Comments on

Lenders and landlords in the mortgage market

by João F. Cocco, S. Lakshmi Naaraayanan, and Jagdish Tripathy

Jorge De la Roca

University of Southern California

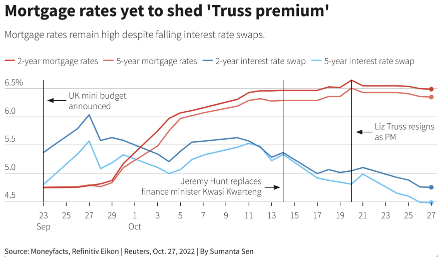
ABFER 12^{th} Annual Conference

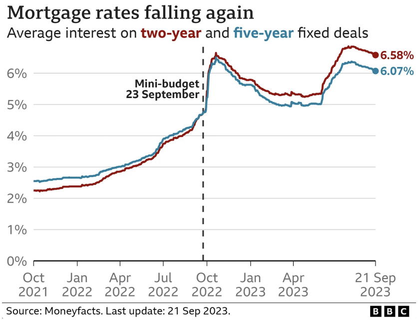
May 21, 2025

Summary

- Context and identification strategy
  - analyze 1.2M UK buy-to-let mortgages BTL (2018–2023) using rich administrative data
  - leverage the September 2022 "mini-budget" announcement as a natural experiment that triggered sudden, unexpected increases in interest rates
  - compare lending practices across lender and borrower types pre- and post-event
    - lenders: specialist (high BTL exposure) vs. non-specialist
    - borrowers: accidental (inherited/formerly lived in property), intentional (bought to rent), and portfolio (4+ mortgaged properties)

September 2022 "mini-budget" shock





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  - loan originations fell 50% within a year, with specialist lenders increasing market share
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  - substantial deleveraging across all landlord types with LTV ratios declining
- Specialist lenders prioritize portfolio landlords via:
  - smaller interest rate hikes (4.55% vs. non-specialists’ 4.28%)
  - higher upfront fees (1.95% vs. 1.14%) and longer fixation terms (4.7 vs. 4.1 years)
  - maintained ICRs and credit flow while containing individual borrower risk

Contributions

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2. Highlights the importance of fees as a pricing tool in facilitating credit during monetary tightening
3. Shows how lenders specialized in a particular market segment adapt to protect their business during interest rate shocks

Comments

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2. Matching between lenders and landlords types
3. Spatial clustering of portfolio landlords and their properties
4. Other issues

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2. Matching between lenders and landlords types
3. Spatial clustering of portfolio landlords and their properties
4. Other issues
    - changes to tax relief for residential landlords (April 2017–2020)
    - more details on accidental landlords
    - side note: missing interaction between accidental landlors and quarters in event studies

Dynamics/life cycle of landlord types

- Landlord types are stable categories in the study
  - shares remain constant along the cycle and pre-post event
  - but is there a life-cycle trajectory for landlords (accidental $\rightarrow$ intentional $\rightarrow$ portfolio)?
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- Will help explore further heterogeneity in response to the event
  - landlords with a non-specialist lender may remortgage with a specialist (better terms)
  - when landlords remortgage post-event, they may have fewer properties ($\approx$ deleveraging)
  - during expansionary phases, IDs will help you better examine landlords' dynamics

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- Include borrower characteristics: income, age, and number of properties
- Another potential advantage of a borrower ID
  - do landlords switch from specialists to non-specialist lenders during low rate periods?
  - do landlords switch from non-specialists to specialist lenders after credit tightening shocks?

Spatial clustering of portfolio landlords and their properties

- Spatial concentration of portfolio landlords' rentals is another risk measure for lenders
  - unclear if the distances between the landlord's home and all of her properties are in the data
    - calculate the average distance between properties or
    - the share of a landlord's properties in a neighborhood or submarket
    - we expect $\uparrow$ spatial concentration $\rightarrow$ $\uparrow$ borrower's risk $\rightarrow$ $\uparrow$ interest rates or fees
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- Specialist lenders may have less stringent lending policies when they are more exposed to portofilio landlords in a local authority (submarket)
  - specialist lenders may have a regional focus but this aspect is missing in the paper
  - examine the (weighted) share of portfolio landlors in a local authority
  - do specialists trade off rates and fees nationally or only in areas they are more exposed?
  - lenders' geographic exposure is another heterogeneity perspective besides specialist vs. non-specialist

Other issues

- Changes to tax relief for residential landlords (April 2017–2020)
  - they can no longer deduct mortgage interest from their rental income to reduce their tax bill (they only receive a 20% basic rate tax credit)
  - policy overlaps the analysis period
  - potential responses from landlords
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  - it seems they can live in the property
  - why do they choose a BTL mortgage and not one on the owner-occupied segment?
- Event study equations omit the interactions between accidental landlords and quarters
  - intentional and portfolio landlords trajectories are normalized in 2022/Q3
  - but it is unclear which is the control group
  - especially since other event studies include the interaction between accidental landlords and quarters (e.g., rental income and property values)

Thank you!