

# Lower approval rates evidence of discrimination for same-sex borrowers

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Same-sex couples applying for a home loan were more likely to be denied, according to new research from Iowa State University. Credit: Christopher Gannon, Iowa State University

Applying for a mortgage is one of the first steps couples take when

buying a home, but a new study suggests lenders are less likely to approve same-sex couples.

Researchers in Iowa State University's Ivy College of Business analyzed national mortgage data from 1990 to 2015 and found the approval rate for same-sex couples was 3 to 8 percent lower. The study also included a smaller dataset with more detail about applicants' work history and credit worthiness. Based on this data, same-sex applicants were 73 percent more likely to be denied than heterosexual couples.

Same-sex couples who were approved paid more in interest and fees. Co-authors Hua Sun and Lei Gao, associate and assistant professors of finance, respectively, say the difference in finance fees averaged less than .5 percent, but combined added up as much as \$86 million annually. The research, published by the *Proceedings of the National Academy of Sciences*, found no evidence that same-sex couples had a higher default risk.

"Lenders can justify higher fees, if there is greater risk," Gao said. "We found nothing to indicate that's the case. In fact, our findings weakly suggest same-sex borrowers may perform better."

## **Protection needed**

While mortgage applicants are not required to disclose their sexual orientation, the researchers say perception is just as damaging in terms of discrimination. The Fair Housing and Equal Credit Opportunity acts prohibit discrimination based on a borrower's race, gender, marital status or religion, but neither specifically lists sexual orientation.

The researchers say the findings illustrate a need for change to make the law fair for everyone. Loan decisions should be based on fundamental economic factors, not skin color, sexual orientation or gender. Sun says

making sexual orientation a protected class would limit potential discrimination.

"Policymakers need to guarantee same-sex couples have equal access to credit," Sun said. "Using our framework, credit monitoring agencies also can take steps to investigate unfair lending practices."

Sun and Gao used data from the Home Mortgage Disclosure Act, the Federal Reserve Bank of Boston and Fannie Mae Loan Performance to test whether perceived [sexual orientation](#) affected mortgage approval, cost and performance. Utilizing these datasets allowed researchers to validate their findings and control for factors such as income, variations in lenders' underwriting standards and property type, which may influence approval rates.

Co-applicants with the same gender were identified as same-sex couples for the study. The researchers used Gallup and Census Bureau data of geographic distributions of LGBT adults to verify their identification strategy and reported a good matching quality.

## **Location matters**

Previous research has shown that recent home purchases or refinancing in a neighborhood can predict defaults, which influences mortgage lending approval and interest rates. To determine if the percentage of LGBT individuals living in a neighborhood contributed to the disparity in approval rates, Sun and Gao looked at county-level percentages of same-sex applicants each year.

What they found was somewhat surprising. In neighborhoods with more same-sex couples, both same-sex and different-sex borrowers seem to experience more unfavorable lending outcomes overall. The researchers say the findings should raise enough concern to warrant further

investigation.

**More information:** Lending practices to same-sex borrowers, *Proceedings of the National Academy of Sciences* (2019). DOI: [10.1073/pnas.1903592116](https://doi.org/10.1073/pnas.1903592116) , [www.pnas.org/content/early/2019/04/15/1903592116](http://www.pnas.org/content/early/2019/04/15/1903592116)

Provided by Iowa State University

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