Cost Pass-Through and Mortgage Credit: The Case of Guarantee Fees

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Discussion by

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University of Pittsburgh

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Summary

- Research Questions
  - ▶ How do lenders pass-through guarantee fees?
  - ▶ What mechanisms intermediate this pass-through?
- Methodology
  - ▶ DiD exploiting increase in fees for LTV-Credit buckets
  - ▶ Exploration of asymmetry, market structure, and demographics
- Key Results
  - ▶ Pass-through is complete, roughly 70-30 split across rates and fees
  - ▶ Pass-through is asymmetric: 100% ↑ vs. 70% ↓
  - ▶ Market structure and demographics don't intermediate pass-through
- Comments
  - ▶ Timing of Treatment
  - ▶ Sorting into Treatment
 - ▶ Contribution

Timing of Treatment

Comment #1: Does Timing Correlate with Risk?

- Shock must approximate an ideal treatment
  - ▶ Endogenous factor must not be correlated with both treatment timing and future outcomes

Treatment → **Outcomes**

Endogenous Factor
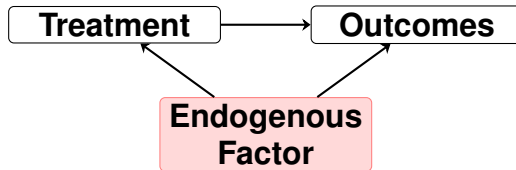
Comment #1: Does Timing Correlate with Risk?

- Shock must approximate an ideal treatment
  - ▶ **Key implication**: Credit risk cannot cause both ΔLLPA and Δ prices
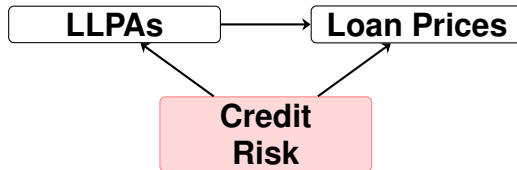
| LLPAs | → | Loan Prices |

Credit Risk

Comment #1: Does Timing Correlate with Risk?

- Shock must approximate an ideal treatment
- **This Paper**: Assumes ΔLLPA intended as subsidy
  - ▶ Subsidy angle: "increase pricing support...by income or wealth"
  - ▶ Risk-based angle after-thought: "Only after media backlash..."
  - ▶ Paper's conclusion: Originally intended to subsidize borrowers

Comment #1: Does Timing Correlate with Risk?

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- **This Paper**: Assumes ΔLLPA intended as subsidy
- **Challenge**: Design must address risk-based channel directly

FHFA Jan-19-23 — "FHFA Announces Updates to the Enterprises' Single-Family Pricing Framework"

> "These changes to upfront fees will strengthen the safety and soundness of the Enterprises by enhancing their ability to improve their capital position over time," said Director Sandra L. Thompson. "By locking in the upfront fee eliminations announced last October, FHFA is taking another step to ensure that the Enterprises advance their mission of facilitating equitable and sustainable access to homeownership."

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Fannie Mae Jan-19-23 — "New Loan-level Price Adjustment Framework"

> We are implementing additional changes to our LLPA framework that represent the next step in our effort to increase support for borrowers historically underserved by the housing finance market while ensuring a level playing field for small and large lenders, fostering capital accumulation, and achieving viable returns on capital... Along with the support of FHFA, we will continue to review national pricing levels to ensure we operate in a safe and sound manner and we are positioned to fulfill our mission of providing stability and liquidity to the mortgage market.

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Solution: Rule out risk-based angle

- Null #1: Loan prices adjusting **before announcement**
- Null #2: Unobserved risk increasing **before announcement**
- Falsify: Pre-trends in loan prices, LTV's, credit scores, delinquencies
- Must include several months preceding announcement:
  - ▸ FHFA assessment period
  - ▸ Seasonality

Comment #1: Does Timing Correlate with Risk?

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- **Deeper challenge**: Why should subsidy goals not be endogenous?

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Sorting Into Treatment

Comment #2: Do Borrowers Sort into Treatment?

- Limit sorting in an ideal experiment
  - ▸ Restrict sorting around treatment group
  - ▸ Restrict sorting around treatment time
  - ▸ **Goal**: Limit selection bias

Period

Group	**Control**	**Treatment**
Treated	↑	
Control	Borrower	

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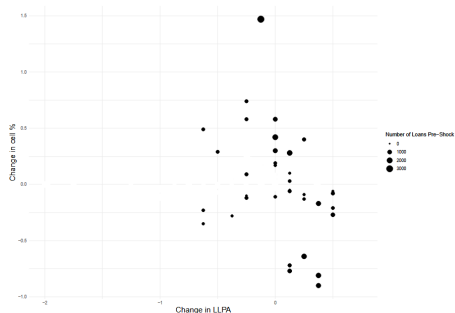|	**Period**	
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- **Claim**: No borrower sorting
  - ▸ No sorting across treatment group:
    - ○ No sorting on LTV and Credit Score
  - ▸ No sorting across time:
    - ○ Loan prices are stable in the pre-period
    - ○ No reversion in post-period
    - ○ Purchase timing related to moving

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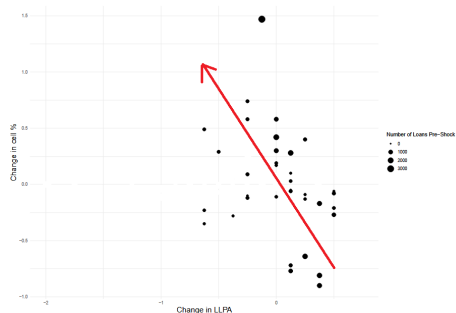- **Concerns**:
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Change in LLPA and Obs

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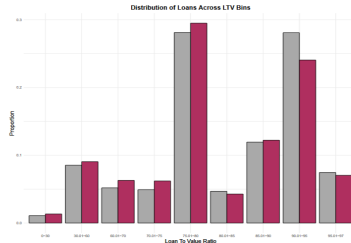 - ▶ Systematic sorting into LLPA change

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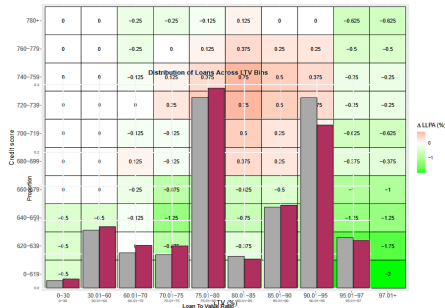 - ▶ Ambiguous shifts across LTV

LTVs and LLPA Matrix

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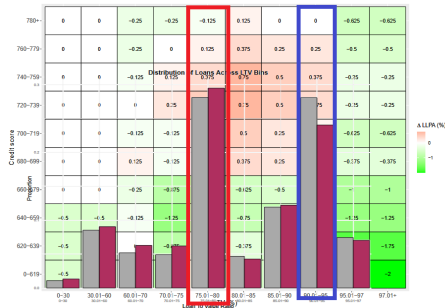 - Systematic sorting into LLPA change
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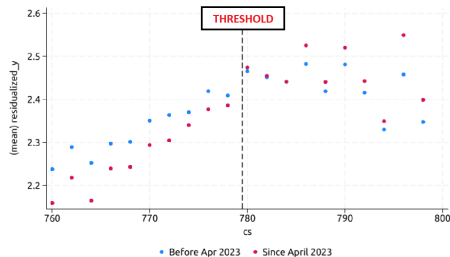 - ▶ Ambiguous shifts across LTV

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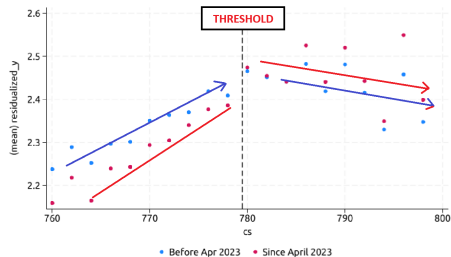 - Systematic sorting into LLPA change
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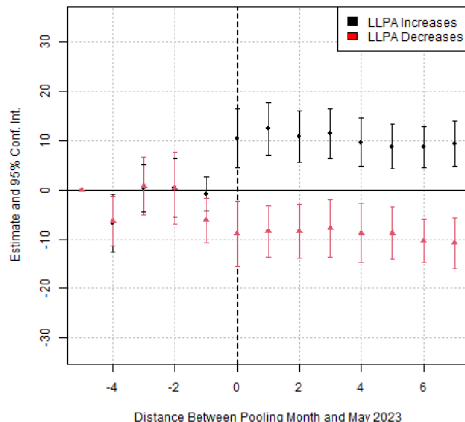 - ▸ Ambiguous shifts across LTV
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Dynamic DiD of Price with rural/low-income (20% Obs)

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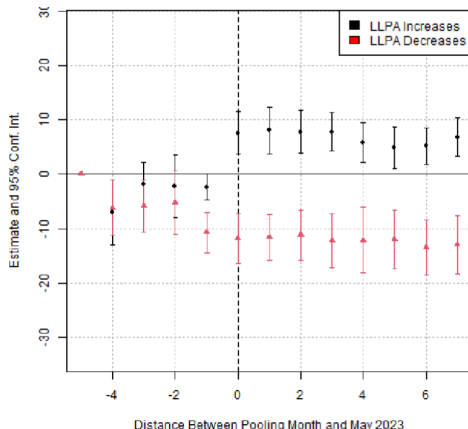 - ▶ Pre-trends with relevant population

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Distance Between Pooling Month and May 2023

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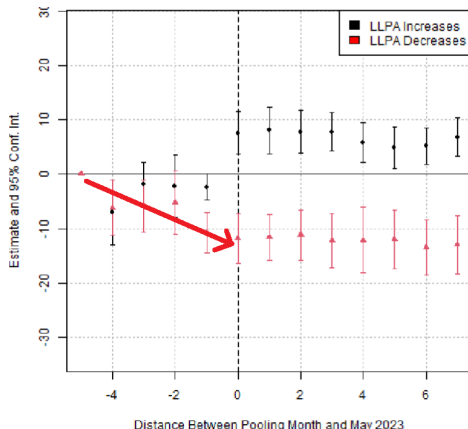 - ▶ Pre-trends with relevant population

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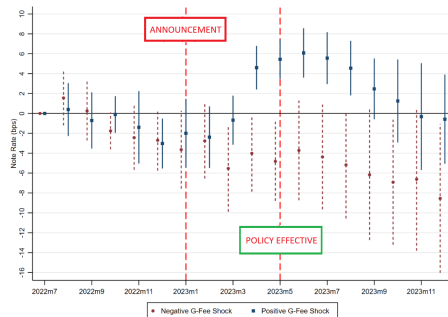 - ▶ Pre-trends with relevant population

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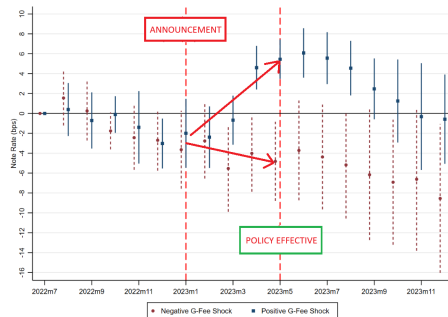 - ▶ Pre-trends with relevant population

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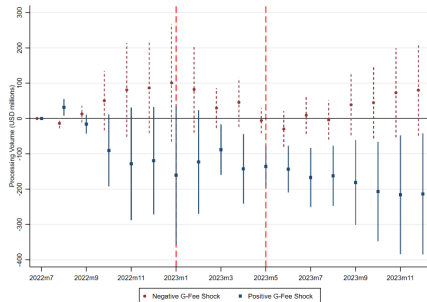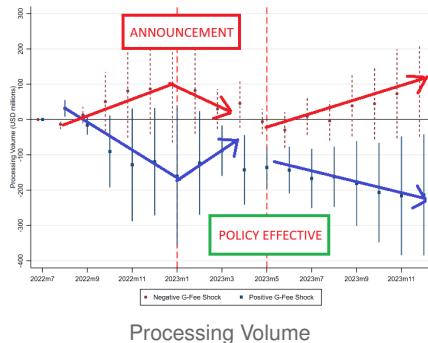 - ▶ Pre-trends with relevant population

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(b) GSE loan originations (credit score 680)

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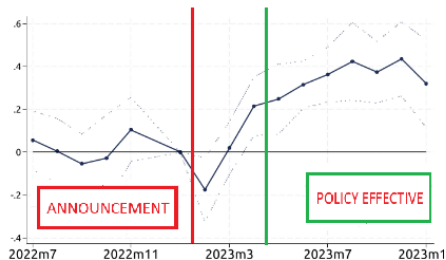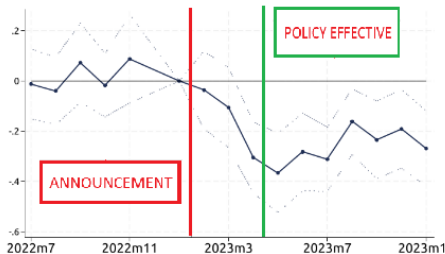 - ▶ Pre-trends with relevant population

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(b) Net origination charges (credit score 680)

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- **Takeaway**: Sorting is very involved
  - ▶ **Heavy** strategic behavior is expected
  - ▶ Sorting into both groups and periods

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- **Takeaway**: Sorting is very involved
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  - ▶ Beyond borrowers, lenders can sort
  - ▶ **Recommendation**: Adjust design
    - ◦ FHFA News Date (Amorn. and Ricks, 2025)
    - ◦ Credit Score RDD (Kim, Liu, Zhang, 2025)

Contribution

Comment #3: Shaping the Contribution

- One concurrent paper on g-fees pass-through

  - Ahsin (2024):
    - DiD around announcement, not treatment
    - Focus on market structure and lender size

- Two papers studying same natural experiment

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- **Takeaway**: Very crowded with limited scope

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- **Strongest Contribution**: Exploring Asymmetry
  - ▶ Currently: information asymmetry, demand, and competition
  - ▶ Tease out information asymmetry more:
    - ◦ Sophistication: Bhutta, Fuster, Hizmo (2024)
    - ◦ Vertically integration : Streobel (2015)
    - ◦ Collateral uncertainty: Jiang & Zhang (2025)
  - ▶ Explore securitization (lender sorting):
    - ◦ Timing of sale $\Rightarrow$ loan outcomes
    - ◦ Adelino, Gerardi, Hartman-Glaser (2019)
  - ▶ Explore the implications for monetary policy
    - ◦ Berger et al (2021): Path-dependence
    - ◦ Effect of average mortgage coupon?

Conclusion

- Timely and relevant topic on pass-through of loan costs to borrowers
- Empirical design could sharpen to approximate ideal experiment
- Asymmetry appears to be strongest distinguishing contribution