Do Mortgage Lenders Compete Locally? Implications for Credit Access

Greg Buchak (Stanford University) & Adam Jørring (Boston College)
Access to Housing & Wealth Inequality

1. Massive wealth gap by race

<table>
<thead>
<tr>
<th>Race</th>
<th>Median Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>$188,200</td>
</tr>
<tr>
<td>Black</td>
<td>$24,100</td>
</tr>
<tr>
<td>Hispanic</td>
<td>$36,100</td>
</tr>
<tr>
<td>Other</td>
<td>$74,500</td>
</tr>
</tbody>
</table>

Data source: Survey of Consumer Finances (2019)
Access to Housing & Wealth Inequality

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2. Wealth is often accumulated through owning real estate

<table>
<thead>
<tr>
<th></th>
<th>Median Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homeowners</td>
<td>$255,000</td>
</tr>
<tr>
<td>Renters</td>
<td>$6,300</td>
</tr>
</tbody>
</table>

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Access to Housing & Wealth Inequality

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

Mortgage Denial Rates

- White: 7%
- Black: 14%
- Hispanic: 10%
- Asian: 8%

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• Greater competition can act as a strong force in reducing discrimination
  (Gary Becker, 1957)
This Paper: Can Capitalism Help?

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- **Research question:** How does mortgage competition affect credit supply?
- **Answer:** Higher competition increases credit supply – benefitting marginal borrowers the most!
- **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 $\Rightarrow$ Higher Rejection Rates
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)
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Panel A. Raw averages

Panel B. With controls

Q4 minus Q1 = 70bp $\Rightarrow$ $2,443$ for the avg. borrower
Policy Implications

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