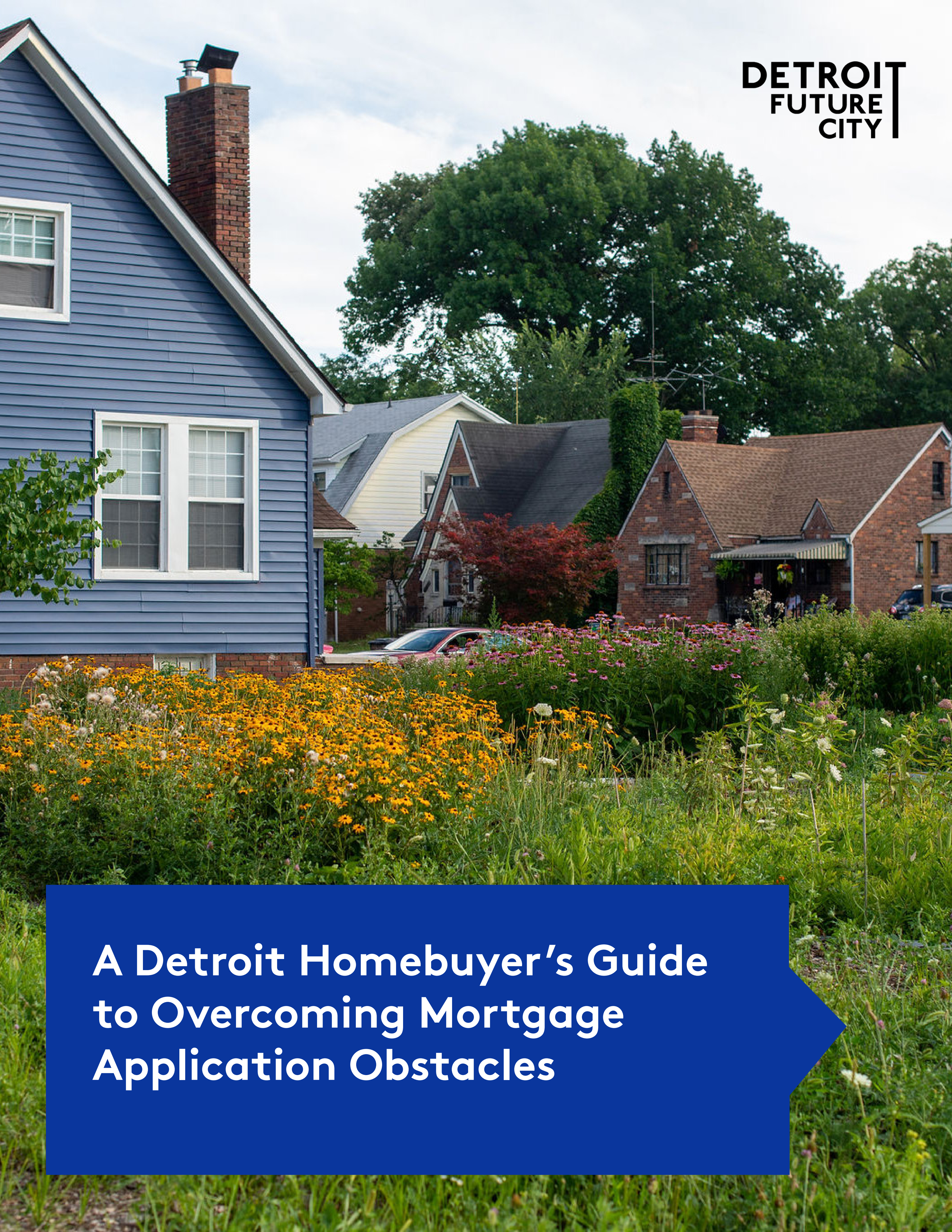

DETROIT FUTURE CITY

A Detroit Homebuyer's Guide to Overcoming Mortgage Application Obstacles

A DETROIT HOMEBUYER’S GUIDE TO OVERCOMING MORTGAGE APPLICATION OBSTACLES

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Introduction

Homeownership remains an unrealized dream for many Detroiters, despite the relative affordability of Detroit homes to those in other cities. According to Detroit Future City's Buying In Report, only 55% of 2020 home purchase mortgage loan applications in Detroit resulted in mortgages, with the remaining 45% ending as incomplete, withdrawn, or denied.[i]

While many of these unsuccessful applicants face financial barriers requiring direct interventions like credit counseling or job programs, many other applicants falter because of barriers in the homebuying process itself despite having the necessary financial qualifications.

For example, a recent study found that only 19% of families that completed HUD-certified pre-purchase homebuyer education courses, which are explicitly designed to prepare families for homeownership, purchased homes within a year of taking the class.[ii] Clearly, the homebuying process itself is serving as a barrier to many Detroiters in their goal of becoming homeowners.

The DFC Buying In Report identifies the three main reasons for a mortgage denial in Detroit: a lack of or negative credit history, a too high debt-to-income ratio, and an appraisal gap between a home's purchase price and its assessed value. The report noted that 52% of Detroiters have what are considered subprime credit scores (below 600)[iii], while most conventional mortgage products require a credit score of at least 620.

Low incomes also limit residents' purchasing power in Detroit, where the average household income was $34,000 in 2019.

With lenders looking to limit mortgage payments to 28% of a family's income, the average Detroit family would only qualify for a mortgage with monthly payments of around $800, including taxes and insurance.

These and other factors have created sporadic and uneven mortgage lending in Detroit, which makes it challenging for appraisers to identify appropriate comparable housing transactions, especially when the appraisers themselves are not familiar with Detroit. The lack of comparable housing data and local knowledge regularly result in appraised values significantly below what the seller is demanding from the prospective homebuyer, which becomes an obstacle when it limits what a lender is willing to loan to the homebuyer to cover the purchase.

Prospective homebuyers can be better prepared to respond to these obstacles with knowledge of their consumer and civil rights and by following the best practices for applying for and obtaining a mortgage. Consumer protection laws like the Fair Credit Reporting Act grant prospective homebuyers the right to view and challenge incorrect information in their credit reports, while fair housing laws protect prospective homebuyers against discriminatory practices by their lenders or other housing professionals. Following the best practices for preparing homebuyer qualifications can make the mortgage application process more straightforward and less likely to result in confusion and denials.

This guide looks at these key obstacles and details practical solutions and legal remedies that may help prospective homebuyers successfully navigate the process. First, this guide provides a list of relevant laws that provide prospective homebuyers with relevant consumer rights and anti-discrimination protections. Next, this guide enumerates a set of best practices for preparing finances prior to applying for a mortgage. This guide then explains common mistakes made by lenders during the mortgage application process and how to address those issues initially and if the issues persist. Finally, this guide provides information on how to file administrative complaints in response to improper lending practices.

Note: The information in this guide is intended for general information purposes only and does not constitute legal advice. For legal issues that arise, the reader should consult independent legal counsel.

Homebuyer Rights

The homebuying process is complicated, and prospective homebuyers often experience issues that wrongly discourage them from pursuing a mortgage or home purchase. It is important to know that there are laws and regulations that provide prospective homebuyers with a range of protections against unfair and discriminatory housing and lending practices:

Fair Credit Reporting Act (FCRA)

The FCRA provides rights and protections in relation to a prospective homebuyer's credit reports. Important provisions include:

- Prospective homebuyers must be told if their credit reports have been used to deny a loan or provide comparatively less generous terms and conditions.
- Prospective homebuyers have a right to know their credit scores and to annually access their credit reports for free.
- Consumer reporting agencies must correct or delete inaccurate, incomplete, or unverifiable information; and they may not report outdated negative information such as past delinquent debt payments (over seven years) or bankruptcies (over 10 years) with some exceptions.

Truth In Lending Act (TILA)

Requires that prospective lenders disclose the specific terms and conditions of a loan, including a home purchase mortgage. This allows prospective homebuyers to accurately compare prospective mortgage products and understand the financial commitments involved. The required disclosures include:

- Borrowing costs (the annual percentage rate, or APR)
- Total finance charges over the life of the loan, including both interest payments and one-time fees
- Total amount financed (i.e., the total amount borrowed)
- Total number of payments
- Late payment fees

Equal Credit Opportunity Act (ECOA)

Provides protections for consumers who are applying for loans, including mortgages. These protections include:

- Lenders must let an applicant know whether their mortgage application has been approved or denied within 30 days of submission.
- If an application has been rejected and the applicant asks within 60 days of the rejection, the lender must give the applicant the specific reason or reasons for rejecting their application. The lender's explanation must be specific. For example, a specific reason would be that "your income was too low," not that "you didn't meet our minimum standards."
- The lender must let the applicant know why they offered specific terms and conditions if the applicant decides to reject those terms.
- A lender may not deny an application or offer worse terms and conditions because of the applicant's race, color, religion, national origin, sex, marital status, age, or for receiving public assistance.

Fair Housing Act (FHA), Michigan Elliott-Larsen Civil Rights Act, Persons with Disabilities Civil Rights Act, and the City of Detroit's Fair Housing Ordinances

- Make it unlawful to discriminate in most types of housing transactions, including the buying and selling of a house and the obtaining of a mortgage and home insurance.
- Federal, state, and local laws offer protections based on a person's race, color, religion, gender, national origin, disability, or familial status (whether or not they have children under 18 years old).
- Additional protections exist under state law for a person's age and marital status, and under Detroit city ordinance for a person's public benefit status, sexual orientation, and gender identity.
- For example, a seller cannot refuse to sell to a prospective buyer because the buyer is Black or Muslim or has children, and an appraiser cannot choose comparable properties based on the racial makeup of those neighborhoods.

Preparing Credit for Homebuying

An important first step in the homebuying process is the preparation of prospective homebuyer finances for the mortgage lending process. Lenders look to an applicant's credit history and current financial situation when determining whether to lend to a prospective homebuyer. Lenders want to see an applicant who has experience making purchases with credit and making timely payments on personal debt. Lenders do not want to see outstanding or overdue debt payments.

An applicant's credit history and current financial situation are converted into a credit score, and lenders look for an applicant to have a credit score of at least 620 on a mortgage application. Because systemic racism has excluded Black and other marginalized communities from the traditional avenues of credit development like banking and property ownership, the lending industry's reliance on credit scoring continues to inequitably hamper Black applicants. Accordingly, it is especially important that prospective homebuyers review their credit reports and correct any errors before approaching lenders for a home mortgage.

Steps for Improving Homebuyer Credit Score

1 **Get Current Credit Reports From Major Credit Agencies**	■ Credit reports from the three major credit agencies – Equifax, Experian, and TransUnion – contain information on the prospective homebuyer's current financial situation and history of using credit and managing debt. ■ Lenders rely on these reports to decide whether a prospective homebuyer qualifies for a mortgage product. ■ A prospective homebuyer can obtain their credit reports for free once annually at AnnualCreditReport.com.
2 **Review Credit Reports For Errors**	Common errors to look out for include: ■ Credit accounts that do not belong to the individual ■ Negative information— such as past delinquent debt payments— that remains on a report for too long; most types of negative information must be removed from credit reports after 7-10 years (with some exceptions) ■ Incorrect personal information, which is a sign of possible identity theft ■ Incorrect information about the individual's accounts, such as outstanding balances
3 **Dispute Any Errors Or Out-Of-Date Information**	■ An individual has the right to submit a claim to dispute any incorrect information in their credit report with both the credit agency and any data furnisher that submitted the incorrect information to the credit agency. The most common data furnishers are banks and credit card issuers. The credit agency and/or data furnisher must investigate the claim, typically within 30 days of submitting the complaint or any new information, and notify the individual within five days of completing the investigation. ■ All three credit agencies have online dispute portals, and individuals can also submit complaints by phone or mail.

4 Develop Credit

WHY

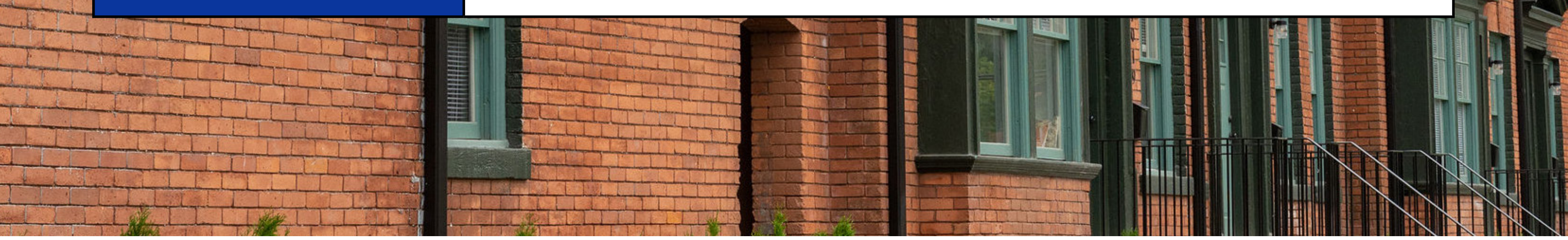
Lending institutions want to see that a prospective homebuyer has a history of using credit to make purchases and making the resulting debt payments on time. These institutions look for credit card usage and other financed consumer purchases like car notes as evidence that a prospective homebuyer can and will make consistent mortgage payments.

HOW

Opening a bank account and responsibly using a credit card can develop a prospective homebuyer's credit history. It is also useful to track regular payments like rent and utilities. For the credit agencies to consider rent and utility payments, however, a prospective homebuyer will need to sign up for a rent-reporting service. It is important to note that some of these services cost money or require a landlord to confirm the payments. At first, reporting rent may have a limited or even negative effect on the prospective homebuyer's credit, because they will appear as a new credit account. Late or delinquent rental payments will also have a negative effect on a prospective homebuyer's credit. In the long run, however, accounting for consistent rental and utility payments in a prospective homebuyer's credit history will improve their credit score.

5 Participate in a Homebuyer Education Program

Many local organizations offer programs and services to assist prospective homebuyers. For example, the Detroit Housing Network and its members offer homebuyer classes that combine homeownership education and financial counseling. These programs may also provide access to other financial assistance, such as mortgage down-payment assistance.



Important update: *The major credit agencies have recently announced reforms that will limit the use of medical debt in credit reports. Paid medical debt should not appear on credit reports, and medical debt must be at least one year old before appearing on credit reports. Additionally, starting January 1, 2023, only debt of $500 or more should appear on credit reports.*

Common Types of Lending Decisions Based on Missing or Incorrect Information

Incorrect evaluation of credit history

Lenders sometimes rely on faulty credit information from the credit agencies or some other data furnisher to deny a loan or offer less generous terms and conditions. For example, a lender could deny an application based on old negative credit information that should have been removed from the prospective homebuyer's credit report but has instead lowered the applicant's credit score below the 620 score usually required for a successful mortgage application. A lender could also deny a loan or offer less generous terms and conditions if the lender wrongly excludes positive credit history that should have been included. For example, they excluded the homebuyer's credit because it was under a different/changed name. Excluding a female applicant's credit history because she changed her name through marriage could violate fair housing anti-discrimination laws.

Incorrect evaluation of debt-to-income ratio

Lenders sometimes deny loans or provide less generous terms and conditions because they wrongfully evaluate the applicant's debt-to-income ratio as too high. Lenders generally require applicants to have total debts of no more than 43% of their income, and they generally offer mortgages with monthly payments of no more than 28% of applicants' income. Most commonly, a lender evaluates the ratio incorrectly by wrongly excluding regular income. For example, if a lender excludes regular public assistance payments from an applicant's income, they could be violating fair housing anti-discrimination laws that protect people with disabilities or those on public assistance. Another common exclusion is regular income from alimony or child support, which could violate fair housing provisions protecting women against discriminatory treatment.

Incorrect appraisal of property value

Lenders sometimes deny loans or limit the amount they offer for a mortgage because the appraised value of the property is significantly lower than the agreed-upon purchase price. As part of the lending process, lenders must get a professional appraisal of the property to determine whether the proposed purchase price and accompanying mortgage make financial sense. All appraisals must be conducted by an appraiser licensed by the state in an unbiased, objective manner in accordance with the Uniform Standards of Professional Appraisal Practice, and mortgage applicants have the right to review the appraisal of their property. Appraisers mainly assess a property's value by finding recently purchased comparable properties nearby.

Although appraisers must adhere to professional standards in their appraisals, the lack of diversity in the profession — 96.5% of property appraisers are white and about 70% are men[iv] — and the lack of appraisers from Detroit or who are familiar with the city can sometimes result in appraisals that unfairly undervalue property. For example, an appraiser unfamiliar with a neighborhood may not accurately assess the nearby amenities, like a school or transit, or might miss a recently sold comparable property. An appraiser could also inappropriately consider the racial makeup of a neighborhood as a factor in their appraisal, which could violate fair housing anti-discrimination laws.

Addressing Lending Decisions Based on Missing or Incorrect Information

If a prospective homebuyer believes that a mortgage application has been wrongly denied or the terms and conditions offered by the lender are less favorable than they should be based on the prospective homebuyer's qualifications, the prospective homebuyer has several options, ranging from requesting a reconsideration to filing a lawsuit or administrative complaint. Administrative complaints are legal tools that allow the prospective homebuyer to have a neutral third party (generally a government agency) investigate their complaint, review their evidence, reach a decision, and potentially offer solutions for the buyer.

Steps for requesting a reconsideration of the mortgage decision

1. **Collect evidence** of the error, e.g., bank or credit card statements, car loan statement, or more appropriate comparable house prices for an appraisal
2. **Submit evidence** to the lender, credit agency, and/or credit data provider — wherever the error first occurred — and formally request a reconsideration or modification
3. **Keep up to date** on whether this issue risks delaying the purchase, loan, or closing, and communicate with the seller
4. If this request does not result in a better offer, **submit an internal complaint** or appeal to the lending company

Legal tools for addressing lending decisions

If these options do not result in a better offer or successful application, prospective homebuyers should consider filing an administrative complaint with the appropriate agency. Generally, this involves filing a complaint online and attaching the evidence and explanations already collected for the internal review process. The following charts compare administrative complaints and lawsuits and provide the appropriate agency by complaint type. The accompanying list provides best practices for the administrative complaint process.

Comparing administrative complaints vs. lawsuits

Most of the laws discussed above provide the consumer with a right to file an administrative complaint or bring forth a lawsuit. It is important to understand the advantages and disadvantages of each:

Administrative Complaint	Lawsuit
■ Does not require lawyer ■ Generally free of cost ■ Slow process with uncertain outcome ■ Neutral agency investigator with limited time and resources ■ May still retain option to sue ■ Agency may assist with lawsuit if complaint is substantiated	■ Requires lawyer ■ Expenses for filing, paying attorney, court costs ■ Slow process with uncertain outcome ■ Neutral judge with powerful but costly court discovery

Complaint type and corresponding agency

Non-discrimination credit-related	■ Federal: Consumer Financial Protection Bureau ■ State: Michigan Departmentt of Insurance and Financial Services
Non-discrimination appraisal	■ State: Michigan Professional Licensing User System
Discrimination	■ Federal: U.S. Department of Housing and Urban Development ■ State: Michigan Department of Civil Rights ■ City of Detroit: Civil Rights, Inclusion & Opportunity
Legal Resources	■ Fair Housing Center of Metropolitan Detroit: Assistance with discrimination complaints ■ Lakeshore Legal Aid: Assistance with housing-related complaints (income limits to qualify)

Best practices for filing an administrative complaint

Attempt to first resolve the issue with the lender or housing professional through an internal appeal or complaint process.

Save all documents and communications involved in the lending and homebuying process.

Complete all lending applications and home purchase offers.

Discuss the issue with a lawyer.

File a complaint as soon as possible — some claims must be filed within as little as six months after the issue arose.

Retain all records from the complaint filing and follow up with the relevant agency if there is not a timely response.

Do not expect a quick outcome — most complaint processes take months or even years to come to a resolution.

Conclusion

This guide has reviewed some of the major obstacles to homebuying in Detroit and offered solutions to assist the homebuyer in overcoming these issues. It has broken down common challenges in the mortgage application process, including denials based on credit history, debt-to-income ratio, and appraisal gaps. It has offered tips for preparing prospective homebuyer finances, and for utilizing consumer and civil rights to ensure a fair and transparent process for the prospective homebuyer. Finally, it has provided a template for challenging unfair mortgage decisions.

While this information is intended to help empower more Detroit residents to become homeowners, it is important to recognize the continuing inequities that have made it so challenging for many Detroit residents to become homeowners, especially Black Detroit residents and other residents of color. Decades of discrimination by the government, housing professionals, and white residents have resulted in financial hardship and community disinvestment across the city. These same groups bear significant responsibility for the many challenges facing Detroit residents. Accordingly, this guide points out several specific areas where housing professionals like lenders and appraisers must improve their own practices so that Detroit residents receive an equal opportunity to achieve the American Dream of homeownership.

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About Detroit Future City

Detroit Future City (DFC) is a think-and-do tank that coordinates strategies, actions and resources to catalyze long-term revitalization, improve economic equity and enhance quality of life in Detroit. DFC was launched in May 2013 to advance the recommendation of the DFC Strategic Framework, a 50-year vision for the City of Detroit. This brief is produced and authored by DFC on behalf of The Detroit Neighborhood Housing Compact (DNHC). DNHC is a forum for regular collaboration and collective action by more than 80 public, private, and nonprofit stakeholders.

The Detroit Neighborhood Housing Compact believes all Detroiters should have diverse housing options and that quality single-family homes, for renters, buyers, and homeowners, are fundamental for creating strong neighborhoods in Detroit. We support the development of neighborhoods that are racially and economically inclusive, where all residents have access to economic opportunity. In 2021, DNHC adopted the goal of seeing 3,500 new homebuyers making less than $50,000 a year purchase homes outside of Detroit's Greater Downtown by 2025.

For more information, visit www.DetroitFutureCity.com