

# Credit Research Center Seminar

## Ensuring Fair Lending: What Do We Know about Pricing in Mortgage Markets and What Will the New HMDA Data Fields Tell US?



[www.msb.edu/prog/crc](http://www.msb.edu/prog/crc)

March 14, 2005

# **What HMDA Will Tell Us:**

## **Loan-level info that may influence the loan price**

### ***About the Loan:***

- **NEW:** Interest rate spread (percentage points that APR is above comparable maturity treasury security, for loans priced above a threshold)
- **NEW:** HOEPA status
- **Loan purpose** (purchase; home improvement; refi)
- **Prop. type** (1-4 family; multi-family; manuf. Housing)
- **Lien status** (1<sup>st</sup> mortgage vs. 2<sup>nd</sup> mtg, etc)
- **Location of property** (county, MSA, census tract)
- **Owner occupied** (yes vs. no)

# **What HMDA Will Tell Us:**

## **Loan-level info that may influence the loan price**

### ***About the borrower:***

- **Income**
- **Race and ethnicity**

# **What HMDA Will Not Tell Us: Missing info that may influence the loan price**

## ***About the Loan:***

- **Loan to Value ratio (LTV – indicating borrower equity and lender exposure to loss in foreclosure)**
- **Fixed vs. Adjustable vs. Hybrid adjustable rate**
- **Loan term**
- **Assessment of property value volatility and risk**
- **Loan offer and contractual features (e.g., prepayment penalty options in exchange for lower contract rate)**

# What HMDA Will Not Tell Us: Missing loan-level info that may influence the loan price

## *About the borrower:*

- Total debt
- Income documentation and stability
- Assets
- Credit score (e.g., FICO and equivalents)
- Delinquency history
  - # times delinquent on mortgage past 12 months
  - # times delinquent on any loans past 12 months
  - Bankruptcy in past

**PROBLEM:** Any of these omitted factors may be correlated with race, and so could lead to an appearance of racial bias in the loan price.

# Simple Illustration of False Appearance of Racial Bias

*Assume two borrowers:*

- *Each has \$75,000 income*
- *Each has \$200,000 loan, in same census tract, with identical features except APR*

*Borrower A*

*Borrower B*

*WHAT HMDA shows:*

*APR = 7.0*

*Race = African American*

*APR = 6.0*

*Race = White*

# Simple Illustration of False Appearance of Racial Bias

*Borrower A*

*Borrower B*

***WHAT HMDA shows:***

***APR = 7.0***

***Race = African American***

***APR = 6.0***

***Race = White***

***What HMDA does not show:***

***LTV = 95%***

***FICO = 635***

***LTV = 85%***

***FICO = 665***

# **Summary: What We Will Know From the Enhanced HMDA Data:**

- **HMDA data will identify which loans are “higher priced” loans (in terms of APR and HOEPA regs)**
- **HMDA data will not tell us why loans carry a higher price**
- **Important factors still missing in new HMDA data**
  - **LTV**
  - **Fixed vs. Adjustable rate**
  - **Loan term**
  - **Contract features**
  - **Property value volatility**
  - **Total debt**
  - **Income documentation and stability**
  - **Assets**
  - **Credit score and delinquency history**
  - **Information about distribution channel**