Unconventional Monetary Policy and the Allocation of Credit

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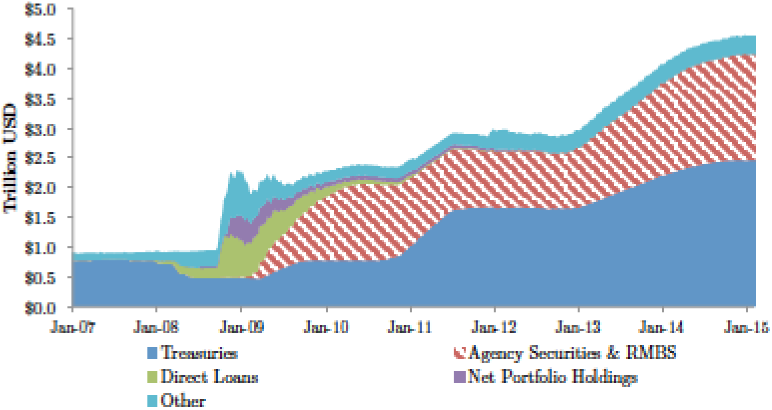
Motivation

Unconventional Monetary Policy and Allocation of Credit

Despite the magnitude, we have limited empirical evidence of its effect



Methodology

Difference in Difference estimation exploring the mortgage market segmentation between conforming and jumbo loans

The empirical specification is the following

$$y_{ict} = X_i^{'}\beta + \theta_1 Program_t + \theta_2 Program_t \times Jumbo_i + \gamma_{ct} + \varepsilon_{ict}$$

Identification assumption:

QE programs differentially affect conforming and jumbo market for reason unrelated to demand and supply of credit on those segments

Check for pre-trends and control for county-year fixed effect

Main Results

The transmission of UMP depends crucially on the nature of the assets purchased

Specifically, during QE1

- Conforming loans interest rates increase differentially more than jumbo loan rates

- Origination volume was differentially higher for conforming loans than jumbo

- Refinancing activity at the individual level was higher in conforming loan segment than jumbo

No much action in the other programs

Main Comments

1. Theory, Channels and Setup
2. Identification versus Aggregates Effects
3. Real Effects and Households

Comments: Theory and Potential Channels

Portfolio Rebalancing. Returns are affected by the relative supply of assets, in general associated to removing safe assets inducing the risk profile of available assets, Bruner et al (1973)**[Riskiness of assets matter]**

Duration-Segmentation. Financial intermediaries are enable to arbitrage in the short run different markets. Vayanos and Vila(2009)**[Duration of assets matter]**

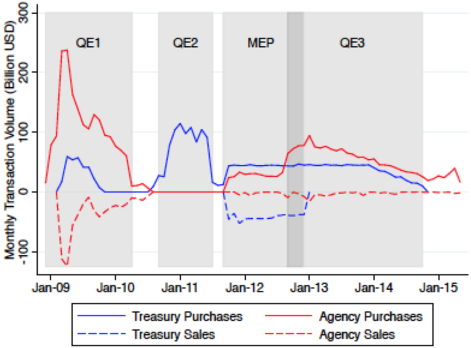
Asset Class-Segmentation. Financial Intermediaries specialize in trading a specific asset. Greenwood et al. (2015)**[Type of asset matter]**

Primary Market Capital Constrains. Private lending is in distress affecting supply of specific assets. Gertler and Karadi (2011)**[Type of asset matter]**

Comments: Potential Channels

$$y_{ict} = X_i'\beta + \theta_1 Program_t + \theta_2 Program_t \times Jumbo_i + \gamma_{ct} + \varepsilon_{ict}$$

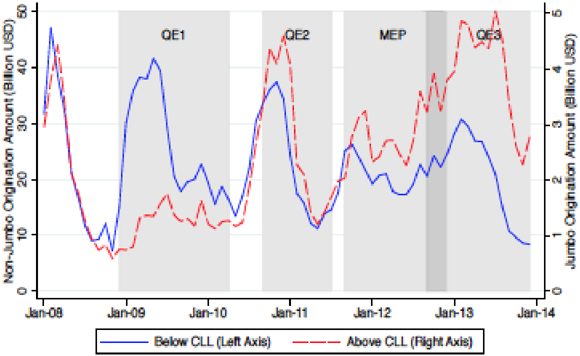
The paper focus on a sample of refinance origination.



QE1 Test of Asset Class-Segmentation.

MEP Test of Asset Duration.

Comments: Potential Channels



MEP creates a demand for assets of similar duration

MEP purchases in Sept 2011, average maturity **6 years v-weighted** (**7.4 e-weighted**)

Jumbo loans are in principle shorter than conforming loans (15 or 30 year fixed rates)

Suggestions: Potential Channels

Different Maturity of Assets:

Explore heterogeneity on maturity to explicitly test for duration-segmentation

Use intensity of treatment:

The amount and types of assets bought could be use as a continuos treatment

By using high frequency movements alleviate concern about local demand

Unexpected component

Try to predict expected component of repurchases, to use the unexpected component only.

Is it possible that programs after QE1 were not a surprise and that is driving the lack of results?

Comments: Identification vs Aggregate Effects

County-year fixed effects only account for within county variation.

But how much of the variation in origination comes from across counties?

Describe the data. Unique opportunity of describe unique statistics

Suggestion: Identification vs Aggregate

County-year fixed effects. Compare specification with county-year fixed effect and without it to asses relative magnitudes

Describe data

Compare the data with existing databases.

- Transition Matrix looks remarkable similar to Fannie Refinance quarterly report.

Describe useful statistic.

- Unconditional amount of home-equity extraction, fraction of different types of loans by conforming and jumbo groups, among others.

Furthermore, look at origination of purchase mortgage, not only refinance

Comments: Real Effect and Households

Refinancing activity goes up, but who are those individuals?

What are they doing with the equity extraction, consuming or deleveraging?

Suggestions: Real Effect and Households

Refinancing activity goes up, but who are those individuals?

- Explore demographics, ex-ante loan type, overall leverage

- What are the differences between cash-in and cash-out borrowers?

What are they doing with the equity extraction, consuming or deleveraging?

- Similar to Di Maggio, Kermani and Ramcharan (2014) and Keys et al (2014)

- Change in overall leverage, purchase of cars, etc.

Specific Comments

1. Conforming Loans have limits on FICO scores in the lower end
2. Robustness using just loans that are closed to the limit within a narrow band (more similar unobservables)
3. Standard error are cluster at month level, important to cluster at county level to account for local economy autocorrelation, use two-way cluster
4. Test for pre-trends formally using lags treatments dummies
5. FHA important segment on the market, specially in the lower end, include as a robustness

Conclusion

Very interesting paper in a incredible important topic

Empirical strategy is well executed

Interacted richness of the data with empirical predictions for each programs to assess alternative channels.

Explore the household level outcomes further.

Looking forward to read the new version.

Thank you!