Liquidity Needs of the Housing Finance Industry

GNMA Conference on Managing Value and Liquidity in Mortgage Servicing
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Notes for the slides can be found at the end of the presentation.

Outline

Key **trends**

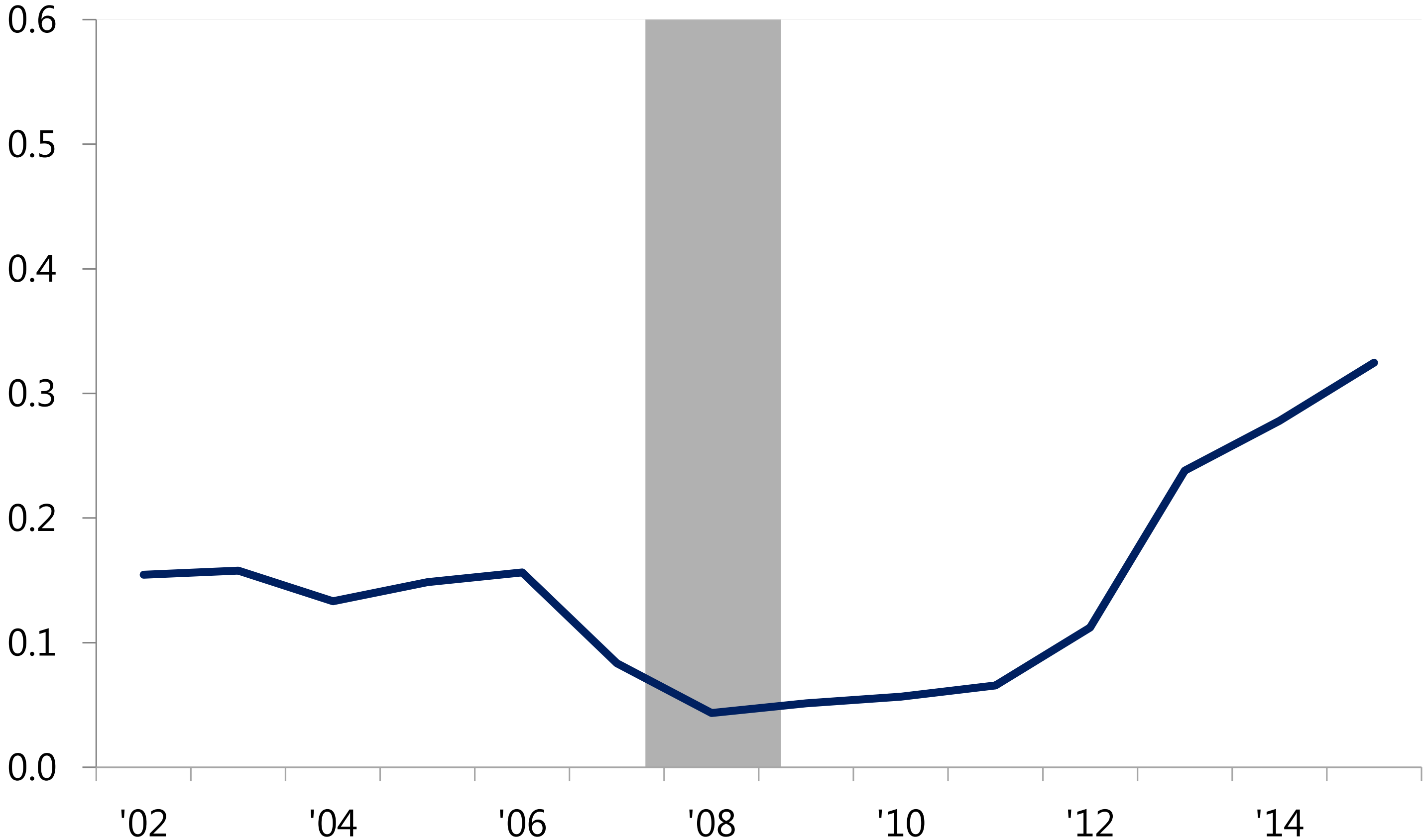
Issue raised by these trends

Possible broader **implications** identified in the literature

Questions we need to answer

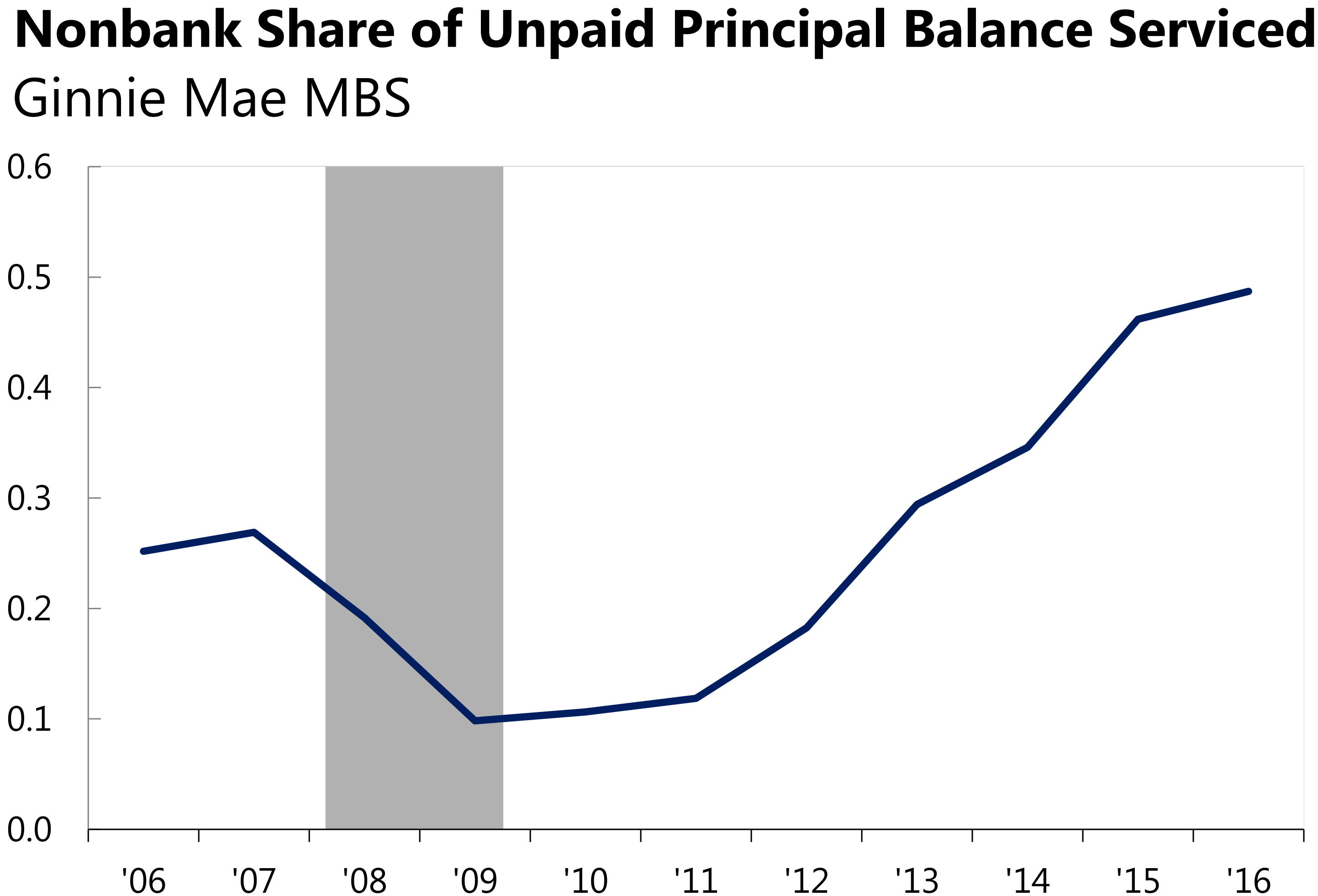
Key trend: Rise in nonbank share of mortgage servicing since 2009

Nonbank Share of Unpaid Principal Balance Serviced
Top 30 Servicers

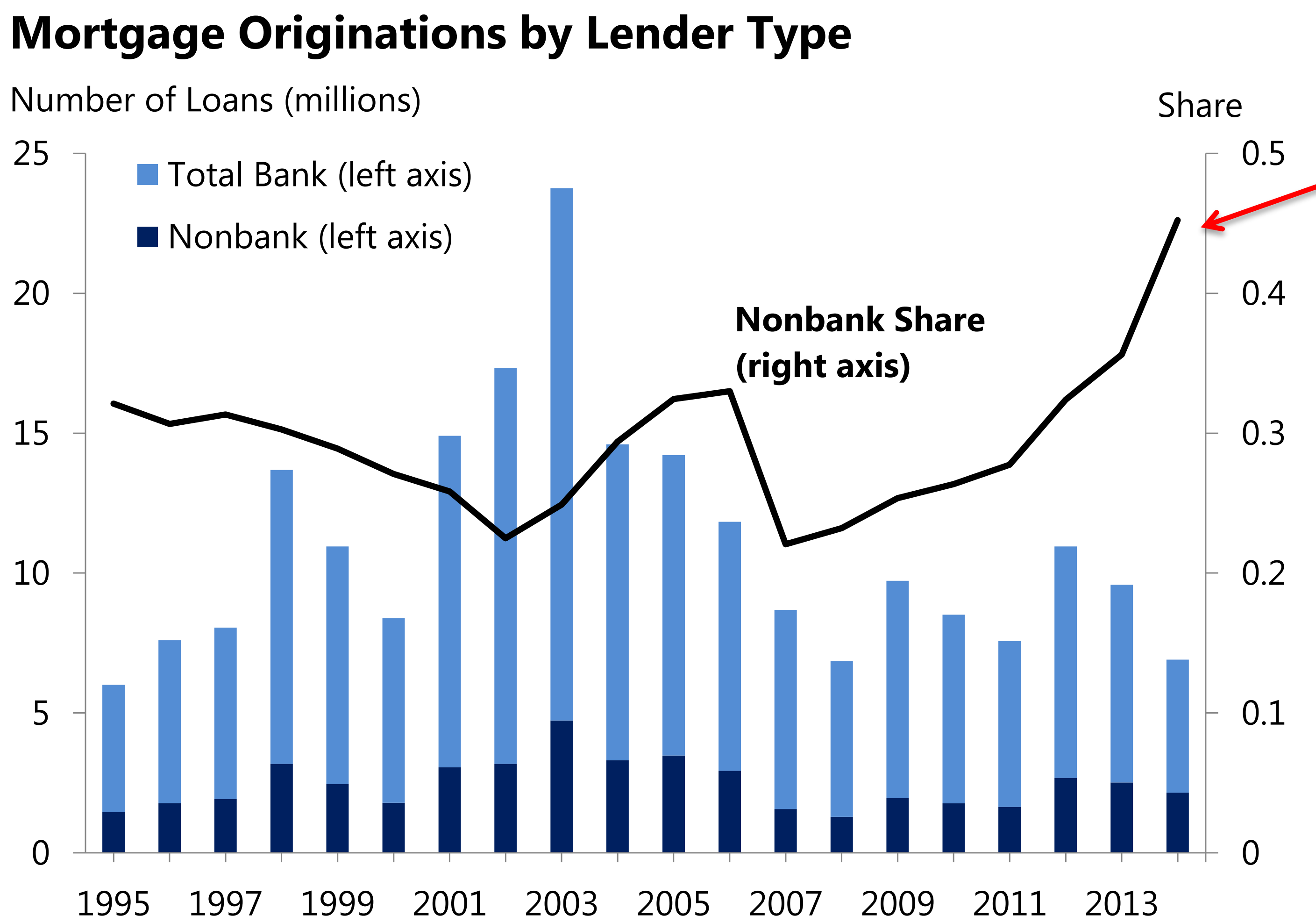


Note: Countrywide loans included in the bank category.

Similar trend showing up for GNMA servicers

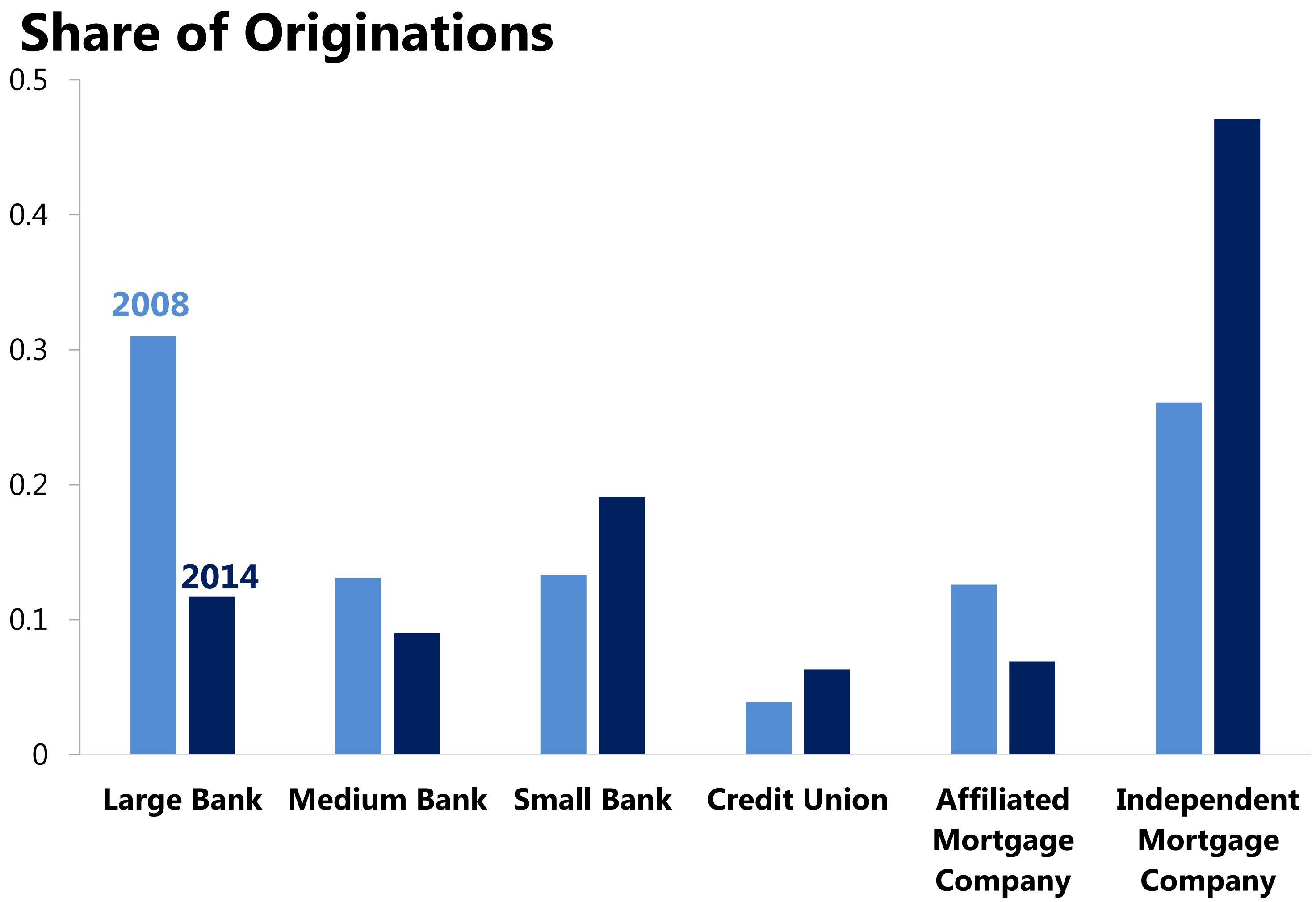


Related trend: Nonbank share of originations also increasing

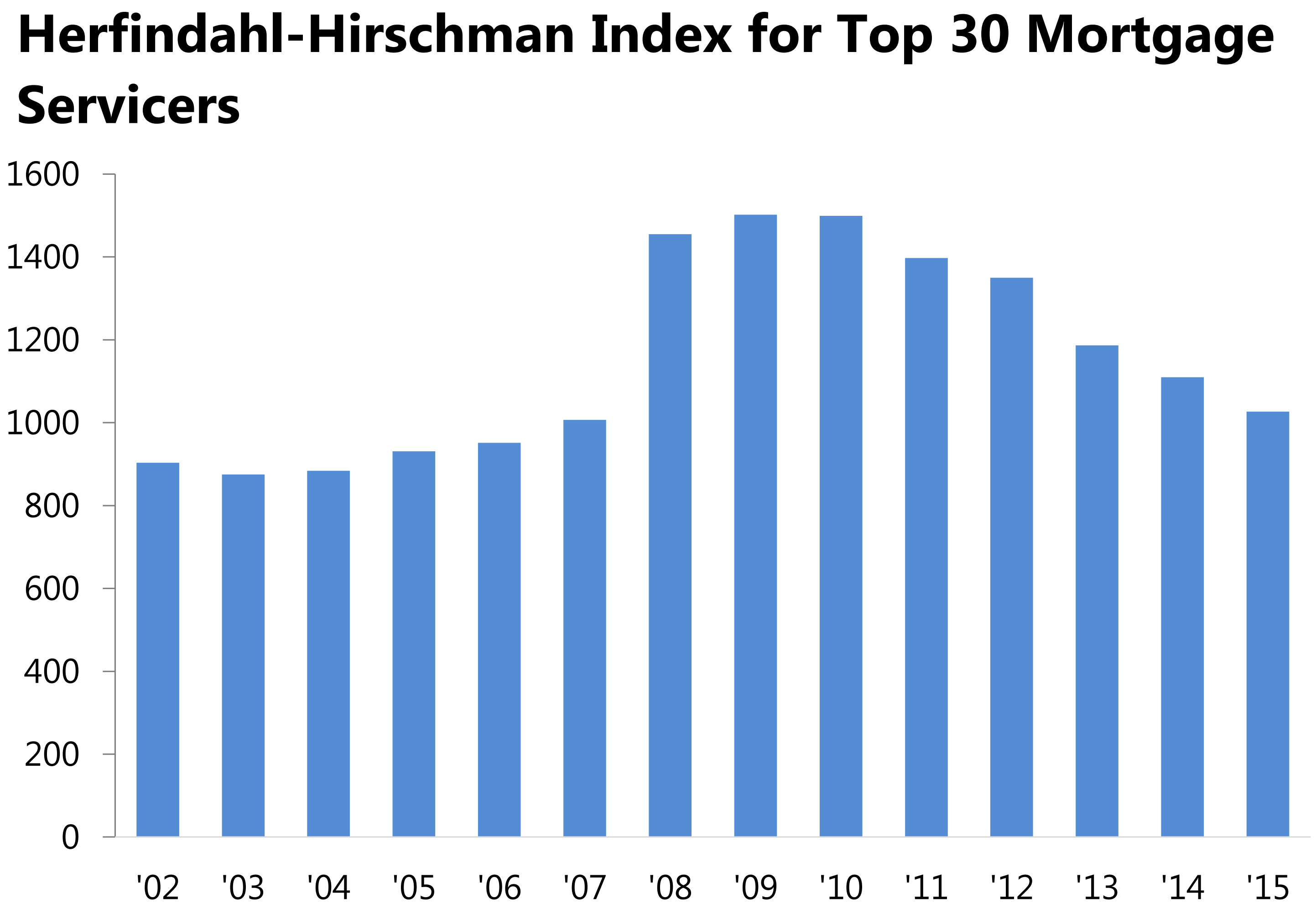


More timely data suggest that the uptrend has continued since 2014

Within the bank category, small banks have increased their share of originations since 2008



Related trend: Concentration of mortgage servicing market has reverted to pre-crisis range



Nonbanks vs. Banks: What is the Issue?

Recent literature has been highlighting that nonbanks more vulnerable than banks to **liquidity shocks**

- Servicing tends to be **a bigger part of their business**
- **Profitability of servicing sensitive** to changes in costs, interest rates, mortgage defaults (and these risks are hard to hedge)
- **Funding sources less stable** (e.g. reliance on short-term funding markets)

Adverse liquidity shocks could affect **their ability to service mortgages** as well as **their ability to advance P&I payments** on delinquent loans to investors as needed

Possible **Broader Implications** Identified by Literature

Risks to the **consumer**

- Distress among nonbanks could change quality of servicing, supply of mortgage credit

Risks to the **taxpayer**

- GSEs, GNMA exposed if the servicing portfolio of a troubled nonbank cannot be easily sold

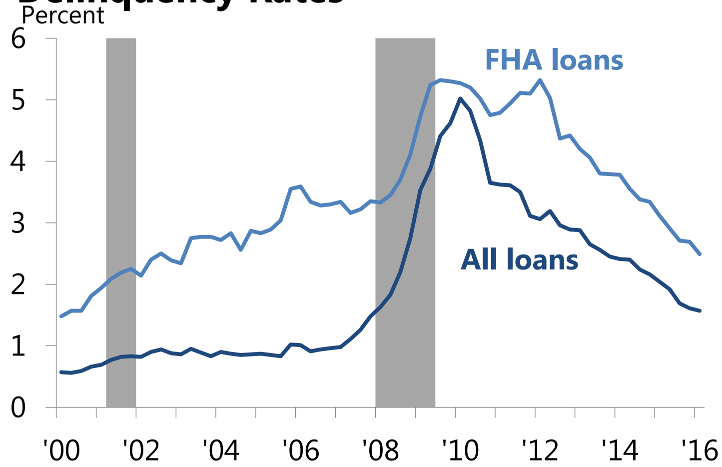
Possible amplification of the **business cycle**

- Mortgage defaults could lead to more distress in housing market if they stress originators / servicers

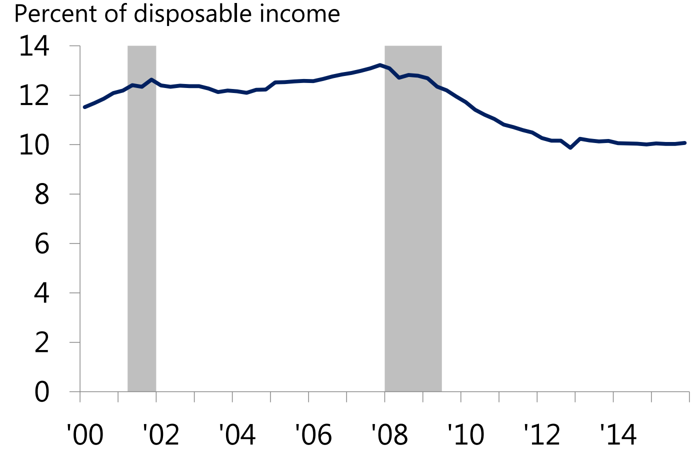
Potential for **financial market spillovers**

Degree of Immediate Risk Informed by Current Household Financial Environment

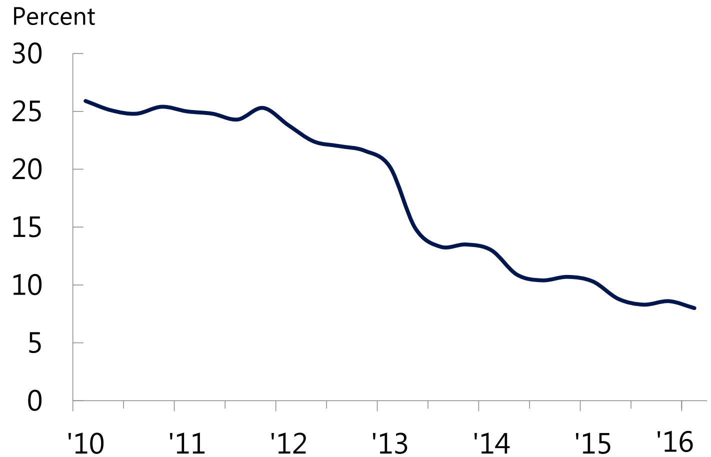
Delinquency Rates



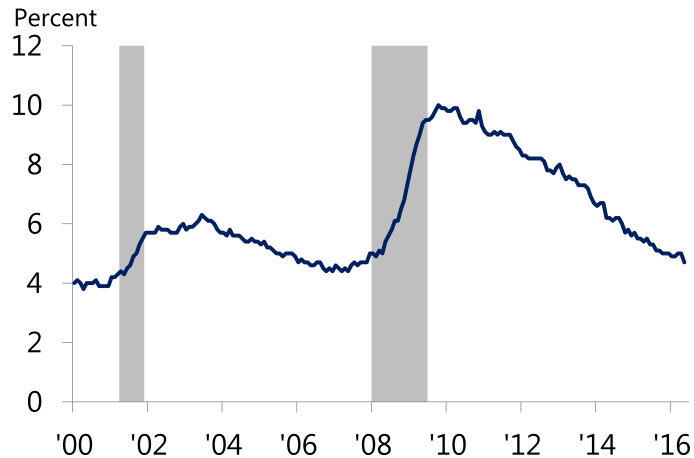
Household Debt Service Ratio



Share of Loans that are Underwater



Unemployment Rate



Questions We Need to Answer

Is the shift toward nonbanks going to reverse?

How big are the risks?

If a large nonbank were to fail, how fast can its servicing and origination activities be picked up by another institution?

How do the risks change with the macroeconomic environment?

What indicators should we be watching to assess how the risks are changing?

Are there policy changes that could help mitigate the risks?

Notes

Slide 2: Source: Inside Mortgage Finance.
Slide 3: Source: Data from GNMA.
Slide 4: Source: HMDA data and Treasury Calculations. Total Bank includes small banks, large banks, credit unions, and affiliated mortgage companies. Countrywide loans included in the bank category.
Slide 5: Calculations based on Inside Mortgage Finance Data
Slide 6: Source: HMDA data. Note: A small bank is a bank whose top-holding institution has less than $10 billion in assets. A large bank is a bank whose top-holding institution has more than $250 billion in assets. A medium bank is any bank between the above two thresholds.
Slide 7: See, for example, Kaul and Goodman (2016) "Nonbank Servicer Regulation: New Capital and Liquidity Requirements Don't Offer Enough Loss Protection," and U.S. Government Accountability Office (2016) "Nonbank Mortgage Servicers: Existing Regulatory Oversight Could Be Strengthened."
Slide 9: Delinquency Rates – Source: Mortgage Bankers Association. Household Debt Service Ratio – Source: Federal Reserve Board. Share of Loans that are Underwater – Source: CoreLogic Equity report, 2016Q1. Unemployment Rate – Source: Bureau of Labor Statistics.