RESIDENTIAL LENDING DURING THE PANDEMIC

Overview

In 2020, a global health crisis caused a deep recession in the United States. Despite the economic downturn, housing market fundamentals have remained resilient and banks were well positioned to support growth in the mortgage market. The housing market benefited from historically low interest rates and fiscal support to businesses and consumers, which helped borrowers stay current on their mortgages and supported new home sales. Mortgage lenders continued to extend mortgages even as they tightened underwriting standards to protect against increased default risk from adverse economic and financial conditions during the pandemic. Mortgage credit quality deteriorated but has since improved. The outlook for mortgage credit and the housing market depends on the outlook for interest rates and economic conditions. Higher interest rates may slow the mortgage market and demand for mortgage loans. Programs that have aided homeowners, such as forbearance and government stimulus, are scheduled to expire in 2021, increasing the risk for deterioration in credit quality of mortgages, higher mortgage delinquencies, and reduced credit availability.[1]

FDIC-insured institutions (banks) held $2.5 trillion in residential mortgage loans as of first quarter 2021, of which $2.1 trillion were first-lien mortgages. Banks held an additional $3.3 trillion in mortgage-backed securities. Banks also serviced $2.9 trillion of mortgage loans originated by other institutions. These volumes, while less than during the financial crisis of 2008 and 2009, suggest that banks continue to have meaningful exposure to the housing market. This article discusses residential lending and underwriting trends in the mortgage market, in light of the changed environment presented by the pandemic, and bank residential lending activity during this time.

Economic Backdrop

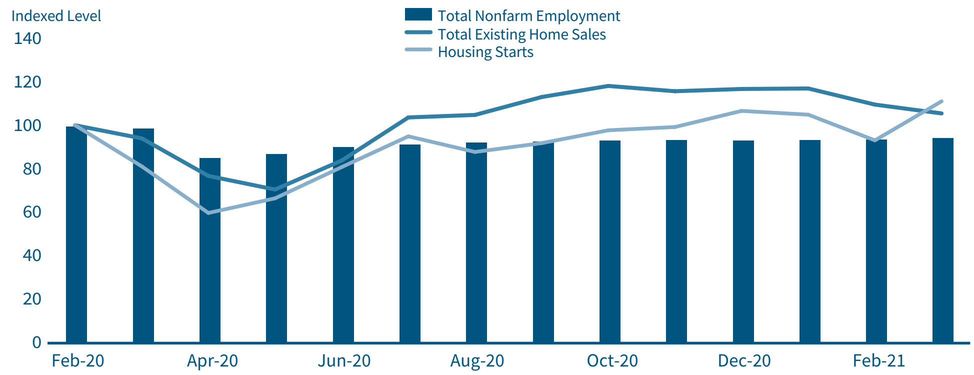
The housing market remained resilient during the pandemic as many other sectors of the economy were distressed.

The housing credit cycle was in a long benign and mature stage in 2019 before transitioning to a stressed one in 2020 as economic conditions deteriorated. Despite weak economic fundamentals in 2020, housing credit was helped by a strong recovery in the housing market. Home sales strengthened in 2020 and were above their pre-pandemic levels as of first quarter 2021, even as the labor market and other areas of the economy had slower recoveries (Chart 1). Home prices resumed their upward trend after a short pause in the spring of 2020, when pandemic restrictions began, due to low interest rates and the low inventory of homes for sale (Chart 2). Stay-at-home restrictions and remote work opportunities intensified homebuyers' interest in larger or different living space and drove demand for home purchases. In December 2020, home prices were 11.5 percent higher than the year before, a year-over-year increase that outpaced the robust gains recorded during the 2000s housing boom. While the recent housing market resembles the housing boom from 2004 to 2005 with low interest rates, the growth in home prices during the previous boom was also driven by loose credit and widespread speculation. Such factors did not fuel the 2020 home price gains, as discussed in the next section.

[1] Board of Governors of the Federal Reserve System Federal Open Market Committee, "Summary of Economic Projections," March 17, 2021, https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20210317.htm.

Chart 1

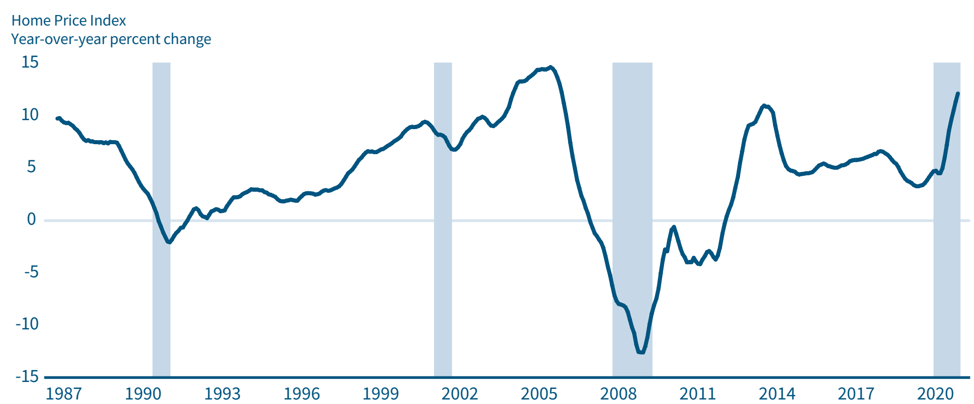
Residential Construction and Home Sales Recovered Quickly From Initial Pandemic Shocks



Sources: Bureau of Labor Statistics, National Association of Realtors, and Census Bureau (Haver Analytics).
Note: Data are indexed to a level of 100 at February 2020. Data as of March 2021.

Chart 2

Home Price Appreciation Accelerated in 2020 in Contrast to Previous Recessions



Source: S&P CoreLogic Case-Shiller (Haver Analytics).
Note: The home price index is indexed to a level of 100 at January 2000. Data as of February 2021. Shaded areas indicate recessions.

In contrast to the housing market's resilience, the rest of the economy was in distress throughout the year, as the economy contracted 3.5 percent in 2020 with a steep decline during the first half of the year and the unemployment rate reached a post-World War II high of 14.8 percent. These factors introduced credit risk to banks for the mortgages they held. Still, amid this backdrop, banking conditions remained sound.

Underwriting Trends

Underwriting standards tightened in 2020 in response to weaker economic fundamentals.

Despite the relative strength in the housing market, the economic deterioration and uncertain outlook in 2020 led mortgage lenders to tighten standards to ensure a borrower's ability to repay. Lenders implemented stricter employment verification and asset and income documentation and reduced the age of required documents before closing, sometimes requiring employment confirmation on the day of closing.[2] Nevertheless, mortgage lending was robust throughout 2020 on strong demand for new homes and refinancing existing

[2] Federal Home Loan Mortgage Corporation, "Selling Guidance Related to COVID-19," Bulletin 2020-8, March 31, 2020, https://guide.freddiemac.com/app/guide/bulletin/2020-8; Inside Mortgage Finance, "Underwriting Tightened in View of Market Uncertainty," April 3, 2020; and HousingWire, "Mortgage Lenders Are Tightening Standards as Coronavirus Crisis Worsens," April 3, 2020, https://www.housingwire.com/articles/mortgage-lenders-are-tightening-standards-as-coronavirus-crisis-worsens/.

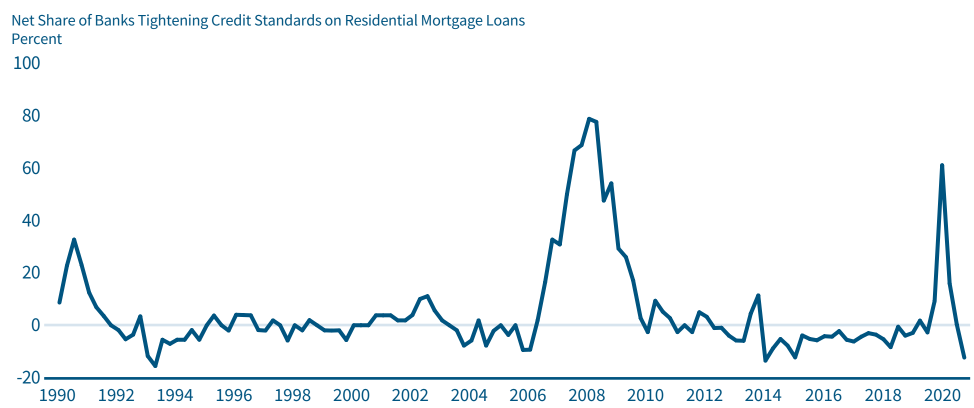
mortgages to lower interest rates. The volume of new first-lien mortgage originations, primarily refinancings, reached a record high in nominal terms of $4.04 trillion in 2020.[3] Of this amount, banks originated $869 billion loans or 21.5 percent. While the level of mortgage originations in 2020 outpaced the previous record of $3.73 trillion in 2003, also during a refinance boom, it was below previous peaks when measured per household and adjusted for inflation. The composition of the mortgage market has changed in the intervening years. In 2005–2006, private label securitizations comprised about a 40 percent share of origination volume, while securitizations by the government sponsored enterprises (the GSEs, with specific underwriting criteria) and the Federal Housing Administration and Veterans Administration (FHA/VA, or the agencies) had an estimated 33 percent share, and the share of bank portfolio loans was about 25 percent. By 2020, GSE and agency securitizations had a dominant 77.6 percent share of the mortgage originations market, the bank portfolio share had declined to 21.5 percent, and private label securitizations had all but disappeared to a 0.9 percent share.[4]

As the industry tightened standards, banks also focused on more prudent residential lending by tightening underwriting standards in response to uncertainty about the economy. The Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices reported sharply tighter credit standards on new mortgage originations after the onset of the pandemic (Chart 3).[5] By second quarter 2020, a net share of 61 percent of surveyed banks reported tightened standards on residential loans, up sharply from 9.2 percent that reported tightened standards in first quarter 2020. Banks left standards largely unchanged in fourth quarter, as a net share of just 0.3 percent of banks tightened standards for residential real estate loans. By first quarter 2021, according to the survey, banks reported they had started to ease lending standards.

The initial spike in bank reports of tighter standards reflected the pandemic's immediate impact on the economy and employment. Banks halted tightening as support programs were quickly implemented. In contrast, during the financial crisis, banks tightened underwriting standards for the new mortgage loans they made, but did so seemingly in steps over a period of several years as the crisis worsened. While banks tightened standards on mortgages they held, they continued to extend conforming mortgage loans that were sold to the GSEs, adhering to underwriting standards set by the GSEs.

Chart 3

Bank Underwriting Standards Tightened After the Initial Pandemic Shock



Source: Federal Reserve Board (Haver Mortgage Series/Haver Analytics).
Note: Above zero indicates more banks tightened; below zero indicates more banks eased. Data as of April 2021

[3] Urban Institute, "Housing Finance at a Glance: A Monthly Chartbook," April 2021:8.

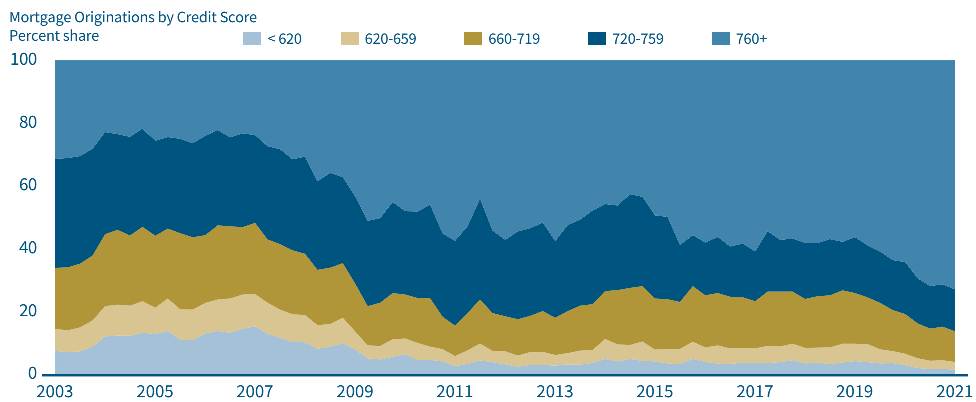
[4] Ibid.

[5] Board of Governors of the Federal Reserve System, "Senior Loan Officer Opinion Survey on Bank Lending Practices," January 2021, https://www.federalreserve.gov/data/sloos/sloos-202101.htm.

Mortgage lending for both banks and nonbanks was concentrated among borrowers with excellent credit. Of all home mortgages originated in first quarter 2021, 73 percent went to borrowers with a credit score above 760 (Chart 4).[6] This share was even higher than the 71.9 percent pandemic peak reached in third quarter 2020 and was a record high for the period since 2003. Borrowers with credit scores under 620 accounted for just 1.4 percent of originations in first quarter 2021, a record low and well under the 15.2 percent reported in first quarter 2007, just before the financial crisis.

Chart 4

Loan Originations Are Increasing to Borrowers With Stellar Credit



Source: Federal Reserve Board of New York Quarterly Report on Household Debt and Credit (Haver Analytics).
Note: Data as of first quarter 2021.

Banks historically maintain stricter mortgage credit standards than do nonbanks. After the financial crisis and through the start of the pandemic, median FICO scores for bank originators remained in the 740 to 755 range and median FICO scores for nonbank originators remained in the 710 to 730 range. In spring 2020, median credit scores for both bank and nonbank originators began to increase and the difference began to narrow. By April 2021, the bank originator median FICO score was 772 and the nonbank originator median FICO score followed closely at 758. Some of the increase in FICO scores is attributed to increased refinance activity, which is skewed toward higher FICO scores, according to the Urban Institute (UI).[7]

Mortgage Credit Availability

The supply of mortgage credit has tightened, while large banks' mortgage lending presence has declined.

As lenders tightened documentation standards and were less likely to originate new mortgages, overall mortgage credit supply tightened beginning in March 2020. Mortgage credit availability declined sharply during the early months of the pandemic, according to the Mortgage Bankers Association Mortgage Credit Availability Index (MCAI), a summary measure that combines several factors related to borrower eligibility and underwriting criteria. The index level was near 180 during most of 2019 and early 2020.[8] By September, the index was 118.6, the lowest level since April 2014. Mortgage credit availability has edged up since then, but remained low in March 2021 at 125.4, 18 percent lower than one year earlier.

The UI's Housing Credit Availability Index (HCAI) showed a similar reduction in credit availability as the pandemic triggered a tightening of credit. The HCAI, which measures the probability of default of first-lien owner-occupied home purchases as a reflection of lender approaches to issuing credit, declined from 5.3 percent in first quarter 2020 to just under

[6] Federal Reserve Bank of New York, "Quarterly Report on Household Debt and Credit (Q1 2021)," https://www.newyorkfed.org/microeconomics/hhdc.html.

[7] Urban Institute, April 2021.

[8] The MCAI is indexed to a level of 100 at first quarter 2012.

5.0 percent in third quarter 2020, the lowest figure since the inception of the index in first quarter 1999.[9] In fourth quarter, the index edged up to 5.1 percent. A lower HCAI signals lenders' greater intolerance for default risk, which manifests as tighter lending standards and greater difficulty for borrowers to get a loan. Even if the current index level were to double, it would still fall well below the pre-financial crisis standard of 12.5 percent from 2001 to 2003, when there was greater borrower and product risk.[10]

At the same time that the MCAI and HCAI indexes indicate tighter mortgage credit availability overall, the pace of residential lending by banks slowed appreciably during the pandemic. The volume of 1–4 family residential lending in the banking industry was up only slightly between fourth quarter 2019 and fourth quarter 2020 and was down between third quarter 2020 and fourth quarter 2020. It was down for fourth quarter 2020 and the year among community banks. More broadly, there is some evidence of a reduction in residential mortgage lending activity since the 2008–2009 crisis among a subset of community banks with relatively smaller residential mortgage programs, and more evidence of a reduction by larger noncommunity banks.[11] Among large lenders, nonbanks now originate a majority of residential loans, accounting for 68.1 percent of mortgage originations by the top 100 lenders in 2020, up from 58.9 percent in 2019.[12]

Mortgage Credit Performance

Mortgage credit performance has recovered somewhat from sharp declines at the start of the pandemic, but high rates of delinquent loans point to lingering financial distress for many borrowers.

The rapid onset of the pandemic and the immediate toll on employment and the economy caused national mortgage delinquency rates to rise sharply in 2020 (Chart 5). Prior to 2020, delinquency rates had steadily declined since the financial crisis to 3.77 percent in fourth quarter 2019, just before the pandemic, according to the Mortgage Bankers Association National Delinquency Survey. The survey covers loans representing about 88 percent of all first-lien residential mortgage loans outstanding nationwide, including mortgages held by both banks and the GSEs. The fourth quarter 2019 rate was the lowest level of national delinquency in the survey's almost 50 years of reporting and was also well below the 4.41 percent delinquency rate in first quarter 2006, near the peak of the pre-crisis housing boom. Mortgage delinquencies rose in early 2020, reflecting pandemic-related financial distress faced by borrowers. The total past-due rate reached its highest level since 2011. Soon thereafter, however, mortgage delinquency rates started to decline almost as quickly, as federal support in the form of stimulus payments, enhanced unemployment compensation benefits, and forbearance and moratorium measures provided temporary relief. The national delinquency rate for all mortgage loans decreased from its recent peak of 8.22 percent in second quarter 2020 to 6.38 percent in first quarter 2021. A decrease in 30-day and 60-day delinquencies drove the decline. The 90+ day delinquency rate receded slightly in fourth quarter but then increased again in first quarter 2021, reflecting the more entrenched distress of those with longer-term delinquencies.

The swift improvement in delinquency rates contrasts with the experience during the financial crisis. The slow rollout of assistance to borrowers left many distressed homeowners vulnerable to foreclosures, which were severe and exacerbated the housing market distress during that crisis. The total past-due rate breached 5 percent in second quarter 2007 after hovering for decades in the 4 percent to 5 percent range. The delinquency rate doubled by 2010 and did not fall below 5 percent until five years later.

[9] Urban Institute, Housing Credit Availability Index, Q4 2020, May 7, 2021, https://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-credit-availability-index.

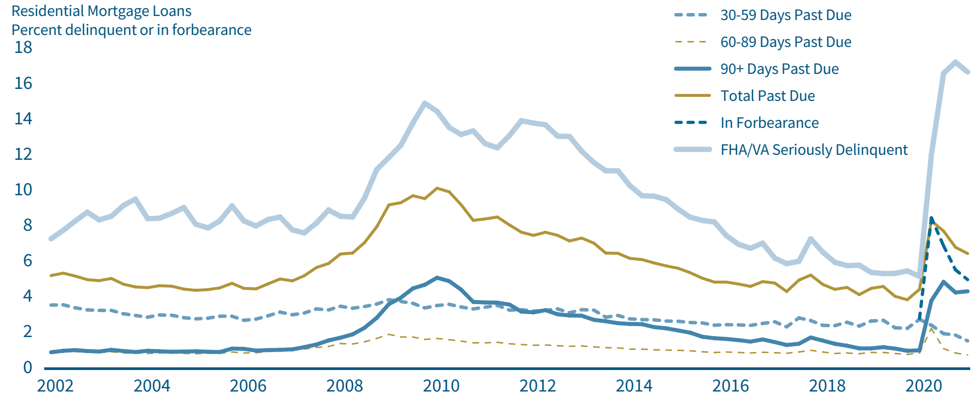
[10] Ibid.

[11] Kayla Shoemaker, "Trends in Mortgage Origination and Servicing: Nonbanks in the Post-Crisis Period," *FDIC Quarterly* 13 no. 4 (2019), https://www.fdic.gov/bank/analytical/quarterly/2019-vol13-4/fdic-v13n4-3q2019-article3.pdf; Kathryn Fritzdixon, "Bank and Nonbank Lending Over the Past 70 Years," *FDIC Quarterly* 13 no. 4 (2019), https://www.fdic.gov/bank/analytical/quarterly/2019-vol13-4/fdic-v13n4-3q2019-article1.pdf; and *FDIC Community Banking Study* (2020), Chapter 5, https://www.fdic.gov/resources/community-banking/report/2020/2020-cbi-study-full.pdf.

[12] John Bancroft, "Nonbanks Hit New Mortgage Lending Milestone in 4Q20," Inside Mortgage Finance, March 11, 2021.

Chart 5

Delinquencies Spiked During the Pandemic



Source: Mortgage Bankers Association (Haver Analytics).
Note: FHA/VA is Federal Housing Administration and Veterans Administration. Data as of first quarter 2021.

While most mortgage delinquency rates began to decline during 2020, seriously delinquent FHA and VA loans were at record highs in fourth quarter 2020, almost 12 percentage points higher than a year earlier, before the pandemic.[13] Although the rate edged down in first quarter 2021, the near record-high delinquency rate indicates the continuing distress of these borrowers, who are disproportionately either first-time buyers or borrowers with lower credit scores and lower down payments and who may already be financially stretched.[14] Ginnie Mae securitizes over 90 percent of FHA and VA loan originations. Although banks comprise only about 6 percent of Ginnie Mae originations, delinquent Ginnie Mae securitized loans have an impact on bank credit measures, as discussed below in the section on bank credit conditions.[15]

Many homeowners who were facing financial strain have been able to avoid delinquency by requesting mortgage forbearance, while others entered forbearance in anticipation of potential financial strain but continued to make payments. Under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, mortgage servicers or lenders must provide a forbearance plan to any homeowner with a federally backed mortgage that requests one. Borrowers with loans not backed by the federal government (i.e., non-agency mortgages) are not included under the CARES Act. Forbearance programs may be available on these loans but are not required, although financial regulators have encouraged financial institutions to work with borrowers.

Of the borrowers who exited forbearance from June 1, 2020, through March 14, 2021, 27.1 percent had continued to make their monthly payments during their forbearance period. However, a large share of borrowers is exiting forbearance and remaining delinquent, without becoming current on missed payments or without having a loss mitigation plan in place. In March 2021, these borrowers represented almost 23 percent of borrowers in forbearance, more than double the percentage in the financial crisis.[16]

Banks not only have exposure to the housing market through direct mortgage lending, but also face exposure through the mortgages they service. The credit performance trends in the overall mortgage industry suggest that bank mortgage servicers may be vulnerable to missed payments in the future by borrowers of federally backed mortgages who, after exiting forbearance for federally backed mortgages, are unable to make timely payments on

[13] Seriously delinquent loans include those that are 90 days or more past due and those that are in foreclosure.

[14] Shoemaker, 2019: 51–69.

[15] Urban Institute, April 2021.

[16] Mortgage Bankers Association, "Share of Monthly Forbearance Exits by Reason," presentation at National Association of Business Economists Policy Conference, March 23, 2021.

their loans. In addition, banks may be vulnerable to borrowers of bank mortgage loans who remain financially squeezed after support from enhanced employment benefits or stimulus checks end. Both scenarios raise the possibility of future stress on bank portfolios.

Bank Credit Performance

Asset quality of bank loans began deteriorating in mid-2020. While conditions improved by year-end 2020, the outlook is uncertain.

As total mortgage delinquencies increased, bank residential portfolios deteriorated. In 2020, banks increased allowances for loan and lease losses to help absorb estimated credit losses. Residential mortgage allowances for mortgage credit losses increased from $9.8 billion in fourth quarter 2019 to $18.9 billion in second quarter 2020. Noncurrent balances in the residential loan portfolio increased $10 billion (22 percent) from second quarter to third quarter 2020.[17] Although this was by far the largest quarterly increase since the financial crisis, the volume gain was well below the crisis-high $27 billion quarterly increase in fourth quarter 2009. The noncurrent loan balance reached a pandemic peak of $55.7 billion in third quarter 2020, and then declined to $55.2 billion in fourth quarter 2020 and $53.6 billion in first quarter 2021. The noncurrent loan balance is higher than in recent years, but noncurrent loan balances after the financial crisis were more than three times larger.

Noncurrent loan rates exhibit a similar pattern. After declining for eight years, the 1–4 family mortgage noncurrent loan rate increased from 1.77 percent in fourth quarter 2019 to 2.54 percent in fourth quarter 2020. While it remained high at 2.50 percent in first quarter 2021, it was well below the financial crisis high of 10.81 percent reported in first quarter 2010. Mortgage delinquency rates for the market overall followed a similar pattern (Chart 5). Banks reported lower mortgage delinquency rates than the overall mortgage market because bank delinquencies do not count loans in forbearance.

The large increase in bank noncurrent loan balances during 2020 was due not only to deterioration in credit quality, but also to increased rebooking of Ginnie Mae loans primarily among the industry's largest banks, those with at least $100 billion in total assets (Chart 6). When a Ginnie Mae loan becomes delinquent for 90 days or is in forbearance, the loan is typically brought back on a bank's books. While Ginnie Mae loans are guaranteed by the U.S. government, banks remain responsible for maintaining timely payments to investors in servicing these loans.

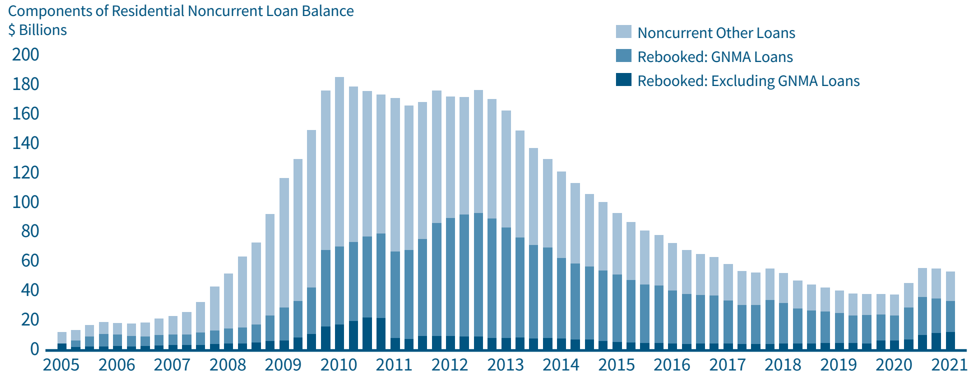
The rebooking of loans is not new, and the share of rebooked loans among bank total noncurrent 1–4 family mortgage loans reached more than 50 percent in the aftermath of the financial crisis. However, Ginnie Mae rebookings had been on a downward trend for seven years before the pandemic and reached a low of 45 percent of bank total noncurrent 1–4 family mortgage loans in first quarter 2020. By second quarter 2020, rebooked Ginnie Mae loans had climbed to 47 percent of noncurrent 1–4 family mortgage loans. By first quarter 2021, some borrowers exited forbearance or resumed loan payments, and as a result, the volume of rebooked noncurrent Ginnie Mae loans declined to 40 percent of noncurrent 1–4 family mortgage loans.

Rebooked Ginnie Mae loans made up the bulk of residential mortgage noncurrent volume during 2020. Excluding rebooked Ginnie Mae loans, the noncurrent rate for bank 1–4 family mortgage loans increased during 2020, from 0.9 percent in fourth quarter 2019 to 1.5 percent in fourth quarter 2020 and remained at 1.5 percent in first quarter 2021. These figures are well below the first quarter banking industry noncurrent rate of 2.50 percent that includes rebooked Ginnie Mae loans, but does not include mortgage loans in forbearance. The inherent forbearance risk and the elevated serious delinquency rate of Ginnie Mae loans introduce credit quality concerns as the pandemic-induced financial stress for borrowers persists.

[17] Noncurrent balance is the sum of 1–4 family residential loans secured by 1–4 family residential properties that are 90 days or more past due and 1–4 family residential loans secured by 1–4 family residential properties that are in nonaccrual status. Noncurrent is a narrower category than delinquency and can refer to loans whose installments are past due by 30 to 90 days or more. Total delinquency refers to all loans that are 30+ days past due.

Chart 6

Rebooked Loans Drove the Recent Increase in Bank Noncurrent Loan Balances



Source: FDIC.
Note: GNMA is Government National Mortgage Association, also known as Ginnie Mae. "Rebooked: Excluding GNMA Loans" are loans other than GNMA that also have a government guaranty. Data as of first quarter 2021.

The decline of most delinquency rates from the peak in second quarter 2020 reflects temporary relief provided by pandemic-support measures. Banks' noncurrent rate for 1–4 family loans remained high, however, driven by the large share of loans that are 90 days or more past due that reflect missed payments earlier in the pandemic. Unprecedented support during the pandemic-induced economic crisis from stimulus and protective measures helped many homeowners and borrowers to avoid delinquency or loss of their homes. Federal support in the form of forbearance helped homeowners of federally backed mortgages, held by GSEs, while other forms of support to consumers such as unemployment insurance and stimulus checks helped borrowers of mortgages held by banks. Several federal programs that helped struggling consumers were extended or expanded as the recession progressed in 2020. Most recently, the Federal Housing Finance Agency halted foreclosures and evictions through June 30, 2021, and extended forbearance and payment deferrals for up to 18 months.[18] In March, Congress passed the American Rescue Plan Act of 2021 to provide an additional $1.9 trillion of fiscal stimulus, including direct payments to households, extended unemployment benefits, and more funding for businesses and for the U.S. Small Business Administration Paycheck Protection Program (PPP).

Despite improvements and extensions of support, credit quality concerns remain. Eventually, the fiscal support that has been available to borrowers will end. As many borrowers continue to face challenges from lingering economic weakness, their diminished income and weakened financial situations may put debt repayments at risk.

Bank Residential Mortgage Lending

While the outlook is uncertain, banks continue to make residential loans.

Despite the stresses associated with the pandemic, the banking system continued to extend credit. Unlike in 2008, when a financial crisis resulted in an economic crisis and the banking system entered a long period of balance sheet repair, the banking system was much stronger in 2020 and better able to withstand economic distress. Banks have been in a position to help support the economy by extending credit and by working with distressed borrowers.

Community banks in particular have maintained strength in residential lending. Community banks have declined in number over the years, from over 8,000 before 2005 to 4,531 in first quarter 2021, but they have maintained a consistent and supportive presence in residential lending. Residential real estate loans held by community banks have averaged 26 percent of total loans and leases for more than a decade (Chart 7). This contrasts with

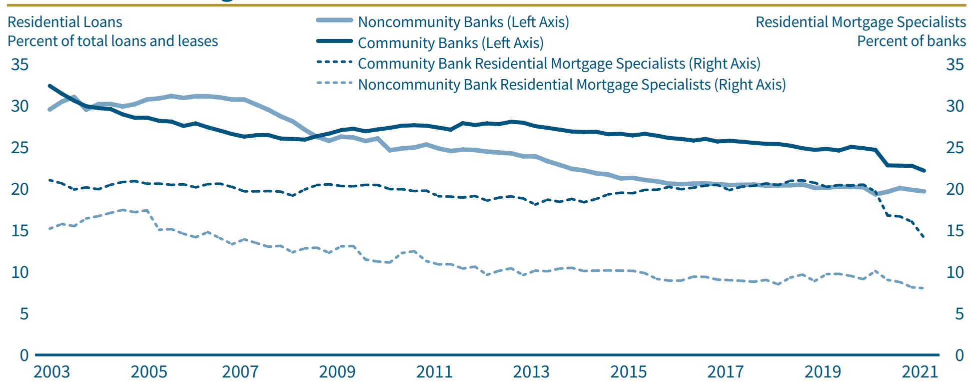
[18] Federal Housing Finance Agency, "FHFA Extends COVID-19 Forbearance Period and Foreclosure and REO Eviction Moratoriums," news release, February 25, 2021, https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Extends-COVID-19-Forbearance-Period-and-Foreclosure-and-REO-Eviction-Moratoriums.aspx.

noncommunity banks, whose residential loans as a share of their total loans and leases has declined by about a third from 30.8 percent in 2005 to 19.7 percent in first quarter 2021.

Further, a higher percentage of community banks specialize in 1–4 family residential mortgage lending than noncommunity banks.[19] In first quarter 2021, 14.1 percent of community banks specialized in residential mortgage lending, well above the 8.1 percent share of residential mortgage specialists among noncommunity banks.[20] The spread between the percentage of community banks and noncommunity banks that are residential mortgage lending specialists has widened since the financial crisis. As indicated in Chart 7, the percentage of noncommunity bank mortgage specialists has declined steadily, while community bank mortgage specialists comprised a steady 20 percent share of community banks for most of the period since 2003.

Chart 7

Community Banks Maintain a More Consistent and Larger Presence in Residential Lending



Source: FDIC.
Note: Data as of first quarter 2021.

Conclusion

The housing market has rebounded from deep and immediate declines at the start of the pandemic and has weathered the pandemic-driven economic distress so far. The combined effects of policy actions, fiscal stimulus, and foreclosure and eviction moratoria eased the financial stress of households and borrowers. Despite these support measures, uncertainty about the economy led to tightening of mortgage credit and underwriting standards, as lenders sought to reduce credit risk from new mortgages. Although national mortgage delinquency rate increases have subsided somewhat and banks have built loan loss reserves, mortgage credit quality concerns remain, reflecting the still-high unemployment and the near record-high levels of seriously delinquent FHA and VA loans, particularly among borrowers in vulnerable industries or who are already financially pressed. Overall, banks have been resilient through the recent period of economic distress and have been able to support the mortgage market. However, the housing market outlook, while improving, continues to be sensitive to economic developments and remains uncertain.

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[19] The 2020 *FDIC Community Banking Study* defines a residential mortgage specialist as a bank that holds residential mortgage loans greater than 30 percent of total assets. See https://www.fdic.gov/resources/community-banking/report/2020/2020-cbi-study-full.pdf.

[20] In 2020, community bank lending in the Paycheck Protection Program outpaced new 1–4 family loan growth. As a result, the share of banks that meet the threshold to be considered a residential mortgage lending specialist declined.