Credit Discriminations in European Households: Evidence from loan denials in Eurozone Countries

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SUMMARY

Credit discrimination refers to the exclusion of specific social groups from equal access to credit, by marking them as high-risk borrowers. The exclusion of individuals or households from the credit market raises concerns, as it deprives significant portions of the population from investment opportunities, equal access to housing, or a smooth consumption path over the life cycle. Since the shift towards neoliberal economic policies in the 80's, the free movement of capital internationally indicated new dynamics by mobilizing savings at a global and national scale. Despite theflood of predatory mortgage loans in the US during the 00's which contributed vastly to the subprime crisis, financial institutions in the EU followed "long-forgotten" practices of excluding specific social groups from equal access to credit, by marking them as high-risk borrowers.

This paper discusses housing and credit market discriminations by accounting on a number of demographic and social factors such as race, ethnicity, age, income and gender. By shredding light to the credit constrained population characterized by high denial rates for loan, we question whether these variables reveal the presence of credit discrimination in bank decisions. Our evidence from the Household Finance and Consumption Survey data for Eurozone countries suggests prevalence of credit discrimination in a number of the countries sampled.

In addition, we use Greece as a South European case study, to supplement our analysis with qualitative interviews, with bank lenders and immigrants that were excluded from credit, and with in-situ observation in an inner-city neighborhood of Athens, Metaxourgio.