



The Impact of Credit on Homeownership

How the homebuying journey is shaped by
credit score and where guidance falls short



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Report highlights

- Regardless of a person's credit score, their priorities in homebuying remain the same — **price, space, and neighborhood** are most important.
- Credit score is **widely used across the financial sector** to determine a person's financial worthiness. It impacts how much a person can borrow and the cost of the loan.
- There is a big gap in support and guidance among those who need it most. Tools and expertise are **least visible, accessible, and useful** to the low credit score group.
- Credit score is a reflection of **more than just a person's financial history** — race, gender, buying experience, family history of ownership, and access to support — all come into play.
- Homebuying is **disproportionately difficult** for people with lower credit scores.
- Homeownership is not a gateway to wealth for everyone. Those with lower credit scores feel much **more financial uncertainty**, while the majority of those with great scores feel confident in their investment.

Introduction

At OJO Labs, we aim to level the playing field for all homebuyers and sellers, so we set out to understand how, why, and for whom homebuying is particularly unfair. One of the biggest barriers to homebuying is access to financing, which is determined predominantly by a person's credit score.



A credit score is a numerical measurement of a person's financial worthiness in the eyes of a financial institution. It is universally utilized by mortgage brokers, lenders, and agents, to determine a person's eligibility for a loan and how much that loan will cost them. But its implications are far more complex.

Credit score is a vital component to homeownership, which means that those with lower scores begin experiencing the consequences of their earlier financial choices later in their lives. As a result, the homebuying process can be delayed for months, or even years, as a prospective homebuyer tries to improve their score to gain access to more favorable interest rates. In the interim, the price of property may rise, making affordability a continued challenge.

Summary

OJO set out to find out just how broad an impact credit score has on homebuyers and sellers by assessing:

- When, how, and whom it impacts the most.
- What aspects of a person's background make them more likely to need information and support around credit.

Our research team conducted two surveys between November 2020 and January 2021, to better understand the factors that make homebuying difficult. One survey was carried out with current homebuyers — those currently shopping for a home — and the other looked at recent homeowners — those who have recently purchased a home. Both groups took an equal distribution of different racial cohorts. For the purposes of this report, we separated credit scores into three categories, using the broadly accepted industry standard. A fair credit score is lower than 660, a good credit score is between 660 and 739, and a great credit score is 740 or higher.

Our research found that credit score is not just reflective of a person's financial history and status, it's also influenced by multiple factors outside anyone's control, including race, gender, experience, and family history of homeownership. Those with lower credit scores have a much harder time finding, funding, financing, and owning a home. And, perhaps more startling, is that the very resources that are supposed to help people with lower credit scores to buy a home, like homebuying counselors and down payment assistance programs, are less accessible to this group. If homebuying is to be more fair and equitable, we must start by helping people understand how credit score impacts their journey and what they can do about it.



Key findings

Credit score is a reflection of a person's background, homebuying experience, and family expertise.

While a person's financial history plays a big part in determining their credit score, there are other factors which can have a significant influence. A person's financial history plays a big part in determining their credit score, but there are other factors which can have a significant influence and which are predominantly outside a person's control.

PAST FINANCIAL CHOICES

Credit card debt, student loans, and health-care debt are among the most common reasons for lower credit scores and consequent delays in the homebuying timeline.

EXPERIENCE

Out of those who were currently shopping for homes, respondents with fair credit scores were significantly more likely to be first-time homebuyers (81%), compared to those with good (46%) or great (34%) credit scores.

RACE AND GENDER

Even among our relatively small sample group, credit score challenges are not distributed equally by race or gender. In our study, Black homebuyers were three times more likely to have a fair credit score than a great one.



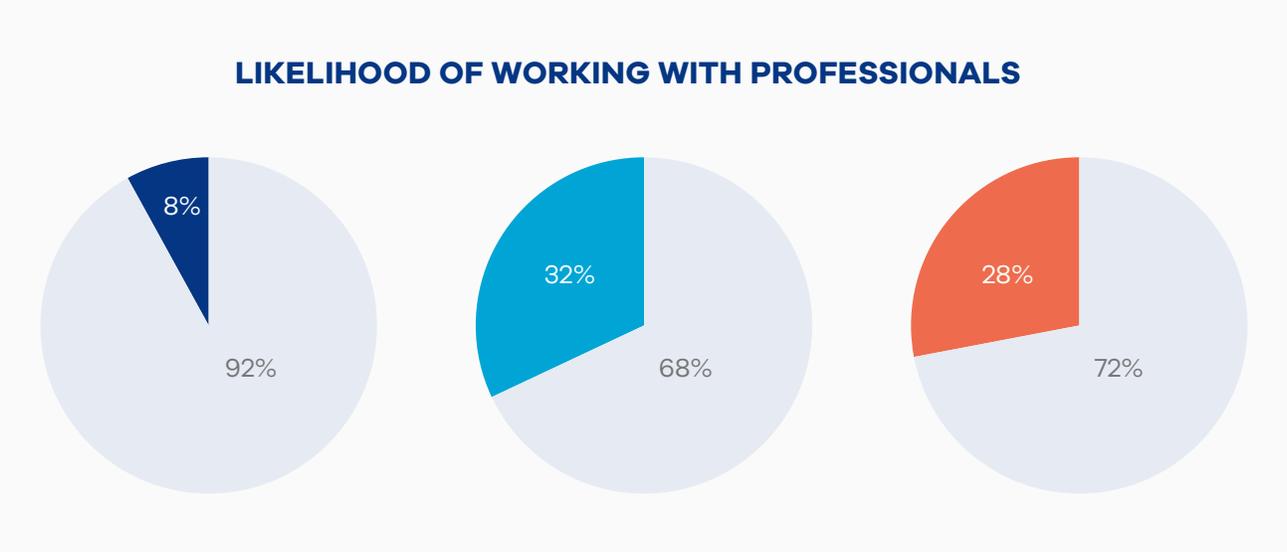
FAMILY EXPERTISE

Lower credit scores can be directly correlated with less family history of homeownership. In our study, 78% of those with great credit said that most of their family owned homes, while only 60% of those with fair credit did.

SUPPORT

Having poor credit drastically impacts your likelihood of having access to expert support and guidance in homebuying.

Homebuyers with fair credit scores were drastically less likely to be working with an agent and lender at 8%. This number is staggeringly low compared to the good credit cohort with 32% working with professionals and the great credit cohort with 28%.



Fair Credit (<660) Good Credit (660-739) Great Credit (740+) No or some support



Credit score doesn't change people's priorities when searching for a home.

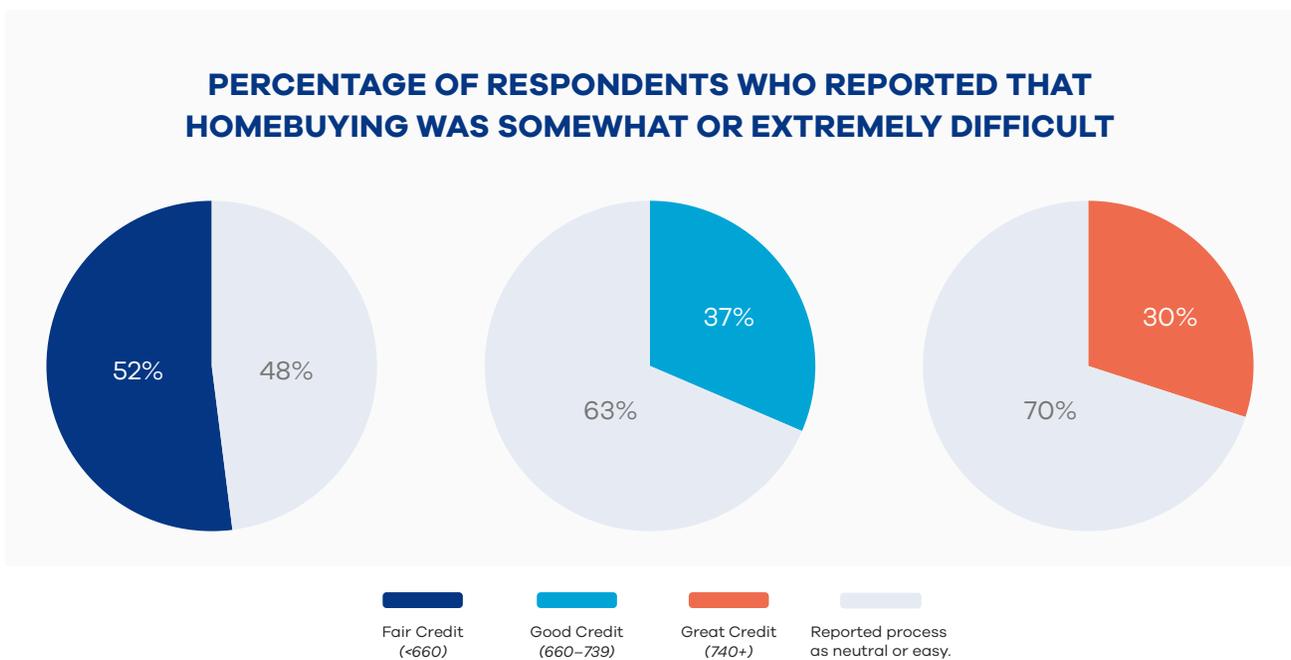
Regardless of a person's credit score, their home-search priorities remain the same. According to our study, home price was the top consideration for all three groups, closely followed by space and the neighborhood. While there is slight variation in the degree of importance each group put on these factors, it's no surprise that a person's financial situation does not affect what they're looking for in a property. They want to experience the physical, financial, and emotional security of home. While price is the most important priority, those with lower credit scores will end up paying a higher price per month for the same home, due to the less favorable loan terms offered to them based on their credit.



Homebuying is disproportionately difficult for people with lower credit scores.

Having a lower credit score can greatly increase the difficulty and barriers that someone faces when trying to purchase a home. From the perspective of real estate professionals, including lenders, agents, and sellers, credit makes up a significant portion of a buyer's risk. Credit score, therefore, has great implications to the homebuying process.

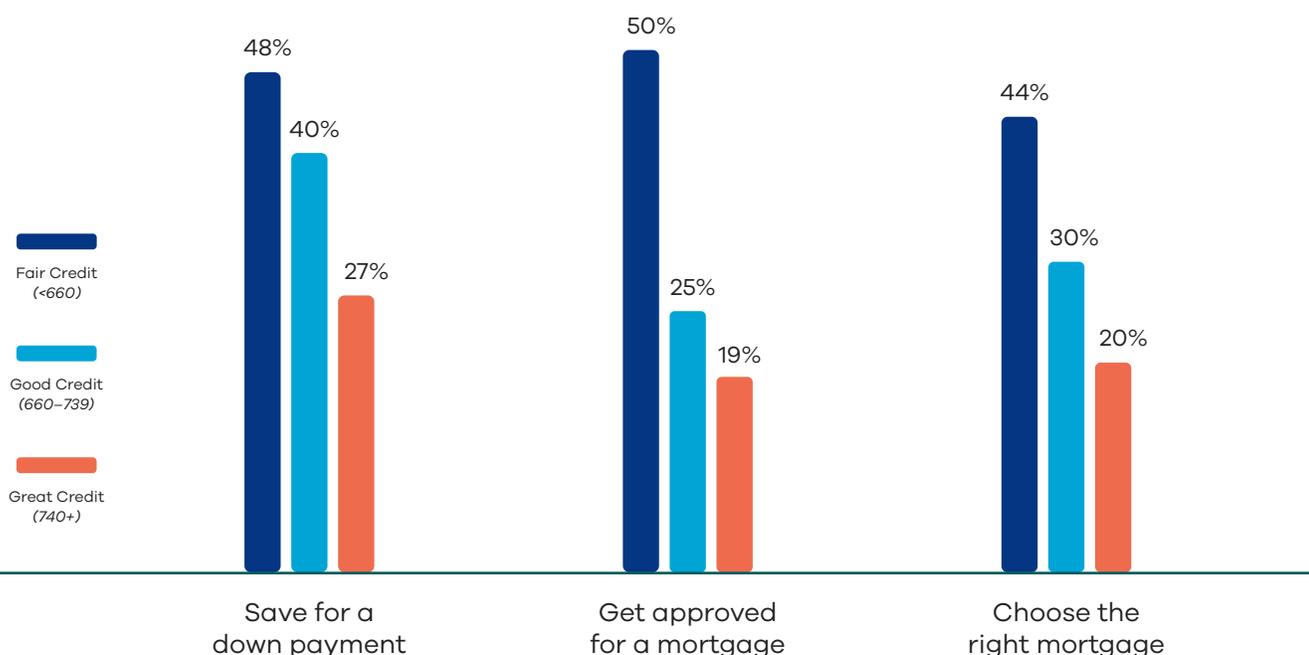
- People with fair credit scores are almost twice as likely to report the overall homebuying process as difficult (52% said somewhat or extremely difficult) compared to people with great credit scores (30% said somewhat or extremely difficult).



There is a strong correlation between higher credit scores and a family history of homeownership. When we consider that homeownership is the primary wealth driver in the U.S., that means that those with lower credit scores are less likely to have access to family wealth to contribute toward a down payment, for example. They also don't have the same level of guidance and support from experienced family members who have been through the homebuying process themselves.

- While having lower credit makes the entire journey more difficult, the effect is particularly prominent when saving for a down payment, getting approved for a mortgage, and choosing the right mortgage (see figure below).
- Timelines are also greatly impacted. Not surprisingly, those with lower credit scores have to spend more time repairing and building their credit, before they can invest in a home. In our study, homebuyers with fair credit were almost twice as likely to have their timeline impacted, compared to those with good credit.

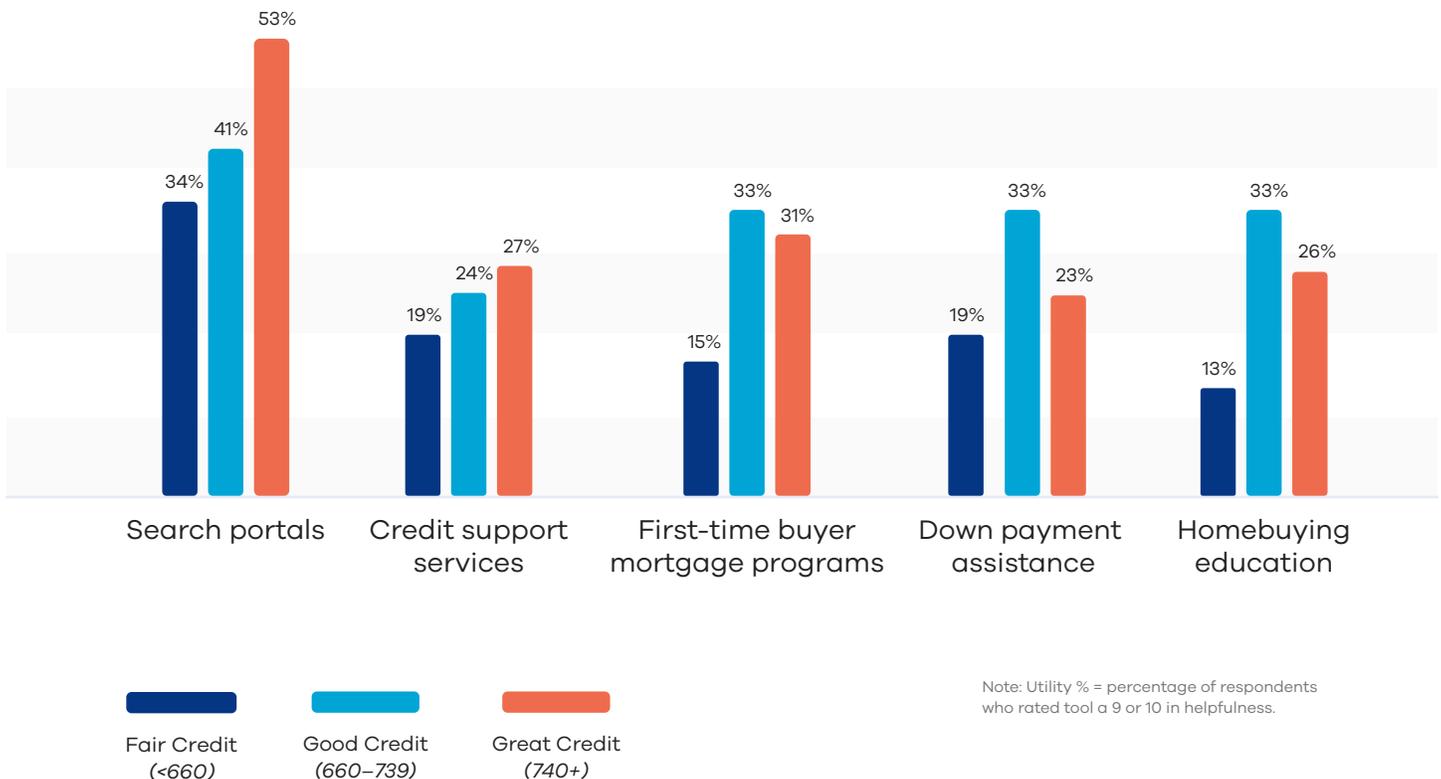
DIFFICULTY REPORTED AT STAGES OF THE HOMEBUYING JOURNEY



There is a big gap in support and guidance among those who need it most.

Those with lower credit scores face more difficulty in saving for a down payment and securing the necessary financing to purchase a home, but the challenges don't stop there. Unfortunately, the tools and resources currently available are least visible and accessible to those who need them the most — people struggling with their credit and finances. For example, only 33% shoppers with fair credit were aware of homebuyer counselors, compared to almost 70% of those with good credit. Furthermore, resources feel less helpful to those with lower credit, despite their higher need for these tools (see figure below).

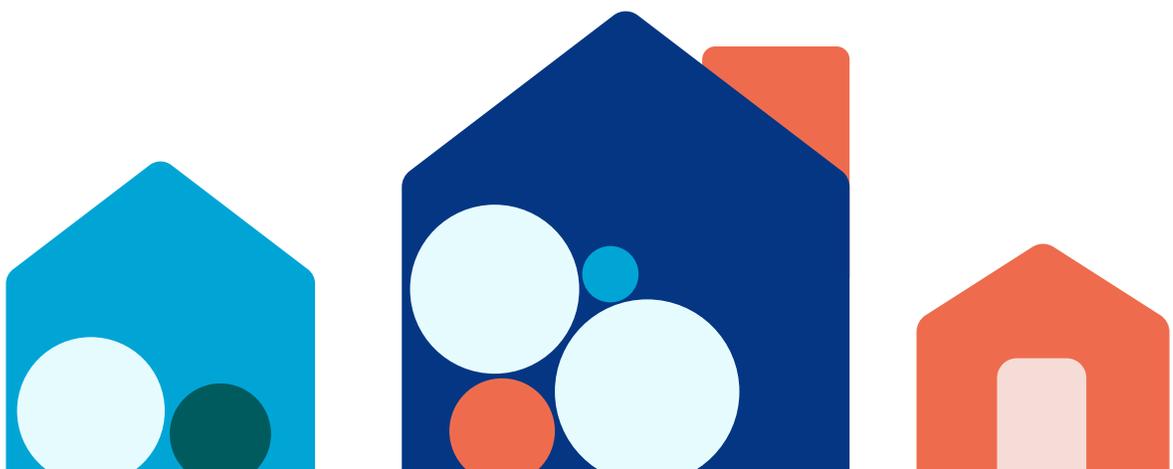
UTILITY OF HOMEBUYING RESOURCES



Homeownership is a gateway to wealth — but only for some.

It's largely accepted that homeownership offers a better financial future than renting and builds generational wealth over time. However, building wealth this way takes time. Those with low credit feel greater uncertainty in terms of the value of their home, their financial security, and ability to afford and maintain their home over time. According to our survey, homeowners with fair credit are 20% less likely than those with great credit to believe that buying a

home gave them financial security. And, they're almost 15% less likely than those with great credit to believe that their home is a good investment in their financial future. By contrast, almost 90% of homeowners with good credit feel confident that their home will increase in value, compared to only 66% of those in the fair-credit-score group.



Implications

When it comes to homebuying, a person's credit score is vital in determining whether they can fund, find, finance, and continue to afford a home. Homeownership has a multi-generational impact, so a lack of access to homeownership, as a result of low or little credit history, has a similar effect.

A person's creditworthiness is not just a reflection of their financial history, but also a number of factors outside of their direct control. Our study determined factors such as a person's race, gender, family history of homeownership, and access to financial support and education, all have an influence on someone's credit score. In addition, an unpaid hospital bill, a lack of credit history, a single, missed credit card payment — can impact someone's credit score with serious implications on their ability to buy a home.

Furthermore, the resources that are supposed to help people with lower credit scores or a lack of credit history, aren't as visible and useful as they should be. Our research indicates there's a significant opportunity not only to raise awareness of the support and resources available to those with fair credit, but also, to educate them on the variables impacting their ability to buy a home and empower them with the solutions to knock down one of the biggest barriers to homeownership.

The findings in this report present the results of a study conducted by OJO Labs from November 2020 to January 2021.

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Thank you for reading

