

Discussion of:  
Minority Loan Officers and Minorities' Access to Mortgage Credit  
by Frame, Huang, Mayer and Sunderam

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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

- Paper studies role of minority loan officers (LOs) in provision of mortgage credit
- Key findings:
  1. Low overall share of minority LOs (15% of loans vs 39% of US population)
  2. Assortative matching between minority borrowers & minority LOs
  3. Minority applicants have better outcomes if matched to minority LO
    - Lower probability of loan denial
    - Higher probability the application will result in an origination
    - Lower ex-post default

## General reactions

- Extremely interesting paper using rich, novel data on mortgage lending
  - Match between three exciting new datasets: i) NMLS data on LOs; ii) expanded confidential-use HMDA data, iii) restricted-use FHA loan-level data
- Sheds light on role of race in mortgage market + product markets more broadly
- Lots of new facts. Extremely accessible and clearly-written
- Overall I'm *fairly* convinced by the findings and I think a lot could be done to enrich the paper further

# Comments

1. Mechanisms and interpretation
2. Own-race effects and heterogeneity by race
3. Identification
4. Magnitudes

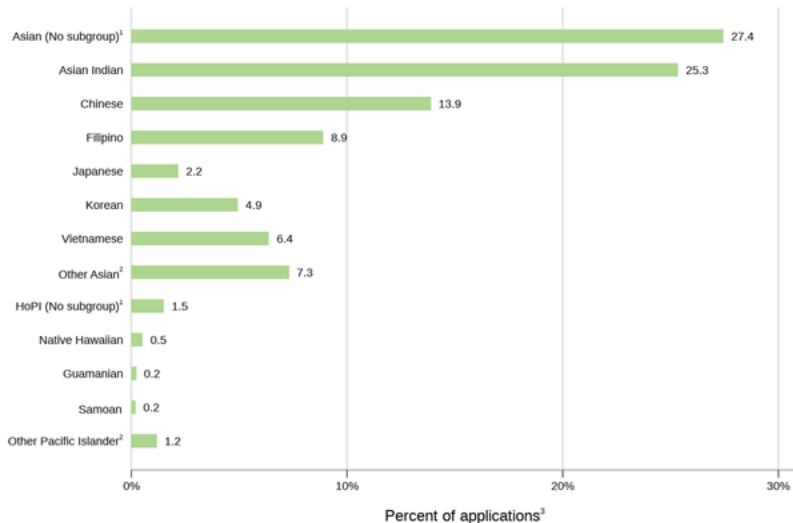
# 1. Mechanisms and interpretation

- Need more discussion of what LOs do and of plausible mechanisms for results:
  - LOs **don't** set credit standards – primarily set by GSEs etc. with lender-level overlays
  - LOs **don't** make loan-level approval decisions – this is done by underwriters
  - LOs **can** adjust loan terms (e.g., waive fees) but generally requires approval
  - LOs **do** give advice, answer questions, help borrowers put the best possible credit file together, follow up with borrower to “close the deal” etc.
- Most plausible mechanism: cultural proximity (a la Fisman et al. AER 2017) leads to more attention, more effective sales pitch, easier communication?
  - Alternatives – i) discrimination, ii) ???

## 2. Measurement of minority status

- Paper lumps minorities together:  $\text{minority} = \{0,1\}$ . Not great for several reasons:
  1. Theoretical rationale?
  2. Throws away a lot of information
    - HMDA has data not just on major race/ethnicity categories (Black, Hispanic etc.) but also subcategories (Japanese, Filipino, Cuban, Mexican etc.)
  3. Large disparities *across* minorities – important to break out results by group
    - E.g., Denial rate differences relative to White applicants: +9.9% for Black applicants, +4.7% for Hispanic applicants, +2.5% for Asian (AAPI) applicants.
    - Constraints to credit access may differ across groups (e.g., language barriers)
- One step: “own-race” estimates in Appendix – why not everywhere?

## Breakdown: Asian-American and Pacific Islander HMDA applicants



### 3. Identification

- Identification issue: endogenous matching by minority status
    - E.g., maybe minority  $\times$  minority applications are often due to personal networks, and these borrowers are more motivated or creditworthy on unobservables
  - IV strategy: exploit historical “day-of-week” effects
    - E.g., borrower applies on Wednesday, when most loans typically have minority LO
    - **My concern:** LO-borrower matching often (mostly?) *before* HMDA application date
- ⇒ **Test:** (a la Bhutta et al. 2022) Put automated underwriting system (AUS) decision on left-hand-side.
- AUS decision is based on GSE algorithm + hard information, not lender discretion
  - If minority  $\times$  minority predicts AUS, likely something different about these applicants



## 4. Magnitudes

- How large are these effects? Would higher representation of minorities in mortgage industry close the credit gap?
- For mortgage denials – effect seems small? Calculation:
  - Minority  $\times$  minority estimate = 1.0 - 1.6% but only for “high-discretion” loans (13% of sample)  $\Rightarrow$  Full-sample effect:  $\approx$  **0.2%**
  - Implies closing 24% gap in minority LO share would reduce denials by  $\approx$  **0.05%**
- Larger effects for completion rates and origination rates
  - Consistent with audit studies showing less attention to minority borrowers: Hanson et al. (JUE 2016) and Ross et al. (JUE 2008).
  - Modest denial rate effect makes sense to me: individual LO has limited discretion

## Other comments (authors)

- Can you study loan payoffs (particularly during COVID refinancing wave)?
  - Maybe for minority  $\times$  minority loans the LO keeps in better touch with the borrower, increasing the likelihood that they refinance?
  - Gerardi et al (2020): large differences by race in avg *outstanding* mortgage rate
- Ultimately how good is measurement of LO race? Really so few Black LOs?
  - Does MBA have any aggregate statistics you can compare to?
- Can you study gender effects in addition to race?
- Relationship to closely related paper by Jiang et al. (2022)?
  - E.g., Jiang paper puts more emphasis on role of fintech lenders (less face-to-face)

## Summing up

- Very interesting paper bringing rich, novel data to bear on an important topic.
- This is still an early draft. Excited to see future versions.

**Thanks!**