Pay Transparency and Risk Appetite: Evidence from Mortgage Lending Decisions

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Abstract:

This study examines the impact of state-level adoptions of pay transparency laws (PTLs) on mortgage lending. By allowing open salary discussion, PTL adoptions can increase frontliner mortgage officers' awareness of their relative pay disadvantage. We thus find that these officers become more aggressive in loan originations and the loans they originate have higher delinquency rates, suggesting a deterioration in loan quality. These effects are stronger in regions with greater income disparities within the banking sector or in those with a more riskprone culture. Collectively, our findings suggest that pay transparency can increase mortgage bankers' risk appetite.

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Pay Transparency Law, Mortgage Origination, Employee Incentives, Risk Taking, Risk Appetite, Defaults.