap (RHG) exists in the U.S. (Neal & McCargo, 2020). Common barriers to homeownership include unfavourable loan terms, insufficient down payment, inadequate credit, and unaffordable home prices (Grinstein-Weiss et al., 2008). These barriers may be experienced more regularly by minorities (e.g. Asians, African Americans, and Hispanics) who also may face cultural differences navigating the financial system (e.g. being banked and building traditional credit; Federal Deposit Insurance Corporation, 2020). Austin, Texas has one of the most expensive and consequently unaffordable housing markets in the state (National Association of Realtors®, 2022; Root Policy Research (RPR), 2019). A recent report assessing Fair Housing in Central Texas, where Austin is located, documented a RHG and noted barriers to housing for minorities including difficulties qualifying for a mortgage (RPR, 2019).

## **Purpose and Research Questions**

The purpose of this research is to examine the mortgage loan denial rate among mortgage applicants in Travis County, Texas (where Austin is located) using data from the Home Mortgage Disclosure Act (HMDA) collected in 2020. The research questions for this study are 1) What is the effect of race on the likelihood of being denied a mortgage loan? 2) What are the documented reasons for being denied a mortgage loan by race?

## **Methodology**

Travis County, Texas 2020 HMDA data was used to answer the research questions stated above. The sample consisted of 8,931 individuals applying to purchase a single-family dwelling for their primary residence. The majority were aged 25-44 (73%), male (59%), and were White non-Hispanic (63%). The dependent variable was loan action (=1 denied; 0=approved).

Independent variables included age, gender, race, income, loan type, loan amount requested, presence of a co-applicant, and front-end ratio. Logistic regression and a chi-square test were used to answer research questions 1 and 2 respectively.

## **Results**

For research question 1, it was found that compared to White non-Hispanic applicants, the odds of being denied a mortgage loan increased 2.07 times for African Americans, 2.26 times for Asian, and 1.64 times for Hispanic applicants. Regarding research question 2, the most common reason for being denied a mortgage loan was debt-to-income ratio (DIR) followed by credit history. Insufficient cash for a down payment was not a common reason for being denied among African Americans and Hispanic applicants. Additional details regarding the results will be shared in the poster presentation.

## **Conclusions/Implications**

The results support the conclusions of the RPR (2019) report which documents difficulties qualifying for a mortgage among minorities. One solution they provide is to focus on down payment assistance programs. However, the findings from the present study suggest that helping minority applicants with their DIR and credit history may also be advantageous in helping them qualify for a mortgage. Consumer advocates, housing professionals, and city administrators seeking to improve the RHG in the area may consider also emphasizing homebuyer education and financial counseling which can be used to aid residents in preparing for homeownership long before a down payment is needed. Additional conclusions and implications will be shared in the poster presentation.

## **References**

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