



Do Mortgage Lenders Compete Locally? Implications for Credit Access

Greg Buchak (Stanford University) & Adam Jørring (Boston College)

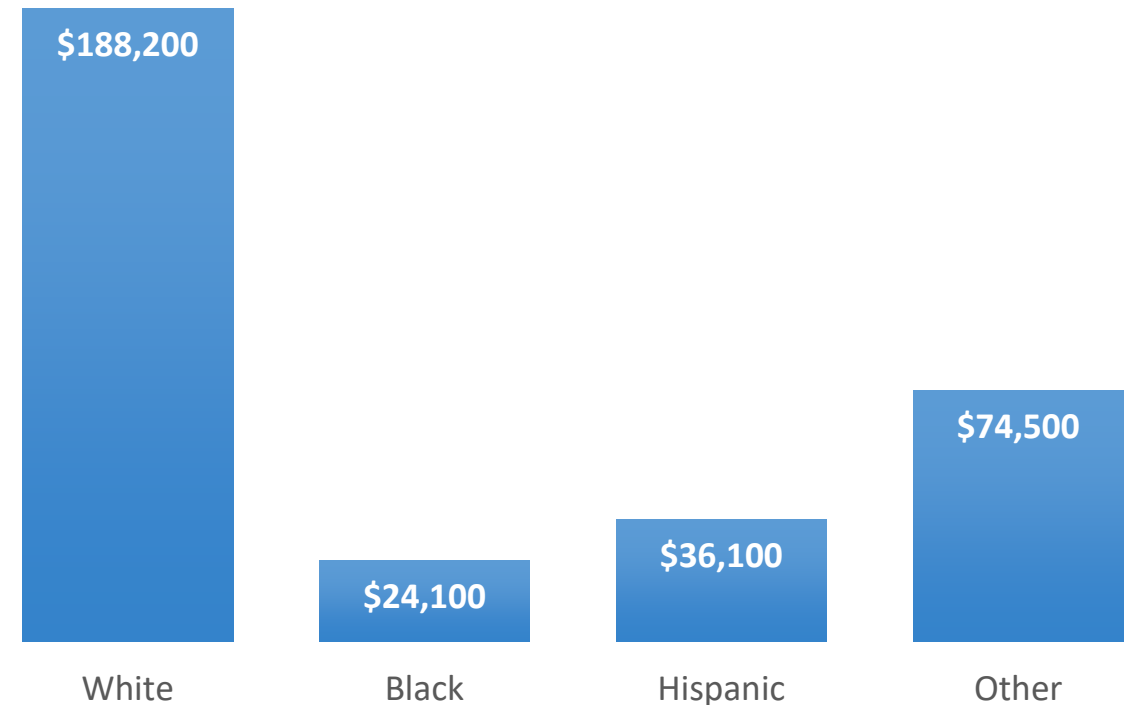




Access to Housing & Wealth Inequality

Median Net Worth

1. Massive wealth gap by race



Data source: Survey of Consumer Finances (2019)

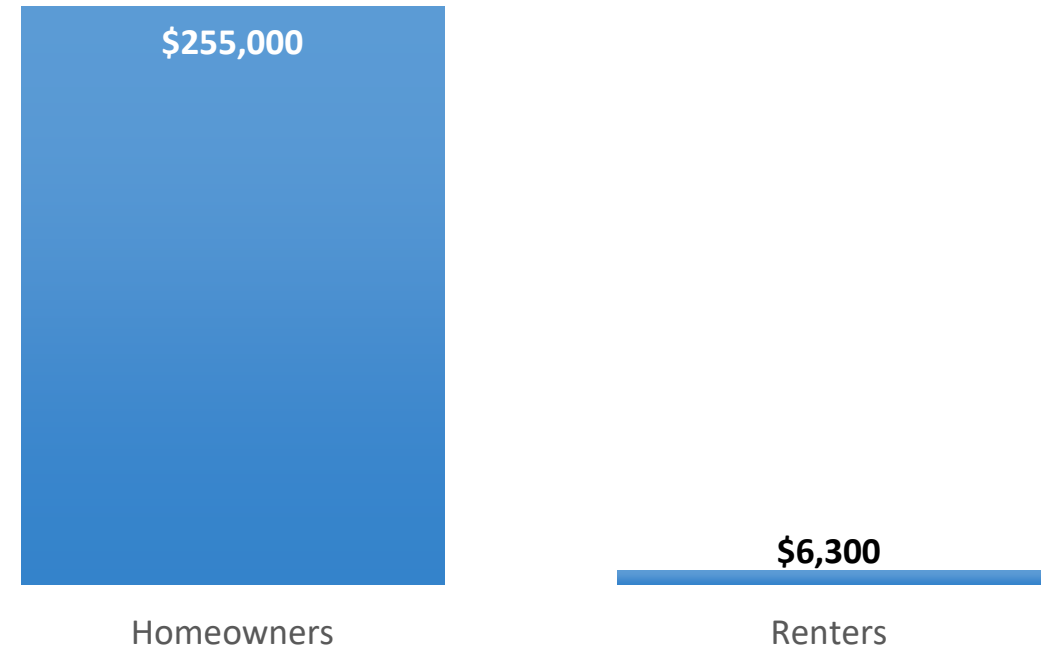




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2. Wealth is often accumulated through **owning real estate**



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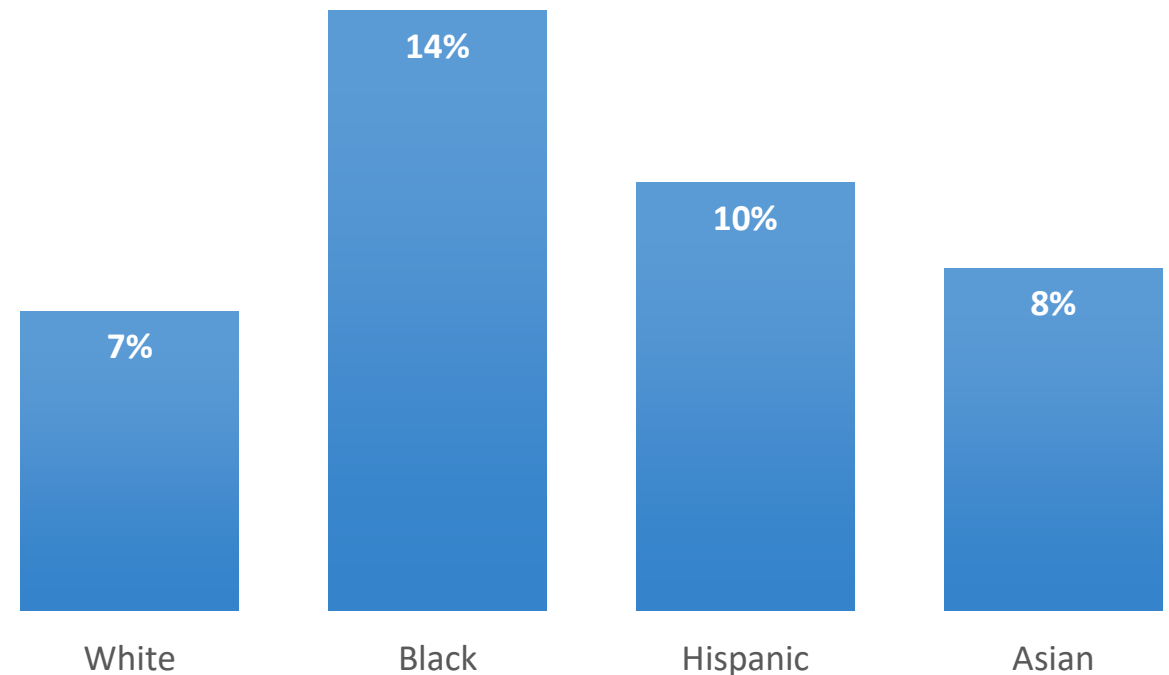




Access to Housing & Wealth Inequality

Mortgage Denial Rates

1. Massive wealth gap by race
2. Wealth is often accumulated through owning real estate
3. Disparities in access to mortgages



Data source: Home Mortgage Disclosure Act (2018-2019)





This Paper: Can Capitalism Help?

- **Competitive markets** is a hallmark of a capitalist society
- Greater competition can act as a strong force in reducing discrimination
(Gary Becker, 1957)





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- **Research question:** How does mortgage competition affect credit supply?
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- **Policy implication:** Stricter merger regulation in mortgage markets





The Technical Details

- **Data**

- Fannie Mae & Freddie Mac loan data
- Black Knight McDash Analytics
- Home Mortgage Disclosure Act (HMDA)

- **Empirical methodology: Instrumental Variable (IV) Analysis**

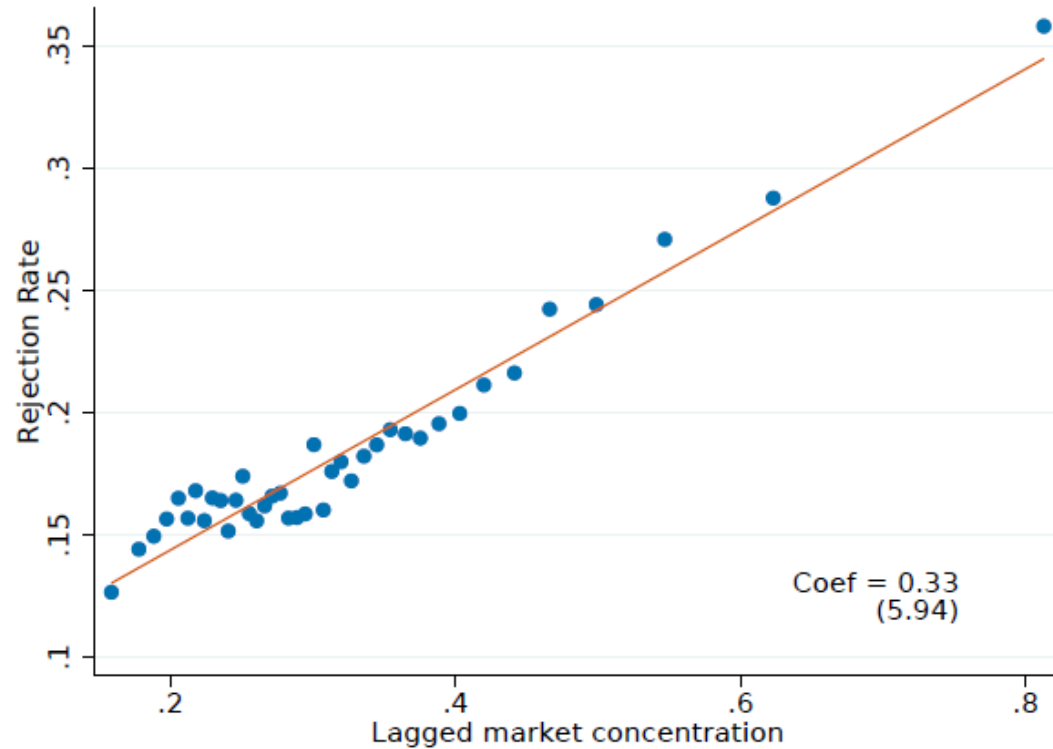
- Bank Mergers (Scharfstein and Sunderam 2016; Favara and Giannetti 2017; Granja and Paixao 2019)
- Failed Banks
- Bank Deregulation (Rice and Strahan 2010)



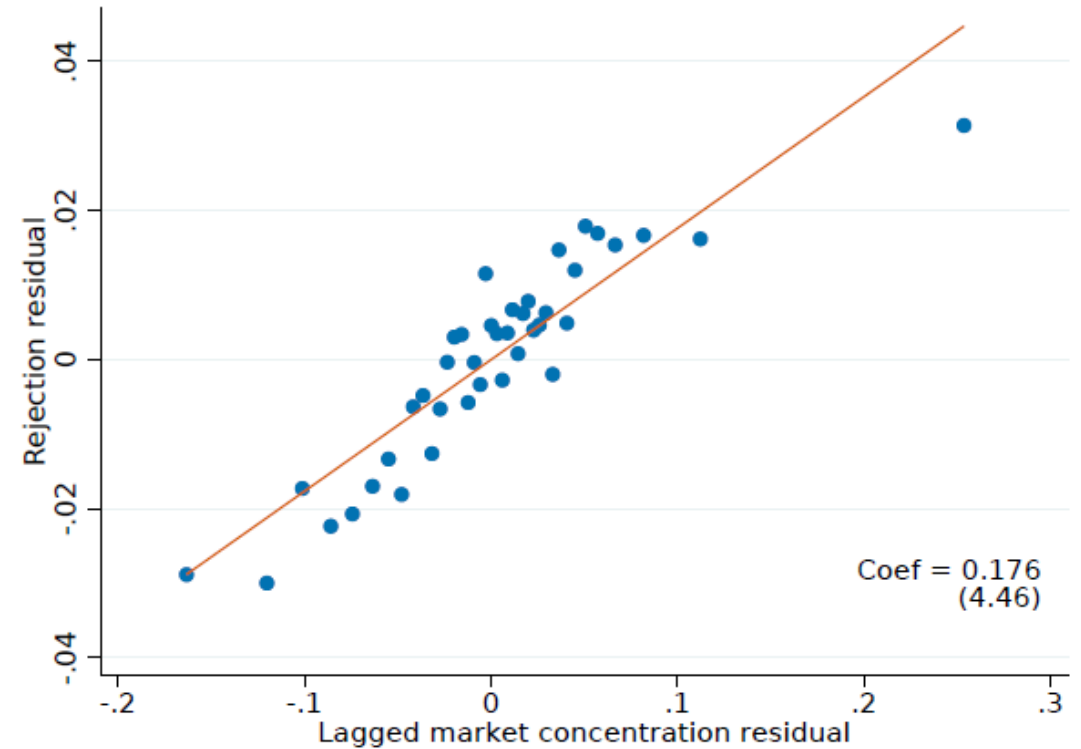


Finding 1: Higher Concentration → Higher Rejection Rates

Panel A. Raw averages



Panel B. Controls + county and year FE

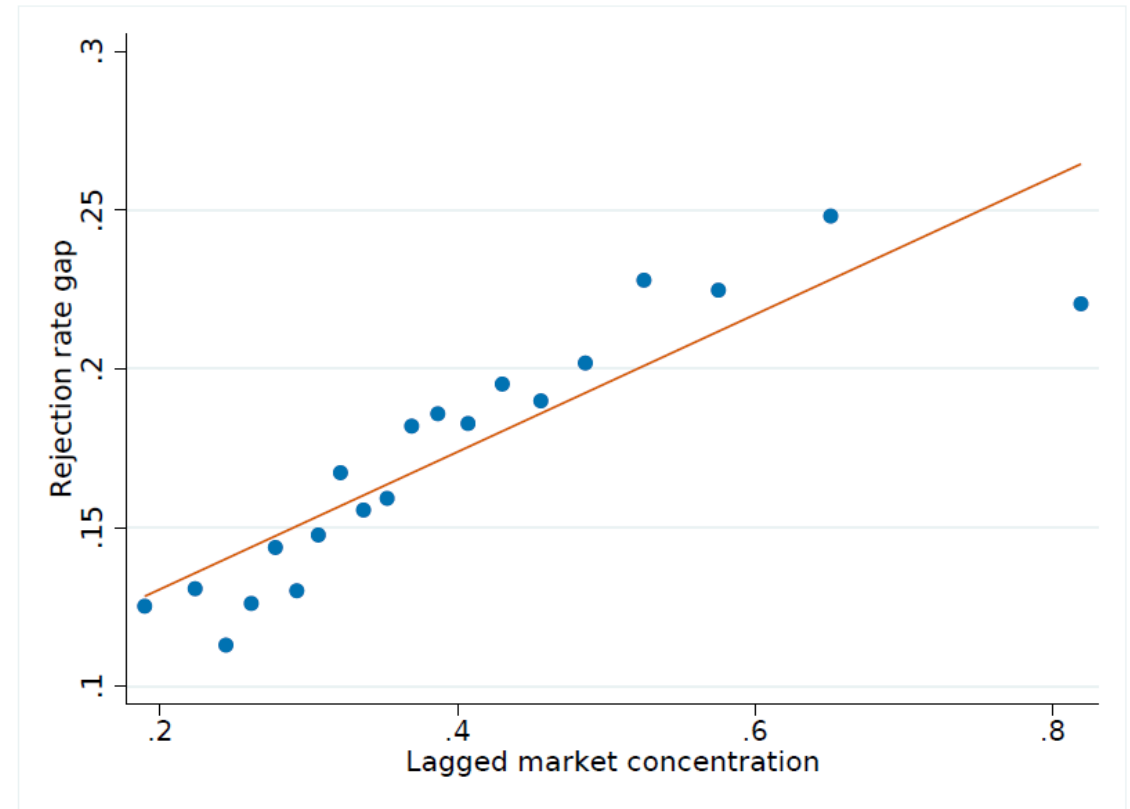
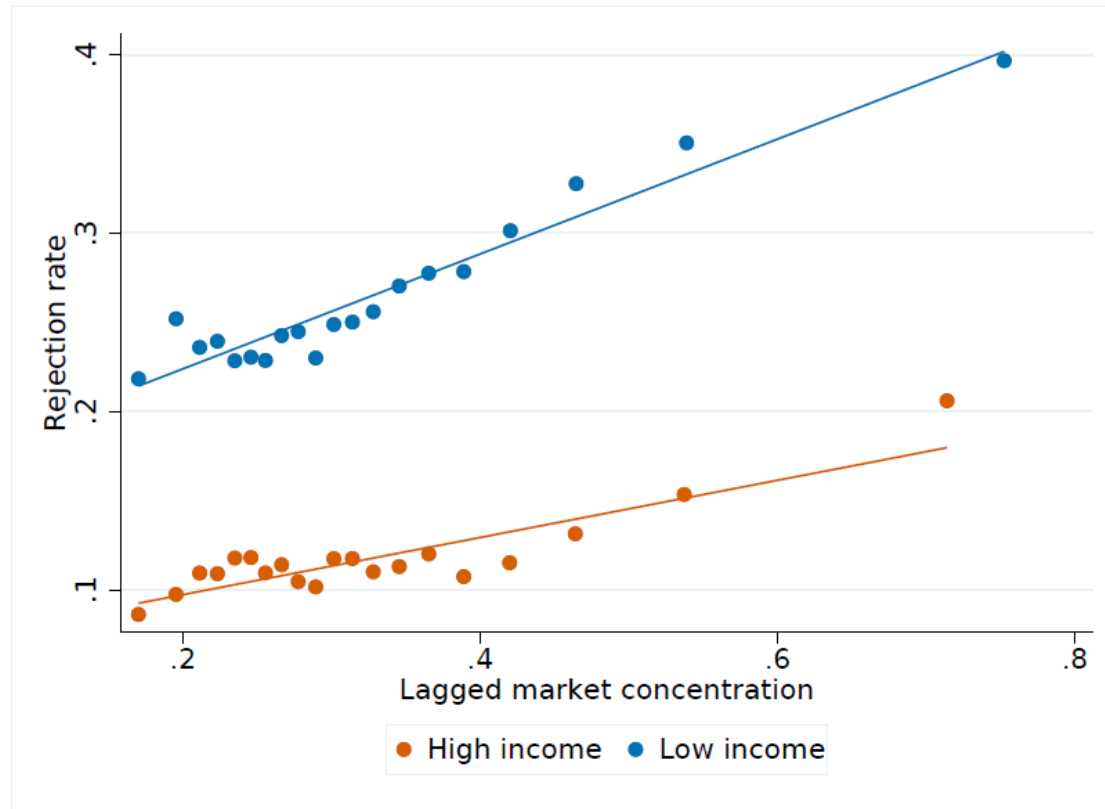




Finding 2: **Low income** borrowers benefit from competition

Panel A. Levels

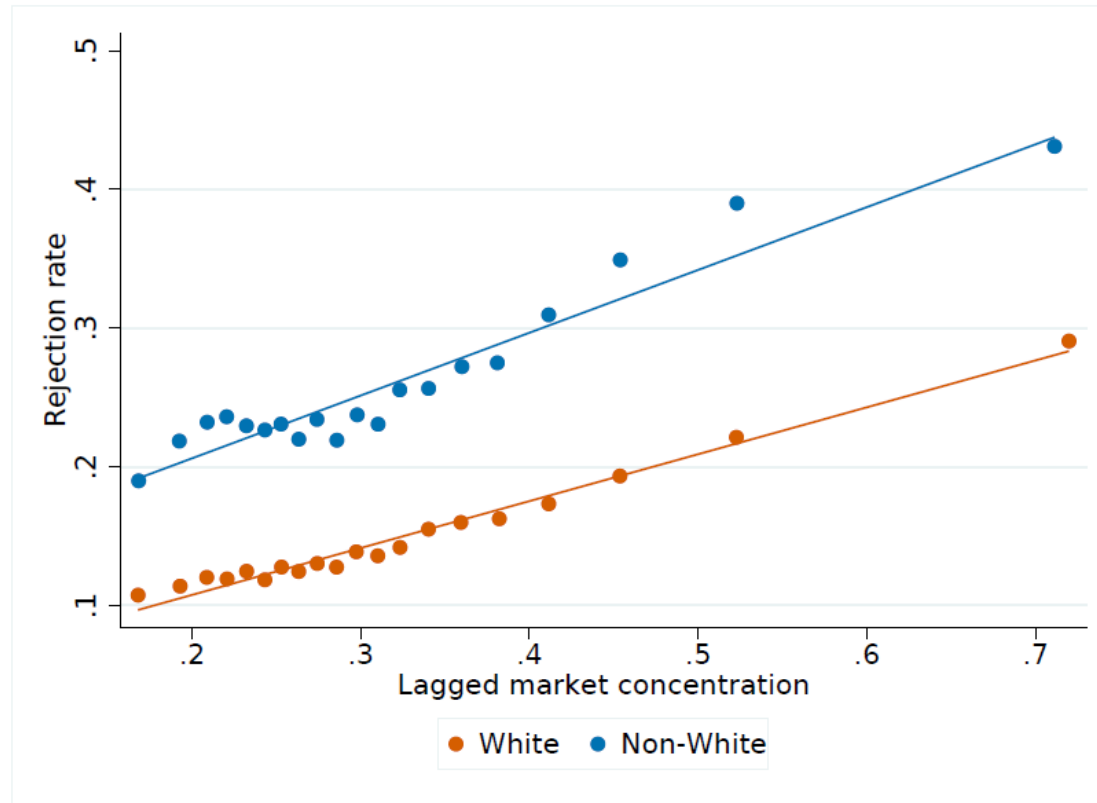
Panel B. Differences



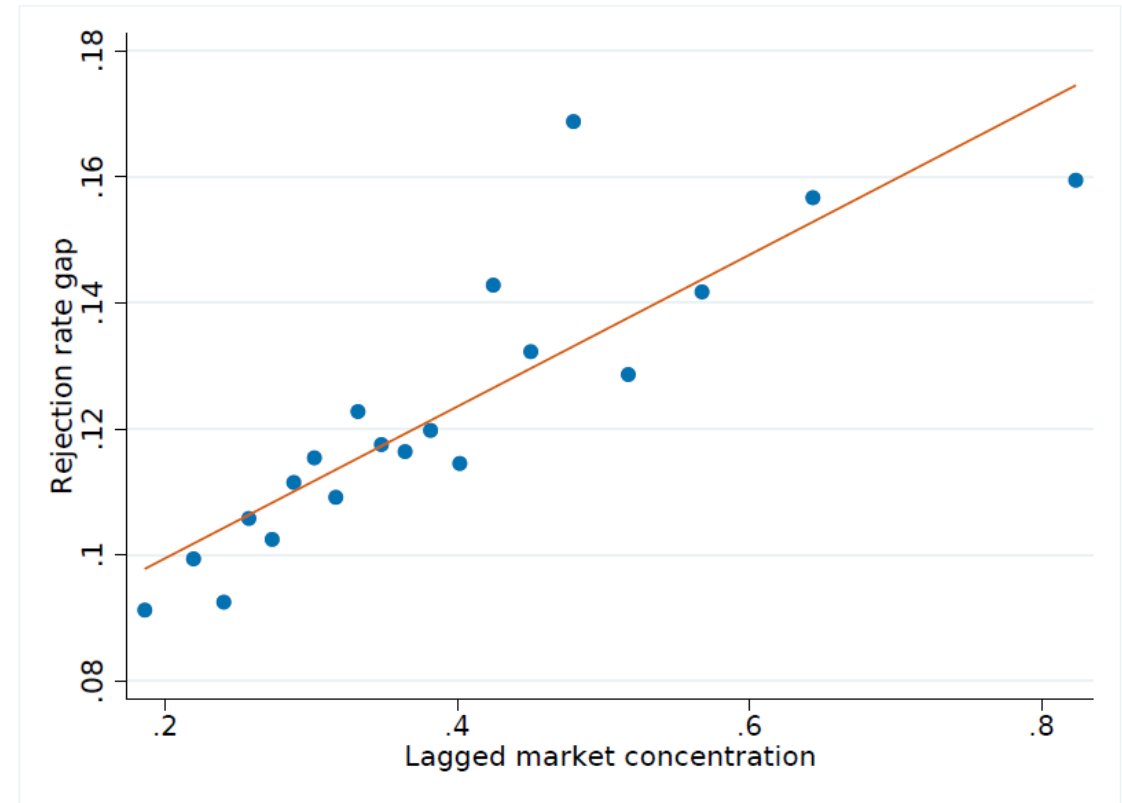


Finding 3: **Minority** borrowers benefit from competition

Panel A. Levels

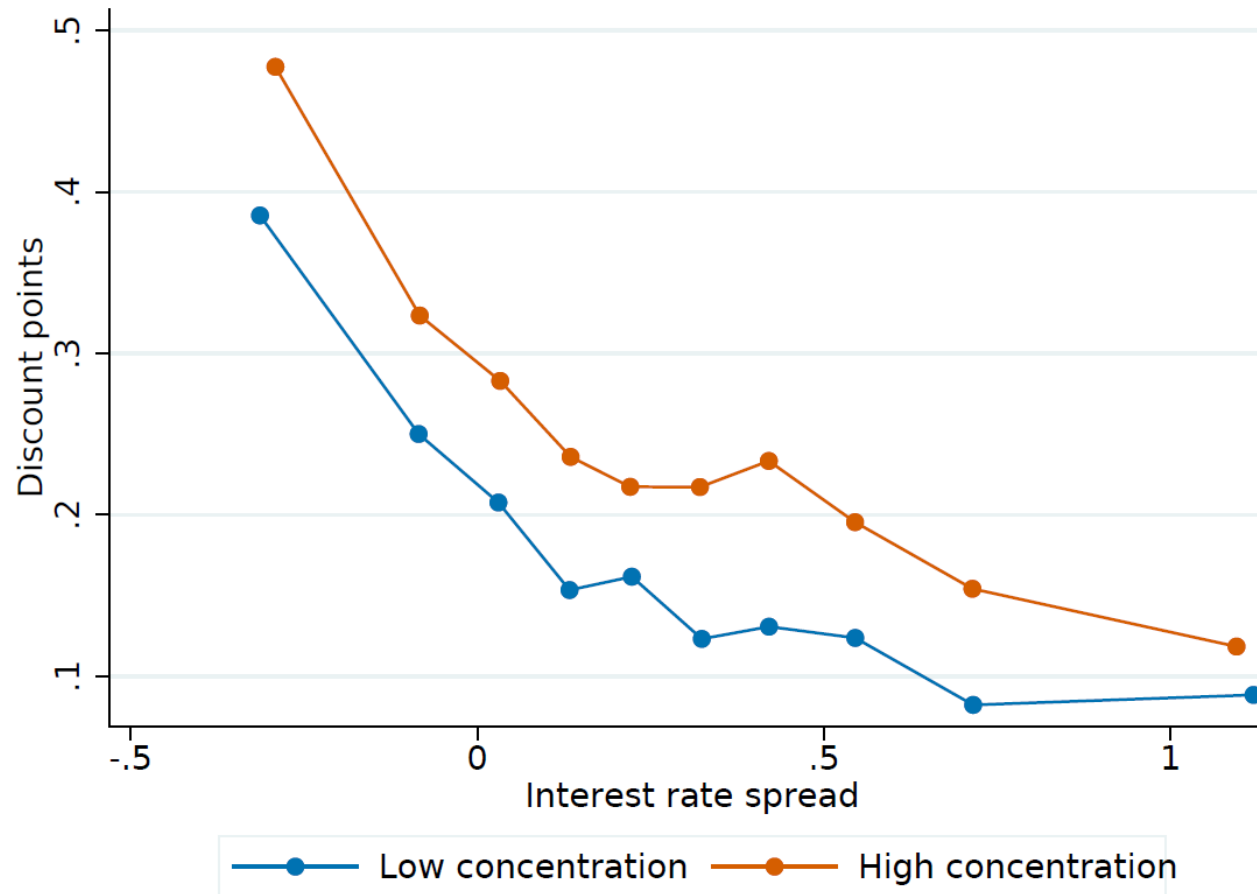


Panel B. Differences





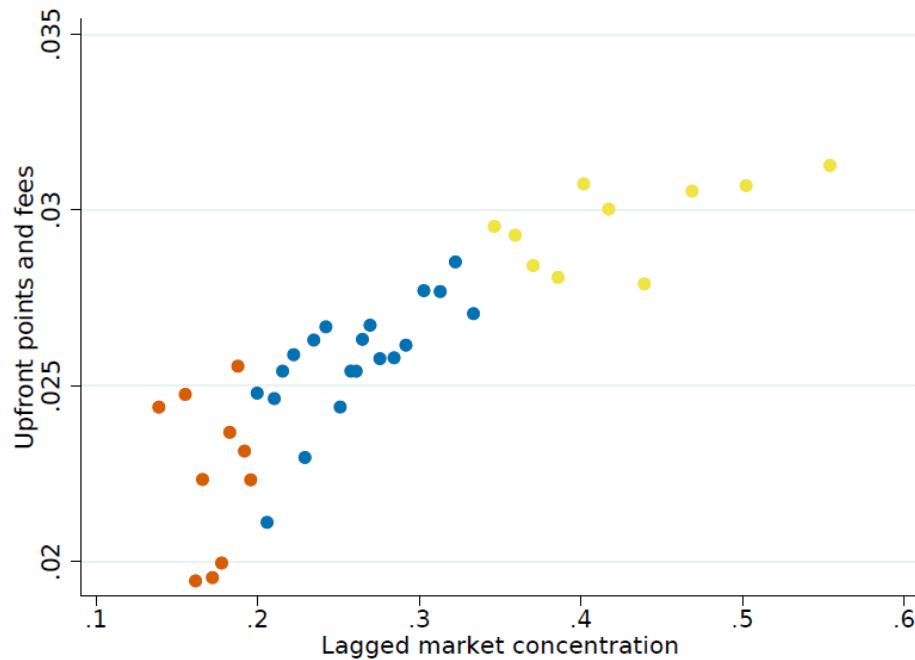
Finding 4: Fees are higher (even controlling for rates)



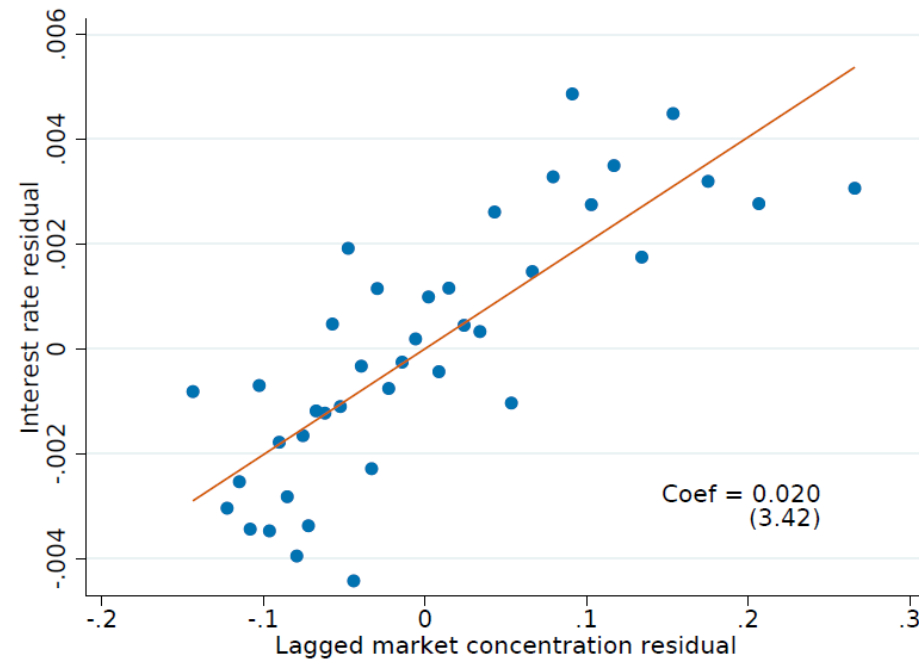


Finding 4: Fees are higher (even controlling for rates)

Panel A. Raw averages



Panel B. With controls



Q4 minus Q1 = 70bp \implies **\$2,443** for the avg. borrower





Policy Implications

- Previous literature has found little to no relationship between local lender concentration and mortgage **interest rates**





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- We show that **local concentration strongly affects lending standards and upfront fees**





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- Consequently, federal regulators regard mortgage markets as national and view their local concentration as irrelevant to financial regulation
- We challenge this assumption!
- We show that local concentration strongly affects lending standards and upfront fees
- Regulators concerned with credit access should regard mortgage markets as local when making **policy decisions** such as **bank merger approvals**





THANK YOU

Comments & questions welcome!

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