

# Color and Credit: Race, Regulation, and the Quality of Financial Services

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Discussion: Daniel Greenwald (MIT Sloan)

UNC Roundtable

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# Summary

- ▶ Main question: are low-income and minority areas targeted by banks for low **quality** financial products and services.
- ▶ Approach: use CFPB mortgage complaint data (170,000 complaints) to investigate cross-sectional complaint rate by ZIP.
- ▶ More complaints in:
  1. ZIPs with lower income, education, but especially ZIPs with **high minority share**.
  2. ZIPs with low income **relative to MSA** targeted by Community Reinvestment Act.
  3. Interaction of results above.
- ▶ Conclusion: Banks push riskier loans on underserved/high-minority communities, especially when pushed by regulation  $\implies$  complaints when loans go bad.

# Evaluation

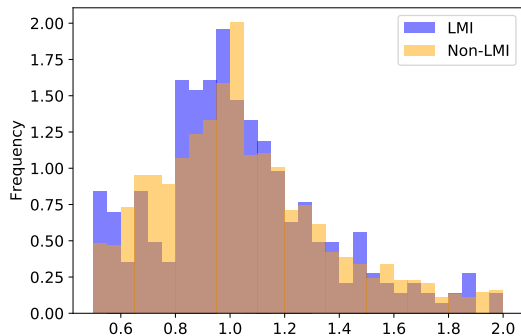
- ▶ Great dataset and empirical approach  $\implies$  convincing empirical results.
  - Public data at ZIP code level with many useful covariates.
  - Propensity score matching between ZIPs isolates variables of interest.
- ▶ Suggestion: two places to push a little more.
  1. Do ZIPs with similar absolute incomes, but different incomes relative to MSA have similar house prices?
  2. Do complaints represent past sorting into inferior products, or inferior treatment/customer service on the same products.

## Comment #1: Relative Income and Cost of Housing

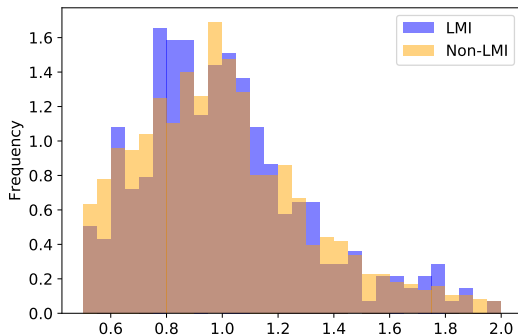
- ▶ Low/Moderate Income (LMI) tracts have median family income below 80% of MSA median.
- ▶ Authors compare LMI to non-LMI areas with similar absolute income.
  - Treatment comes from variation in overall MSA income.
- ▶ Potential issue: housing costs could be determined at MSA level.
  - LMI effect might be capturing consequences of lower housing affordability.
- ▶ Placebo tests indicate that 80% cutoff is special, can't be all housing affordability.
- ▶ But might be good to control for value-to-income for quantitative complaint elasticities.

# Strategic vs. Liquidity Defaults

- ▶ Zillow ZIP-level house price data (equal weighted): not clear that LMI house prices are low compared to MSA average.



(a) ZIP HP to MSA Median



(b) ZIP HP to MSA Mean

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## Comment #2: Product vs. Customer Service

- ▶ Overall evidence of discrimination convincing. But what form does it take?
- ▶ Authors: low-quality (risky) products being pushed on underserved/minority households.
- ▶ Alternative hypothesis: discriminatory customer service on standard mortgage contracts.
- ▶ My (simple) stab at this: look at conventional vs. non-conventional loans.
  - Common wisdom: riskier loan products  $\implies$  non-conventional.
  - But types look largely similar on observables in data.

## Complaint Narratives (2015- Only)

- ▶ Less common: complaints about initial loan product.
- ▶ “Plus it should have been a 30 year fixed, but it was n’t because we just noticed that in XXXX of this year our payment will increase and again in XX/XX/XXXX it will increase again. I do n’t know if you can help us out and do anything about it since our loan was done wrong, because it did n’t make the payment affordable to us so we could pay it ourselves, so for now my mother in law pays our house payment for us because we ca n’t afford it and she does n’t want us to lose our home, but she ca n’t do that forever. We need to get this loan corrected the way it should have been.”
- ▶ More common: complaints about bank behavior, esp. around loan modifications.
- ▶ “They told me they would work with me and make it so I could still afford my home after the unemployment was done. I have applied and reapplied. They will notwork with me. I can not afford the 12% interest and \$1100.00 payments since I only make \$XXXX an hour now. They refused me a Hamp Loan or any other plan because they say that I got my loan after XX/XX/XXXX which is not true. They even tried to sue me for the title that they lost. The people bullied me and were very rude.”

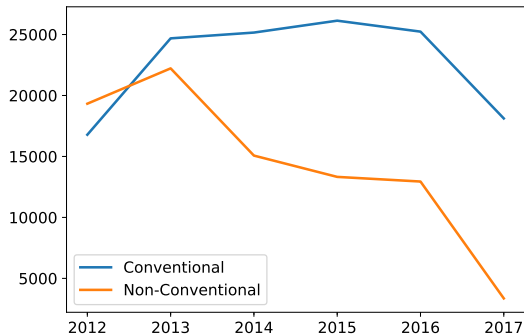


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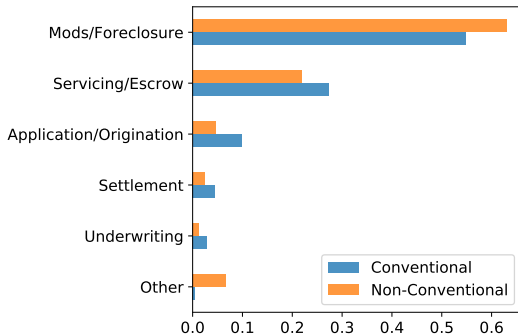
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# Complaint Characteristics

- ▶ If predatory lending, complaints should skew toward non-conventional loans. Do they? (Non-trivial question!)



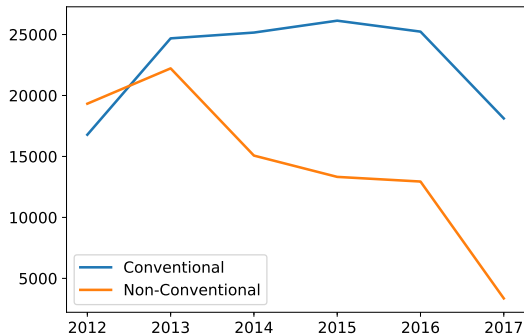
(a) Number of Complaints



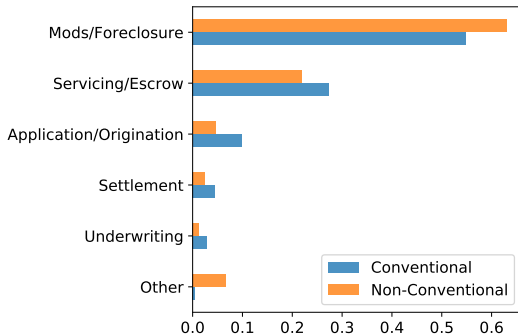
(b) Complaint Issue

# Complaint Characteristics

- ▶ Complaint issue distribution conditional on loan type seems roughly similar.



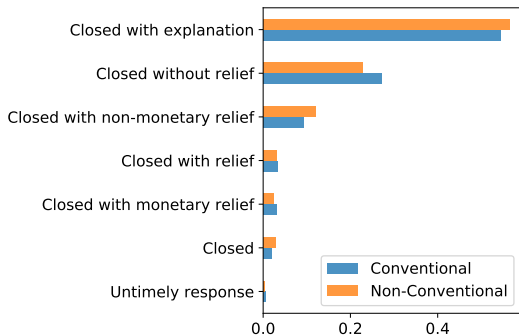
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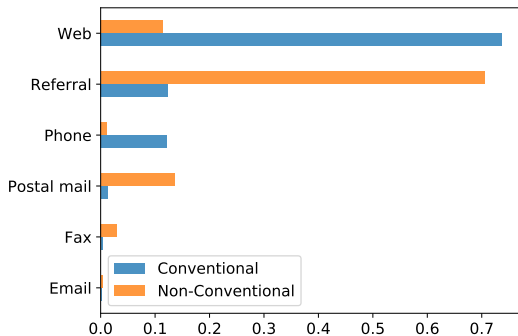
(b) Complaint Issue

# Complaint Characteristics

- ▶ Outcomes of complaints don't look wildly different across types either.



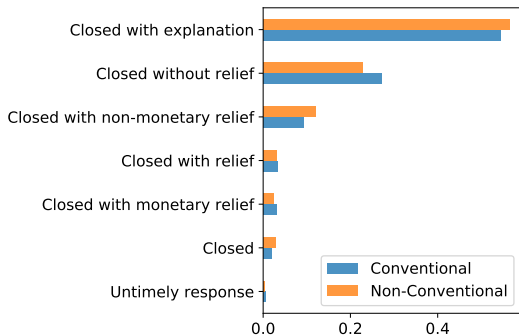
(a) Lender Response



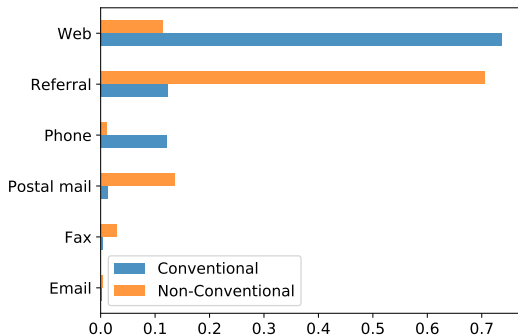
(b) Submission Method

# Complaint Characteristics

- ▶ Method of submitting complaint does. Tag for sophistication? Or institutional explanation?



(a) Lender Response



(b) Submission Method

# Conclusion

- ▶ Convincing empirical results using great [public](#) dataset.
  - Download now!
- ▶ Suggestion #1: control for housing affordability.
- ▶ Suggestion #2 test predatory lending hypothesis.
  - Data availability (2012-) may make this challenging.
  - Maybe complaints by lender can be linked to older data about lending practices?
- ▶ Regardless, paper points to important role for discrimination in the mortgage market.