

# Intermediation Frictions in Mortgage Debt Relief: Evidence from CARES Act Forbearance

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New Perspectives on Consumer Behavior in Credit and Payments

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# Motivation

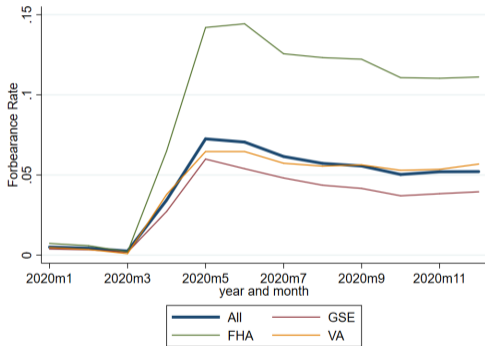
- ▶ Financial intermediaries often important for implementing public policy
  - E.g., PPP loans; HAMP mortgage mods; HARP refis; disaster assistance.
- ▶ Misaligned incentives or other frictions may prevent policies from being implemented as intended “on the ground”
- ▶ **This paper:** Study role of financial intermediaries in implementation of CARES Act mortgage forbearance
  1. Systematic differences across servicers? How large? Why?
  2. What are the consequences for borrowers?

# Mortgage Forbearance and the CARES Act

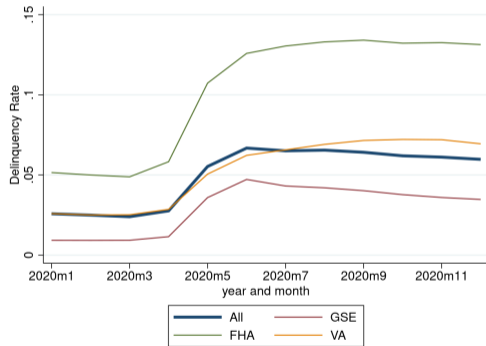
- ▶ The CARES Act (passed 3/27/20) required servicers to offer up to 12 months forbearance on federally-backed mortgages (later extended)
  - Covers agency market (FHA, VA, USDA, Fannie, Freddie)
  - Available if “hardship” related to pandemic. No documentation required.
  - In forbearance: no penalties/fees, delinquency not reported to credit bureaus.
- ▶ Forbearance is not automatic; borrower must request it from servicer.
  - Some servicers made it really easy (e.g., button on website)
- ▶ Borrowers can generally defer repayment until end of loan.
- ▶ At peak (June 2020), 8.6% of mortgages in forbearance (source: MBA)

# Forbearance and delinquency trends

## Forbearance Rate



## Delinquency Rate (60+ days)



Data: FRBNY Consumer Credit Panel and Black Knight McDash

# The role of mortgage servicers

- ▶ Servicers practices affect forbearance outcomes in variety of ways, e.g.,:
  - Whether the servicer is responsive / easy to contact
  - Whether servicer clearly explains forbearance & what happens on exit
  - Ease of applying for forbearance (e.g., website button)
- ▶ What factors may affect variation in servicing practices?
  - Liquidity constraints (servicer must forward payments during forbearance)
  - Regulatory oversight and legal risk
  - Technology and operational effectiveness (e.g., quality of web portal)
  - Skill and training of servicing staff

## Anecdotes (from CFPB complaints database)

- ▶ “I tried to reach out to «XXX» to request a forbearance .. Unfortunately, I was hung up on two times. I spent almost 3 hours on hold.”
- ▶ “My initial 6 month forbearance has been approved, but I’ve been unable to make contact with the servicer to extend the forbearance. I’ve sent emails, left voice messages and tried online to extend the forbearance. They do not respond. I’m scared and I need help.”
- ▶ “Customer service told me that even though my loan is backed up with an FHA loan I needed to ask them [FHA] for help not them.”
- ▶ “He indicated that most likely, the amount due would be due and payable once the deferment period is over.”

# Preview of main findings

1. Significant cross-servicer variation in forbearance outcomes:
  - ▶ Fraction of COVID delinquencies that “fall through cracks” and don’t enter forbearance ranges from <10% to 60% across servicers (for given borrower)
2. Higher forbearance rate for servicers that: (i) are banks, (ii) are large, (iii) have more liquid assets
3. Higher non-payment rate among “high-forbearance” servicers (one-for-one)
  - ▶ Interpretation: Access to forbearance increases borrower liquidity
4. Effects on other dimensions of balance sheet (e.g., lower credit card debt)

## Related literature

- ▶ Literature on the COVID-19 forbearance programs (partial list):
  1. **Cherry et al. (2021)**: General picture of COVID debt forbearance
    - Lower FNMA mtg forbearance from nonbanks, servicing transfers
  2. **JPMC Institute (2021); Lambie-Hanson et al. (2021)**: Most borrowers in forbearance saw income declines.
  3. **Cordell et al. (2021)**: Distributional effects of forbearance
- ▶ Literature on mortgage modifications following the financial crisis: significant “intermediary” effects, e.g.,
  1. **Agarwal et al. (2011), Kruger (2018)** Servicers more likely to modify loans held in portfolio vs. serviced for others.
  2. **Agarwal et al. (2017)** Cross-servicer variation in HAMP modifications.



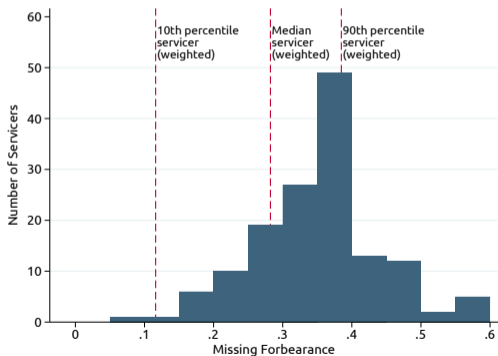
# Sample and data

- ▶ Sample: FHA/VA loans securitized into Ginnie Mae MBS ( $\approx 70\%$  FHA)
  - FHA serves low income borrowers, has highest forbearance rate
  - FHA delinquencies riskier for servicers (e.g., no cap on svcr advances)
- ▶ Data:
  - eMBS: characteristics and performance of Ginnie Mae mortgages
  - Ginnie Mae forbearance records
  - Bank and nonbank Call reports (servicer financial information)
  - CRISM: borrower credit records merged with McDash mortgage data

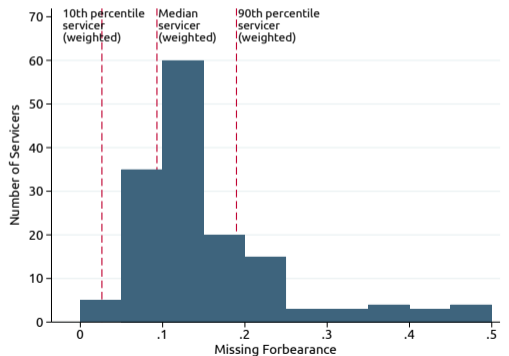
# Variation in forbearance availability across servicers

$$\text{Forbearance} | \text{Delinquency}_i = X_i\beta + \xi_{\text{servicer}} + \epsilon_i$$

no forbearance | 30+ days dq



no forbearance | 60+ days dq



# Regression of servicer FE on servicer characteristics

	All Servicers				Nonbanks			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>Nonbank Servicer</b>	<b>-0.109**</b> (0.046)			<b>-0.087***</b> (0.025)				
<b>log(Total agency servicing book size)</b>		<b>0.040***</b> (0.012)		<b>0.035***</b> (0.006)				<b>0.028***</b> (0.006)
Growth rate of svc book size from 2019 to 2020			-0.134** (0.058)	-0.038 (0.038)				-0.009 (0.046)
<b>log(Cash to Total Asset)</b>					<b>0.055***</b> (0.019)			<b>0.051***</b> (0.013)
Capital ratio						0.211 (0.132)		0.036 (0.104)
log(svc staff wage to servicing book size)							0.002 (0.005)	-0.001 (0.003)
Constant	0.067 (0.041)	-1.037*** (0.289)	0.050 (0.041)	-0.842*** (0.168)	0.137** (0.065)	-0.086** (0.041)	-0.020 (0.060)	-0.597*** (0.143)
N. Obs.	155	155	150	150	92	102	90	86
Adj. $R^2$	0.22	0.32	0.16	0.50	0.22	0.03	-0.01	0.44

- ▶ Results fairly robust to different ways of estimating servicer fixed effects
  - (i) use full sample, including current; (ii) condition on 60+ past due; (iii) include *originator* FEs (identify from servicing transfers)

# Servicer actions or omitted borrower characteristics?

- ▶ Estimated servicer effects might reflect:
  - (i) variation in servicing practices, *and/or*
  - (ii) omitted borrower characteristics affecting forbearance *demand*
  
- ▶ Evidence against omitted characteristics explanation:
  1. No difference in pre-COVID delinquency flows (high vs low FB servicers)
  2. Similar loan characteristics (high vs low FB servicers), aside from loan age
  3. Fixed effects robust to set of borrower controls used

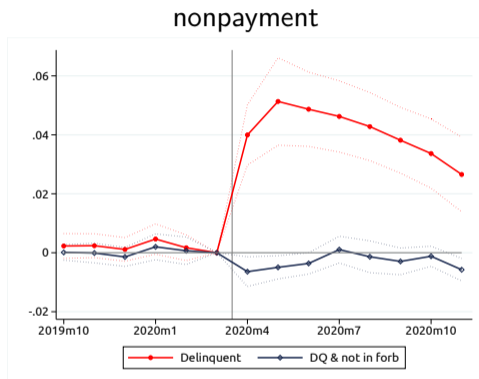
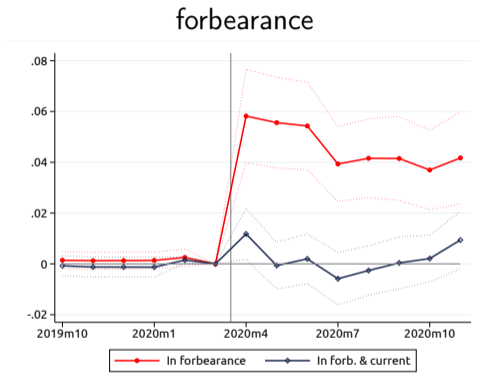
# Forbearance availability and borrower outcomes

- ▶ Use servicer assignment to trace out effect of forbearance availability on borrower outcomes (non-payment, etc.)
  - Data: Match between eMBS + forbearance records + CRISM

$$Y_{it} = \sum_{\tau=-6, \tau \neq 0}^8 \beta_{\tau} S_{vcr_i}^{HighFB} \times \mathbb{1}_{t=\tau} + Z_{it}\gamma + \alpha_t + \varepsilon_{it} \quad (1)$$

- $Y_{it}$  = outcome (e.g., payment status, credit score, debt balances)
- $S_{vcr}^{HighFB}$  = high-forbearance servicer, above-median servicer FE
- $Z_{it}$ : loan & borrower characteristics (mortgage + credit bureau)

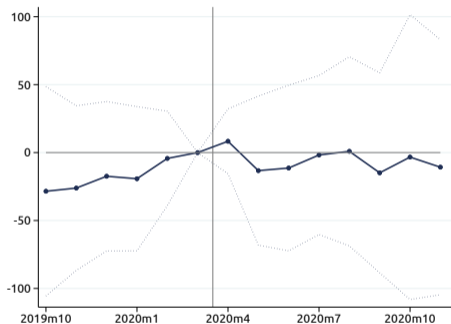
# Forbearance availability and nonpayment



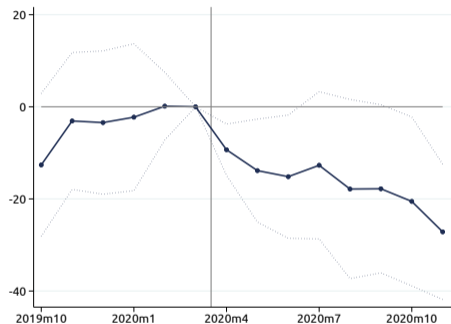
- ▶ Forbearance induces nonpayment (one-for-one)
  - No effect on nonpayment outside of forbearance
  - No effect on fraction of borrowers in forbearance who still make payments

# Forbearance availability and credit card balances

high cc-balance households



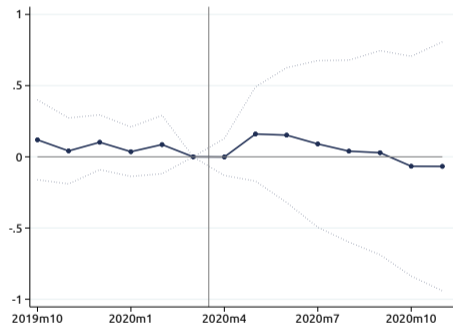
low cc-balance households



► Other outcomes:

1. No reduction in prepayment hazard
2. No improvement in non-mortgage delinquency rate

# Foreclosure availability and credit score



- Little effect on borrower credit score (measured using FICO v5).



# Is induced nonpayment moral hazard?

- ▶ Forbearance availability may induce nonpayment among households:
  - With income and/or costs impacted by the pandemic (targeted)
  - Unaffected by pandemic; want inexpensive liquidity (unintended)
  
- ▶ Evidence against widespread moral hazard:
  - JPMC Institute (2021); Lambie-Hanson et al. (2021): most in forbearance had income declines
  - Overall take-up relatively low
  - Borrowers in forbearance look similar across servicer type.

# Summary and policy implications

- ▶ Intermediary effects seem important in CARES Act forbearance rollout
  - Significant cross-servicer variation in outcomes [range: <10% to 60%]
  - Most successful: banks; large, mature servicers with liquid asset buffer
- ▶ Effects of forbearance availability on borrowers:
  - Increase borrower cash position ( $\Delta \text{ nonpay} / \Delta \text{ forbear} \approx 1$ )
  - Some paydown of more-expensive credit card debt.
  - No net effect on credit score, delinquency. Funds mostly saved, consumed?
- ▶ Policy:
  - Auto-enrollment or centralized portal could reduce cross-servicer disparities
  - Results highlight importance of nonbank regulation & supervision
  - Even so: debt relief much more successful than in wake of Great Recession