



OVERUTILIZATION OF FHA LOANS

HIGH RATES AND LENDER & SELLER BIAS

An **FHA loan** is a government-backed mortgage insured by the Federal Housing Administration. FHA home loans require lower minimum credit scores of 500-580, and lower down payments than many conventional loans, anywhere between 3.5% to 20%. This makes them especially popular with first-time homebuyers, those with compromised credit history, and those with lower incomes. While the government insures these loans, they are actually underwritten and administered by third-party mortgage lenders approved by the FHA.

Hispanic homebuyers had a **19.1%** home-purchase denial rate for conventional loans in 2022, forcing them to utilize riskier and more expensive types of home purchase loans. This directly leads to Hispanic Americans paying 30% more than white borrowers on interest in 2022 due to these non-traditional loans. [Source: HUD.gov](#)

Due to the higher than average denial rate of conventional mortgage loans, Hispanic homebuyers are twice as likely to use Federal Housing Administration (FHA) loans to finance a home than White buyers.

[Source: Federal Deposit Insurance Co.](#)



FHA loans carry with them a higher than conventional price tag due to significantly higher monthly rates when compared to conventional loans. Hispanic Homebuyers' systemic need to utilize FHA loans comes at a cost of high rates, but also, the risk of seller bias. [Source: HUD.gov](#)

There's proven track record of bias towards homebuyers utilizing FHA loans from sellers, noting that stricter appraisals and inspections required for homebuyers with FHA loans can deter sellers from considering offers from buyers with FHA loans. [Source: FHA Handbook](#)