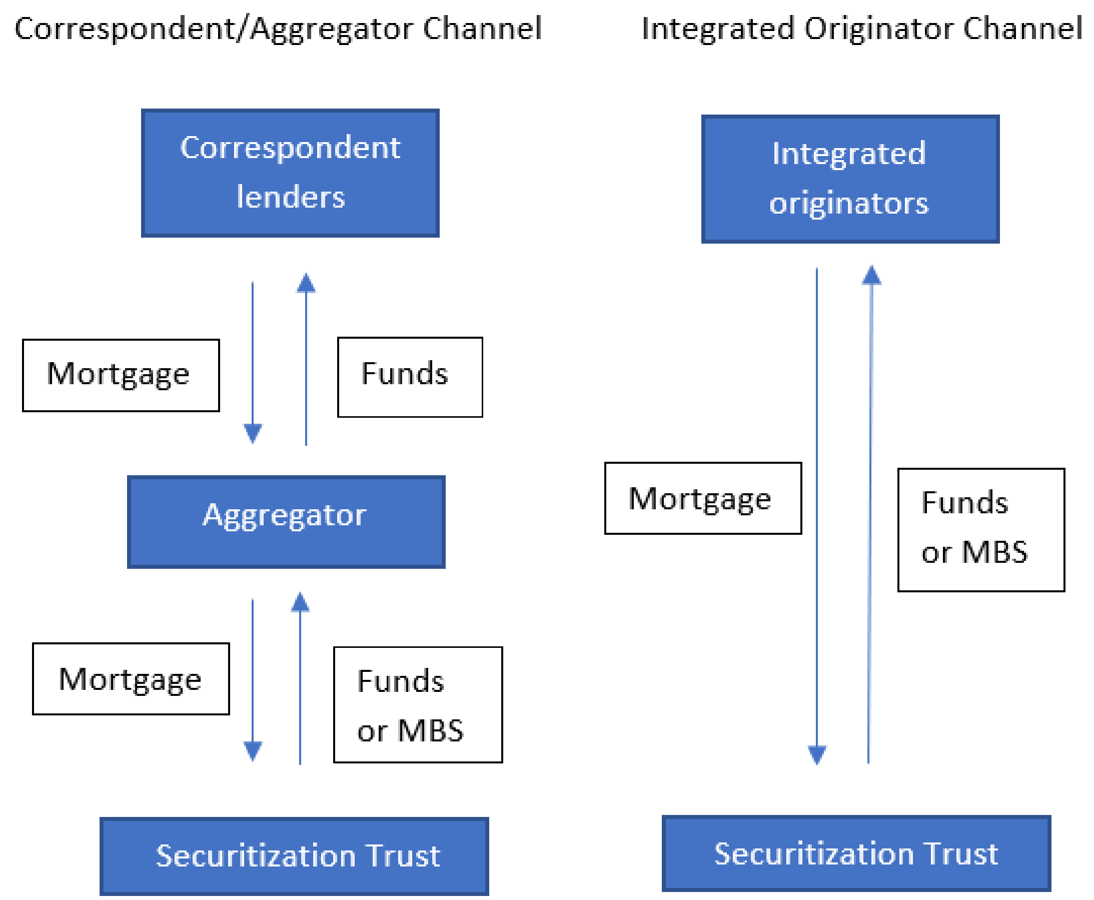
Discussion of “Intermediation in the Mortgage Market (Keling Zhang)”

You Suk Kim (Federal Reserve Board)

The analysis and conclusions set forth are those of mine and do not indicate concurrence by the Board of Governors or other members of the staff

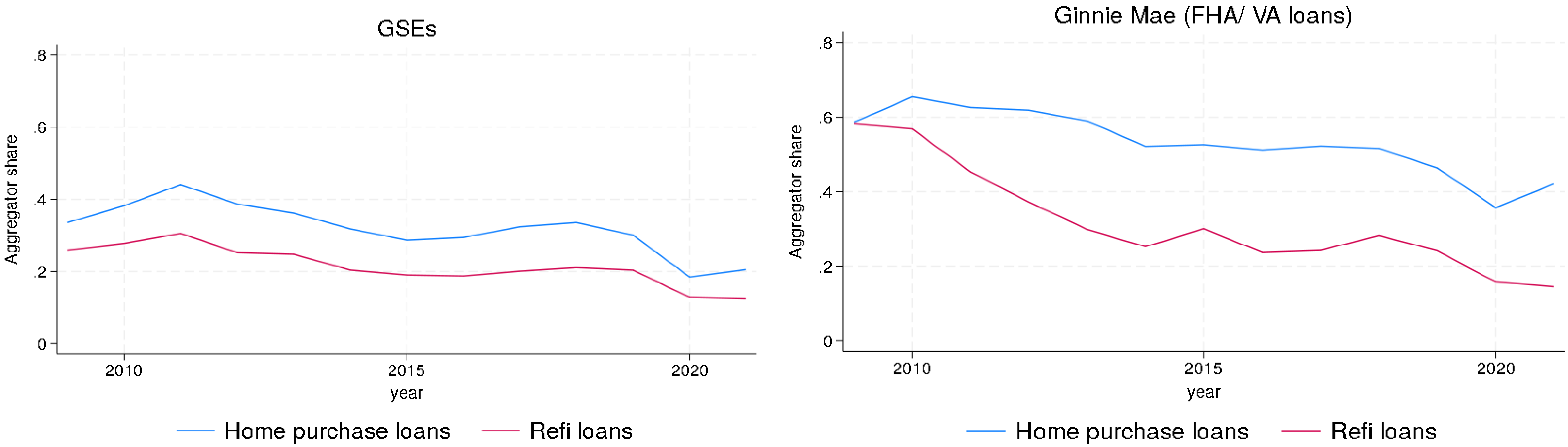
Aggregators connect (small) correspondent lenders to MBS markets



- Aggregators have scale but lack local information
- Correspondent lenders have local information but lack scale

Aggregators account for large share of agency mortgage securitization

Share of aggregators in new originations securitized to agency MBS (source: HMDA)



- More important for FHA/ VA home purchase loans securitized into Ginnie MBS

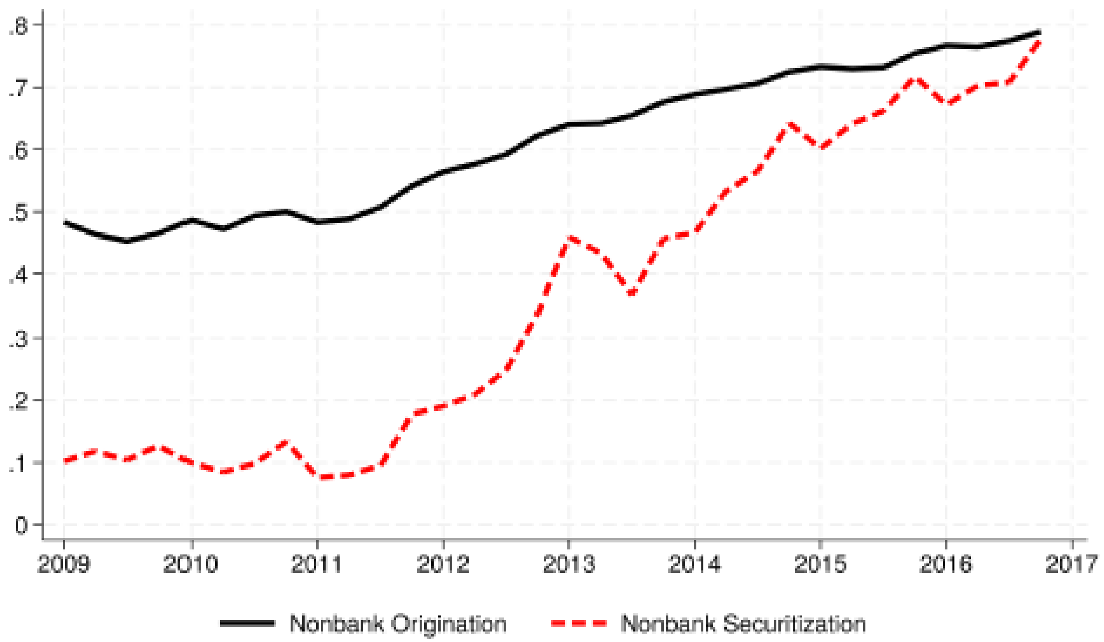
Top aggregators and top integrated originators (source: HMDA)

Loans securitized into Ginnie Mae MBS					
		year = 2010		year = 2020	
Securitization Channel	Rank		Securitization share (%)		Securitization share (%)
Correspondent-Aggregator	1	Bank of America	28	PennyMac	8
	2	Wells Fargo Funding	20	Freedom	3
	3	GMAC Mortgage	5	NewRez	2
Integrated origination	1	Wells Fargo	12	Freedom	13
	2	Bank of America	6	Quicken Loans	7
	3	Metlife BK	2	United Shore	4

- Big banks used to dominate both aggregation and integrated originations
- Activities migrated to nonbanks in both channels, but to different firms
- In the GSE market (unreported), there are still some bank presence

The shift to nonbanks is much more pronounced in aggregation and securitization than in origination in some market segments

Figure 1: Share of FHA Home-Purchase Mortgages Originated vs Securitized by Nonbanks



Very little work on aggregators despite their importance

- Stanton, Walden, Wallace (2018): theoretical model for pre-GFC intermediation network for PLS loans

- Benson, Kim, Pence (2024):
  - Big bank aggregator exit from FHA market post GFC -> rise of nonbank aggregators or nonbank integrated originators
  - The shift led to a broader credit box at the expense of higher mortgage rates

- Keling’s paper: liquidity from aggregators are important for credit supply
  - Very nice paper with large potential on an important but under-studied topic!

Main ideas of Keling’s paper

- Bank aggregators reduce the amount of loan purchases from corresp. lenders

=> Correspondent lenders reduce overall originations

=> Aggregate credit supply declines

- Identification: higher capital cost of MSR under Basel III
  - (i) increase of the risk weight for MSRs to 250%; (ii) punitive capital treatment for MSRs > 10% of common equity tier 1 (CET1) capital
  - Keling focuses on banks with high MSR/CET1 and ignores the 250% risk weight
    - Seems right because effective risk weight for MSR was 215% prior to Basel III for larger banks
  - Bank aggregators with high MSR/ CET1 want to reduce loan purchases

- Detail about the MSR rule: see “Report to the Congress on the Effect of Capital Rules on Mortgage Servicing Assets”

Issue 1: MSR% measured in 2008, but “treatment” started in 2013

Top Ginnie Mae Aggregators				
	year = 2008		year = 2012	
Rank		Securitization share (%)		Securitization share (%)
1	COUNTRYWIDE BK	20	WELLS FARGO BK	26
2	WELLS FARGO FUNDING	14	JPMORGAN CHASE BK	6
3	CITIMORTGAGE	8	US BK	4
4	GMAC MORTGAGE	5	PENNYMAC LOAN	2
5	US BK	2	FLAGSTAR BK	1

- Three of the top 5 aggregators in 2008 exited by 2012
- So, what does MSR% measured with 2008 data actually capture?
- You may want to calculate MSR% using 2012 data

Issue 2: county-level regressions do not rule out non-aggregator channels

- Large aggregators also securitize their own originations:
  - Wells Fargo was both top aggregator and top integrated originator
- Integrated origination also creates MSR
- Banks with high MSR% might have reduced both aggregation and integrated originations
  - But they might have scaled down aggregation more?
- Suggestion: check the effects on integrated originations separately
  - If there are no effects on integrated originations, discuss why

Issue 3: other developments in housing markets

- Sample period = 2010 to 2017
- Many things happened, and many new policies were enacted
  - Large swings of house price growth and delinquency rates (varied by region)
  - GSEs made aggregation business less profitable
  - Refinance programs like HARP
  - Lawsuits against big banks
- At least need a balance table to show how similar high- and low-MSR% counties are
- Ideally, want to show long-run trends in housing market variables are similar (starting prior to GFC)

More disaggregate analysis will strengthen the paper

- Main outcomes are too aggregated: total originations regardless of purpose (home purchase vs refi) and type (conventional vs FHA/VA)
- Aggregators are much more important for certain market segments than others (i.e., FHA/ VA home purchase loans)
  - Your larger effects for LMI borrowers may just capture high FHA shares for those borrowers
- You could enhance MSR% by taking into account how much aggregators matter in different market segments
  - This will also give variation of MSR% within counties

Other comments

- Any effects on mortgage rates?
- Substitution towards portfolio loans (no MSR generated this way)?
- Some lenders sell loans to aggregators but also securitize their originations. MSR% does not seem to allow for this
- Variation in MSR% across counties (in table 2) seem limited also generally above 10%
- Because MC of MSR is non-linear beyond 10% of CET1, an alternative treatment measure could be the share of purchases by banks with MSR above 10% of CET1 or something similar

Conclusion

- Again, nice paper with a potential to make a large contribution on an important but under-studied topic
- Some issues with measurement of treatment exposure and isolating the main channel of interest
- Looking forward to next version!