



Borrowers from a different shore: Asian outcomes in the U.S. mortgage market



Marsha Courchane^{a,*}, Rajeev Darolia^b, Adam Gailey^c

^a Charles River Associates, 1201 F Street NW, Suite 700, Washington, DC 20004, United States

^b University of Missouri, United States

^c Charles River Associates, United States

ARTICLE INFO

Article history:

Received 22 July 2014

Revised 11 December 2014

Accepted 20 January 2015

Available online 30 January 2015

JEL classification:

G21

G28

J15

Keywords:

Mortgage markets

Asians

Minority borrowers

Discrimination

Fair lending

ABSTRACT

Even though Asians are now the largest minority group participating in United States mortgage markets, research on differences in underwriting and pricing outcomes in mortgages typically focuses on the outcomes of African American and Hispanic borrowers. One explanation for the lack of attention on Asian outcomes follows from the perceived relative economic prosperity of this minority group, which may lead to the belief that they are less in need of consumer protection or policy support. While simple group averages of economic characteristics support this belief, documented heterogeneity of Asian experiences suggests that the use of other measures may be needed to account for the varied outcomes of Asians in the U.S. housing markets. Using a unique proprietary source of lender data, we examine these Asian outcomes. We find that Asians face challenges in mortgage markets in ways that may be unique as compared to other minority groups. For example, while an examination of unadjusted average denial rates indicates favorable outcomes for Asians compared to other minority groups, we find that after accounting for loan and borrower characteristics, Asians have denial rates as high as other minority groups.

© 2015 Elsevier Inc. All rights reserved.

1. Introduction

An extensive housing finance literature focuses on whether borrowers from different racial and ethnic groups experience disparate mortgage market outcomes in the United States. These studies have highlighted differences among available resources across groups, motivated policy initiatives to protect minority borrowers, and impelled litigious and regulatory responses. In either research studies or regulatory supervisory reviews, researchers commonly compare the outcomes of non-Hispanic white (“NHW”) borrowers to those of African American/Black (“African American or AA”) or Hispanic/Latino

(“Hispanic”) borrowers.¹ The experiences of Asian borrowers receive much less attention, even though this group has comprised the largest minority group share of U.S. mortgage market activity since 2009.

In this paper, we assess empirically the outcomes of Asians in U.S. mortgage markets. Using unique proprietary lender data, we test for differences in the prices (as measured by annual percentage rates on mortgages) and approval rates compared with other racial and ethnic groups, while controlling for key economic factors such as creditworthiness and type of loan products. We pay

¹ For ease of exposition, throughout we refer to African American or Black as “African American,” Hispanic or Latino as “Hispanic,” and Asian or Asian American as “Asian.” These categorizations are consistent with those used in the [Home Mortgage Disclosure Act \(HMDA\) \(2013\)](#) data on which we rely for our analyses.

* Corresponding author.

E-mail address: mcourchane@crai.com (M. Courchane).

particular attention to the question of whether outcomes differ at different points in the socioeconomic distribution. We also test for differential outcomes based on the Asian composition of borrowers' neighborhoods and analyze differences among Asian countries of origin to test for heterogeneous experiences within the broad categorization of Asian race.

Asians were the fastest-growing racial or ethnic group in the country in 2012, reaching approximately 5% of the U.S. population (U.S. Census Bureau, 2013). In the mortgage market, Asians applied for and obtained a larger share of purchase money mortgages than either African American or Hispanic borrowers in recent years, measured in both number and dollars.² This pattern has existed for some time, particularly in heavily Asian geographies (Dymski and Mohanty, 1999). In a recent study released by the Federal Reserve Board ("FRB"), economists found that "across racial or ethnic groups, the largest increase in home-purchase loan activity was experienced by Asians and non-Hispanic whites; the number of home-purchase loans extended to borrowers in each of these groups increased about 15%, while lending to blacks and Hispanic whites increased at a rate of less than half this value" (Bhutta and Canner, 2013, p. 25).

Asians are included as a protected class under most U.S. consumer protection laws.³ However, the lack of research and regulatory attention for Asian mortgage borrowers may mean the unique challenges faced by this group are not well understood, leading to less targeted support or a lower level of consumer protections for Asians in the housing market. Indeed, a report from the U.S. Equal Employment Opportunity Commission (2008) called Asians the "forgotten minority" and the U.S. Commission on Civil Rights (1992) indicated that "there has been widespread failure of government at all levels" to protect the rights of Asians.

There are a number of possible reasons why Asians have received less attention in mortgage discrimination studies. The relatively large loan activity by this group suggests that understanding the experiences of Asian borrowers is important; however, this might be a reflection that this group faces comparatively less restrictive access to the mortgage market. Additionally, earlier studies of mortgage market outcomes may have contributed to the lack of current research on Asians. For example, researchers have found that Asian borrowers are less likely to have obtained subprime loans as compared to African Americans or Hispanic borrowers (Courchane et al., 2004). Moreover, as group credit score averages for Asians mirror those of non-Hispanic whites (e.g., Bhutta and Canner, 2013) there might be less expectation of pricing and approval differentials.

However, further examination of Asian borrower and applicant experiences in the U.S. mortgage market is warranted. Many believe that Asian experiences are distinctive

among American minority groups, characterized as being "strangers from a different shore" (Takaki, 1998), and therefore need to be uniquely analyzed. Government reports have contradicted the impression that Asians are treated fairly in the United States (U.S. Commission on Civil Rights, 1992) and documented the many barriers to Asians' workforce success (U.S. Equal Employment Opportunity Commission, 2008). Turner and Ross (2002) and Turner et al. (2013) provide evidence of challenges Asians face in housing markets, specifically. Using an experimental matched paired testing strategy, the authors of the former study find that Asian homebuyers faced discrimination in areas such as housing availability and assistance with financing that exceeded that faced by Hispanic homebuyers and at a level comparable to that faced by African American homebuyers. Using a similar research approach in the latter study, researchers continued to find unfavorable treatment by real estate agents and rental property owners against Asians, especially for those with names and speech patterns that are more easily identifiable as non-white.

Additionally, customary research methodologies that compare the average outcomes among minority and NHW groups may not well capture Asian outcomes because of their heterogeneous backgrounds. Many believe that differences across key factors such as time since immigration and country of origin produce a bi-modal economic distribution among Asians where only select members enjoy observed average successful socioeconomic outcomes (e.g., Fong, 2008; Ishimatsu, 2013; National Coalition for Asian Pacific American Community Development, 2013). In this way, the positive experiences of a relatively small number of elite Asians can bias average statistics upwards, whereas the bottom of the distribution suffers disadvantages comparable to the similarly situated members of other minority groups. The focus on mean outcomes, as well as social constructions such as the "model minority myth," may have led to Asians having an overstated perception of success and a resultant lack of social policy targeting.

In this study, we first document measures of Asian housing and mortgage market participation rates and discuss reasons why Asians may uniquely face challenges in the measurement of mortgage outcomes. We then analyze unique proprietary lender application and pricing records to test for mortgage market outcome differences for Asians. Finally, we conclude with directions for research and policy.

2. Asian borrowers in the mortgage market

Asian borrowers are the largest minority group participating in the mortgage market in recent years. In Fig. 1, we display the share of origination volume (based on the count of loans) for mortgage who identify themselves as Asian, African American or Hispanic from 2004 to 2011. Trends for origination dollars, application volumes, and application dollars are quite similar. From 2004 until 2007, Asians had the lowest number of originations among the displayed minority groups. The share for African

² This is based on conventional, 1–4 family and manufactured home dwellings from HMDA data, available at: <http://www.ffiec.gov/hmda/hmdaproducts.htm>.

³ For example, the Equal Credit Opportunity Act ("ECOA") of 1974 prohibits discrimination in credit markets on the basis of race, color, or national origin, among other factors. See 15 USC 1691.

Download English Version:

<https://daneshyari.com/en/article/962273>

Download Persian Version:

<https://daneshyari.com/article/962273>

[Daneshyari.com](https://daneshyari.com)