



Mortgage Underwriting and Access to Credit

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Issue Examined

- Concerns that proposed restrictive QRM guidelines will disproportionately restrict access to credit for low-income, low-wealth, and minority households
- We estimate the relative changes in mortgage access and default for different groups that would occur under different QRM guidelines, assuming that the QM guidelines are in place
- We use a unique nationally representative database on loan performance with borrower and neighborhood demographics information

Three Data Sources

1. HMDA

Borrower race, ethnicity, and income; other

2. Lender Processing Services (LPS)

Collected from loan servicers, ~60% of the market

3. Blackbox (BBX)

Collected from investors pools, exclusively comprised of loans in private level securities



Probabilistic Matching Technique

- Loan performance from LPS and Blackbox to loan origination data from HMDA
- No unique match approach
- Instead, HMDA loans that match more than one LPS or BBX loan are weighted so that each HMDA loan is given a final weight of one
- Final matched sample used in the analysis contains approximately 27 million matched loans, representing the HMDA universe of 42.9 million first lien owner occupied mortgages originated between 2004 and 2008



Definitions

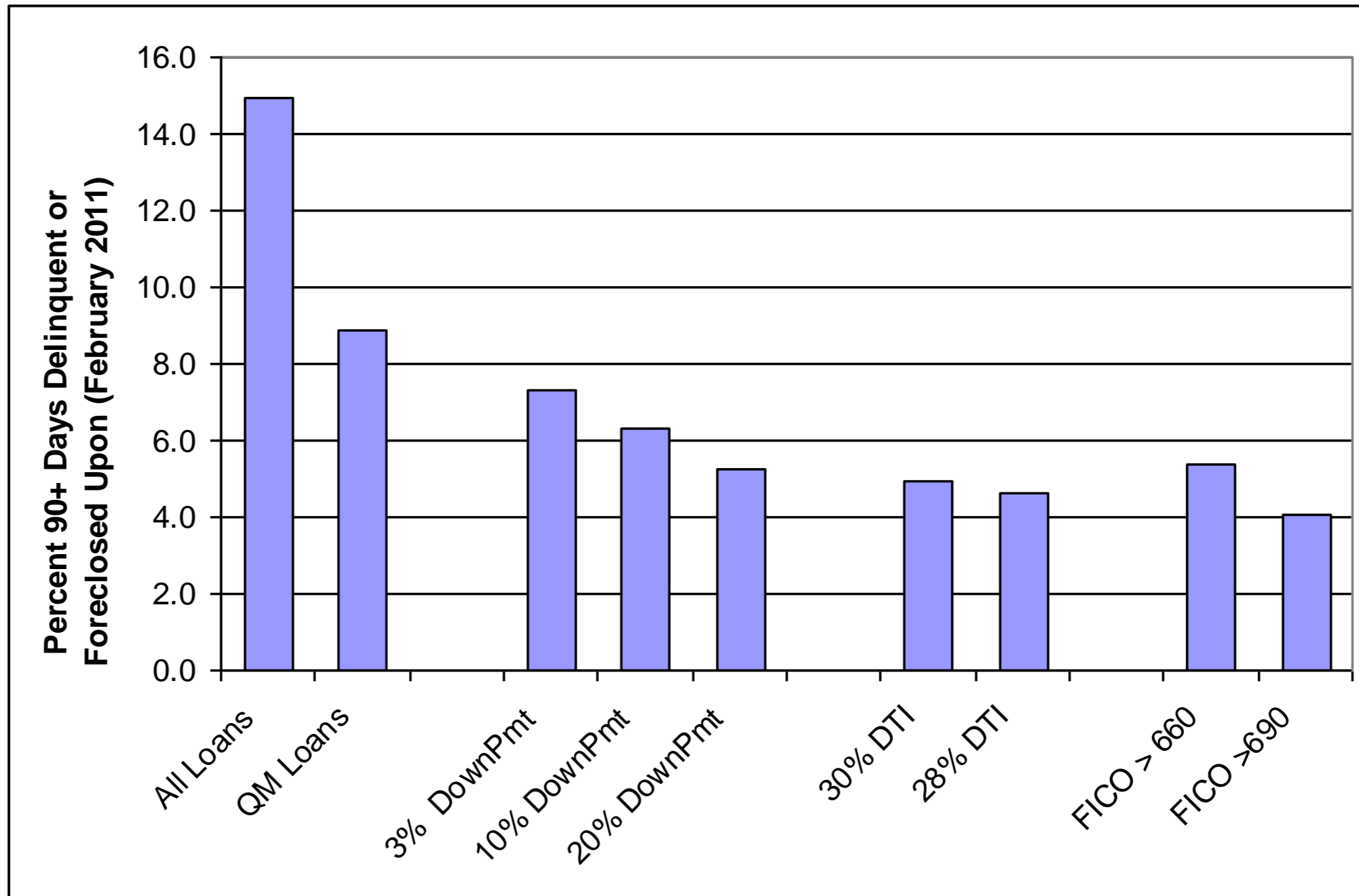
- QM=full documentation, no negative amortization, no interest only, no balloon, no adjustable interest rates with fixed terms under 5 years
- QRM proposals
 - Downpayment= 3, 10, and 20%
 - Debt to Income ratio (front-end)=28 and 30%
 - FICO=660 and 690
- Default= 90+ days delinquent, in foreclosure, or foreclosed upon as of February 2011

Loan Performance for Different Loan Market Segments

Market Segment	Number of Loans	Percent Foreclosed
Subprime conventional	1,988,800	29.7
Alt-A conventional	589,024	25.7
All loans	26,679,477	14.9
FHA/VA	2,126,801	13.0
Prime conventional	15,488,531	9.9
QM loans	5,213,617	8.9

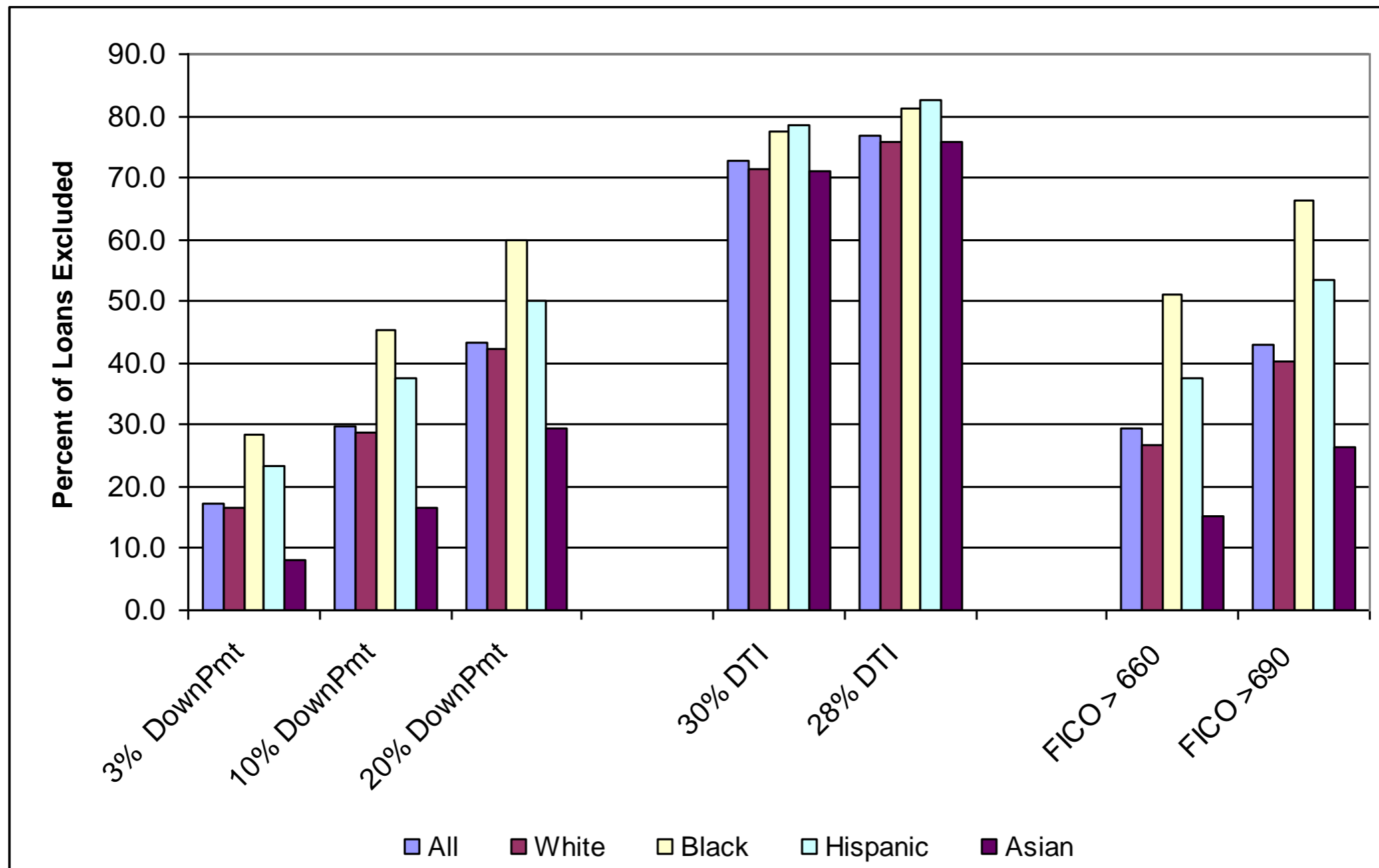


Loans Foreclosed by Proposed QRM Guidelines



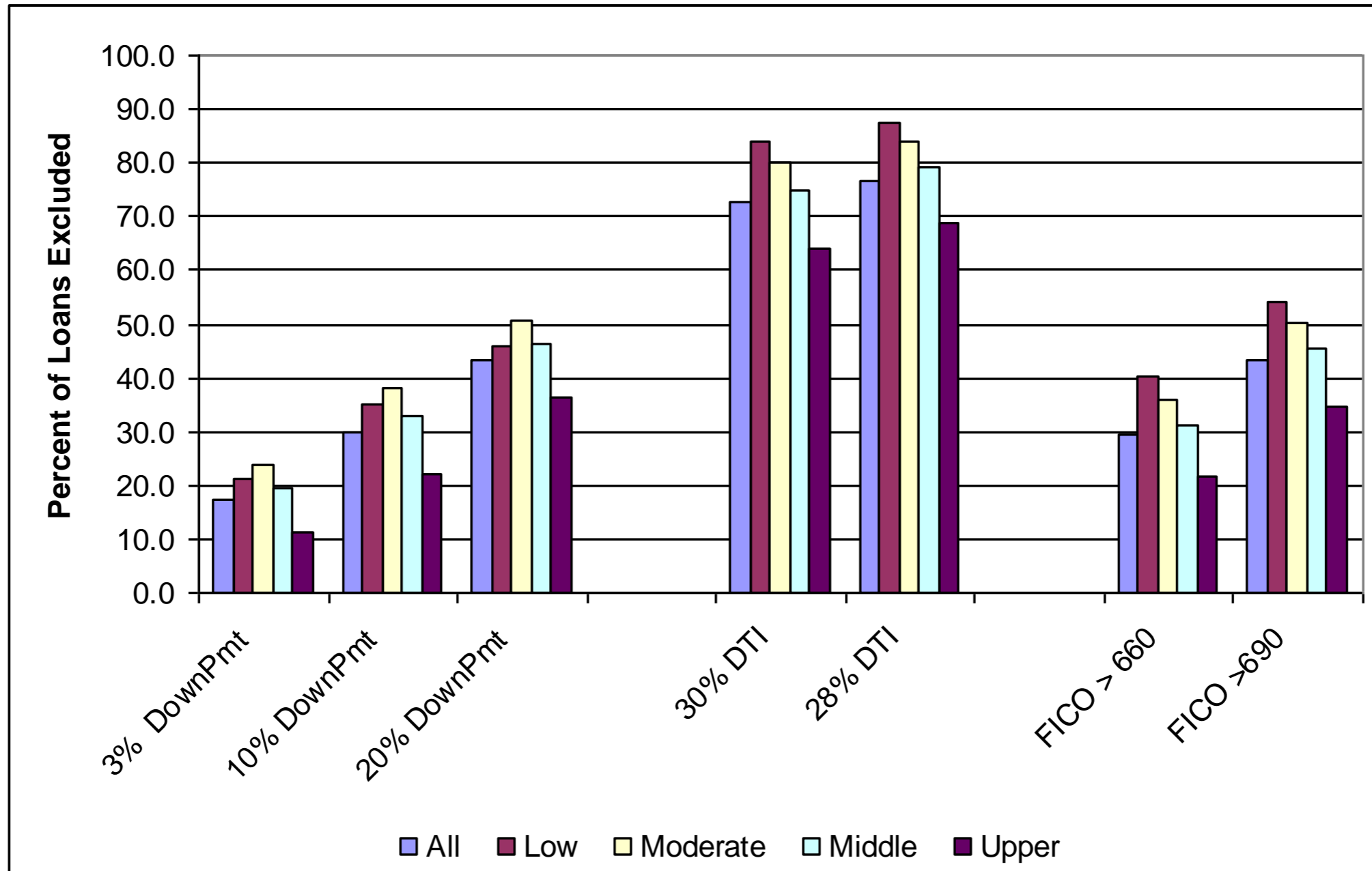


Exclusion from the QRM Market Disproportionately Impacts Minority Borrowers





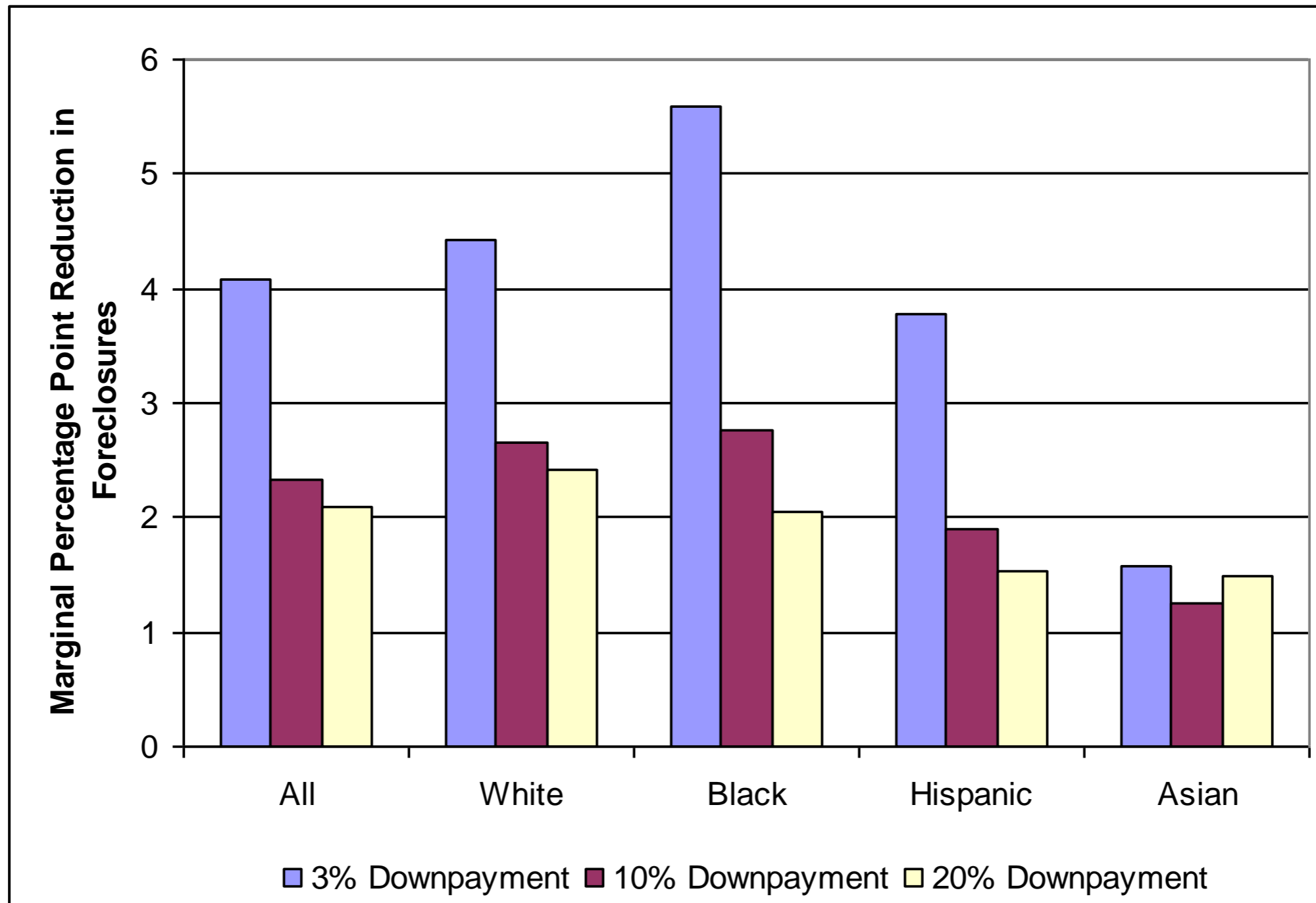
Impacts on Access to Credit: Exclusion from the QRM Market by Income





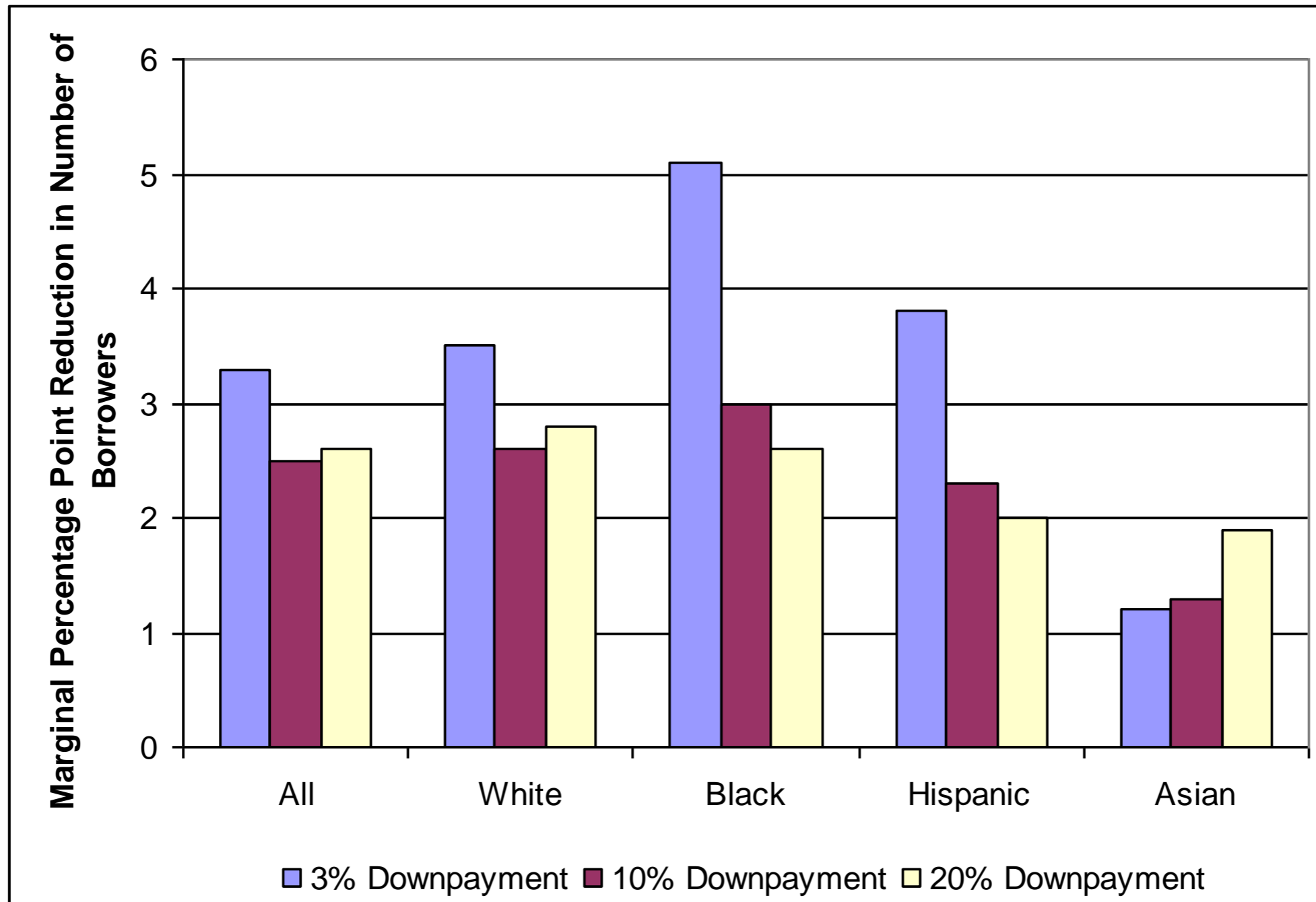
Marginal Reduction in the Number of Foreclosures

Diminishing Returns from More Restrictive QRM LTV Requirements





Percent Marginal Reduction in Access to QRM Credit from Different LTV Requirements



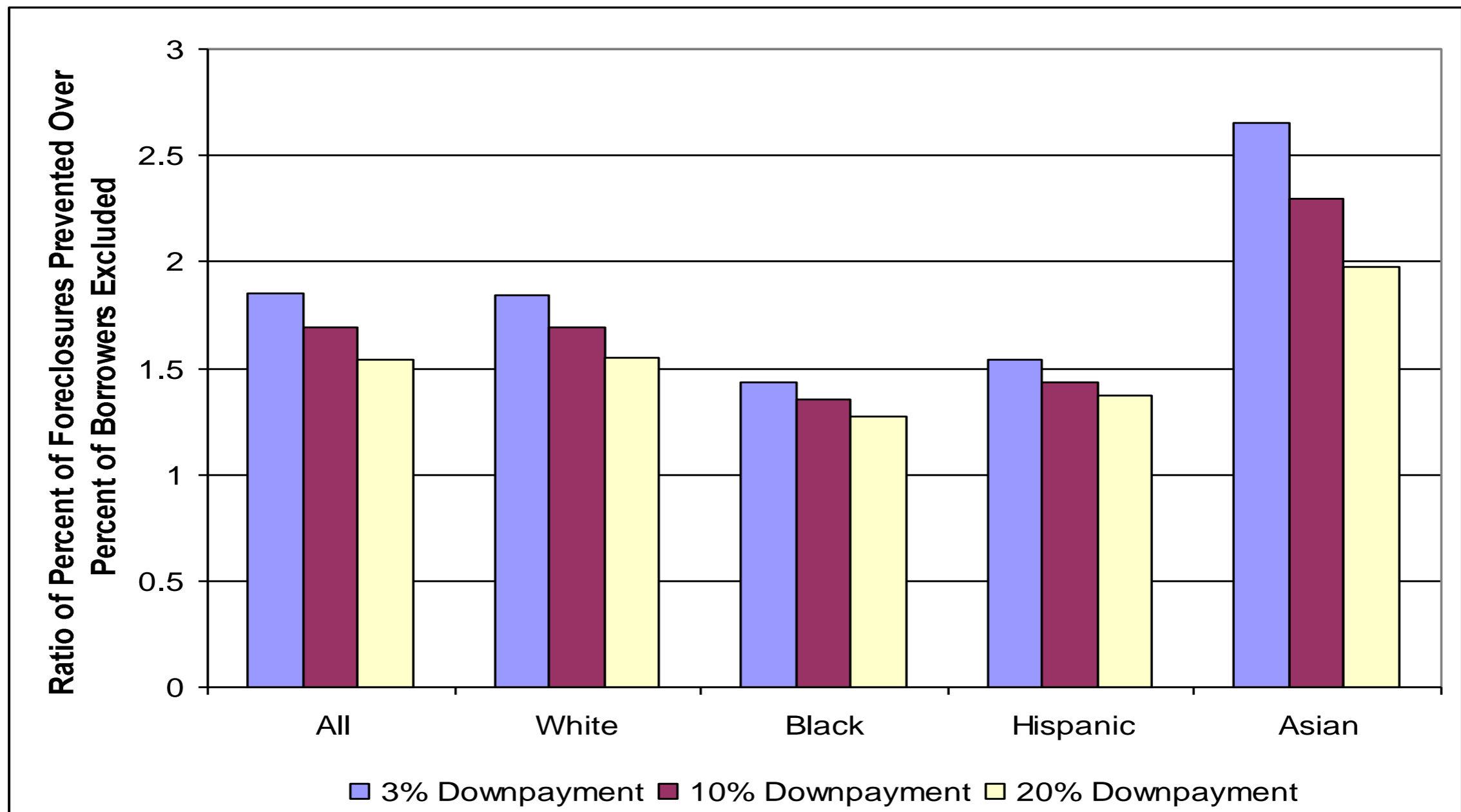


Definition of Benefit - Cost

- Benefit= Percent reduction in the number of foreclosures (“benefit” of more stringent QRM standards)
- Cost= Percent reduction in the number of borrowers who would have access to QRM mortgages (“cost” of excluding borrowers)
- Benefit/Cost ratio
- A larger ratio would suggest that the proposed change provides greater marginal benefit than one with a smaller value.

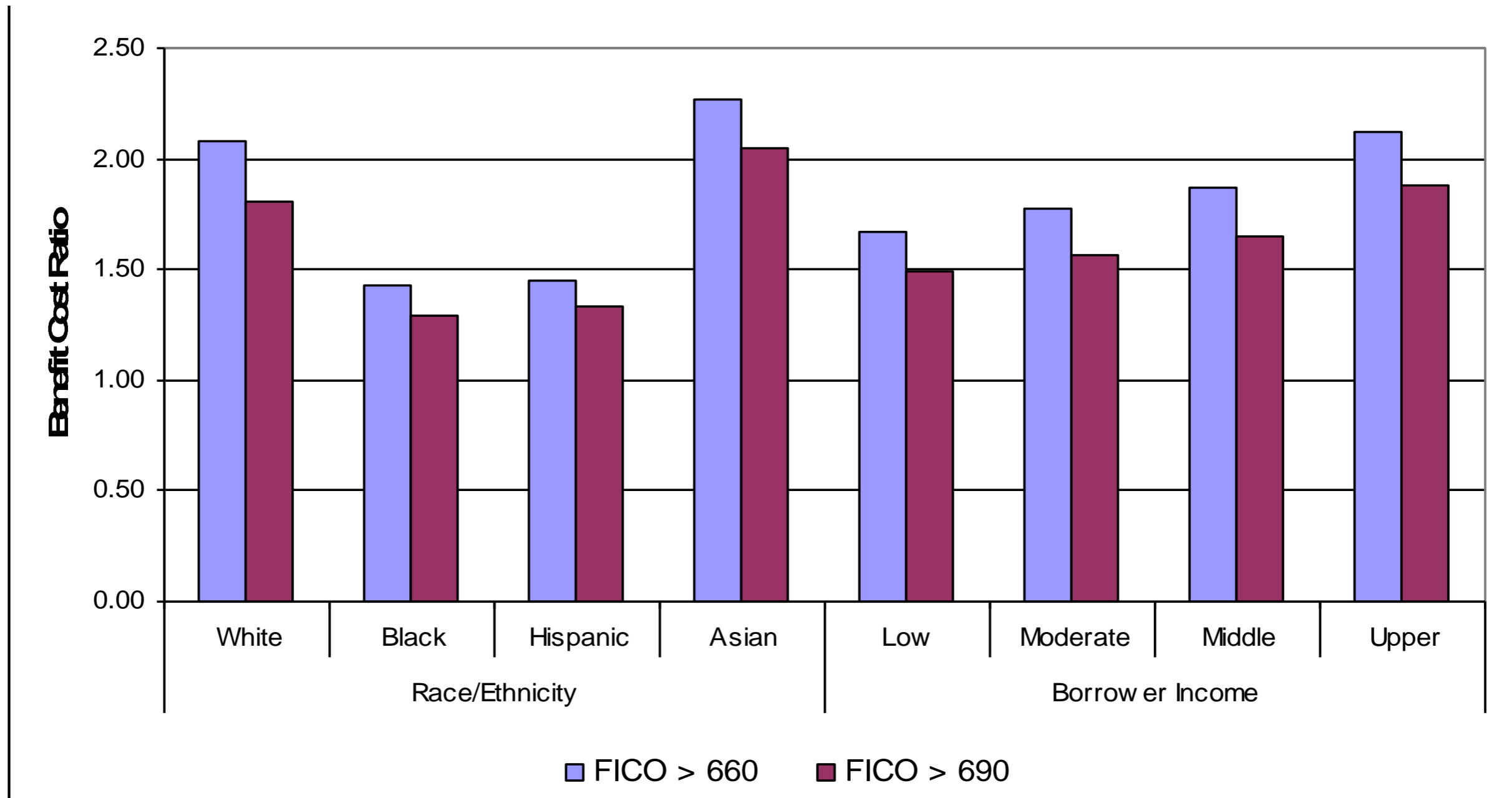


Benefits and Costs of Different QRM LTV Guidelines by Race/Ethnicity





Benefits and Costs of Different QRM FICO Guidelines by Race/Ethnicity and Income





Implications of the Preliminary Findings

- QM loan product on their own would do a lot to curtail the risky lending that occurred during the subprime boom.
- Disproportionate impacts of different LTV, DTI, and FICO requirements on low-income borrowers and borrowers of colors
- Diminishing returns from higher thresholds: downpayment requirements of 10% or more, DTIs of 28%, and a FICO floor of 690 have smaller marginal benefits in terms of reducing foreclosures when weighted against who is excluded
- We urge caution in setting too restrictive market wide QRM standards due to their likely disproportionate impacts on low income and minority households. Dual markets are not desirable.