Mortgage Brokers and the Refinancing Transaction: Evidence from CRA Borrowers

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refinancing transaction. Origination with a mortgage broker, compared with origination through a retail lender, is associated with both a less satisfactory refinancing process and a higher likelihood of refinancing into an adjustable-rate mortgage (ARM).

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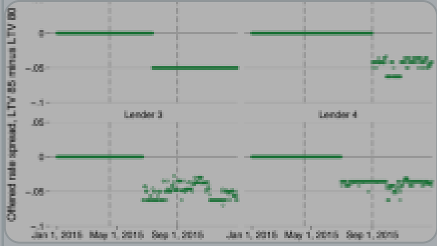

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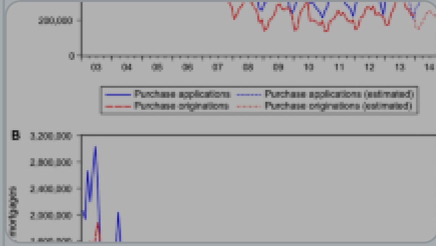

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registration requirements. In that analysis, the authors report several interesting findings with respect to existing state-level regulations, but are hesitant to assign causality to these results.

4. The CAP dataset isolates a sample of LMI home buyers, limiting extrapolation to the broader mortgage market. However, the sampling process relates to the nature of the original purchase mortgage, and should be unrelated to selection of a mortgage broker to refinance. The CAP program and the characteristics of the analysis sample are discussed in greater detail in the data section.

5. The authors attribute this increased risk to principal-agent problems between the lender and broker, whereby brokers are not fully held accountable for the performance of loans after origination.

11. Compliance with the rule change is not mandated until January 2010, so the actual impact of the rule change will not be known for some time.

12. This second type of purchasing activity raises the prospect of seasoning bias to the extent that loans in the lender’s portfolio that terminated prior to CAP purchase are censored from the analysis sample. For the purposes of this article, the observed seasoning is not anticipated to create non-random missingness with respect to the use of mortgage brokers. Among loans acquired through bulk purchases, the mean seasoning period is less than six months.

13. A complete discussion of CAP’s sampling strategy is performed by Riley and Ru (2009). They also compare the sample of CAP homeowners with the set of

2005. Appreciated values in interim periods are interpolated using the home purchase price and the Fannie Mae appreciated value, assuming a constant rate of appreciation. Fannie Mae's proprietary automated valuation model (AVM) produces four different estimates of each home's appreciated value based on repeat sales information, public tax records, and property characteristics. When discrepancies arise between the estimates, a reconciliation model generates the final estimate. Because of its proprietary nature, we do not directly observe the estimation procedure used by the AVM. We base our trust in the model's reliability on OFHEO's consistent approval in regulatory audits.

18. The Federal Reserve Board's recent revisions to Regulation Z define first lien mortgages to be 'higher-cost' when the associated annual percentage rate exceeds 150 basis points above the average prime offer rate. This rule is

draft version of this paper at www.ccc.unc.edu/research.php.

22. This specification is determined in part by the presence of multicollinearity among the set of possible variables. For instance, the nominal amount of equity is also observed, but is highly correlated with the current LTV and the appreciation rate.

23. Beyond these financial factors, the previous literature also suggests that ARM use is driven by mobility expectations and other demographic characteristics. Building a theoretical model of ARM choice, Cocco and Campbell (2003) show that households with larger mortgages, variable income, and/or little expectation of future mobility should be less likely to prefer ARM mortgages. Using empirical data, Dhillon et al. (1987) confirm

27. Each analysis is also repeated using the second specification from Table 3 and using a specification that includes both the state indicator variables and the licensing index. All reported results are robust in sign and significance to this specification decision.

28. The prime rates for FRM and ARM mortgages reflect the mean rates reported for the primary market, which are recorded monthly by Freddie Mac's Primary Mortgage Market Survey.

29. Sensitivity analyses were performed in response to concerns about multicollinearity and the weak z-statistics on the covariate variables. None of these analyses suggest that multicollinearity drives the reported results. Instead, the weak effects appear to result from the relatively homogenous

33. The analyses were also repeated using several alternative specifications of these measures, as the use of high-cost ARMs may not be the only relevant product distinction. For instance, one alternative model replaces the high-cost ARM measure with an indicator variable for ARM choice, an indicator variable for a higher-cost mortgage, and an interaction between these measures. The sign and significance of the reported broker effect are robust to the specification of these variables with respect to each of the outcome measures.

34. The omitted demographic estimates rarely show significant effects and offer little to the substantive interpretation.

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