

Discussion of “Accessibility,
Transaction Costs, and Take-Up of
Mortgage Assistance for Distressed
Homeowners”

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FDIC Consumer Research Symposium

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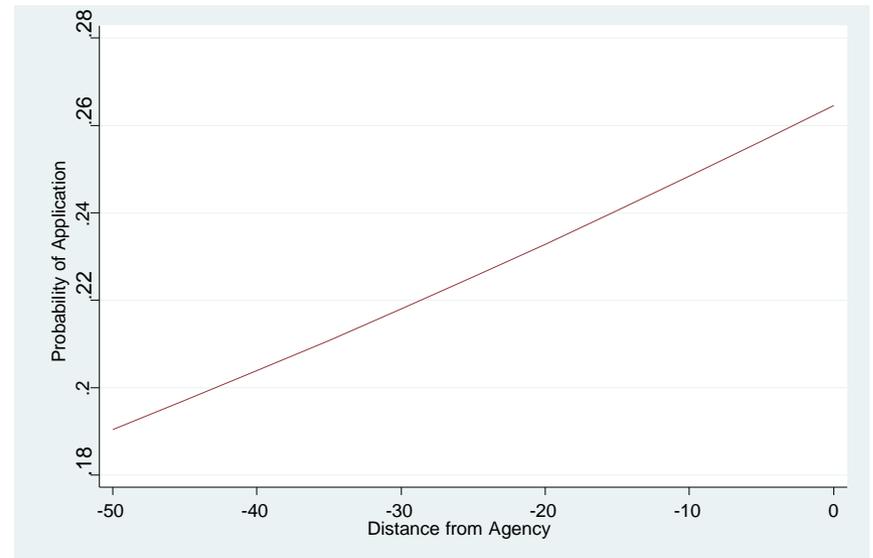
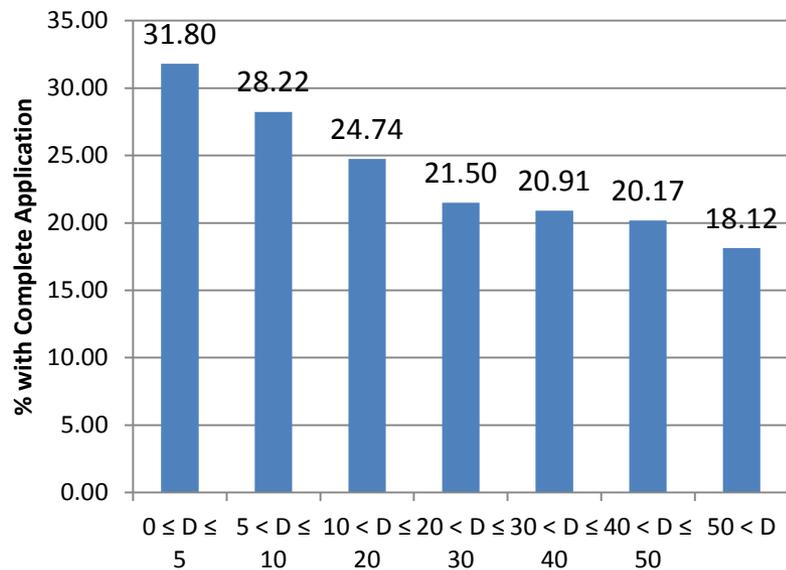
Highlights

- The paper models take-up of mortgage assistance under Hardest Hit Fund Initiative in Ohio (9/2010 through 3/2012)
 - Federal program administered by states
 - Participants required to apply through counseling agency
 - Relatively low participation rate
 - Relatively few homeowners that register follow-through with the applications process
- The paper finds that geographic proximity to counseling agency increases likelihood of completing the applications process
 - Geographic proximity is viewed as a proxy for transactions costs

Highlights

Univariate $\Delta = (32-18) / 18 = 79\%$

Modeled $\Delta = (26-19)/19 = 37\%$



Highlights

- The empirical model also highlights other factors associated with completion, including:
 - foreclosure filing (lower completion rate)
 - prior loan modification (lower completion rate)
 - unemployment (higher completion rate)
 - age and educational attainment (positive association)
 - specific type of assistance sought
- Main policy recommendation: increase focus on strategies to reduce transactions costs

Comments

- The evidence of potentially significant impact of accessibility and related transactions costs is useful
 - Assistance take-up is an important issue for policymakers
- How many distressed households were adversely affected by distance from agencies?
 - “Of the 54,464 homeowners who began the application process... only 10,188 submitted a complete application ...we limit the sample to 33,368 homeowners who appeared eligible upon registration” (page 6)
 - Suggests most registrants lived within 10 miles of an agency!

General Comments

- Why not also examine registration rates?
 - Are these substantially higher in neighborhoods close to an agency compared to neighborhoods with similar characteristics but less accessibility?
- The authors acknowledge potential omitted variables, but could explore additional economic or neighborhood factors
 - County unemployment rate change
 - Lagged house price change (ZIP or county)
 - Proximity to other distressed properties

Comments

- More attention to what drives the household's perceived benefit from participation
 - Ratio of mortgage payment to income
 - Foreclosure in process
 - Preference to remain in the home
- Consider other policy implications suggested by empirical results
 - Coordinate mortgage assistance with suspension of foreclosure process
 - More attention to less educated registrants
 - Consider neighborhood spillover effects and their impact on household participation and social benefit

Comments

- A few additional comments:
 - Learning could play a role in driving relation of assistance take-up to program age
 - Zero income reflects lack of unemployment insurance
 - How long does it typically take to complete the applications process? (Is there censoring?)

Discussion of “Mortgage Market Concentration, Foreclosures, and House Prices”

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Highlights

- The paper examine relation between structure of the mortgage origination market (lender concentration) and foreclosure activity
- Theoretical model: in concentrated markets, lenders internalize the spillover effects of foreclosure and are inclined to modify delinquent loans

Highlights

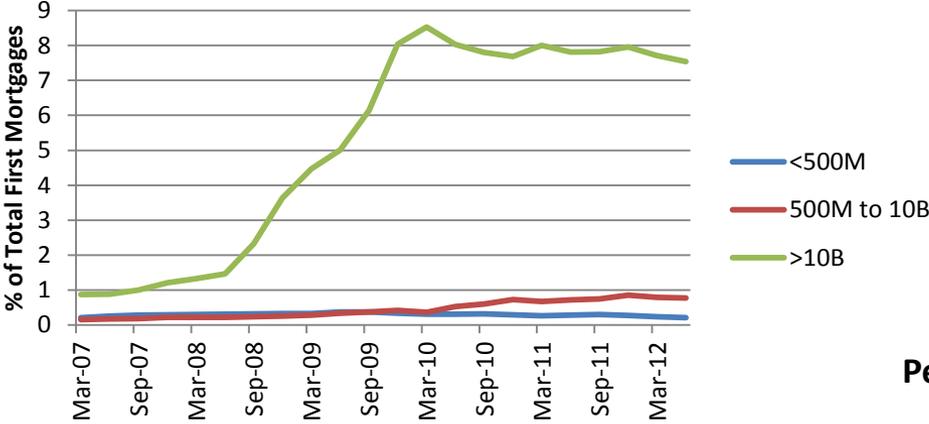
- Empirical analysis: offers several findings consistent with this view
 - House price declines in response to adverse shocks to income are mitigated where mortgage lending is more concentrated
 - This relationship to market concentration is weaker in judicial foreclosure states
 - A similar relationship is observed for foreclosure activity
- Main policy implication: Lender consolidation promotes socially optimal response to management of delinquent loans

Comments

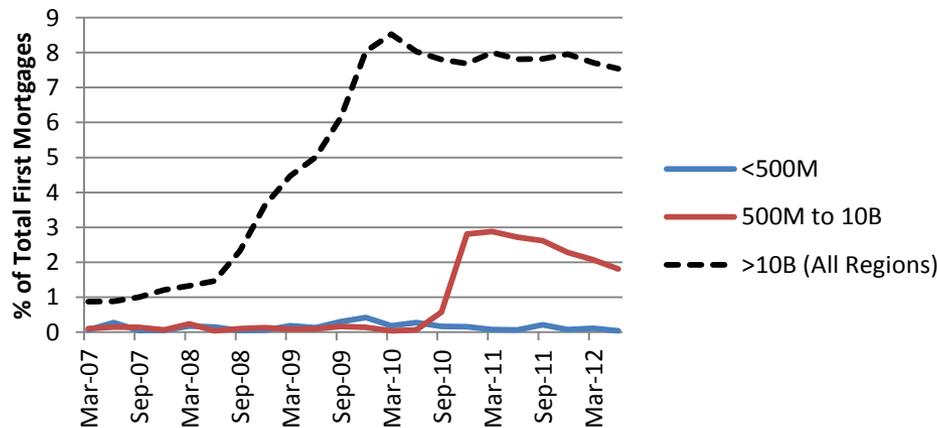
- Market structure matters!
- This study is commendable for pursuing research on impact of market structure on mortgage performance outcomes
- However, be cautious in concluding that consolidation is good!

Example 1: Bank Performance During the Crisis

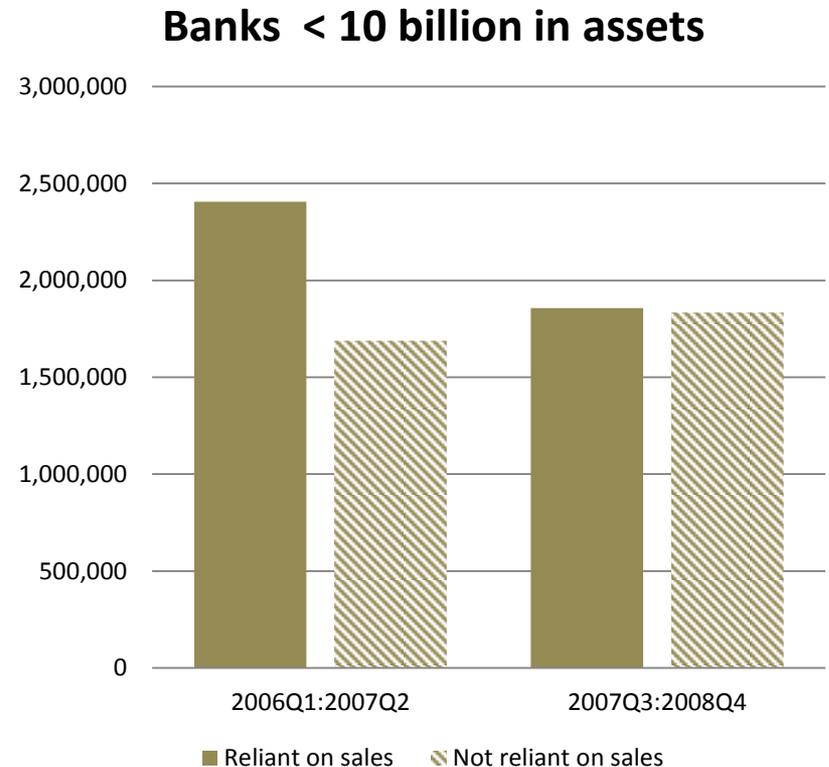
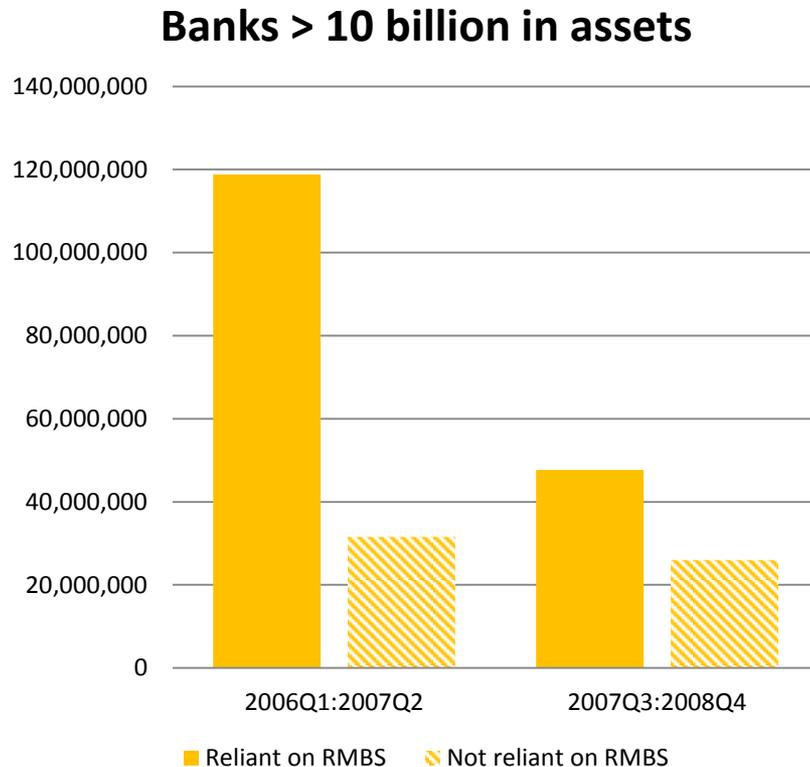
Figure 3: Percent of Mortgages 90 or More Days Past Due and Still Accruing, by Asset Size



Percent 90+ and Still Accruing for Small and Mid-Size Banks with HQ in CA, AZ, or NV



Example 2: Average Jumbo Loan Volume



Note: Figure shows the average dollar volume of jumbo loan originations for the sample of 198 banks studied in Calom, Covas, and Wu (JMCB, 2013) before and after the liquidity shock

Comments

- The theoretical model exposition is confusing and the model seems unrealistic; for example:
 - “When households are hit by a negative income shock they cannot repay B and cannot participate in the housing market”; however, the housing demand condition indicates they choose h_1
 - The model seems to assume that the household has to sell the home to repay the mortgage, and then re-purchase; or else default, but this is unstated
 - This statement is baffling: “households that suffer a negative shock are unable to participate in the housing market while households that default strategically are able to re-purchase a home from a bank at a lower price”
 - Shouldn't the fraction e of households that drop out of the market be endogenously determined with p ?

Comments

- The empirical analysis is a potentially important contribution
 - It is important to consider the relationship between structure of mortgage lending markets, including lender size distribution and concentration, and performance outcomes
- However, as evidence that concentration matters for foreclosure decisions, it is not convincing
 - That necessitates direct analysis of lender loss mitigation strategy; neighborhood measures of concentration and spillover
 - Loan modifications were relatively uncommon and relatively ineffective prior to 2009, the last year included in this study
 - Why include period 2004-2006 of rising home values and very few defaults?

Comments

- Empirical analysis better suited to address relationship between ex-ante mortgage market structure (during boom) and ex-post performance (during crisis period)
- Results suggest relationships among lending market concentration, riskiness of originated loans, and house price volatility
- Need to isolate impact of concentration (use sufficiently lagged measure) from “bubble effects”
 - For example, examine 2007-2009 price change in response to income shocks, controlling for lagged price changes (bubble dynamics) and pre-2005 market structure

Comments

- Other market structure indicators (for instance, market share of small or local lenders) would also be of interest
- A few additional comments:
 - Private securitized should be distinguished from GSE in controlling for securitization rate
 - Similarly, control for percent subprime origination
 - What is the timing of the delinquency rate included as a control variable (lagged or 2007-2009 average)?
 - Why is the judicial foreclosure indicator not included independently (only via interaction terms)?
 - Are the results robust to using a continuous measure of income shock or applying alternative thresholds?