THE IMPACT OF MINORITY REPRESENTATION AT MORTGAGE LENDERS

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Discussion by: Robert Clark, Queen's University
Diversity and Inclusion in Economics, Finance and Central Banking

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THIS PAPER

- **Cleverly combines three datasets:**
  1. Nationwide panel of mortgage loan officers (NMLS)
  2. Mortgage application data (HMDA)
  3. Mortgage originations data (FHA)

- **Documents underrepresentation of minorities in loan-officer positions:**
  - Minorities account for 39% of U.S. labor force, but only 15% of loan officers

- **Highlights lack of credit access for minority applicants:**
  - Origination 5 pp less likely for minority vs white borrowers by same white loan officer

- **Confirms that minority representation matters:**
  - Preference is +1 pp less likely for minority loan officer

- **Shows that minority representation has no adverse effects on loan outcomes:**
  - Difference in minority/white default rates disappears with minority loan officers

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WHY SHOULD YOU CARE?

- **Importance of minority representation has been demonstrated in other contexts:**
  - **Judicial system**: There exists a significant racial gap in sentencing, and this gap is **smaller** among Black judges (Abrams et al 2012)
  - **Education**: K–3 Black students with least one Black teacher more likely to graduate high school and go to college (Gershenson et al 2022)

- Growing evidence that representation is relevant in mortgage markets too
  - Minority outcomes in credit markets:
    - Discriminate by offering inferior menus of rates and points (Willen & Zhang 2022)
    - Discriminate by constraining refinance opportunities (Gerardi et al 2022)
  - Mortgage markets matter – home equity is a critical source of household wealth
  - Important to understand whether loan-officer composition affects credit access

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COMMENTS/QUESTIONS/SUGGESTIONS

1. **Empirical challenges: Identification is hard**
   - Race not randomly assigned, so any regression will suffer from omitted-variables bias
   - Judge/teacher studies exploit random assignment and quasi-experimental variation
   - No random assignment here, but authors take advantage of their data to approximate quasi-experimental variation

2. Is the mechanism really about soft-information?
   - The authors propose that their results are consistent with a soft-information story
   - Definition? Willingness to take the time to help applicants complete paperwork
   - Suggestion: Exploit soft-info destruction caused by mergers to further validate the mechanism (Allen et al 2016)

3. Role of Fintech?
   - Some recent work has proposed Fintech as the solution
   - However, recent class-action lawsuit against a major US bank shows that, depending on data fed into algorithm, could get *more* discrimination than with human-based decision making

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④ **Policy takeaways?**
- Results suggest that diversifying the loan-officer workforce is desirable, but how is this to be achieved?
- Link with affirmative action
- How easy is it to expand the pool of qualified minority loan officers?

⑤ Canadian content
- Normally I would try to reproduce the analysis using Canadian mortgage data
- Not possible since we don't collect race-based information...

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Conclusion

- Very nice paper!
- Assembles a novel data set and performs careful empirical analysis
- Documents the importance of minority representation for access to credit
- I encourage the authors to push a bit harder on pinning down the mechanism