

# Mortgage loan originators discriminate with a simple no or slow reply, study shows

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Housing discrimination still occurs nearly 50 years after the Fair Housing Act, but not necessarily at the hands of realtors or bankers, a study of licensed mortgage loan originators (MLOs), the initial contact

for most new home loan inquiries, shows.

The effect of being African American on MLO response is equivalent to the effect of having a [credit score](#) 71 points lower, the study shows.

Economists from Marquette, Texas Christian and Georgia State universities used a matched-pair email experiment to examine MLO responses to white and African American loan inquiries. The experiment generated 10,000 email inquiries, which they tested for differential treatment by client race and credit score.

"We examined whether they responded to our inquiries, whether they followed up and the content of their responses to test for differential treatment," said lead author Andrew Hanson of Marquette. "Our results show MLOs discriminate based on race and treat clients differently based on their credit score."

On net, 1.8 percent of the MLOs discriminated by not responding to inquiries from clients with African American names while responding to those from whites. Across credit-score types, 8.5 percent of the MLOs responded to clients in the high credit score group and did not respond to those who did not report a score. Overall, the effect of being African American on a mortgage loan originator's response is roughly equivalent to the effect of having a credit score that is 71 points lower.

"We found that MLOs were more likely to send whites the information they requested and more likely to give them advice or 'coaching' that may help them qualify for a mortgage," Hanson said.

Discrimination in the information-gathering stage is likely to influence outcomes for minority borrowers throughout the lending and home-buying process, the authors conclude.

"If African American borrowers are less likely to receive communication from a [mortgage loan](#) originator, or the MLO treats them differently when communication does occur, it makes submitting the loan application more difficult and the remainder of the home purchase more arduous," Hanson said.

It can also influence how and whether the home-buying process proceeds. African American borrowers who is delayed or pre-approved for a smaller loan may be treated differently by the real estate agent in their choice of neighborhoods or expediency of service. They may be offered different interest rates or fees, or asked to pursue credit repair services, which could affect all aspects of their home purchase, even if they successfully obtain the mortgage.

"The growth in email communications, which is increasingly replacing in-person meetings, does not mean the end of discrimination. It still exists in the lending industry," said Hanson. "To uncover the full extent of discrimination in this market and enforce fair lending laws, in-person audits should be expanded to include multiple types of communication."

**More information:** Andrew Hanson et al. Discrimination in mortgage lending: Evidence from a correspondence experiment, *Journal of Urban Economics* (2016). [DOI: 10.1016/j.jue.2015.12.004](https://doi.org/10.1016/j.jue.2015.12.004)

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