

CESAR ESCALANTE
University of Georgia, United States

INVESTIGATING RACIAL AND GENDER BIAS IN FEDERAL FARM LENDERS' PACKAGING OF LOAN TERMS

Abstract:

In the U.S. farm sector, the U.S. Department of Agriculture (USDA) had been the plaintiff in several civil rights lawsuits filed by African Americans, Native Americans, Hispanic, and women farmers since 1997. Such lawsuits were based on allegations of discriminatory lending decisions made by USDA's Farm Service Agency (FSA).

Drawing upon such controversies and developments, this paper revisits and analyzes FSA's more recent loan transactions with minority (racial and gender) farmers by presenting a comparative assessment of certain terms and conditions prescribed for approved loan applications. This study will utilize two types of national borrower datasets from the USDA-FSA. The FSA Farm Business Plan dataset, a compilation of financial performance measures periodically collected from FSA's existing borrowers, consists of about 200,000 farm-level observations from 2000 to 2013 and will be used for the comparative analysis of borrowers' financial performance and conditions. The second dataset consists of approximately 112,000 observations obtained from the FSA's guaranteed loan program files from 1999 to 2013. This dataset will be used to compare loan terms prescribed for various racial and gender categories of borrowers using the following Seemingly Unrelated Regression (SUR) model formulation:

$$\begin{aligned} y_{it} &= \beta_1' x_{it} + u_{it} \\ &\vdots \\ y_{it} &= \beta_N' x_{it} + u_{it} \end{aligned}$$

where y_{it} is the dependent variable, $x_{it} = (1, x_{it, 1}, x_{it, 2}, \dots, x_{it, k-1})'$ is a k -vector of explanatory variables for observational unit i , β represents the regression coefficients of the standardized variables and u_{it} is an unobservable error term, where the double index it denotes the t th observation of the i th equation in the system, and t denotes time.

Three equations are developed to determine factors (including borrowers' demographics and financial conditions plus loan program-specific features) that influence a loan officer's decisions on loan amounts, maturities, and interest rates prescribed for approved credit accommodations of borrowers belonging to various racial and gender categories.

This study will help validate whether any lenders' bias still exists against racial and gender minority borrowers that may be evident in the stipulated loan terms. This study takes a non-traditional lenders' bias verification approach as most studies usually focus merely on the loan approval-rejection decisions of lenders. Thus, this study offers important implications in continued efforts to enhance the credit access of minority borrowers and improve their relationships with their lenders, especially among federal sources of financial assistance.

Keywords:

racial minority, gender minority, federal farm loans, loan amount, loan maturity, interest rate, loan packaging terms

JEL Classification: J15, J16, Q14