



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.*

	Increased Likelihoods (%)	
	FRM	ARM
Purchase loans without PPs	<i>NS</i>	16.3
Purchase loans with PPs	30.8	15.3

CRL Study: Findings

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*

	Increased Likelihoods (%)	
	FRM	ARM
Refinance Loans without PPs	NS	NS
Refinance Loans with PPs	34.3	6.1

CRL Study: Findings

Impact of Ethnicity

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

	Increased Likelihoods (%)	
	FRM	ARM
Purchase Loans without PPs	141.9	28.6
Purchase Loans with PPs	44.6	37.4

- *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*