

**Testimony of**

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**Before the**

**Subcommittee on Oversight and Investigations**

**of the**

**Committee on Financial Services**

**U.S. House of Representatives**

**Examining Discrimination and Other Barriers to Consumer Credit, Homeownership, and**

**Financial Inclusion in Texas**

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Chairwoman Waters, Ranking Member McHenry and Members of the subcommittee, thank you for giving me the opportunity to testify at this hearing. My name is Hua Sun, and I am an associate professor of finance at Iowa State University. I earned my Ph.D in real estate from University of British Columbia and my research interests include mortgage lending and housing economics. I am pleased to have this opportunity to discuss our findings on potentially disparate lending practices to same-sex mortgage borrowers.

In April, 2019, I published a paper jointly with my co-author at the Proceedings of National Academy of Sciences of USA (PNAS) that looks at this issue. We found that compared to heterosexual borrowers of similar profiles, same-sex borrowers are statistically more likely to be rejected when they apply for a loan. Further, when approved, it was shown that they pay higher interest

rates and/or fees on average. Lastly, we were unable to find statistical evidence that same-sex borrowers are more risky to lenders than comparable hetero-sex borrowers.

The primary data used in our loan underwriting analysis is a 20% random sample from the publicly available Home Mortgage Disclosure Act (HMDA) data between 1990 and 2015. It gives us over 30 million observations on residential loan application records that involve both a borrower and a co-borrower. The study used the mandatorily disclosed sex information to distinguish same-sex borrowers and hetero-sex borrowers. We then merged the HMDA data with the publicly available Fannie Mae single-family loan performance data on over 400,000 approved loans originated since 2004. The merged data afforded us the opportunity to examine the financing cost and succeeding loan performance. Our findings show that, compared to hetero-sex borrowers with similar characteristics, same-sex borrowers experience about a 3% to 8% lower approval rate. Further, among the loans that are approved, each year lenders charge a higher interest and/or fees to same-sex borrowers in a range between two to twenty basis points. Our inferred dollar value on the higher cost burdened by same-sex borrowers nationwide is equivalent to an annual total in a range of \$8.6 to \$86 million. Yet, we were unable to find evidence that same-sex borrowers are more risky. Indeed, our data shows that same-sex borrowers appear to be slightly less risky on average as they exhibit similar default risk but lower prepayment risk than comparable hetero-sex borrowers.

As sexual orientation is not disclosed in the data, we calculated the correlation between our inferred same-sex population density and a 2015 Gallup LGBT population survey at the state level. We found that, depending on the measure used, the correlation is between 0.61 and 0.85. As a result, it is our hope that this research into the lending experiences of same-sex borrowers will shed a light on the adverse lending practices applied to LGBT borrowers. As another robustness check, and in order to rule out the possibility that a borrower and a co-borrower are relatives, we only looked at same-sex borrowers that are of a different race. In this instance, we continued to find a significantly lower approval rate on this restricted sample.

One limitation on HMDA data is its lack of borrower's information such as credit history. In an effort to minimize this, we cross-validated our finding of lower approval rate by using the data on a sample of borrowers in the Boston MSA in 1990. This data was collected by the Federal Reserve Bank of Boston. Previously this Boston-fed data has been used by many academic researchers to study minority lending discrimination. The strength of this data is that it has detailed information such as a borrower's credit history, work experience, and educational background. The Boston data revealed that, after controlling for the essential borrower and mortgage characteristics, same-sex applicants are 73.12% more likely to be denied when they apply for a loan than hetero-sex borrowers.

We also looked at loan underwriting over a series of time periods and found that the lower approval rate to same-sex borrowers is persistent over time. Indeed, the HMDA data implies that the gap is even larger in 2015 than in 1990.

In regard to lending practices on agency vs. non-agency loans, we found that the largest gap is on conventional loans, where the raw approval rate (i.e., without any econometric adjustment) on same-sex borrowers is about 7% lower than those on hetero-sex borrowers. The gap is about 4% on VA loans, and about 0.8% on FHA loans.

To summarize, our study documents some statistically and economically significant findings on adverse lending outcomes to same-sex borrowers. The lending disparity appears to be throughout the life cycle from applying to paying off a loan. Like any empirical research, our study is subject to limitations such as potential omitted variable bias. That said, I believe these findings are still concerning. Given that the current federal credit protection laws such as Fair Housing Act (FHA) and Equal Credit Opportunity Act (ECOA) do not explicitly list sexual orientation as a protected class, it is my wish that our study and this testimony will help initiate a meaningful discussion on the need, and the means, to provide stronger protections for same-sex borrowers.