The Coronavirus Aid, Relief, and Economic Security (CARES) Act, which President Trump signed into law last week, offers up to a year of forbearance to homeowners with federally backed loans. But if enough homeowners accept this relief, mortgage servicers could face a liquidity shortfall of up to $100 billion, notes AAF’s Financial Services Policy Director Thomas Wade — potentially leading to a credit crunch similar to the 2007-08 financial crisis. In a new analysis, Wade describes the role of mortgage servicers in supporting home loans and assesses current efforts to support them.

An excerpt:

The effective demise of the mortgage-service industry would have extraordinary implications for the broader housing market and the economy as a whole. Immediately, mortgage lenders and large banks would not have a market for the mortgages they originate, requiring that they keep hold of these mortgages. This requirement would have an instantaneous impact on the pricing and availability of new mortgages. Without companies servicing existing mortgages, no mortgage payments could be collected and provided to investors. Pension funds would take an enormous blow, and economic recovery would necessarily be lengthened.

Read the Analysis