AN ANALYSIS OF THE REPAYMENT PATTERNS OF SOME BLACK MORTGAGORS

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While several previous studies have analyzed the intrarace differences in repayment patterns among white mortgagors, few have analyzed whether such differences occur among blacks. Much of the previous literature provides only aggregated information about black mortgagors. This research is offered as a step in filling this gap in the literature. The results indicate that there are systematic differences in repayment patterns among black mortgagors related primarily to occupation and household composition.

INTRODUCTION

Studies that examine race and ethnicity, with respect to mortgage lending patterns or mortgage delinquency/default patterns, frequently report about minority population groups mainly in aggregate terms; often by comparing them in some way with the aggregate majority population. Too few studies have reported on the intrarace or intraethnic differences within a particular minority group. Lacking these data could cause some lenders to view individual minority mortgage applicants as simply part of a homogenous undifferentiated whole. That is, the overall characteristics of the group, to which the minority belongs, might be disproportionately factored in with the individual characteristics that a particular minority might possess, when he/she applies for a loan. Since aggregate statistics about minority communities are often negative, as compared to the majority community’s aggregate statistics, some minorities could experience adverse differential treatment when they apply for loans.

There is growing evidence that reporting about minority groups mainly in aggregate terms is widespread. Examples of this aggregation tendency appear in studies on differential lending statistics and in studies on delinquencies and defaults. Examples of differential treatment of minorities can be found in the “testing” literature.
With respect to the lending side of this issue here are some examples. The Federal Reserve Bank of Boston analyzed over 3,000 mortgage loan applications taken by Boston area mortgage lenders during 1991. Their statistical analysis found that blacks and Hispanics, ceteris paribus, were 60 percent more likely to be denied a mortgage loan than whites.1 In New York, Chemical Banking Corporation, the nation’s third largest bank said it rejected 55.6 percent of all prospective minority home buyers in 1991, compared to a rejection rate of 36.5 percent of potential white borrowers.2 In Charlotte, North Carolina, Nations Bank Corporation reports that it rejected 33.7 percent of borrowers in predominantly minority areas compared to 18.6 percent in mostly white areas.3 In Washington, D.C., Chevy Chase Savings Bank, the area’s largest Savings and Loan (S&L) institution, made 956 mortgage loans in 1991, only 14 went to predominantly black neighborhoods. American Security Bank, which granted the second largest number of mortgages in the D.C. area in 1991, made 1,227 loans in predominantly white areas and only 10 in predominantly black neighborhoods.4 In Baltimore, Maryland the situation is similar. A recent survey found rejection rates for blacks as much as double those for whites.5

A stated justification by some lenders for their differential loan granting records is that blacks, in general, had more indebtedness, lower down payments and weaker credit histories than typical white applicants.6 For instance, several bankers echoed the comment of Margaret Alton, regional Citibank President, who was quoted as saying that “residents in minority neighborhoods tend to be less qualified for credit.”7 The above quote as well as the above studies, cited on minority/majority lending differentials are examples of how some lenders and researchers often report about minority communities mainly in aggregate terms.

With respect to the default side of the issue, Brimelow and Spencer8 indicate that, in the Boston Fed study cited previously, differences in credit qualifications explained about two-thirds of the difference between white and black/Hispanic rejection rates. But even after this correction, minorities are rejected at a rate of 17 percent compared to 11 percent for whites. However, they point out that, although the Boston Fed’s study did not check default rates directly, the Fed did compare default rates across census tracts. The Fed found that there was no difference in default rates between census tracts with mostly white populations and those with large minority populations. Brimelow and Spencer interpreted this result to mean that mortgage lenders weeded out the extra credit risks