

Racial Disparities in Mortgage Refinances

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CovidMortgagePrepayment/ Brookings/FRBNYSlides.tex

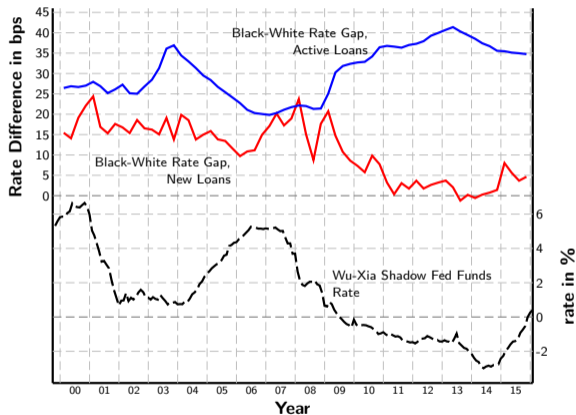
Disclaimer

- I am speaking today as a researcher and as a concerned citizen
- Not as a representative of:
 - The Boston Fed
 - or the Federal Reserve System
- When I say “we”, I don’t mean Jay and me.



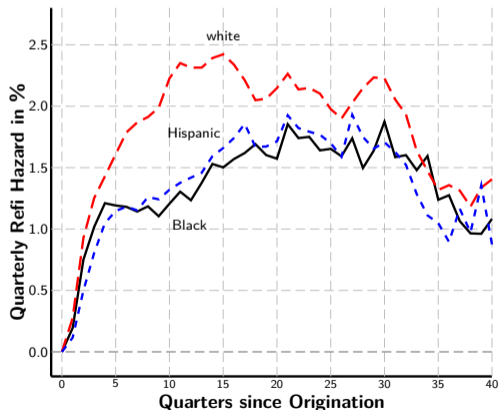
Introduction

- Recently, attention on Black-White rate gap at origination
- But... Gap in *outstanding* rates is much, much bigger. Why? [▶ SCF](#)
- ⇒ Differences in refinance speeds!
 - Sensitivity to exercise value of refi option.
 - Black borrowers much less likely to refinance when rates go down.
 - Can “explain” most of the refi differences with observable factors (i.e. FICO, LTV, etc.).
- Monetary Policy (QE)
 - Disparate impact across races.

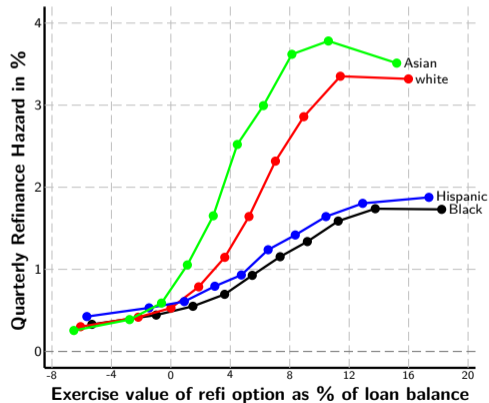


Refi Incentive

- White borrowers almost 2x more likely to refinance



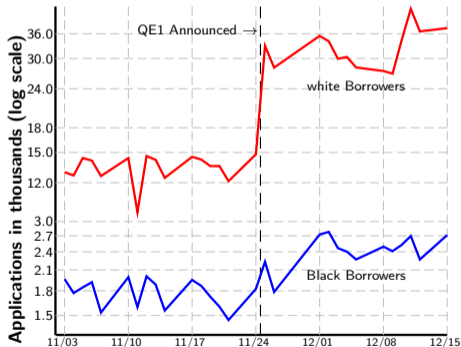
- Gap bigger when “refinance option” is more valuable.



The Role of Monetary Policy

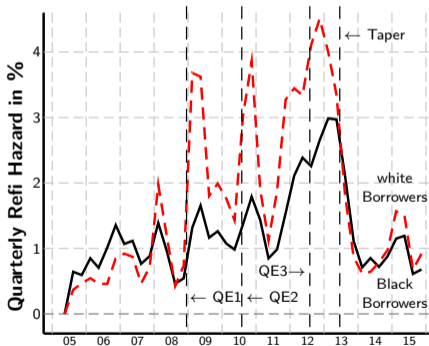
▪ Event Study

- MBS Purchase program announced on 11/25/2008
- White Refi Applications went up 80% relative to Black *that day*.



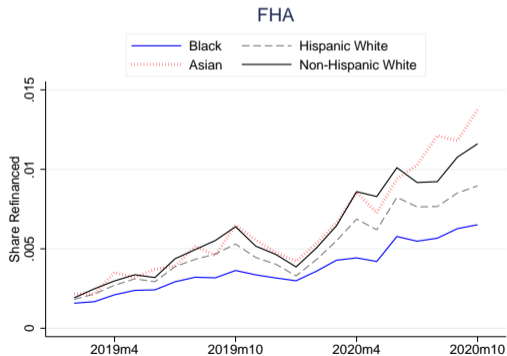
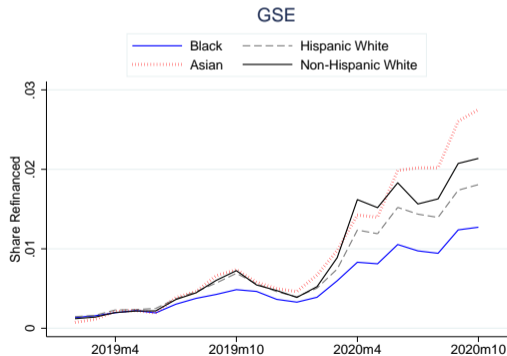
▪ Regression estimates. Refinance hazard increased

- 2× for Black
- 5× for Non-Hisp. White



COVID Experience

- Another huge refinance wave.
- Similar pattern emerges
- Gerardi, Kristopher, Lauren Lambie-Hanson, and Paul Willen. 2021. "Racial Differences in Mortgage Refinancing, Distress, and Housing Wealth Accumulation during COVID-19." Boston Fed Current Policy Perspectives.



COVID Experience

	A: 1/2020-10/2020					B: 1/2019-10/2019				
	Total	White	Black	Hispanic	Asian	Total	White	Black	Hispanic	Asian
(1) Total Paid Off/Terminated=	20.1	21.3	11.6	16.0	22.8	9.2	9.7	6.2	8.0	8.5
Refinanced +	11.0	11.6	6.2	8.9	13.6	3.2	3.2	2.5	3.2	3.2
Moved, new mortgage +	2.9	3.1	1.7	2.2	2.6	1.8	2.0	1.0	1.3	1.2
Paid off, no move, no refi +	3.6	3.8	2.0	3.0	4.6	2.0	2.1	1.2	1.7	2.3
Moved, no new mortgage +	2.5	2.7	1.6	1.9	2.1	2.2	2.3	1.4	1.7	1.7
Foreclosure completed	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0
(2) Still Active as of 10/20 =	79.9	78.7	88.4	84.0	77.2	90.8	90.3	93.8	92.0	91.5
60+ Days past due +	5.5	4.3	12.3	8.8	5.5	1.1	0.9	3.4	1.5	0.5
Current or < 60 DPD	74.4	74.5	76.0	75.2	71.6	89.7	89.4	90.4	90.5	91.1
Forbearance as % of all 60+ DPD	81.5	80.8	80.1	83.5	87.6					
(1)+(2)= All Outcomes	100	100	100	100	100	100	100	100	100	100
(3) Refinance Detail										
Refinanced "in the money"	9.0	9.5	5.2	7.4	10.3	0.9	0.9	0.8	0.9	0.9
Refinanced with cash-out	2.4	2.6	1.4	2.1	1.8	1.4	1.5	1.2	1.5	0.9
In-the-money at some point	84.0	83.6	85.1	86.4	81.2	25.1	24.6	26.3	27.9	21.8
Refinanced as % of in-the-money	10.2	10.9	5.8	8.1	12.2	3.9	4.0	3.1	3.5	4.5
(4) Estimated Payment Reductions for In-the-Money Refinances										
# of loans (thousands)	1,589	1,149	61	135	85	177	122	10	18	8
Monthly Payment Reduction	\$ 279	\$ 274	\$ 269	\$ 274	\$ 324	\$ 226	\$ 223	\$ 213	\$ 212	\$ 265
Total Annual Payment Reduction (millions)	\$5,312	\$3,776	\$198	\$443	\$331	\$478	\$328	\$25	\$46	\$25
as % of Total	100.0%	71.1%	3.7%	8.3%	6.2%	100.0%	68.6%	5.3%	9.6%	5.3%