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Does Gender Affect Mortgage Choice? Evidence from the US

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Empirical work in the US and the EU consistently suggests that women, on average, have a lower level of financial literacy and higher level of risk aversion than men. Yet despite the extensive research documenting differences in how men and women make financial decisions – particularly in how they invest – the effect of gender on mortgage choice has not been studied. Chau Do and Irina Paley (2013) take into account risk aversion and level of financial literacy as key determinants of most financial behaviors, including mortgage choice, and examine the effect of gender on the choice of adjustable- versus fixed-rate mortgages among mortgage applicants in the United States.

A mortgage is the predominant means for acquiring a home in the US and many other developed countries. In the US, home ownership provides the main source of wealth for most households, and nearly seven in ten households own their homes. Thus, the type of mortgage chosen, through its interest rate and terms of repayment, is a potentially crucial avenue through which gender affects wealth accumulation and retirement.

The prospective homeowner in the US faces two types of mortgages: an adjustable-rate mortgage (ARM) and a fixed-rate mortgage. Since the initial interest rate of an ARM is lower than that of a comparable fixed-rate mortgage, it offers the benefit of affordability at the outset. However, this initial rate remains fixed only for an allotted period – typically three, five, or seven years – after which the rate resets and floats according to a pre-specified index, such as Libor. These floating interest rates put homeowners in the precarious position of being unable to predict, and plan for, mortgage-payment increases.

The US housing bubble that burst dramatically in 2007 underscores the risks of an ARM relative to a fixed-rate mortgage. In the US prior to the crash, introductory interest rates were lowest for ARMs whose borrowers bore the greatest proportion of interest-rate risk – that is, ARMs with rates scheduled to reset earlier, more frequently, and on potentially less-favorable terms. The subsequent resets of these initial low ARM interest rates were, even in a low interest-rate environment, accompanied by spikes in default rates.

The study is based on proprietary lender data from two large US lenders: mortgage refinances in 2004 and home-purchase applicants in 2006. Since these data are available on the entire applicant pool for a given year, and since the lenders used in the study are large US lenders, the data provide sample sizes large enough for focusing on individual, rather than joint, mortgage applicants – a sample feature that is key for determining the effect of an applicant's gender. Lender data are supplemented with several US public data sources to obtain estimates of an applicant's education, residential mobility, family size and level of financial literacy.

Using linear probability models applied to the lender data for 2004–2006, the study finds that the propensity to apply for an ARM among higher-income applicants is lower for women than men by as much as 8.4 percentage points, or 42 percent. Among lower-income women applicants during this period, affordability concerns likely outweighed risk aversion, in that they were as likely to choose an ARM as their male counterparts These results are consistent with past findings that women are more risk averse than men in financial behavior. Findings of this US-based study are also relevant for other countries, as ARMs of varying lengths are widely prevalent outside the US.

Read the article in full at
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