

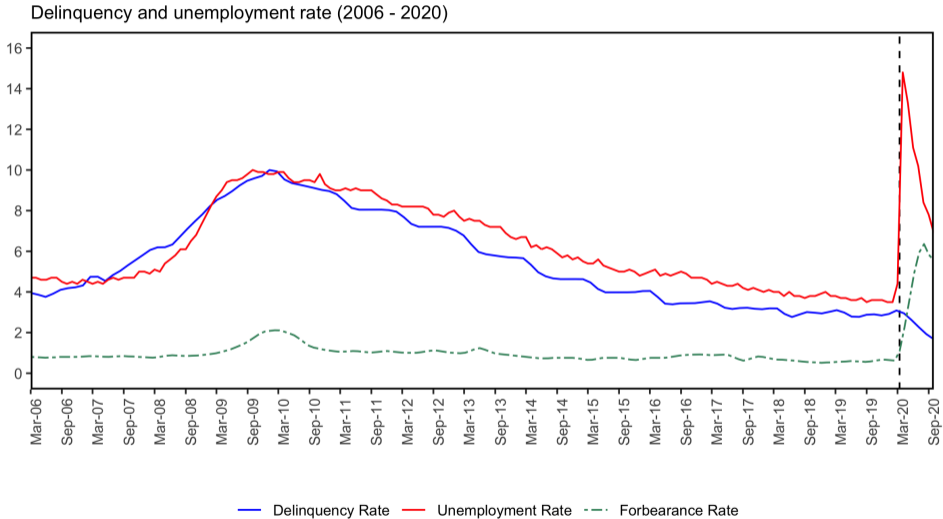
Discussion: “Government and Private Household Debt Relief during COVID-19” by Cherry, Jiang, Matvos, Piskorski, and Seru

Pascal Noel

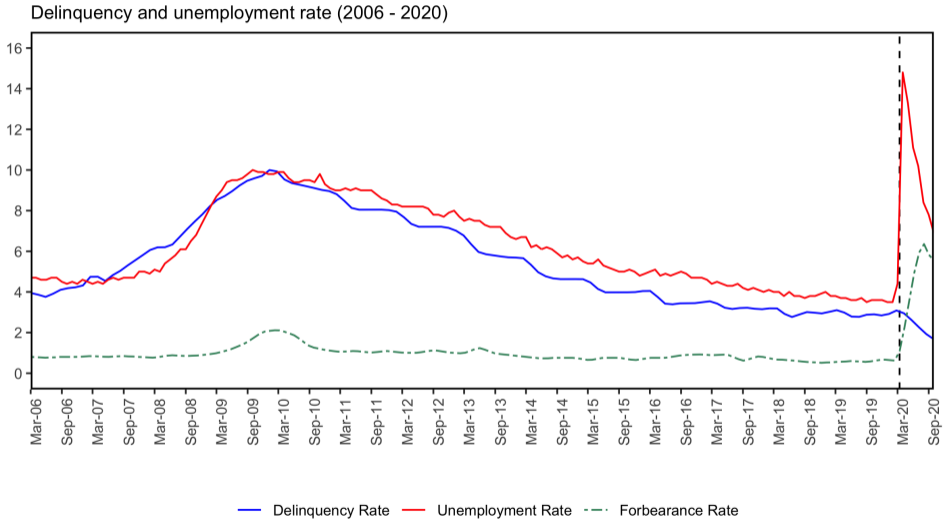
Chicago Booth and NBER

BPEA, September 9, 2021

# Key message: Forbearance successfully prevented massive spike in defaults



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## Broader results from the paper

- Prior figure just mortgages...
  - but paper also documents forbearance in **student loans, auto loans, credit cards**
- Prior figure just correlation...
  - but paper presents clear **causal link** from forbearance → avoided defaults
- Prior figure aggregates all households...
  - but paper shows forbearance **targeted** to most distressed households
- Prior figure aggregates lenders...
  - but paper shows **shadow banks** provide less forbearance than traditional banks

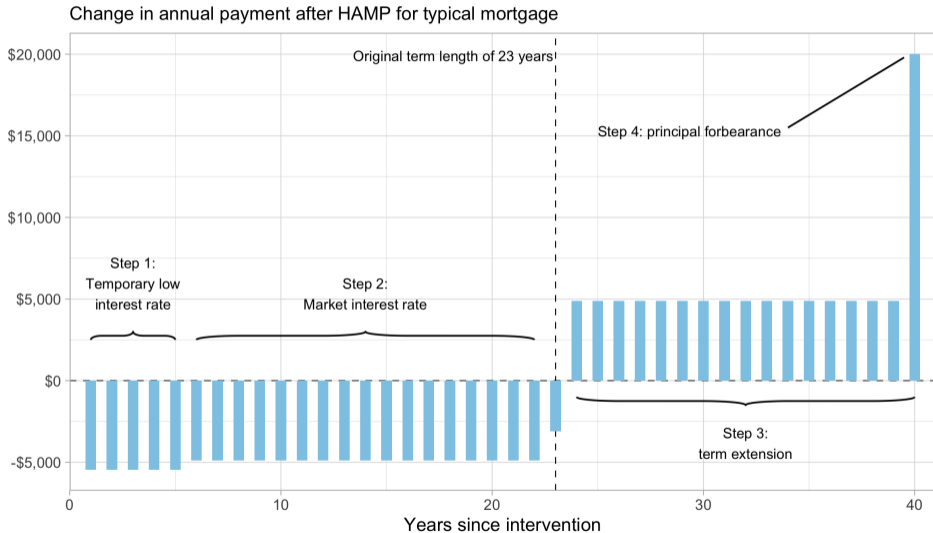
Despite some limitations, CARES forbearance seems like a remarkably successful policy

- This discussion: How did we get here? How costly is it? What lessons do we learn?
- Note: will focus primarily on mortgages

# Comparison to Great Recession intervention: HAMP

- Main source of debt relief: Home Affordable Modification Program (HAMP)
- Characteristics
  - Heavily subsidized by taxpayers
  - Run by servicers
  - Required new mortgage contract which varied on case-by-case basis

# HAMP twisted payment schedule via complex modification

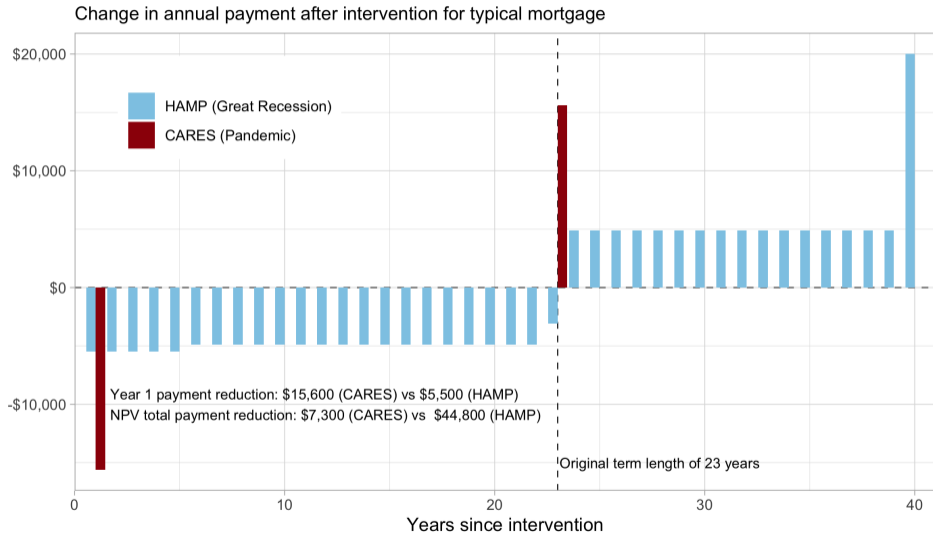


# Lessons learned since the Great Recession: three big limitations

- 1 Type 1 vs Type 2 error
  - Worry about false positives → HAMP required strict documentation
  - Led instead to false negatives → too hard to get a modification!
- 2 Reliance on voluntary costly actions by intermediaries
  - Problem: many large intermediaries were sluggish
  - Agarwal, Amromin, Ben-David, Chomsisengphet, Piskorski, and Seru (2017); Piskorski, Seru, and Vig (2010)
- 3 HAMP provides *drawn-out* payment relief, but what matters most is *immediate* liquidity
  - Large literature now on link between liquidity and default
  - Hsu, Matsa, and Melzer (2018), Piskorski and Seru (2018), Tracy and Wright (2016), Fuster and Willen (2017), DiMaggio, Kermani, Keys, Piskorski, Ramcharan, and Seru (2017), Agarwal, Amromin, Ben-David, Chomsisengphet, Piskorski, and Seru (2020), Ganong and Noel (2020), Ganong and Noel (2021), Scharlemann and Shore (2019), Ehrlich and Perry (2015), Abel and Fuster (2018)

Design of CARES forbearance helps address all 3 issues

# CARES forbearance: Maximal immediate liquidity + simple design





# How CARES addresses each lesson since Great Recession

- 1 Type 1 vs Type 2 error?
  - 1 Essentially zero documentation required → easy take-up and likely few false negatives
  - 2 Low NPV cost rationalizes this loose screening
- 2 Reliance on voluntary costly actions by intermediaries?
  - 1 CARES is simple and cheap
  - 2 *Nevertheless*, paper shows provision not perfect (especially by shadow banks)
    - 1 *Automatic* provision as in student loan forbearance goes furthest
- 3 HAMP provides *drawn-out* payment relief, but what matters most is *immediate* liquidity?
  - 1 CARES provides 3x immediate liquidity (at  $< 0.15x$  the cost!)

# Going forward

For this crisis:

- 1 Paper provides convincing evidence that CARES-type forbearance helped prevent delinquency spiral *so far*
- 2 Raises alarm for 20% of households still in forbearance → crucial to design exits that continue liquidity-provision where needed

For next crisis:

- 1 Simple intervention is better, this paper shows it is attainable
- 2 Immediate liquidity provision is better, this paper shows it can be done cheaply
- 3 Consider building more forbearance-like features into *ex-ante* loan design
  - 1 Active theoretical literature, e.g. Piskorski and Tchisty 2010, 2011, 2017; Eberly and Krishnamurthy 2014; Guren, Krishnamurthy and McQuade 2021; Campbell, Clara, and Cocco 2020; Greenwald, Landvoigt, and Van Nieuwerburgh 2019