The Fed - How Much Does Racial Bias Affect Mortgage Lending Evidence from Human and Algorithmic Credit Decisions

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We assess racial discrimination in mortgage approvals using new data on mortgage applications. Minority applicants tend to have significantly lower credit scores, higher leverage, and are less likely than white applicants to receive algorithmic approval from race-blind government automated underwriting systems (AUS). Observable applicant- risk factors explain most of the racial disparities in lender denials. Further, we exploit the AUS data to show there are risk factors we do not directly observe, and our analysis indicates that these factors explain at least some of the residual 1-2 percentage point denial gaps. Overall, we find that differential treatment has played a limited role in generating denial disparities in recent years.

**Url:**<https://www.federalreserve.gov/econres/feds/how-much-does-racial-bias-affect-mortgage-lending.htm>