Red Tape, Greenleaf: Creditor Behavior Under Costly Collateral Enforcement

Taha Ahsin

Discussed by Felipe Severino - Dartmouth College

Creditor Behavior Under Costly Collateral Enforcement

Bank of America, NA vs Scott A. Greenleaf, Maine 2014 judgement, increase the cost of foreclosure.

MERS (Mortgage Electronic Systems) electronic registry not valid assignment of ownership.

It requires current owner to required proper assignment of ownership by contacting the original lender:

- Searching cost for original lender
- Legal cost of mortgage assignment if lender no longer in business

Creditor Behavior Under Costly Collateral Enforcement

This paper uses a comprehensive dataset coupled with variation from the Greenleaf judgement to compares MERS and non-MERS loans in a DinD setup.

Main Findings. The increase in cost of credit enforcement:

- Reduction of foreclosure
- Increase in self-cure and sell-off
- No change in modifications and short-sales

Comments

1. Narratives emphasis on the contribution and magnitude of the effect.
2. Alternative endogeneity concerns
3. Other comments

Comment: Narrative, Emphasis and Magnitude

Increasing ex-post cost of enforcement decreases foreclosure

- Interesting, but not surprising.
- Naive interpretation, credit enforcement is costly, so it is not enforced
- More nuance, foreclosure is costly, therefore, creditor take alternative actions

Results suggest:

- Increase cure and sell-off
- No effect on short sale or modifications

The paper currently centers the narrative around foreclosure, instead of the overall creditor behavior

Suggestion: Narrative, Emphasis and Magnitude

Focus narrative on overall creditor behavior

- Outcomes at the same level (foreclosure, self-cure, servicing sold, etc)
  - Implies checking identification assumption for all outcomes
- Lender dimension and characteristics
  - Lender identity is known
  - How does the distribution looks like? Is it different that Lewellen and Williams (2021)?
  - Explore lender heterogeneity to understand what drives creditor behavior

Suggestion: Narrative, Emphasis and Magnitude

Cost of enforcement increase is plausible

- Newer legal evidence,2 different judgements that follow the same line Saunder in 2010 and Beal 2019
- Last judgment, U.S. Bank, N.A. v. Gordon 2020, formalize the process
- However, it is hard to measure

Suggestion:

- Explore the specific gains and losses:
  - Mortgage values are know, how much are creditor worse or better off when accounting for creditor' actions?
  - Ex-post are lender making the right choice? under what assumptions?
- Need to benchmark magnitude.
  - The 0.1 percent change or 24% of the baseline rate seems big but could be rational

Comment 2: Alternative endogeneity concerns

Judgment reasons and ruling as unexpected as it get?

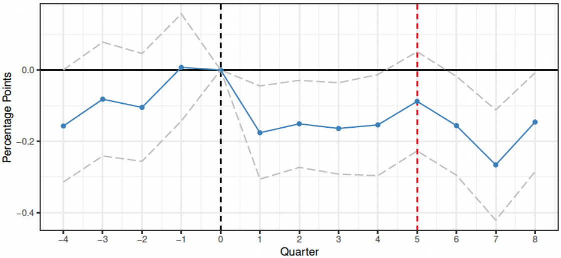
- Original Greenleaf loan was 385k in 2006 –> Judgement 640k

Identification assumptions:

- Treatment assignment is uncorrelated with the outcome
- Treatment and control group follow parallel trends before event

Foreclosure rates between 2013-2016 for loan originated between 2002-2007

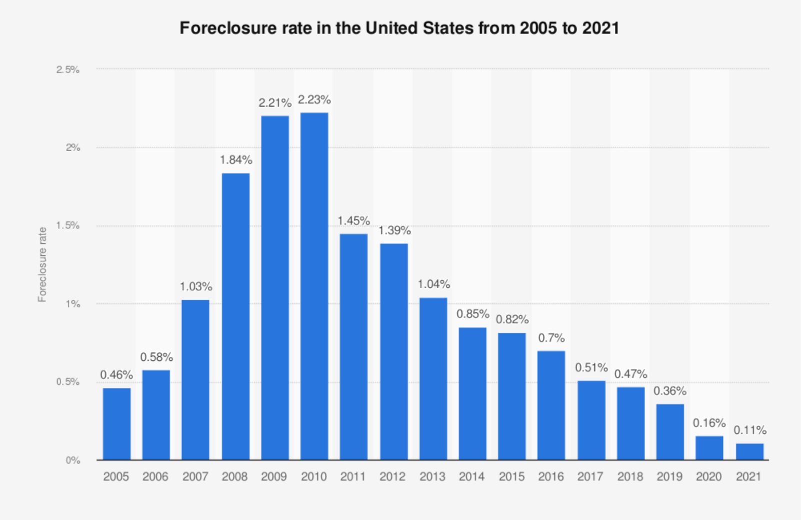
Figure 4. Difference-in-Differences Estimates: Foreclosure



Comment:Alternative endogeneity concerns

Endogeneity concerns are driven by foreclosure and survival

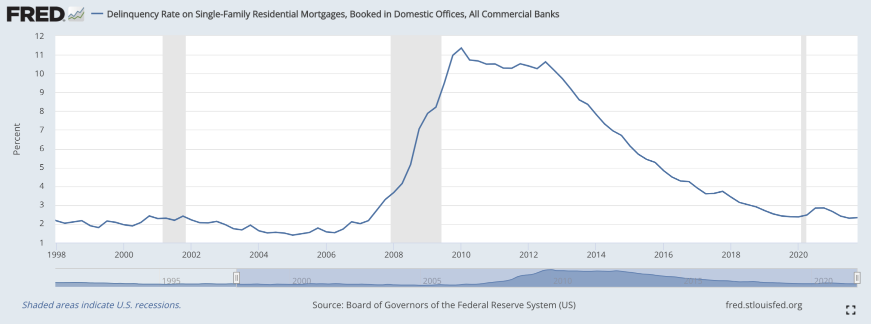
Foreclosure peak in 2009-2010.



Comment:Alternative endogeneity concerns

Endogeneity concerns are driven by foreclosure and survival

Delinquency Rates also peak in 2009-2012?



Comments:Alternative endogeneity concerns

Differential survival of loans are a concern.

- Consistent with LTV at origination being lower than 80% (Table 1)
- Are MERS loan that are still in the sample differentially better?

For example if Non-MERS are less risky in general (consistent with Lewellen and Williams, 2021) but also more uniform than MERS

- Loan quality of survival MERS loans become better than Non-MERS over time if risky borrowers defaulted earlier

Suggestion:Alternative endogeneity concerns

Analyze the compositional change directly

- Summarize sample composition to document change
  - Characteristics of loan, similar to Table 1 but by year
- Summarize bank characteristics between Non-MERS and MERS loan.
  - Hypothesis, MERS are large bank and non-banks, non-MERS are local banks, if that is the case, my example could be a larger concern
- Extend the pre-period sample for foreclosure and delinquency,
  - but also document pre-trend for all other outcomes.

Other minor comments

Standard errors

- Is zipcode the right level of clustering
- Are MERS and Non-MERS loans cluster geographically?
- If MERS is correlated with lenders, maybe lender is a more relevant clustering variable.

Within lender variation

- Is it possible to explore within lender variation, maybe?

Sample

- 15 quarters with 40k obs. −> 600k obs. vs 710k?

Conclusion

Interesting paper that use a clever event to identify a decrease in credit enforcement and its effect on creditor behavior

Looking forward to read the next draft!

Thank you!