Yield Book Mortgage Research

Responsible Lending behavior metrics and scores: Early Pay Default Risk

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Responsible behavior in a lending context is the practice of extending fair and reasonable terms to borrowers during the loan origination process; to facilitate the measurement of and highlight the extent of potentially predatory practices within a deal or market segment, quantitative-based metrics have been developed.

Loans issued within the three different Government Sponsored Enterprises (GSEs) (GNMA, FNMA, and FHLMC) have been considered as separate universes, due to the different eligibility requirements. In this report, we focus on 30 Year Fixed Rate GNMA Loans across 2016-2019 (inclusive).

Overview of Methodology

A mortgage loan is considered to be in substantial early payment default risk (EPDR) if it displays delinquency above a threshold period (usually 90 days) within a relatively short timeframe since loan origination[1]. While this can occur even with the involved parties acting responsibly during loan origination, prevalence of early delinquency situations in recently originated loans for a specific lender's production highlights potential inclination towards predatory behavior.

As part of the Responsible Lending component of Yield Book's ESG Framework for Securitized Products, we have constructed a metric to identify lenders originating a noticeable number of loans that went significantly delinquent within a short timespan since origination.

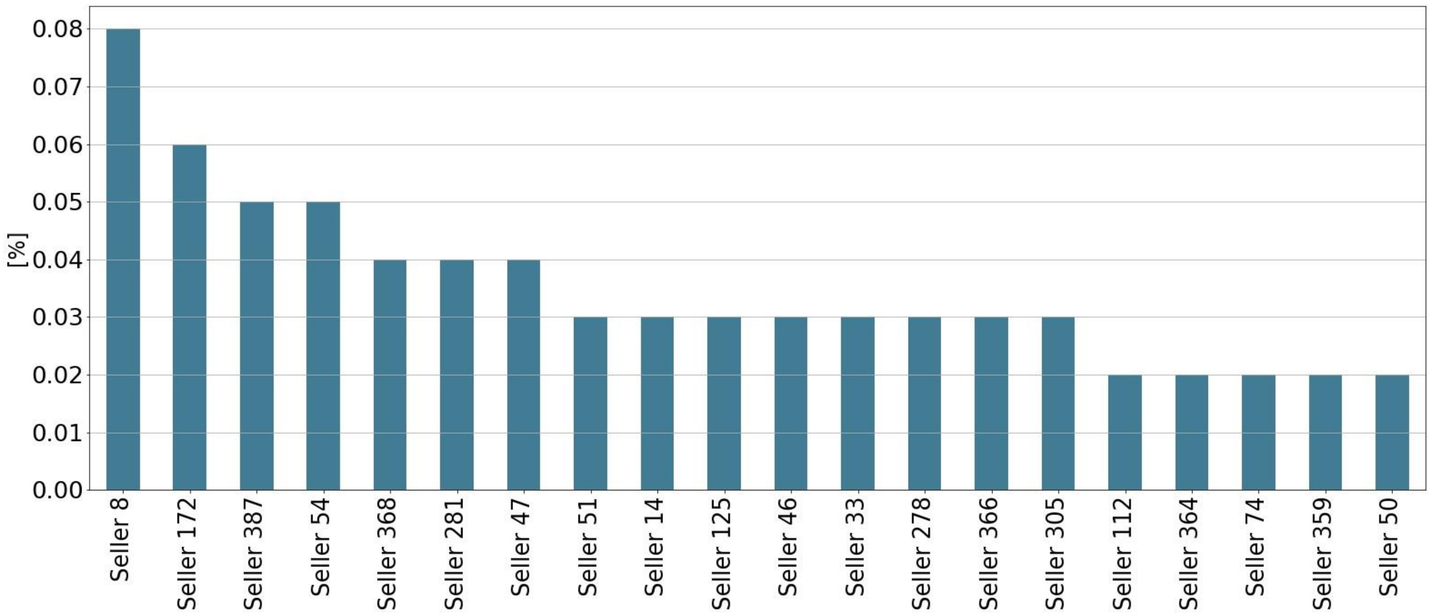
Lenders engaging in these practices have been detected through analysis of activity within the Ginnie Mae universe over 2016-2019 covering approximately 14 million individual loans. While market conditions have an undeniable effect on delinquency, the present analysis enables comparison between lender behaviors and the identification of outliers. In healthy market conditions, we've observed the EPDR rates are expected to take very low values.

[1] Loans in delinquency due to Covid related forbearance are excluded from the computation of EPDR.

Results

Figure 1 shows the proportion of early delinquency situations in recently originated loans within the aforementioned universe across 2016-2019. There is evidence of certain lenders exhibiting abnormally high rates of EPDR in their loan production.

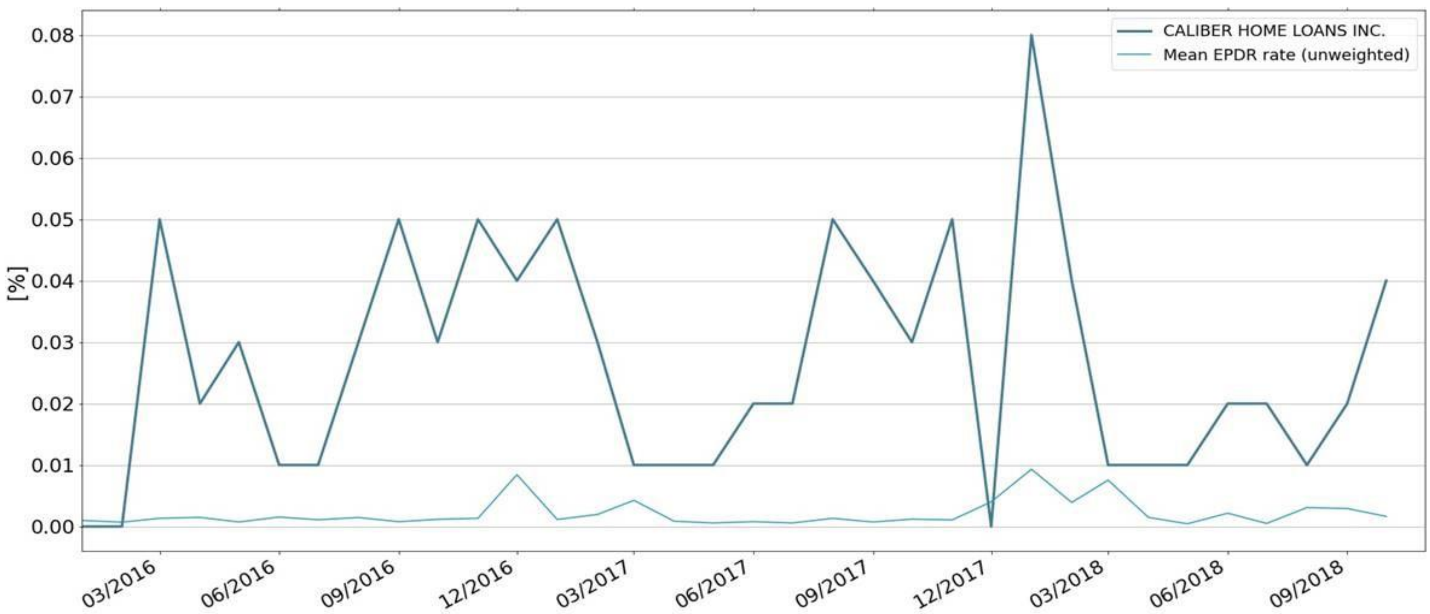
Figure 1. EPDR rates per lender over 2016-2019



Source: Yield Book

Looking at the EPDR rates more granularly (i.e. on a yearly basis) has enabled us to identify certain lenders with outlying behavior and investigate these in depth. For example, one of top ten lenders in terms of EPDR rate during 2019 is Caliber Home Loans Inc. A comparison of the EPDR rate history for loans originated by Caliber Home Loans and the mean EPDR rates in the universe studied can be seen in Figure 2.

Figure 2. Monthly EPDR rates for Caliber Home Loans Inc.



Source: Yield Book

In 2019, Caliber Home Loans were fined $2 million for “steering struggling homeowners into risky mortgage modifications”[2]. Further, a class action was proposed in May 2021 over allegations regarding the unlawful sharing of debt-related information with third party vendors[3]. A final fairness hearing is to take place in December 2021 in the context of yet another class action lawsuit against Caliber Home Loans, regarding allegations around the violation of the federal Fair Debt Collection Practices Act through *pay-to-pay* fees requested to customers making payments by phone or interactive voice response systems[4].

Conclusion

Early Payment Default Risk (EPDR) rates can serve as an indicator of irresponsible and potentially predatory lending behavior. The proposed metric can not only be useful as a detector for risky loan extension onto itself and as a comparison tool but can also play a part in market health assessment processes. The approach outlined above can be extended to behaviors under other GSEs and other programs within Ginnie Mae as well and can help detect these issues in a timely manner.

[2] Caliber Home Loans fined for allegedly steering struggling homeowners into risky mortgage modifications - HousingWire

[3] Caliber Home Loans Unlawfully Shares Debt-Related Information with Third-Party Vendors, Class Action Alleges

[4] Caliber Home Loans Fees Class Action Settlement - Top Class Actions

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