Unfair Lending: The Impact of Race and Ethnicity on Loan Pricing in the Subprime Market

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Background

- **2004 HMDA Data: What’s New?**
  - Pricing: APR spread for “higher-rate” loans
  - Race and ethnicity

- **The Debate: Are African-American and Latino Borrowers Being Charged More for Mortgages?**
  - Consumer and civil rights groups
  - Industry groups
  - Findings of the Fed study
CRL Study: Data

- **Proprietary Data:**
  - LTV
  - FICO
  - Prepayment penalties
  - Loan type (i.e., ARM/FRM)

- **Matching to HMDA**
  - Origination amount, loan purpose, lien, property type
  - Lender name
  - Geography

- **Other Information:**
  - Prevailing interest rates, state-level information
CRL Study: Methodology

- **Research Question:**
  - Are African-American and Latino borrowers more likely to receive “higher-rate” loans than similar white non-Hispanic borrowers?

- **Model Specifications:**
  - Logistical regressions
  - Control for differences in risk factors
CRL Study: Findings

Impact of Race on Pricing: Purchase Loans

- African-American borrowers were more likely to receive “higher-rate” purchase loans than similar white non-Latino, borrowers particularly for loans with PPs.

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<th>Increased Likelihoods (%)</th>
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<td>FRM</td>
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<td>Purchase loans without PPs</td>
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<tr>
<td>Purchase loans with PPs</td>
<td>30.8</td>
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http://www.responsiblelending.org
Impact of Race on Pricing: Refinance Loans

- African-American borrowers are more likely to receive “higher-rate” refinance loans than similar white non-Latino borrowers, for loans with PPs

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<td>Refinance Loans without PPs</td>
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<tr>
<td>Refinance Loans with PPs</td>
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CRL Study: Findings

Impact of Ethnicity

- Latino borrowers are more likely to receive “higher-rate” purchase loans than similar non-Latino whites.

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<tr>
<td>Purchase Loans with PPs</td>
<td>44.6</td>
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- No evidence of impact of ethnicity in the refinance market.
Discussion

- **Findings:**
  - Disparities persist

- **Potential Causes:**
  - Disparate loan pricing (discretionary pricing, YSPs)
  - Market segmentation (marketing, targeting)
Policy Implications

- Eliminate discretionary pricing

- Greater disclosure of pricing, risk and channel data in HMDA

- Greater enforcement of fair lending laws

- Enhancing incentives for all lenders to serve communities of color