GSE Activity Report

Tuesday, December 19, 2023

Money for Something

Summary

The CFPB yesterday released a fascinating research blog looking at cash-out refis. The Bureau's researchers think cash-outs aren't likely a renewed source of systemic risk, but then underwriting standards are better and rates have stayed low – or, they did for most of the period examined, but not now.

Impact

Most striking is that most of the Bureau's analytics do not reflect the fact that the period studied – 2013 to 2023 – is one of significant home-price increases at ultra-low rates that may well mask the structural risk of cash-outs unless lenders learn their GFC lessons and curtail these loans when prices peak. This may not prove to be the case unless prices remain on a high – the study shows that refis continued even after 2022 rate hikes that cost borrowers money. It seems likely that many of these borrowers really needed the money or they wouldn't have increased their monthly payments. The post acknowledges 2017 research about heightened cash-out risk as rates rise, but the rate hikes the paper studied were negligible by comparison to those since early 2022 and house-price appreciation had yet to hit its torrid pace.

Additional details of note include:

- Cash-out refi borrowers had lower credit scores, lower incomes, and smaller loan amounts and were more likely to be older, female, Black, and Hispanic.
- Serious delinquencies were more likely for refis involving borrowers with lower credit scores but were still uncommon in absolute terms, with results complicated by pandemic forbearance.
- LTV and DTI ratios were similar for cash-out and non-cash-out refis. Most cash-out refis now have LTV ratios below 80 percent and would require a 20 percent or more drop in house prices to be underwater. Most cash-out amounts were also below $50,000.
- The volume of cash-out refis has been declining each quarter since the start of 2022.

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