



James Kegley for The Pew Charitable Trusts

Hispanic Homebuyers Most Likely to Use Risky Financing

New survey sheds light on use of alternative financing among Latino households

Overview

Hispanic homeownership has risen each year since 2014, accounting for more than half of U.S. homeownership growth since 2010, but this trend obscures the fact that Latino homebuyers face persistent challenges in obtaining safe, affordable home financing.¹ Most American homebuyers, including most Hispanic buyers, use a mortgage when purchasing a home. However, in part because of outdated underwriting models and a shortage of mortgages for less than \$150,000, some home borrowers (i.e., people who purchase a home with financing) instead use alternative financing arrangements, such as land contracts, lease-purchase agreements, seller-financed mortgages, and, for manufactured homes, personal property loans.² New survey results from The Pew Charitable Trusts show that Hispanic home borrowers are more likely than other racial and ethnic groups to use these risky arrangements.³

Previous Pew research indicates that alternative arrangements are more costly and are subject to fewer consumer protections than mortgages and do not necessarily result in the buyer's free and clear ownership of the property.⁴ With experts projecting that Latino homeownership will continue rising, these latest survey findings raise significant concerns about Hispanic home borrowers' access to safe financing and the stability of many Hispanic families' homeownership.⁵ The data presented in this fact sheet can help policymakers foster access to and protect homeownership.

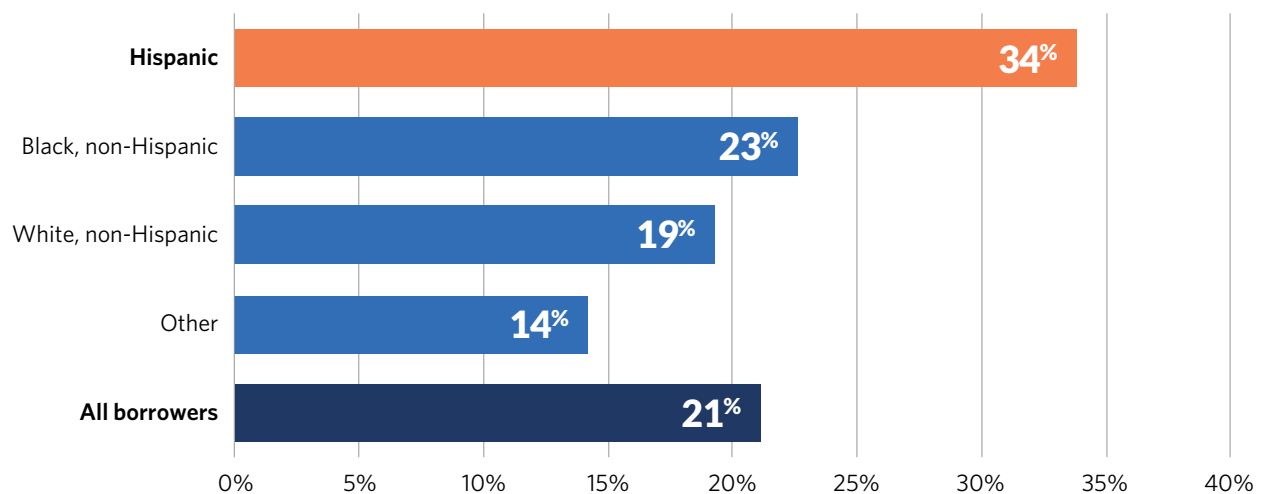
More than a third of Hispanic home borrowers report having used alternative financing

Pew's nationally representative survey found that about 34% of Hispanic home borrowers have used alternative financing at some point, compared with roughly 23% of Black home borrowers, 19% of White borrowers, and approximately 21% of all U.S. home borrowers.⁶ (See Figure 1.)

Figure 1

Hispanic Borrowers Are Most Likely to Have Ever Used Alternative Financing

Percentage of borrowers who have used alternative arrangements, by race and ethnicity



Notes: Results are based on responses from 3,694 survey participants who have ever borrowed to buy a home. Respondents were asked, "Which of the following best describes how you are currently paying for your home?" and "Have you EVER used any of the following loans or arrangements to pay for a home NOT including your current loan (if you have one)?" "Home-only loan, personal property loan, or chattel loan; rent-to-own or lease-purchase agreement; seller-financing; contract-for-deed or land contract." The percentages of borrowers who have used each type of alternative arrangement do not add up to the percentage who have used any type because some have used multiple types of alternative financing at different times.

Source: Pew's alternative financing survey, 2021

© 2022 The Pew Charitable Trusts

Previous research has found that this higher prevalence of alternative financing among Hispanic homebuyers is not new:

- In 2009—the last year for which the U.S. Census Bureau collected relevant data—8.4% of Hispanic homeowner households had active land contracts, compared with 4.6% of all homeowner households.⁷
- In 2019, among manufactured home borrowers who owned the land beneath the home being purchased, 24% of Hispanic households had personal property loans instead of mortgages, compared with 15% of White and 13% of Asian households.⁸

High rates of alternative financing put Hispanic families at increased risk

Alternative financing arrangements can negatively affect borrowers' homeownership and wealth-building opportunities for years:

- In the event of default, evictions and foreclosures can be swift for properties purchased using alternative financing compared with those bought with mortgages. And few states have laws on evictions, forfeitures, or foreclosures for homes financed with land contracts or personal property loans.⁹
- Manufactured home borrowers who have personal property loans pay almost twice the median interest rates paid by their peers who have mortgages, despite having nearly identical financial characteristics.¹⁰
- Many states do not require public recording of alternative financing transactions; less than half have done so for land contracts.¹¹ Without this documentation, policymakers have often overlooked homeowners using alternative arrangements when providing home borrower protections.

Endnotes

- 1 National Association of Hispanic Real Estate Professionals and Hispanic Wealth Project, "2020 State of Hispanic Homeownership Report" (2021), 5, 8, 22-24, <https://nahrep.org/downloads/2020-state-of-hispanic-homeownership-report.pdf>.
- 2 Ibid., 8, 22; A. Horowitz and T. Roche, "Small Mortgages Are Hard to Get Even Where Home Prices Are Low," The Pew Charitable Trusts, Sept. 11, 2020, <https://www.pewtrusts.org/en/research-and-analysis/articles/2020/09/11/small-mortgages-are-hard-to-get-even-where-home-prices-are-low>; 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>.
- 3 The Pew Charitable Trusts, "Millions of Americans Have Used Risky Financing Arrangements to Buy Homes" (2022), <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2022/04/millions-of-americans-have-used-risky-financing-arrangements-to-buy-homes>.
- 4 The Pew Charitable Trusts, "What Has Research Shown About Alternative Home Financing in the U.S.?"
- 5 L. Goodman and J. Zhu, "The Future of Headship and Homeownership" (Urban Institute, 2021), 2-3, <https://www.urban.org/research/publication/future-headship-and-homeownership>.
- 6 The Pew Charitable Trusts, "Millions of Americans Have Used Risky Financing Arrangements to Buy Homes."
- 7 A. Carpenter, A. Lueders, and C. Thayer, "Informal Homeownership Issues: Tracking Contract for Deed Sales in the Southeast" (Community and Economic Development Department, Federal Reserve Bank of Atlanta, 2017), 6, <https://www.frbatlanta.org/-/media/documents/community-development/publications/discussion-papers/2017/02-informal-homeownership-issues-tracking-contract-for-deed-sales-in-the-southeast-2017-06-14.pdf>.
- 8 Consumer Financial Protection Bureau, "Manufactured Housing Finance: New Insights From the Home Mortgage Disclosure Act Data" (2021), 40-41, https://files.consumerfinance.gov/f/documents/cfpb_manufactured-housing-finance-new-insights-hmda_report_2021-05.pdf.
- 9 National Consumer Law Center, "Summary of State Land Contract Statutes" (2021), 6, <https://www.pewtrusts.org/-/media/assets/2022/02/summary-of-state-land-contract-statutes.pdf>; I'M HOME: Innovations in Manufactured Homes, "Manufactured Housing Resource Guide: Titling Homes as Real Property" (National Consumer Law Center, 2014), 7, https://www.nclc.org/images/pdf/manufactured_housing/cfed-titling-homes.pdf.
- 10 Consumer Financial Protection Bureau, "Manufactured Housing Finance," 25, 33, 38.
- 11 National Consumer Law Center, "Summary of State Land Contract Statutes."

For further information, please visit:
pewtrusts.org/home-financing

Contact: Omar A. Martínez, communications officer
Email: omartinez@pewtrusts.org
Project website: pewtrusts.org/home-financing

The Pew Charitable Trusts is driven by the power of knowledge to solve today's most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public, and invigorate civic life.