Regulatory Spillovers in Local Mortgage Markets

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Discussion by

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Summary

- Question
  - How does regulation indirectly affect the mortgage credit supply?
- Approach
  - Measure changes in lending across exposure to the Sarbanes–Oxley Act
- Key Results
  - Exposed banks reduced risky lending
  - Unexposed banks pick up slack based on risk appetite
  - Untreated private banks suffer losses due to riskier slack
- Comments
  - Sample Construction
  - Selection into Treatment
  - Role of Financial Technology

Comment 1: Sample construction

- Cortes et al. (2016) remove loans without branches
  - Paper fundamentally relies upon local sentiment
  - Needed to identify location of loans
  - Unidentified for non-branch loans
- This paper relies upon national shock
  - Effect of the shock is identified across all markets
  - Missing variation important

Variation in Non-Branch Originations

Variable	All Loans	2002 Loans
Approval Rate	0.79	0.81
Applications	367	340
Loan Size (000's)	119	134
Income (000's)	89	91

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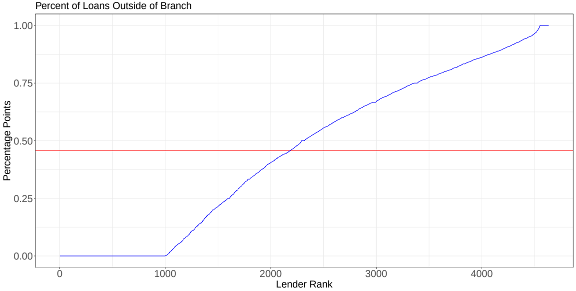

- Outside loan sample:
  - Represents 6% of all loans
  - Average borrower income is $95K
  - Average loan size is $160K
- Alternative Channel: Reallocation to non-branch counties?

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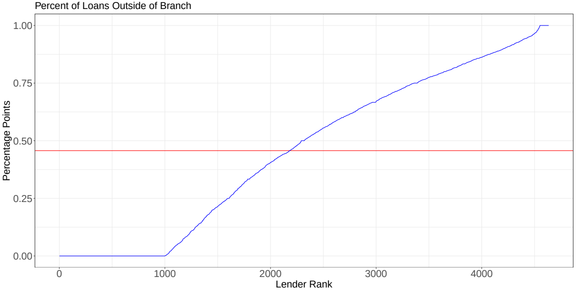

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- Alternative Channel: Reallocation to non-branch counties?
- **Solution**: Include all loans

Comment 2: Selection into Treatment

- Treatment depends on disclosure between 2002 and 2004
- Lenders by definition select into treatment
- Alternative Channel: Worse performing banks disclose early
  - Disclosure timing may correlate with shock
  - Effect reduced by 37% including 2005 disclosures

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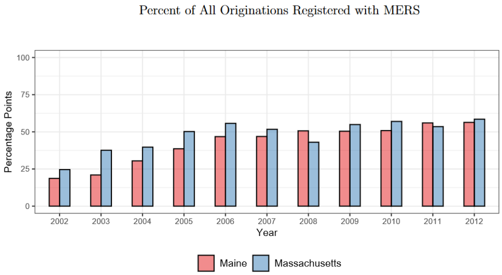
- **Solution**: Exploit variation in income reporting
  - Mian and Sufi (2017) measure plausible fraud in HMDA
  - Exploit variation in income overstatement prior to shock
  - Exploit variation in public and private status

Comment 3: Role of Financial Technology

- Lewellen and Williams (2021) find tech led to expanded credit supply
- Johnson (2022) studies GSE underwriting system adoption
- Alternative Channel: Low-tech banks lend less
  - Correlates with accounting tech
  - Credit Unions lend less

    $\rightarrow$ also don't sell loans



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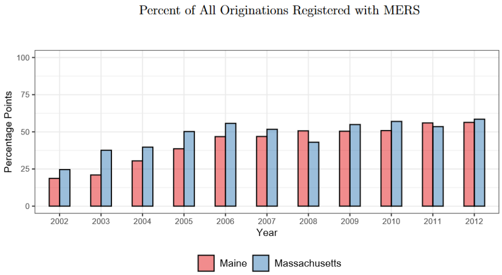

Solution: Exploit exposure to securitization

Conclusion

- Important paper on the role of regulatory spillovers
- Myriad of tests to support a convincing story
- More precise identifying variation can improve design