GSE Activity Report

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CDFI Mac?

Summary

Based on recent dialogue with institutional investors and regulators, a new FRB-NY Teller Window article concludes that robust data collection, loan standardization, and higher volume could improve CDFI secondary market sales. This in turn would improve capital access and thereby expand LMI-lending.

Impact

This study points to the secondary market success of certain CDFI loans (e.g., single-family mortgages), emphasizing that these meet GSE or institutional investor standards because they are characterized by standardized terms, robust underwriting, loan performance datasets, and a large enough volume to be attractive to investors. That these characteristics exist in part because there's already a robust secondary market for single-family mortgages is not mentioned, nor is the fact that MIs bear a good deal of risk for HLTV loans. The study instead assumes that – if CDFIs build usual secondary-market characteristics into their other loans, a secondary market will come forth.

We have our doubts that CDFIs could ever meet volume criteria in the absence of a large, liquid secondary market, but the New York Fed study hopefully lays out steps necessary to craft secondary markets in CDFI assets such as standardizing loans, increasing loan volume, and improving data.

The article also emphasizes that more data on historical, through-the-cycle loan performance and other key metrics would boost investor and rating-agency interest, noting that CDFIs gather considerably less data than other originators for CMBS. The research does not explain why CDFI multifamily loans do not find a GSE home and instead need to rely on CMBS.

Outlook

Given their optimism about CDFI-loan securitization, the New York Fed team plans next to size loans other than single-family mortgages by collateral and loan volume. More research on why the secondary market's heart remains so stoney is also in the works.

Federal Financial Analytics, Inc.
2101 L Street, N.W., Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail : info@fedfin.com www.fedfin.com