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Mr. James P. Scanlan
2638 39th Street, N.W.
Washington, D.C. 20007

Dear Mr. Scanlan:

Thank you for your recent letter concerning my column of April 19 in *Business Week* on bank discrimination in mortgage lending. Thank you also for the enclosed articles you wrote for *The Public Interest*. I fully agree that when considering two groups applying for loans, and if the minorities have on the average worse characteristics than the majority, then without discrimination, one would expect accepted members of the disadvantaged group to have worse characteristics.

However, in a competitive market this does not mean that profit on loans to minorities should be lower than on loans to the majority. My analysis in *Business Week* assumes competition in the mortgage market, so that individuals who apply with measurable good characteristics would get better terms regarding interest rates, down payments, etc. Hence, loans to such individuals should not be more profitable than loans to others. Hence, with market adjustments in the terms of loans to the characteristics of applicants, there is no strong reason to expect that profits on actual loans to minorities should be different from those on other loans if banks are not discriminating.

However, discriminating banks turn down profitable opportunities from minority applicants that it would accept from the majority. Discriminators only accept the most profitable applicants from minorities. Hence, one might expect that discriminating banks would gain greater profits on loans to minorities even if their characteristics are inferior to those of the majority.

Thank you for discussing an important issue regarding discrimination.

Sincerely yours,

Gary Becker

Gary S. Becker

GSB/mdh