

Discussion of:  
Racial Disparities in Mortgage Lending:  
New Evidence based on Processing Time

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The views expressed here are my own and do not necessarily reflect the opinions of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

# Introduction

- Significant research on differences in mortgage / housing outcomes by race:
  - **Denial rates:** Bhutta, Hizmo and Ringo (2021); Munnell et al. (1996) etc.
  - **Interest rates:** Bhutta and Hizmo (2021); Bartlett et al. (2018) etc.
  - **Refinancing:** Gerardi, Willen and Zhang (2020) etc.
  - **Housing returns:** Kermani and Wong (2021) etc.
- **This paper:** Evidence of racial disparities in mortgage *processing time*
  - Black borrowers have longer processing time for GSE mortgages ( $\approx$  5-8 days) ...
  - ... but little difference for privately securitized loans
  - Black borrowers match with with *faster* lenders/segments/products

# Overview

processing time for borrower  $i$ , county  $c$ , lender  $l$ , time  $t$

$$\underbrace{\text{processing time}_i}_{\text{action date} - \text{application date}} = \beta \cdot \text{race}_i + \alpha_{ct} + \delta_l + \Gamma X_i + \epsilon. \quad (1)$$

- HMDA data, 2001-06. Focus on purchase mortgages.
  - Unconditionally, time-to-close is *lower* for Black borrowers. But  $\beta = +2-3$  days with controls, FEs. Larger estimates with lender FEs.
- Disaggregate by purchaser type (GSE, PLS, bank etc.) or subprime lender
  - $\beta = +5-8$  days for GSE loans;  $\beta \approx 0$  for PLS;  $\beta$  around -1 to 3 days for other types.
- HMDA-CoreLogic: Further nonagency analysis (processing time, default)
  - Higher default for Black borrowers, consistent with e.g., Chan et al. JHE 2013

## General reactions

- Interesting paper. Many new facts on a novel dimension of racial disparities.
  - These disparities in time-to-close still persist post-crisis (Fuster et al. 2019)
- Key point: Ease & speed of obtaining credit are important aspects of loan *quality*
  - Valued by mortgage borrowers – e.g., rise of Rocket Mortgage
  - Nonprice features interesting for future research (e.g., online application platforms; customer service quality; hold times etc.)

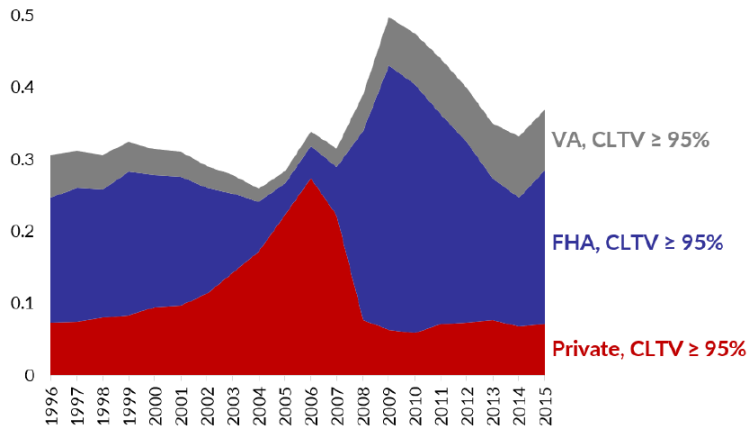
# Comments

1. Interpretation of results
2. Motivating facts
3. What does processing time measure?

## Interpreting the results

- Paper presents lots of facts, but could do more to tie them together into a story
- One interpretation: Lender processing speed is a proxy for underwriting standards:
  - Black borrowers had trouble qualifying for credit from traditional sources (GSEs)
  - Drawn to nonprime lenders with less stringent standards (e.g., low doc)
- Alternative interpretation: Minority borrowers value fast processing itself
- Are processing time disparities by race due to discrimination, or unobservables?
  - E.g., Bhutta-Hizmo-Ringo (2021) find denial disparities not driven by discrimination

## Motivating fact: *Substitution* in high-risk lending from FHA/VA to PLS



Source: Adelino, McCartney and Schoar (2021)

## What explains shifts in lending?

- Funding for nonprime lending shifts from FHA/VA to private-label MBS
  - Minority borrowers disproportionately represented in this segment
  - Over same period, rapid growth in streamlined “low-doc” lending.
- Trends partially driven by slow, bureaucratic processes for FHA/VA lending?

*“According to mortgage industry officials ... processing FHA-insured loans was more time consuming, labor intensive, and costly than processing conventional mortgages. For example, instead of having lenders submit all loan information electronically, FHA required lenders to send loan case files to FHA for review ...” — GAO June 2007*
- Suggestions: [1] Could use these facts to help motivate paper. [2] Focus much more on FHA/VA (not studied at all currently).

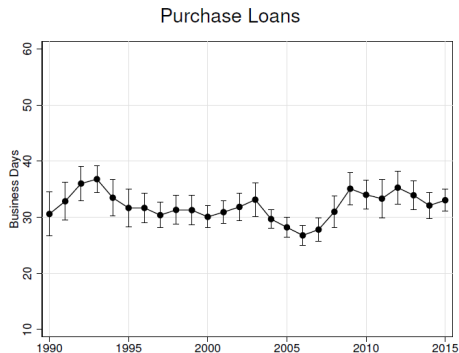
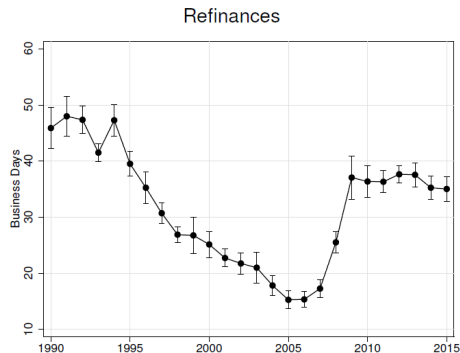


## What does “processing time” measure?

- Dependent variable = action date – application date
- Affected by many other factors aside from lender processing speed, e.g.,:
  - Timing of home inspection, appraisal etc.
  - Resolution of problems/issues identified during inspection
  - Title issues or other property liens
  - Desire to close at month-end to minimize prepaid interest (Bhutta-Keys-Ringo 2021)
  - Preferred timing of property sale for convenience of buyer / seller
- Especially for purchase loans, lender processing speed often not binding constraint.

## Trends in time-to-close

- For refis, time-to-action-date shortened during boom, lengthened post-crisis ...
- ... but these trends much less obvious for purchase mortgages



Source: Foote, Loewenstein and Willen (2019).

## Suggestions: isolating mortgage lender processing

1. Focus more on refinances, where non-mortgage factors much less important
  - Actually, estimates much *smaller* for refis:  $\beta = 0-1$  days
  - Is this a red flag – results in fact due to nonmortgage factors (??)
2. Analyze situations where lender processing speed may be more germane
  - E.g., exploit geographic variation; look at hot housing markets (high recent HPA)

## Wrapping up

- Very interesting paper on an important topic.
  - Non-price / quantity dimension of differential outcomes by race in mortgage market.
  - Encourage authors to more tightly pin down underlying economic mechanisms.
- General point: Important to consider *quality* factors when studying mortgage pricing and consumer choice.