# DISCUSSION OF MORTGAGE PREPAYMENT, RACE, AND MONETARY POLICY

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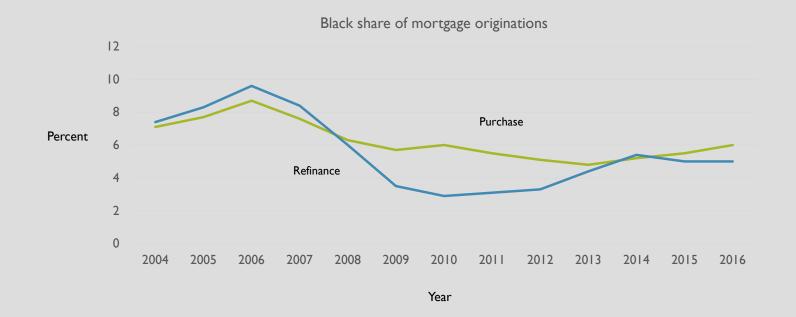
Federal Reserve Board

\* The views in this presentation are mine and not necessarily those of the Federal Reserve Board or its staff

## MORTGAGE RATES AND RACE

- Well-established fact: when Black and Hispanic borrowers take out mortgages, they pay higher mortgage rates than White and Asian borrowers
  - Although after controlling for borrower characteristics, the difference in rates is recent data is small (2 to 8 basis points) and partly offset by differences in points
- This paper: over their lifetimes, do Black and Hispanic borrowers pay higher rates because they are less likely to refinance at times when rates fall?
  - Focus on the period after the global financial crisis

# BLACK AND HISPANIC REFINANCING PLUMMETED AFTER THE GLOBAL FINANCIAL CRISIS



Source. Tabulation based on HMDA data. Bhutta, Laufer, and Ringo (2017)

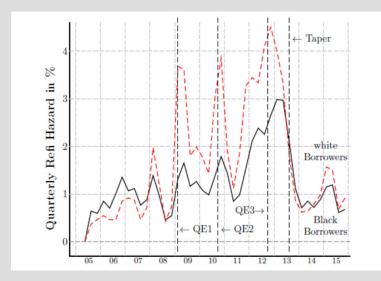
# CONSUMER ADVOCATES RAISED THE ALARM IN REAL TIME

- "the data show that [Black and Hispanic] households are having the most trouble refinancing and are the most likely to be trapped in higher interest mortgages"
  - Michael Calhoun, President, Center for Responsible Lending, April 25, 2012, at a Congressional hearing on "Examining Ways to Help Homeowners Save Money through Refinancing"

# THE AUTHORS HAVE AMAZING DATA

- The authors assemble a rich data set that allows them to control for many of the factors that affect refinancing
  - Servicer data from Black Knight McDash have monthly mortgage characteristics
  - Credit bureau data from Equifax identify whether a mortgage terminated because of a refinancing or a home sale
  - Home Mortgage Disclosure Act data provide the borrower's income, race, and ethnicity
- Data span 2005-2015

#### BLACKS AND HISPANICS ARE LESS LIKELY TO REFINANCE AND THUS PAY HIGHER RATES



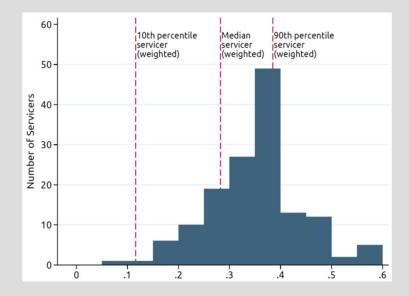
- The gap decreases significantly but still exists – after controlling for credit score, loan-to-value ratio, recent deterioration in economic circumstances, and measures of financial gain from refinancing
- Authors have extensive information on the borrower but no information on the lender or servicer

### WHETHER A BORROWER REFINANCES ALSO DEPENDS ON THE LENDER

- Lenders actively solicit refinance applications
  - May target certain borrowers, especially at times of capacity constraints
- Lenders differ in how they implement programs such as HARP or forbearance
- Obstacles cited in HARP:
  - Some lenders would only refinance loans that they originated
  - Some lenders only allowed refinances of loans with LTVs up to 105
  - Some lenders would not cooperate in subordinating their second liens so the first lien could be refinanced
- Forbearance issues seem more focused on operational capacity

#### SERVICERS DIFFER IN HOW MANY OF THEIR BORROWERS ENTER FORBEARANCE

- Kim, Lee, Scharlemann, and Vickery (2021) explore what share of borrowers who would appear to benefit from forbearance are not enrolled
- Share varies dramatically across servicers from 10 to 60 percent
- Large servicers and bank servicers have higher shares of eligible borrowers enrolled

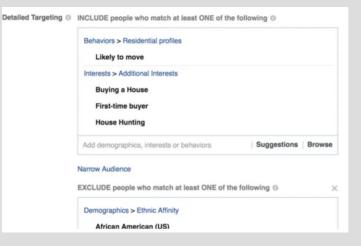


### ADVERTISING CAN VARY BY RACE

#### GFC: ADVERTISING FACILITATED STEERING OF MINORITY BORROWERS

 "Countrywide's aggressive solicitation campaign targeted minority borrowers for unlawful discriminatory treatment and fueled the adverse and disparate effect of its discretionary policies." Complaint, People of the State of Illinois. v. Countrywide Financial Corpation, 2010

#### TODAY: SOCIAL MEDIA CAN ALLOW FOR PRECISE TARGETING OF ADS



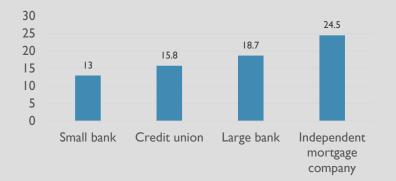
Source. Angwin and Parris (2016). Facebook subsequently changed this practice.

### LENDERS ARE NOT RANDOMLY ASSIGNED BY RACE

#### NONWHITE BORROWERS ARE MORE LIKELY TO USE NONBANK LENDERS

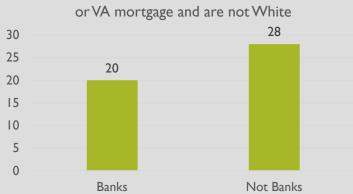
Share of purchase mortgage borrowers who

are not White



Source. Tabulation based on 2016 HMDA data. Bhutta, Laufer, and Ringo (2017).

#### EVEN OUTSIDE OF THE FHA AND VA PROGRAM



### Share of borrowers who do not have an FHA

Source. Tabulation based on 2016 Survey of Consumer Finances data. Kim et al. (2018).

## CONCLUDING THOUGHTS

- The paper clearly establishes that Black and Hispanic households faced greater barriers to refinancing in the aftermath of the global financial crisis
- A companion piece (Gerardi, Lambie-Hanson, and Willen, 2021) establishes the same pattern for the pandemic
- To design policy solutions, we know to know why
  - The paper identifies some of the borrower characteristics that impede refinancing
  - We need more research on the role of lender-side factors