Nonbank Growth and Local Housing Booms

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Summary (cont.)

- Research question
  - The effect of nonbank mortgage expansion on local housing market dynamics
    - House price, transaction volumes, and buyers' market competition
    - Loan performance and wealth redistribution
- Importance
  - Nonbank mortgage surged to 68% of all originations by 2020
  - An emerging literature explaining this pattern itself
  - Little is known on its economic consequence

Summary (cont.)

- Empirical challenge
  - Credit distribution is not random: correlate to (unobservable) HP perspectives
- This paper: a novel instrumental variable
  - Local (track level) proportion of housing transactions eligible for conforming loans
    - HP*80% below the conforming loan limits
  - Relevance condition
    - Conforming loans are easier to be securitized
    - Nonbanks' originate-to-distribute (OTD) model
  - Stringent fixed effects
    - County-time, house price, housing sale quantity, and loan origination count decile FEs

Summary (cont.)

- Main Findings:
  - Nonbank lending promotes housing booms
    - A one-SD increase in Δnonbank share is associated with:
    - 14 pp increase in HP growth, 23 pp increase in sale quantity growth
    - Increase in price to rent ratio and the likelihood of overbid as well
    - Persistent effect but only for tracts near affluent neighborhoods
      - Immediate reversal for poorer communities from year 2
  - Reduces within-county price dispersion in the next year

Nonbank vs bank credit expansion

- Nonbank credit boosts house prices
  - So does bank credit in prior literature: Favara and Imbs (2015)
- What distinguishes nonbanks vs banks?
  - Originate-to-distribute vs on-balance-sheet
    - Risk taking
  - Fintech adoption (Fuster et al., 2019)
    - Faster processing may encourage impulsive purchases
    - Advanced screening technologies
    - Although adoption remains limited during the sample period
  - Differential boom-bust patterns or price elasticity to one unit of credit supply

Nonbank vs bank mortgage expansion

- Currently, only one instrument for *Nonbank share*
  - Does not allow for estimation of bank and nonbank credit effects in parallel
- One additional IV for “bank presence”
  - The JPMorgan Chase FHA exit (Benson, Kim & Pence, 2025)
  - Significant variation across tracts
- Separate estimate for the HP sensitivity to business cycle or price elasticity to credit supply

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Nonbank vs bank mortgage expansion

- More application/origination level analysis
  - Approval rate: directly capture the supply effect
  - Where (nonbank) credits are directed to?
    - Loan-level outcomes: LTV, non-owner-occupied loans
    - Borrower-level characteristics: income, FICO scores, race, etc.
    - Better understand the mechanisms

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Instrumental Variable

- IV: local conforming loan-eligible share
    - After controlling for county-time FE: Cross-tract (but within-county) variation
    - Arguably exogenous, but what drives these variations?
    - Association between the IV with more tract-level variables
        - E.g., Housing supply elasticity
        - Controlling for the same set of FE in the main specification
- A significant positive association between IV and bank credit growth
    - Although to a lesser extent
    - Bank credit as a potential confounder?

Welfare implication

- Wealth redistribution
  - In the following year, nonbank credit expansion narrows within-county price disparities across neighborhoods
  - The effects of nonbank credit are especially persistent in census tracts near affluent neighborhoods, while become negative from year 2 in areas farther from these neighborhoods.
  - How persistent is the distributional effect?
    - Also for other outcomes, such as delinquency, esp. for those in poorer neighborhoods.

Welfare implication

- Other potential real outcomes pertinent to welfare
  - Following HP growth, owners (in poorer communities) may tap into home equities
    - Likely for consumption purposes
    - HMDA after 2018 or CoreLogic
  - Interaction with traditional banks: HELOCs remain dominated by banks
    - Potential complementarity across different markets

Concluding Remarks

- A very important and timely paper
- Very novel instrumental variable
- Well-executed and well-written
  - Enjoyed reading this paper and learned a lot!
- Looking forward to seeing the published version on a top journal