Racial Discrimination in the Consumer Credit Market

Chi-Jack Lin, Ohio State University[1]
Sherman D. Hanna, Professor, Ohio State University[2]

The Equal Credit Opportunity Act (ECOA), enacted in 1974, makes it unlawful for any creditors to discriminate against credit applicants because of their color, race/ethnic group, religion, national origin, sex, marital status, or age (provided the applicant has the capacity to contract). Researchers have debated the existence of discrimination within the U.S. credit market. Many studies examine the presence of discrimination in the credit market, but none focus specifically on the effect of individuals' race or ethnic group in the consumer credit market, which we differentiate from other household credit markets, such as for home mortgages. This research fills the research gap by examining discrimination in the consumer credit market. Using four Survey of Consumer Finance data sets from 1998 to 2007, we use five measures to assess whether there is discrimination by racial/ethnic group in the consumer credit in US, and, if present, whether the discrimination is due to statistical or taste lender motivations. Our analyses allow for distinguishing statistical and taste discrimination. In four our of five of our measures, there was discrimination against households with Black respondents, and in three out of five measures, there was discrimination against households with Hispanic respondents. Discrimination in the consumer credit market against black and Hispanic households is statistical discrimination: lenders choose to discriminate against black and Hispanic because they on average have higher default risk.

[1] Ph. D. Candidate, Department of Economics, Ohio State University, 1945 N. High Street, Columbus, OH, 43210, 614-747-2259, lin.671@osu.edu.

[2] Professor, Consumer Sciences Department, 1787 Neil Avenue, Columbus, OH 43210, 614-292-4584, hanna.1@osu.edu.