Concerns about equal access to credit in the United States are longstanding. For the past several decades, many have argued that certain populations—primarily ethnic minorities, lower-income households, and those residing in neighborhoods with large numbers of ethnic minorities or lower-income households—have not had the same access to credit products as others. This, they argue, has impeded the ability of these populations and communities to maintain and improve their economic condition. In response to these concerns, the Congress passed several pieces of federal legislation, including the Home Mortgage Disclosure Act (HMDA) in 1975 and the Community Reinvestment Act (CRA) in 1977. The goal of this legislation was to help ensure that communities previously thought to have less access to credit markets than appropriate received access more in line with the quality of their credit.

Since the passage of this legislation, credit markets have evolved in many ways. For example, technological advances have improved the ability of lenders to assess risk and introduce new products into the marketplace. In addition, the recent growth in the U.S. economy has enhanced the financial position for many, including minorities and lower-income households. Given these changes, it is possible that differences in access to credit across populations, if they once existed, may have declined or disappeared in the last ten years.

The objective of this paper is to provide insight into how access to credit has changed for members of different populations and how relative access to credit has also changed. Three key issues are addressed:

• Are there differences in access to credit across different populations, particularly between whites and minorities and between lower-income populations and others?

• Have any differences in access to credit across different populations changed over time?
• What are the sources of the differences in access to credit across different populations and what factors have influenced the trend in these differences over time?

In examining these questions in this paper, access is assessed by exploring differences in the incidence of credit products across households. The focus will be on two credit products—mortgages and consumer loans. The period of analysis will be the early 1990s, a period which was marked by a significant economic expansion, major changes in the banking services industry, and increased vigilance regarding the enforcement of CRA and other fair lending laws. The goal is to determine whether these forces have translated into changes in absolute access to credit and in the relative access to credit of minority and lower-income households.

The first section characterizes the large amount of research that has been directed at the first question. The ensuing section discusses the forces that may have led to absolute changes in access to credit and changes in the relative levels of credit access across various subgroups. The third section describes the methodology that will be used to address the temporal issues associated with the final two questions. After this, the approach will be to focus on each credit product in its own section.

EVIDENCE ON UNEQUAL ACCESS TO CREDIT

A large literature focusing on the question of the existence of differential access to credit has developed in recent years. Because of data availability, much of this research has focused on mortgage lending. The Urban Institute recently released a report which summarizes the large literature on equal access to mortgages, so only a few works are referenced here to provide a flavor for the results.1 The most publicized of the research in this area is Munnell, Tootell, Browne, and McEneaney (1996), also known as the “Boston Fed study.” This study of mortgage lending in the Boston area found large denial rate disparities between black and white applicants after controlling for a host of other factors. Subsequent research has raised issues about the size and the characterization of these disparities. Some argue that data errors and other shortcomings invalidate the study’s findings, but most others have concluded that aggregate disparities remain.2

Other researchers have focused on the issue of equal access to mortgages based on the location of the property to be purchased. It has long been alleged that lenders have chosen to not provide services to neighborhoods based on the income and racial characteristics of the area, a practice known as redlining. Most of the evidence on redlining suggests that it is not a major problem in most mortgage markets, although some studies have found evidence consistent with the existence of redlining: Evanoff and Segal (1996); Hunter and Walker (1996); Ross and Tootell (1998).