If the material in this book on mortgage discrimination is any indication, the “reckless endangerment” in the title must refer to the authors’ own research methods. This material contains numerous errors and the authors completely ignore the large volume of research in the last two decades that undermines their conclusions.

Morgenson and Rosner focus on a 1992 study by scholars at the Federal Reserve Bank of Boston. This study, the so-called Boston Fed Study, found that in 1990 Blacks and Hispanics in Boston were 82 percent more likely to be turned down for a loan than whites with equivalent credit characteristics. (Morgenson and Rosner can’t even state this finding correctly; according to them, the Boston Fed Study claimed that “The rejection ratio for minorities was 2.8 to 1 compared with white applicants” (p. 33). This is a description of the raw data, not the Boston Fed Study’s conclusion.) Morgenson and Rosner dismiss the Boston Fed’s principal finding with the claim that “The methods used by the Boston Fed researchers to prepare their report were flawed, according to a throng of critics in and out of academia” (p. 35). This claim is simply not correct. Many people raised questions about the study, but all the rigorous investigations of the study’s data and methods, and there were several, found that the study’s results were remarkably robust. Indeed qualitatively similar results emerged from a wide range of alternative variable definitions and statistical methods. Moreover, the paper was published in 1996, after peer
According to Morgenson and Rosner, researchers evaluating the Boston Fed Study concluded that the Boston Fed “analysts did not consider whether an applicant met a lender’s credit guidelines” and that “the type of model used by the Boston Fed oversimplified the complex mortgage lending process” (p. 35). I do not know who Morgenson and Rosner interviewed, but the scholars who have published rigorous evaluations of the Boston Fed Study emphatically disagree with these conclusions. Indeed, the whole point of the Boston Fed Study was to account for the many factors that lenders consider in making an underwriting decision and then to determine if Blacks and Hispanics are treated differently after all these factors are taken into account. They interviewed a large number of lenders in Boston to determine the factors they considered, they collected data on all those factors, and they estimated numerous sophisticated models of lenders’ underwriting decisions. Moreover, as indicated above, many alternative models estimated by other scholars yield qualitatively similar answers. Contrary to the claims of Morgenson and Rosner, it was possible to conclude that banks decisions were driven by something “other than sound lending decisions” (p. 35).

Finally, Morgenson and Rosner push an erroneous argument from an article in Forbes magazine based on loan default rates. “[I]f bias were at work in minority neighborhoods,” they say, “default rates in those areas would have been lower than among white areas, indicating that bankers were refusing loans to legitimate minority borrowers” (p. 36). The fact that default rates were not lower in minority neighborhoods, “should have been a signal to the researchers that their discrimination findings were off base” (p. 36). Although this line of argument has received support from Nobel Laureate Gary Becker, both in a Business Week column and in his Nobel
Lecture, it is simply not correct. Indeed, the flaws of this argument have been well known in the academic literature for at least 30 years, and are even clearly laid out by one of the Boston Fed critics cited by Morgenson and Rosner, namely, Stanley Longhofer.

The most fundamental problem with this argument is that it confuses averages and margins. The default rate for a group of borrowers is an average that reflects the entire distribution of credit characteristics for those borrowers—not just the characteristics of the least creditworthy borrowers in that group. Consider two groups, one of which (say whites) has many more borrowers with impeccable credit (and many fewer borrowers with questionable credit) than another group (say members of a minority group). Then with no discrimination, the average default rate for whites will be much lower than for minorities. Now add discrimination that takes the form of a higher credit standard for minority than for white borrowers. In this case, minority applicants with creditworthiness equal to that of the white borrowers with the poorest credit will no longer receive loans. As a result the default rate observed among minority borrowers will go down. However, there is absolutely no reason to believe that this decline in the default rate for minorities will be sufficient push the average black default rate below the average white default rate. Indeed, given the high concentration of white borrowers at the highest level of creditworthiness, this outcome is highly unlikely.

Perhaps the terrible research on mortgage discrimination in *Reckless Endangerment* is just an aberration, but I doubt it. Reporters who are this sloppy on such a central issue are unlikely to careful on everything else. Readers should be very skeptical about all the claims in this book.
Further reading:

Morgenson-Rosner:


The Boston Fed Study:


Rigorous evaluations of the Boston Fed Study:


A response to the critics by the Boston Fed Researchers:

Proponents of the so-called default approach:


Analysis of the so-called default approach:


Joshua Rosner is a managing director at the independent research consultancy Graham Fisher and Co. and was among the first analysts to identify accounting problems at the government-sponsored-enterprises and to warn of the coming credit crisis. The authors, Gretchen Morgenson, and Joshua Rosner, a Pulitzer Prize winning business journalist and leading expert on housing and mortgage finance issues respectively, have meticulously crafted a really interesting and highly informative narrative of the 'front of stage' role played by Fannie and Freddie, which gives a most comprehensive insight into the disproportionate and at times critically misguided and self-serving influences exercised.