Preiss & Associates, LLC

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Marginal Effects

All Credit Products: Mortgages, Consumer Loans, Home Equity Lines/Loans, Auto Loans, Credit Cards

Description

In credit decision analyses, marginal effects are a measure of the difference in denial probabilities. For example, suppose the denial probability of a Hispanic applicant was determined to be 66%, but if that same applicant was White, and his/her denial probability was found to be 50%, the marginal effect for the Hispanic applicant would be 16% (66% – 50% = 16%). This result means the Hispanic applicant is 16% more likely to be denied. In summary, marginal effects as used in underwriting fair lending analyses express the absolute change in the denial probability associated with a prohibited basis group applicant versus the denial probability of an applicant who is not a member of a prohibited basis group.

Uses

Allows calculation of differences in denial rates by:

- Prohibited basis groups
- Applicant
- Geography
- Product
- Branch/Bank Region

Benefits

- CFPB uses denial rates as a measure of fair lending risk in addition to odds ratios in their analyses
- Reduces fair lending risk.
- Permits comparison of fair lending risks across prohibited basis groups, applicants, geographies, products and branches as well as bank regions.
- Allows sensitivity analyses of changes in underwriting guidelines, potential bank acquisitions

For more information and a full discussion of your requirements, contact rpreiss@preissco.com.