

Bank leverage limits and risk-taking in the mortgage market: evidence from post-crisis reforms

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Discussion by

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Summary

▶ Question

- Does a higher minimum bank leverage ratio increase risk-taking?

▶ Approach

- Test for changes in lending terms for banks subject to the SLR requirement

▶ Key Results

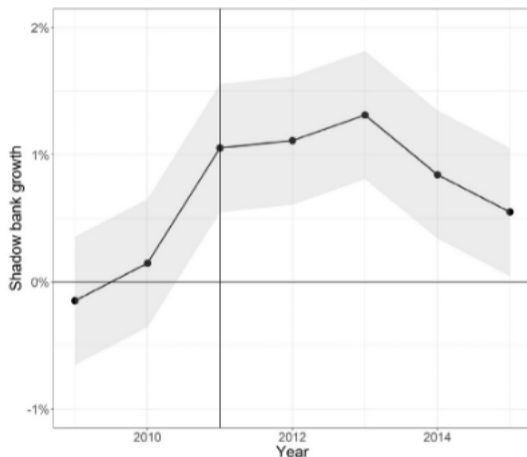
- DTI increases for banks subject to SLR
- Effect is stronger for portfolio lending
- House price growth linked to SLR exposure

▶ Comments

- Alternative Regulatory Channel
- Geographic Factors
- Stylistic Choices

Comment 1: Alternative Regulatory Channel

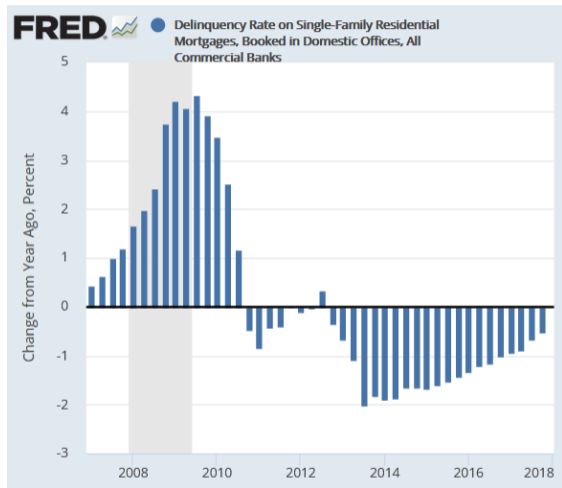
- ▶ **Regulation and Rise of Non-Banks**
 - Increased competition forces riskier loans
- ▶ **Loss-Absorbing Capacity**
 - Reduced delinquencies frees up capital
- ▶ **Regulatory Uncertainty**
 - Preempting increasing GSIB scrutiny



(b) High OTS counties relative to other counties

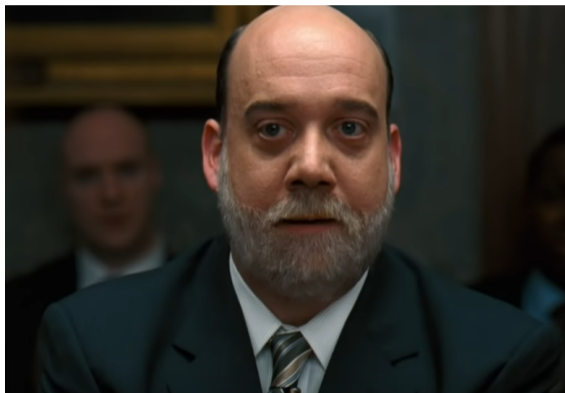
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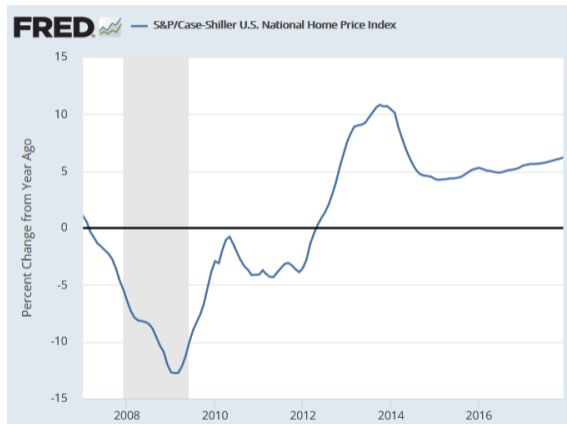
▶ Solutions

- Compare changes in non-bank lending
- Test for pre-trends in:
 - Loan loss fund
 - Delinquencies
 - Foreclosures
- Robustness check using SBA lending
- Check volatility in mortgage terms
- Use slack on risk-based requirement

Comment 2: Geographic Factors

► Is SLR bank presence correlated with:

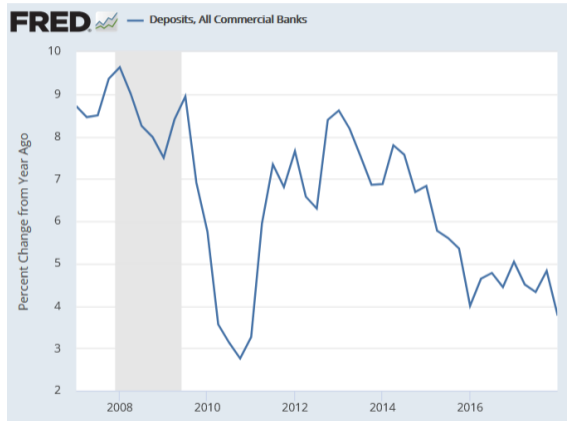
- Higher house prices
- Stronger deposit growth
- Weaker credit demand
- Market competition



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▶ **Solutions**

- Balance check
- Locality by time and lender FE
- Sample splits along concentration

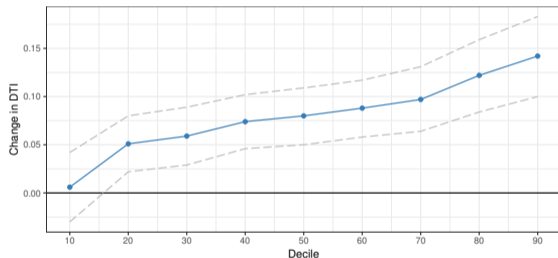
Comment 3: Stylistic Choices

- ▶ Use figures to present CIC estimates
- ▶ Estimate year-to-year for pre-trends

CIC estimate (quantile)	Loan-to-income ratio					
	Unsold in same year			Sold in same year		
	(1) State FE	(2) MSA FE	(3) County FE	(4) State FE	(5) MSA FE	(6) County FE
Mean	0.0118 (0.0229)	0.0358 (0.0316)	0.0134 (0.0216)	0.1198 (0.0152)	0.1169 (0.0184)	0.1089 (0.0145)
q10	-0.0500 (0.0318)	-0.0044 (0.0411)	-0.0394 (0.036)	0.0672 (0.0236)	0.0375 (0.027)	0.0419 (0.0237)
q20	-0.0105 (0.0289)	0.0321 (0.0369)	-0.0014 (0.0315)	0.0822 (0.02)	0.0994 (0.0255)	0.0713 (0.02)
q30	-0.0036 (0.028)	0.0424 (0.0356)	0.0069 (0.0285)	0.0994 (0.0188)	0.0917 (0.0205)	0.0827 (0.018)
q40	0.0203 (0.0275)	0.0628 (0.0348)	-0.0081 (0.0267)	0.1098 (0.0179)	0.1187 (0.0218)	0.1064 (0.0171)
q50	0.0037 (0.0283)	0.0379 (0.0363)	0.0023 (0.0267)	0.1247 (0.0186)	0.1167 (0.0214)	0.1118 (0.0181)
q60	0.0370 (0.0301)	0.0540 (0.0394)	0.0467 (0.028)	0.1194 (0.0191)	0.1166 (0.0228)	0.0998 (0.0188)
q70	0.0507 (0.0296)	0.0381 (0.0438)	0.0521 (0.0295)	0.1112 (0.0224)	0.1071 (0.026)	0.0973 (0.0201)
q80	0.0535 (0.0358)	0.0222 (0.0452)	0.0449 (0.0326)	0.1286 (0.0254)	0.1378 (0.0277)	0.1377 (0.0229)
q90	0.0186 (0.0385)	0.0339 (0.0514)	0.0241 (0.0358)	0.1784 (0.0305)	0.2135 (0.0378)	0.1876 (0.0283)
Bank controls	Y	Y	Y	Y	Y	Y
Loan level controls	Y	Y	Y	Y	Y	Y
Economic controls	Y	Y	Y	Y	Y	Y

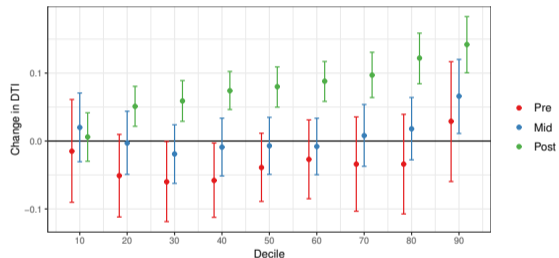
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Conclusion

- ▶ Important paper related to banking regulation
- ▶ Captures trade-off between risk-based regulation and leverage ratio
- ▶ Excellent application of a changes-in-changes framework
- ▶ More tests to prove that the SLR requirement is driving results