

Bank Risk-Taking and the Real Economy:  
Evidence from the Housing Boom and its Aftermath

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# Overview

- ▶ **Evidence #1:** Publicly-traded banks, during the U.S. housing credit boom, increased mortgage lending activity and relaxed lending standards much more than privately-held banks
- ▶ **Evidence #2:** Publicly-traded banks focus on short-term earnings and stock price performance more than privately-held banks
- ▶ **Conclusion:** *short-terminism* contributes to amplify boom-bust credit cycles and has severe real effects

# Empirics

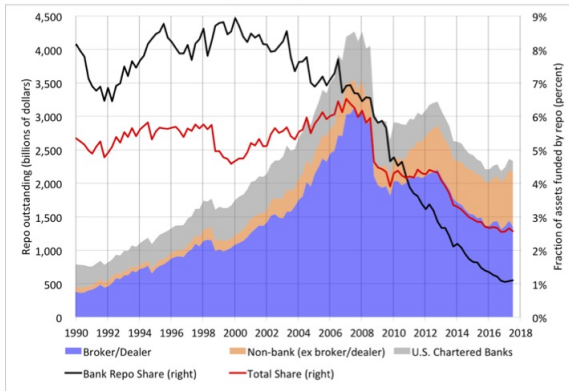
- ▶ Need to control for demand effects
  - ▶ granular dataset to compare publicly- and privately-held banks **within the same county**
- ▶ Real effects
  - ▶ **2002 exposure to publicly-held banks** used to evaluate subsequent effects on housing prices and real output

# Evaluation

- ▶ Very good and very interesting paper, great data, and a state-of-the-art empirical strategy
- ▶ Strong evidence that publicly-held banks, and indicators of short-terminism, are associated to an increase in mortgage origination and relaxation of lending standards
- ▶ Not fully convinced by **interpretation** according to which corporate structure is behind short-terminism
- ▶ Alternative interpretations lead to **different policy prescriptions**

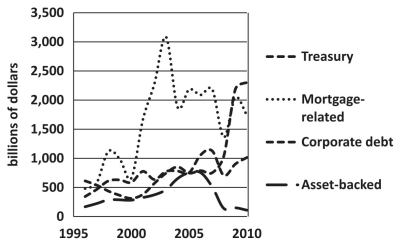
# Change in Capital Structure

Repurchase agreements by type of private intermediary: level (billions of dollars, left scale) and fraction of assets (percent, right scale), 1990-3Q 2017



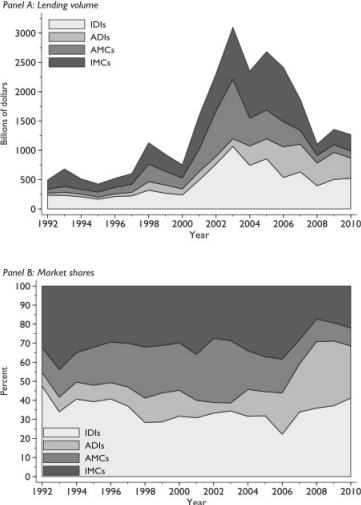
Notes: We have removed the monetary authority (Fed) itself from these numbers. We included foreign bank branches in the "Non-bank" category. Source: Financial Accounts of the United States, z.1; Tables L.108, L.111, L.112, and L.130.

# New Secondary Market through Securitization



**Fig. 5.** Issuance in US capital markets (billions of dollars). Data are from US Department of Treasury, federal agencies, Thomson Financial, Inside MBS & ABS, and Bloomberg.

# Change in Market Structure



**Fig. 1.** Lending volumes by lending institution type. The figure shows lending volumes in billions of dollars for independent depository institutions (IDIs), bank holding company (BHC) depository subsidiaries (affiliated depository institutions, ADIs), BHC nonbank mortgage subsidiaries (affiliated mortgage companies, AMCs), and independent mortgage companies (IMCs). Panel B depicts the market shares of respective financial intermediaries. Data source: Home Mortgage Disclosure Act.

## Comment #1: Capital Structure

- ▶ **Alternative hypothesis:** the increase of banks' short-term financing (i.e., repo) is behind their short-terminism as investors only look at the very short-term (i.e., overnight)
- ▶ Rodano et al. (2018) document that markets discipline banks' lending decisions
- ▶ Results still valid, but different interpretation
- ▶ **Policy prescription:** need to influence capital structure and short-term lenders (e.g., money market funds), not corporate structure of publicly-held banks

## Comment #2: New Secondary Market

- ▶ Even though paper shows that privately-held, and not publicly-held, banks increased more rate of securitization, new secondary market gives lenders an option to offload mortgages
- ▶ **Alternative hypothesis:** (large) publicly-held banks have some advantage in securitizing or in access the secondary market (for example, because have a larger pool of loans, possibly geographically diversified)?
- ▶ As before, results still valid, but different interpretation
- ▶ **Policy prescription:** need to influence standard of securitizers

## Comment #3: Market Structure

- ▶ **Alternative hypothesis:** publicly-held banks faced increased competition by independent mortgage companies (IMCs) with lower credit standards?
- ▶ IMCs have a significant market share which increased in the period 1992-2000
- ▶ As far as I understand, IMCs are not in the sample (only depositary institutions): if strategic behavior overlooked, how this affects identifying assumption?

# Conclusions

- ▶ Great paper
- ▶ Presented evidence super strong
- ▶ More on interpretation of causal channel

Thank you!