

Discussion of
“Language Frictions in Consumer Credit”
&
“Price Discrimination and Mortgage Choice”

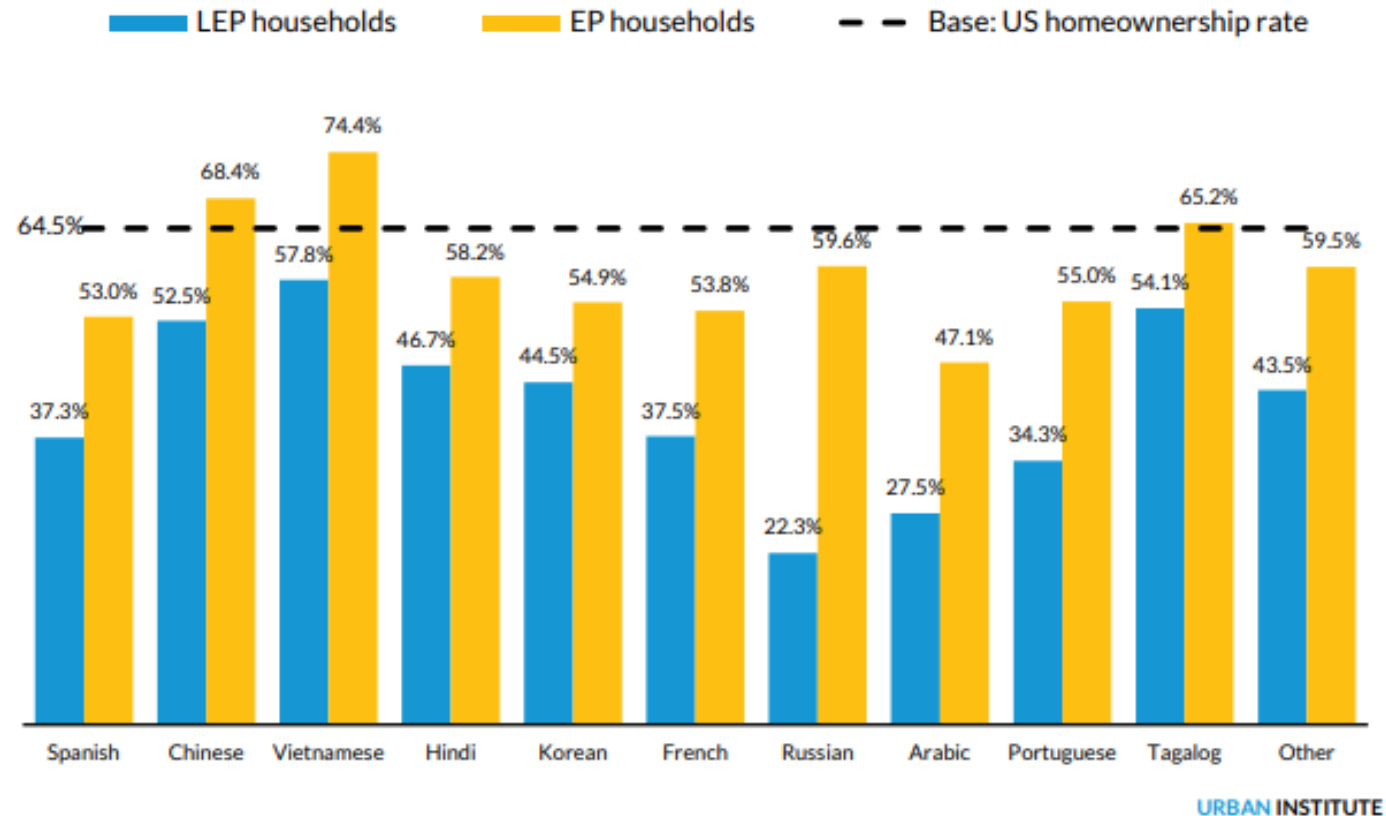
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The views expressed do not necessarily represent those of the Federal Reserve

Homeownership rates are much lower for LEP households

FIGURE 14

Homeownership Rates among Households Who Do Not Speak English at Home



Source: 2017–21 American Community Survey.

Note: EP = English proficient; LEP = limited English proficient.

Do language barriers reduce access to credit?

- If so, translating documents (application form, disclosures, etc.) to other languages *might* help
 - Loan officers may be important (e.g. Frame, Huang, Mayer, and Sunderam 2022)
- Natural experiment: What happens after **FHFA Language Access Plan** is implemented in 2018?
 - More mortgage applications from LEP populations?
 - Better mortgage terms for LEP borrowers?

Impressive empirical work!

- Uses many datasets
 - NSMO, ACS, HMDA, GSE,...
- ML techniques to identify LEP applicants
- Natural experiment is compelling
- Looks at a large set of outcomes

NSMO results: Large effects on LEP interest rates

Table 6. Effect on Interest Rate at

Sample	All (1)	Purchase (2)
LEP × Hispanic × Post	-0.149** (0.074)	-0.165* (0.096)

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Table 4. LEP Status, Interest Rate, and

	(1)	(2)
	Panel A.	
LEP	0.032*** (0.010)	0.029** (0.010)

- Implausibly large? Effect is about 5x larger than the average rate difference for LEP borrowers

HMDA+ results

Table 11. Effect on Interest Rate, Discou

Sample	Purchase (1)	First borro (1)
LEP × Hispanic × Post	-0.035*** (0.009)	-0.05 (0.0)
Implied lower bound	-0.049	-0.1
Observations	3,877,813	1,680

- Plausibility: What is the pre-treatment LEP rate gap?
- Assessing the magnitude:
 - How much would it cost someone to buy down their rate 5 basis points?
 - About 0.2 – 0.25 “discount points”
 - or, \$400-\$500

Effects on homeownership?

Table 8. Effect on Mortgage Credit Access

Dependent variable	# Applications (10K) (1)	Share of incomplete app. (2)	Denial rate (3)	# Originations (10K) (4)
Panel A. Conventional purchase loans				
LEP share \times Post	0.121** (0.060)	-0.062*** (0.022)	-0.155*** (0.041)	0.089** (0.044)
Observations	25,225	25,225	25,225	25,225

- Are LEP families more likely to become homeowners?
 - Could test directly using ACS data

Two other comments/suggestions

- Measuring points in HMDA
 - Be sure to account for “lender credits”
 - Look at “net origination fees” instead of discount points:
 - Net origination fees = origination charges – lender credits
- Measuring LEP in NSMO
 - Speaking English at home (X82) appears uncorrelated with your LEP measure (based on X14)
 - Suggests yours is a noisy measure of LEP status?
 - Results robust to using X82? If not, why not?

Do mortgage borrowers in the UK choose the lowest cost mortgage?

- Fascinating data
- Clever empirical work
- Great to see studies of major markets outside U.S.

UK mortgage market differs sharply from U.S.

- No 30-year fixed rate mortgage
- Most people get a “hybrid adjustable rate”
 - Fixed for 2, 3, or 5 years, then floating
 - Large penalties for pre-paying within the fixed-rate window
- Several consumer protections not present in the U.S.
 - Banks must offer same menu to all borrowers
 - Fiduciary standards for loan brokers

Borrowers face many options

Table 1: Example of products on offer

	Initial rate (%)	Fee (£)	Reset rate (%)	Max LTV (%)	Max loan (£000)
Bank A	3.39	999	3.94	90	400
Bank A	3.59	1,499	3.94	90	400
Bank A	3.64	999	3.94	90	400
Bank A	4.15	0	3.94	90	400
Bank A	4.15	599	3.94	90	400
Bank A	4.19	599	3.94	90	400
Bank A	4.19	399	3.94	90	400

Borrowers face many options

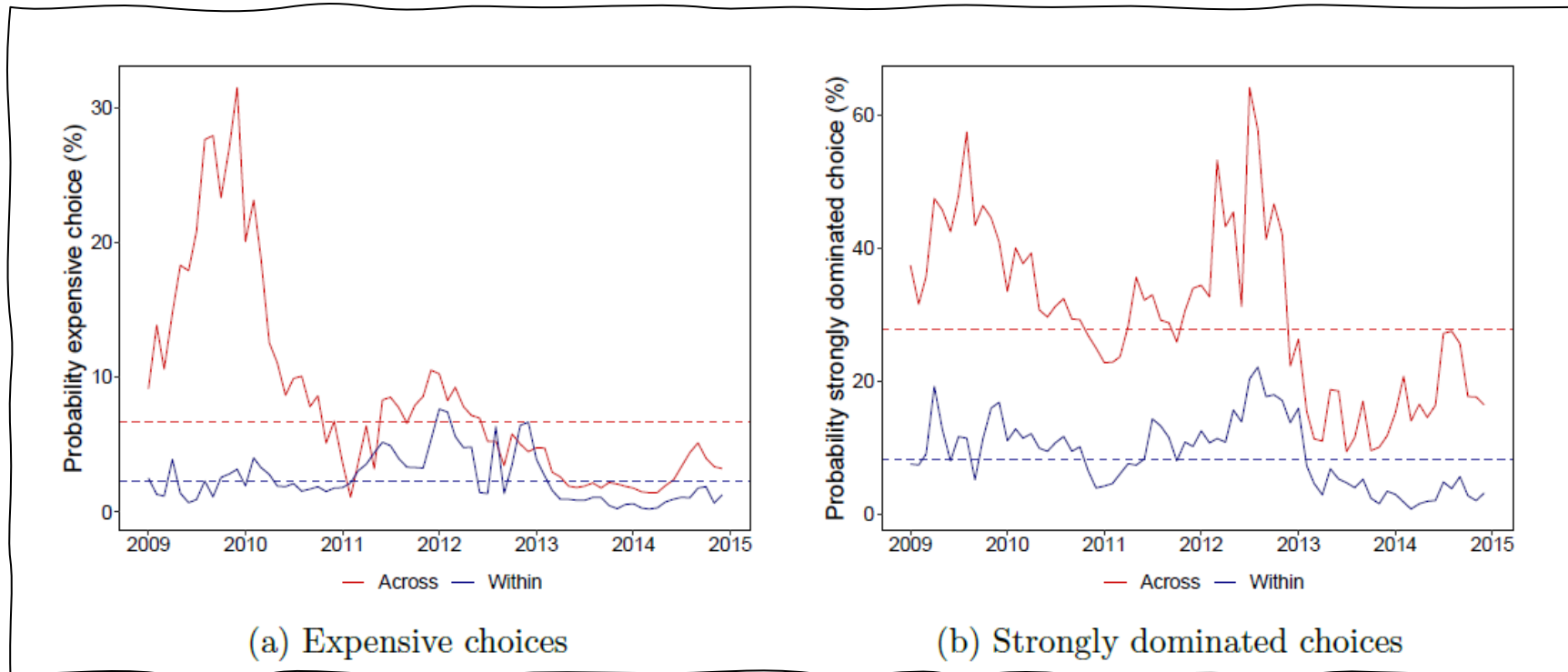
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Bank B	3.29	0	3.99	90	500
Bank B	4.99	999	3.99	90	750
Bank B	4.99	1,264	3.99	90	750
Bank B	3.94	1,260	3.99	90	1,000
Bank B	3.99	1,260	3.99	90	1,000
Bank B	4.54	265	3.99	90	1,000
Bank B	4.59	0	3.99	90	1,000

Do mortgage borrowers in the UK choose the lowest cost mortgage?

- Which metric should we focus on?



- “Strongly dominated” choices are prevalent
 - This metric seems compelling: clear-cut, costly mistake

Rich get richer

	Strongly dominated choice			
	Within (5)	Within (6)	Across (7)	Across (8)
Young	0.022*** (0.001)	0.010*** (0.001)	0.043*** (0.001)	0.015*** (0.001)
Old	-0.022*** (0.001)	-0.006*** (0.001)	-0.075*** (0.001)	-0.036*** (0.001)
First-time buyer	0.010*** (0.001)	-0.002*** (0.001)	-0.003*** (0.001)	-0.030*** (0.001)
Poor	0.007*** (0.001)	0.008*** (0.001)	0.034*** (0.001)	0.010*** (0.001)
Rich	-0.010*** (0.001)	-0.010*** (0.001)	-0.043*** (0.001)	-0.029*** (0.001)
Bad tail				
Strongly dominated tail		0.382*** (0.001)		0.870*** (0.002)