Does CFPB Oversight Crimp Credit?

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Introduction

- Renewed policy interest in consumer financial protection since Great Recession
- Key development: creation of the Consumer Financial Protection Bureau (CFPB)
    1. Narrow focus on consumer financial protection
    2. Powers: (i) rule-making, (ii) supervision and (iii) enforcement
    3. Broad authority over both banks and nonbanks
- Critics: Heavy-handed approach ("regulation by enforcement")
- This paper: Effects of CFPB oversight on mortgage lending behavior

Supervision and enforcement

- CFPB has actively exercised "oversight" powers (supervision & enforcement):
  - $\rightarrow$ Active examination program (interview employees, collect records etc.)
  - $\rightarrow$ 200+ enforcement actions; \$12bn+ in consumer relief + other fines

$\Rightarrow$ Hypothesis: CFPB oversight reduces credit supply, or shifts composition of lending?

  - Mechanism: Heightened legal/regulatory risk + compliance costs

- **Identification:** Small banks are exempt from CFPB oversight
  - Exempt if <\$10bn in total assets, <u>and</u> all depository affiliates are <\$10bn
  - For exempt banks, oversight remains with prudential supervisor (e.g. OCC).

Timing

- Compare mortgage lending by exempt vs non-exempt banks around two events:
  - → July 2011: CFPB formation
  - → Nov 2016: Federal election (led to relaxation in oversight intensity)

Bank Size	Regulator responsible for consumer financial supervision and enforcement:	
>$10bn	Prudential regulator	CFPB
<$10bn	Prudential regulator	Prudential regulator
	$\underbrace{\hphantom{xxxxxxxx}}$ Pre-CFPB (up to Q2:2011)	$\underbrace{\hphantom{xxxxxxxx}}$ Post-CFPB (Q3:2011 onwards)

Outcomes

- Study outcomes in residential mortgage market
  - Largest consumer credit market; subject of $\approx$ $1/3$ of CFPB enforcement actions.
- Outcomes:
  - Overall lending volume
  - *Composition* of lending (e.g., drop in FHA lending to riskiest borrowers?)
  - Delinquency transitions (indicator of servicing practices)

Data

1. **HMDA** data on mortgage applications and originations

   $\rightarrow$ Matched to bank & BHC using NIC using Avery file

2. Lender characteristics from regulatory reports

   $\rightarrow$ **Call** + **Thrift Financial Report** + **FRY-9C**

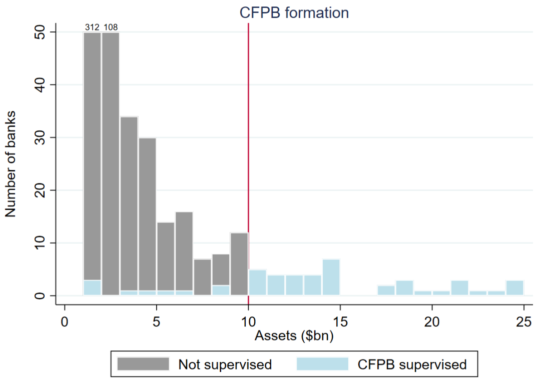
3. **Loan-level FHA mortgage data** (Bhutta and Hizmo, 2020)

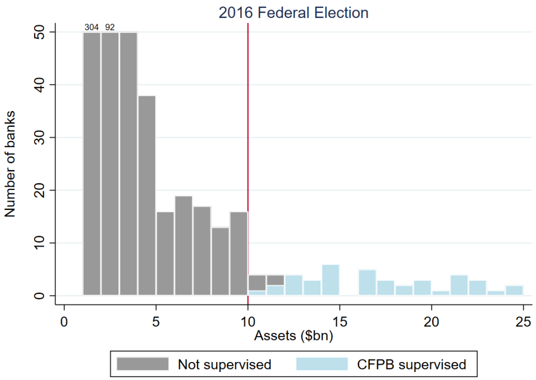
   $\rightarrow$ Includes mortgage characteristics and performance + lender identifier

4. CFPB registry of covered firms

Sample: banks with assets \$1bn-25bn just prior to event

Include commercial banks and savings banks; exclude if high-holder >\$50bn





Loan-level analysis

Estimate linear probability model on 2010-2013 mtg originations:

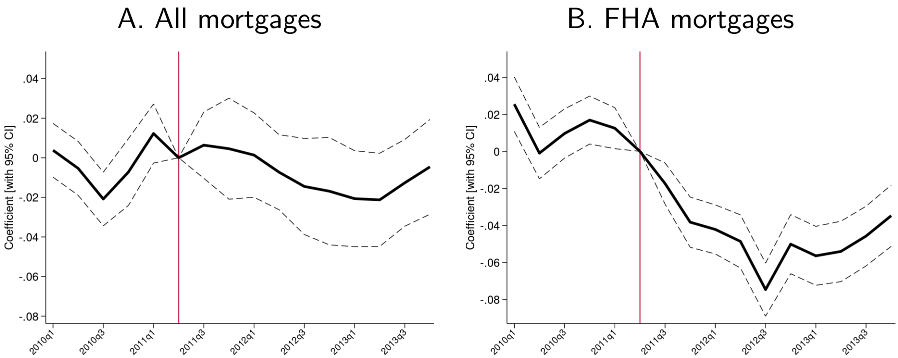
$$CFPBsupervised_{ict} = \alpha_c + \beta \cdot post2011Q2_t \text{ (or } \beta_t) + \Gamma X_{ict} + \varepsilon_{ict}$$

where $CFPBsupervised_{ict} = 1$ if lender is overseen by CFPB (post-2011:Q2).

- $\beta < 0$ would suggest CFPB oversight reduced lending.
- Census tract fixed effects α_c control for regional demand differences.
- Loan controls X_{ict}: loan amount, income, purpose, occupancy, race etc.
- Estimate weighted (by loan amount) and unweighted models.
- Bank sample: \$1bn-\$25bn in assets as of 2011:Q2.

CFPB-supervised origination probability by quarter

Relative to 2011:Q2; dashed lines show 95% confidence interval



Note: Regressions control for census tract fixed effects and loan-level controls, and observations are weighted by loan amount. Standard errors clustered by county.

Results: total lending, around CFPB formation

Dep. var. = 1 if originator is CFPB-supervised				
	(1)	(2)	(3)	(4)
Post-2011Q2	0.0230**	-0.00172	-0.00289	-0.0131***
	(0.00974)	(0.00731)	(0.00688)	(0.00432)
N	3704987	3702041	3702041	3702041
Mean Y	0.38	0.38	0.38	0.33
Loan controls	N	N	Y	Y
Census Tr. FE	N	Y	Y	Y
Weighted	Y	Y	Y	N

Table 1 in paper. Standard errors clustered by county.

- Weighted (col. 1-3): no effect with census tract FE; lower bound of 95% CI is -1.6ppt (comparison: sample average = 38 pct).
- Unweighted (col. 4): stat. sig. but economically small (-1.3ppt)
- **Punchline:** Estimates precise enough to rule out large drop in total mtg lending.

Composition of mortgage lending: 2011:Q2 results

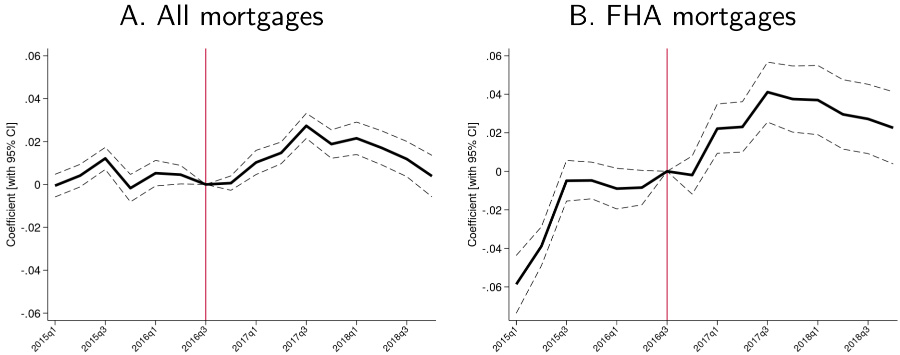
Dep. var. = 1 if originator is CFPB-supervised				
	(1)	(2)	(3)	(4)
Post-2011Q2	0.00282	-0.00997	-0.000147	-0.00164
	(0.00718)	(0.00701)	(0.00789)	(0.00669)
Post-2011Q2 × FHA	-0.0647***			
	(0.00745)			
Post-2011Q2 × Jumbo		0.0536***		
		(0.0110)		
Post-2011Q2 × Conv. Conforming			-0.00350	
			(0.00763)	
Post-2011Q2 × (No Coapp. & High LTI)				-0.00784**
				(0.00352)
N	3702041	3702041	3702041	3702041
Mean Y	0.38	0.38	0.38	0.38
Loan controls	Y	Y	Y	Y
Census Tr. FE	Y	Y	Y	Y
Weighted	Y	Y	Y	Y

Table 2 in paper. Standard errors clustered by county.

- **Substitution effects:** CFPB-sup. banks market share *falls* for FHA loans (col 1); *rises* for jumbos (col 2) — estimates fairly large

Lending share of CFPB-supervised banks recovers post-2016 election

Relative to 2016:Q4; dotted lines reflect 95% confidence interval



Note: Regressions control for census tract fixed effects and loan-level controls, and observations are weighted by loan amount. Standard errors clustered by county.

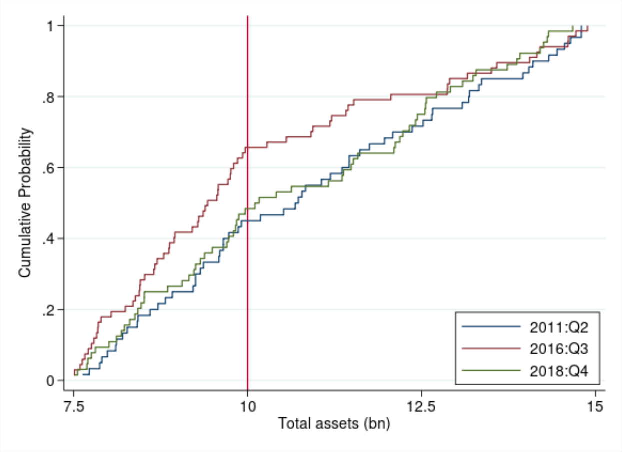
Interpretation + robustness

Summary: CFPB oversight has little effect on total lending, but changes *composition* of lending. Substitution away from FHA (low income, high legal risk) to jumbo.

Additional analysis and robustness:

1. Placebo test on small business lending (risky but outside CFPB oversight)
   - → Helps disentangle CFPB vs other regulatory effects at \$10bn (timing too)
2. Alternative bounds for bank sample (e.g., \$2.5bn lower bound, \$50bn upper bound)
3. Exclude refinancings
4. Exclude banks close to \$10bn that might be affected by "bunching " incentives
   - → Though interestingly, bunching evolves with changing regulatory costs (next slide)

Cumulative density of bank size around $10bn threshold



Note: Cumulative distribution function, based on the population of commercial banks and savings banks drawn from the Call Reports and Thrift Financial Reports. P-values from two-sided Kolmogorov-Smirov tests of equality of distributions are 0.048 (2016:Q3 vs. 2011:Q2) and 0.092 (2016:Q3 vs. 2018:Q4).

Delinquency transitions

- CFPB oversight could improve mortgage *servicing* standards and practices (e.g., early intervention, referrals to credit counselling etc.)
  - $\rightarrow$ Deficient servicing a particular focus of CFPB enforcement actions

- Model of delinquency transitions (Y_{ijct}) using 2009-2013 FHA originations:

$$Y_{ijct} = \alpha_j + \gamma_t + \nu_{ct} + \beta[CFPBsup_j \times post2011Q2_t] + \theta X_i + \varepsilon_{ijct}$$

where Y_{ijct} = e.g., P(60+ delinquent | 30+ delinquent)

$\Rightarrow$ $\beta < 0$ would suggest CFPB oversight reduces transitions to serious delinquency

Delinquency transitions: results

Dep. var.: Delinquency outcome (0/1)

	(1)	(2)	(3)	(4)	(5)	(6)
	30-day delinquency		30-to-60 transition		60-to-90+ transition	
CFPB-sup. × Post-2011Q2	0.0079**	0.0077*	-0.0051	-0.0062	-0.0357**	-0.0426***
	(0.0039)	(0.0041)	(0.0147)	(0.0116)	(0.0157)	(0.0153)
N	363,512	347,014	82,920	79,703	46,280	44,456
Loan characteristics		Y		Y		Y
Bank fixed effects	Y	Y	Y	Y	Y	Y
Origination Month FE	Y	Y	Y	Y	Y	Y
County × Year FE	Y	Y	Y	Y	Y	Y
Delinquency Month FE			Y	Y	Y	Y

Standard errors clustered by lender.

- Loans from CFPB-supervised banks less likely to transition from moderate to serious delinquency (col. 5-6)

→ Suggestive of servicing practices to tighter oversight, higher regulatory risk

Summing up

- CFPB oversight doesn't reduce total lending but changes *composition* of lending
  - $\rightarrow$ Reduction in FHA lending (greater legal / regulatory risk)
  - $\rightarrow$ Substitution to large "jumbo" loans typically to high-income borrowers
  - $\rightarrow$ Reversal following easing of regulatory oversight post-2016 election
- But evidence oversight leads to "borrower-friendly" servicing practices
  - $\rightarrow$ May help reduce inefficient foreclosures
- Intuitive trade-off between protecting vulnerable borrowers and willingness to lend

Thanks!