

# Political Voice and (Mortgage) Market Participation: Evidence from Minority Disenfranchisement

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# Summary of the Paper

Dilution of Section 5 of the Voting Right Act in 2013 as a shock to political voice of Black American

- Significant decline in mortgage origination.
- Potential factors: Lower income, Elevated uncertainty, Fear of rejection, Migration
  - As a result of significant drop in mortgage application without a change in rejection rate : not *Lower Income*
  - But the application to Black lenders increase in contrast to others.: not *Elevated uncertainty*
  - No significant outflow of population: not *Migration*
  - Suggesting the self-selection out of the mortgage market due to fear of rejection (discrimination).
- Hamper the home ownership and wealth accumulation, resulting a wealth inequality.

# Discussion #1. Compositional Change in Housing

Table 4: Geographic Regression Discontinuity: Mortgage Market Outcome and the Shelby ruling

	(1)	(2)	(3)	(4)	(5)
	Origination		Application		Denial Rate
	LN(Amount)	Ln(Number)	LN(Amount)	LN(Number)	
Black x Treat x Post	-0.1466*** (0.0322)	-0.0828*** (0.0251)	-0.1261*** (0.0313)	-0.0695*** (0.0246)	0.0004 (0.0054)
Census Tract x Year FE	Yes	Yes	Yes	Yes	Yes
Census Tract x Race FE	Yes	Yes	Yes	Yes	Yes
County Pair x Race x Year FE	Yes	Yes	Yes	Yes	Yes
2D Local Linear Polynomial	Yes	Yes	Yes	Yes	Yes
Adjusted $R^2$	0.8634	0.8868	0.8619	0.8864	0.4180
# Obs	346,825	346,825	346,825	346,825	346,825

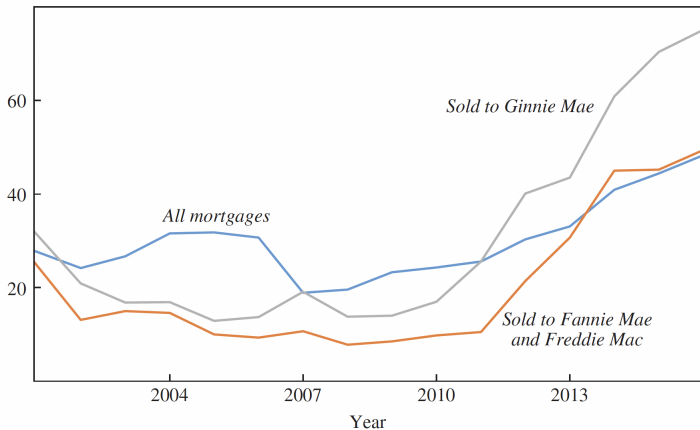
- Reduction in origination  $>$  Reduction in application.
- (1):  $-0.14466/2.409 = -0.061$ ; (2):  $-0.0828/2.092 = -0.039$
- Average size of mortgage loan declines.
- Considering that the home price in the US was increasing around the time, the mortgage was possibly made to different type of homes: cheaper or smaller.
- Due to fear of rejection, did borrowers ask smaller mortgage amounts per home?

## Discussion #2. Growth of Nonbank as an Omitted Factor

Kim, Laufer, Pence (2018): Growth of Nonbanks

**Figure 1.** Percentage of All U.S. Mortgages Originated by Nonbanks, 2001–16

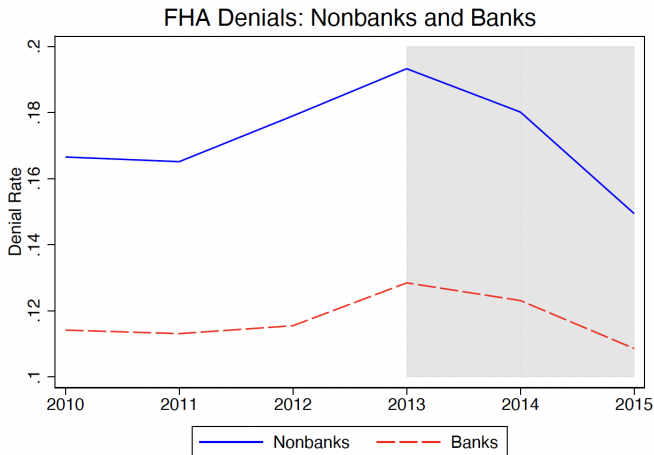
Percent



Sources: Home Mortgage Disclosure Act data; authors' calculations.

## Discussion #2. Growth of Nonbank as an Omitted Factor

Gete and Reher (2019): Behavior of Nonbanks around 2013



## Discussion #2. Growth of Nonbank as an Omitted Factor

### Characteristics of Nonbank Originations

- Originate-to-distribute model
- Cheaper houses
- Concentrate on minority areas

Basis for no discrimination from supply side: no difference in rejection rate

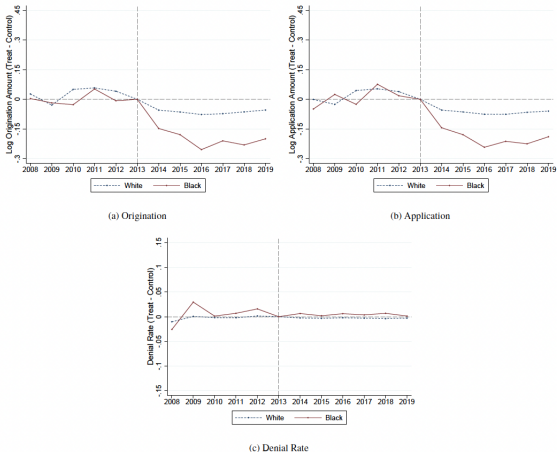
- What if banks reject more in the treated counties,
- while nonbanks aggressively serve them with much lower rejection rate.
- We may observe that rejection rate does not change in aggregate while banks discriminate minorities.
- Potential challenge to isolating the “fear of rejection” channel

Results by lender type would be helpful: Banks, Nonbanks, and FinTech lenders.

# Discussion #3. Another Concern for Some Common Factor

Is there reduction in application and origination for White borrowers?

Figure 4: Mortgage Market Outcomes and the Shelby ruling



## Discussion #4. Other Comments

### Consequence of Constrained Optimization

- Bank lenders cater Black borrowers after the shock.
- If the loan terms were competitive,
- Blacks would borrow from the Black lenders even before.
- Not only the reduction in mortgage availability, but also the loan term can be affected due to the constrained optimization.

### Interconnecting two seemingly contradicting stories

- Magnitude of the effect is stable over the income distribution
- More cash purchase and less purchase with mortgages
- Does the substituted cash purchase mostly happens in high income group? Effects can be even stronger in high income group.



# Conclusion

- Interesting idea and well-executed paper.
- I really enjoyed reading it and learned a lot.