MORTGAGE LENDING DETERMINANTS IN A MAJOR METROPOLITAN AREA

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The purpose of this paper is twofold. First, the paper analyzes the determinants of mortgage lending terms at a commercial bank and at a mutual savings bank in a major metropolitan area. Secondly, the paper addresses the question whether the clientele of the institutions differ with respect to the mortgage applications. The data set consists of observations on mortgage lending terms and borrower and property characteristics for mortgage loan applications from each of the financial institutions. The survey was conducted from January 1978 to June 1978.

The coefficients from the estimated equations are tested for statistical significance. The estimated equations include the following variables. The loan terms are amount requested, percentage down payment, years to maturity, and interest rate. Although it is recognized that those terms may be interdependent, that particular problem is not considered here. Indeed, interdependence of loan terms exists given that the market for mortgages is not cleared solely by the movement of interest rates. That is due either to the inflexibility of mortgage rates because of political constraints such as usury ceilings or the willingness of the applicant and institution to trade off among the various terms.\(^1\) In particular, a lower interest rate may be offered the applicant provided a higher down payment is forthcoming. Thus, to clear the market for mortgages, the rationing of credit is accomplished through an interaction of the entire package of loan terms rather than simply via movements in the mortgage interest rate.

Moreover, in the case of mortgage applications, the determination of the willingness of the financial institution to grant the application will depend on the creditworthiness of the borrower. The functions used in this paper include as measures of creditworthiness ratio of monthly hous-
ing expense to gross monthly income, net worth, and the ratio of monthly
debt payments to gross monthly income.\textsuperscript{2}

Also included in the equations are property characteristics of the resi-
dence as well as neighborhood characteristics. These are age of the prop-
ey, and percentage of households in the census tract in which the prop-
ey is located that are headed by individuals who are black, female, or
over 62 years of age. It is assumed here that certain properties are per-
ceived, rightly or wrongly, as being in areas of high risk. Hence, in order
for a loan to be noninsured and financed conventionally within a per-
ceived high-risk area, the lender would seek to charge a higher interest
rate or to make the terms of the loan more favorable (to the lender) in
order to offset the additional perceived risk factor. If higher interest rates
are prevented by ceilings, a higher percentage down payment may be
required, or a shorter maturity. Such differences in terms might be
applied to all applicants requesting loans in perceived high-risk areas,
regardless of the personal characteristics of the applicants.\textsuperscript{3}

Finally, data were collected relating to the personal characteristics of
the applicants. Those variables are race, age, sex, and marital status.
Each is a prohibited lending factor in that financial institutions are pro-
hibited from considering such factors in the loan decision. An additional
variable, whether the applicant is a customer of the institution, is also
included.

The above variables are employed in this study to determine whether
the clientele of the commercial bank and the mutual savings bank are
separable. Such a determination is important in these times of a general
movement by financial institutions and by the Congress toward greater
financial homogenization.

The question addressed below is whether commercial banks and mutual
savings banks serve different customers. In order to address that point,
multivariate probit analysis is employed.\textsuperscript{4} The model specified includes
all variables discussed above. Each variable is postulated as having a
particular sign. The dependent variable is coded zero for a bank applicant
and one for an applicant at the mutual savings bank. No applicant, in this
instance, has made applications at both institutions. A positive coefficient
implies that as the value of the independent variable increases, the value
of the dependent variable approaches 1 (the applicant applies at the mu-
tual savings bank).

The assumption here is that the clientele are separable. It is anticipated
that the applicants at the bank are more likely to apply for a lower amount
and to have a higher down payment, a shorter loan maturity, lower