

# Discussion of: “Does Policy Uncertainty Matter For Bank Mortgage Credit”

Gazi Kara & Youngsuk Yook

David Glancy<sup>1</sup>

Federal Reserve Board

November 19th, 2018

---

<sup>1</sup>Disclaimer: The views expressed in this presentation are those of the author and do not necessarily reflect the views of other members of the research staff or the Board of Governors.

# Overview

Banks headquartered in states with imminent gubernatorial elections have slower mortgage lending growth

Evidence that declines are supply driven:

- Within state variation
- Strongest effects for banks with lower capital

Evidence effects driven by uncertainty:

- Strongest effects for close elections

## General Impression

Quantifying effects of uncertainty on credit is difficult, but nice set of empirical tests support the mechanism proposed in the paper

- Within state variation
- Heterogeneous effects by bank capitalization and competitiveness of election

Main comments:

- Effect is large and surprising, more explanation for why it is reasonable is desirable
- Identification may be coming from a small number of multimarket banks in states off the major election cycle

## Are the effects reasonable?

Estimated effect is often implausibly large:

- Estimated decline in annual origination volume is 6.8% of total assets (table 8)
- Hard to imagine Citibank or Wells Fargo cutting jumbo lending by 12-23% due to uncertainty over South Dakota gubernatorial election

More justification for why this effect is believable would increase confidence in the empirical work.

# Is there anecdotal evidence to support finding?

Risks that can drive large credit flows tend to get discussed:

1. Trade publications

- e.g. Nov 4. American Banker Article: *8 midterm contests to watch for financial institutions*

2. Risk factors section in bank 10-Ks

- Pages 27-47 in First Republic's 2017 10-K discusses things like GSE reform, reduction of mortgage interest deduction, Dodd-Frank, possible increases in FDIC insurance premiums

3. Earnings calls

- Jamie Dimon's 2017:Q2 rant about political gridlock

## Identifying variation

Despite having over 200,000 observations, a small number of bank-year observations may have significant influence on estimates

- Only 49,174 Bank-State-Quarter observations are out of state
- National lenders provide almost 200 observations per bank-year ( $48 \text{ states} \times 4 \text{ quarters}$ )
- Most states are on the same cycle, thus variation disproportionately comes from banks headquartered in off-cycle states



## Identifying variation (cont.)

Banks headquartered in a particular state might respond to common shocks (besides election uncertainty)

Example:

- North Carolina has disproportionate number of large banks headquartered in it due to early intrastate branching deregulation (Bank of America, Wacchovia, BB&T)
- Effects of a close 2008 NC gubernatorial election may be confounded with effects of crisis



# Largest 2015 Mortgage Originators

Rank	Bank	Origination Volume (bil)	State	Off 2010 Cycle
1	WELLS FARGO BANK, NA	140	SD	
2	JPMORGAN CHASE BANK, NA	83	OH	
3	BANK OF AMERICA, N.A.	56	NC	Yes
4	CITIBANK, N.A.	29	SD	
5	US BANK, N.A.	27	OH	
6	PNC BANK N.A.	17	DE	Yes
7	BRANCH BANKING AND TRUST CO	10	NC	Yes
8	FIRST REPUBLIC BANK	9	CA	
9	CAPITAL ONE, NA	8	VA	Yes
10	MUFG UNION BANK, N.A.	8	CA	
11	MB FINANCIAL BANK NA	7	IL	
12	MORGAN STANLEY PRIVATE BANK, N	7	NY	
13	REGIONS BANK	7	AL	
14	M&T BANK	6	NY	
15	UMPQUA BANK	6	OR	
16	CITIZENS BANK, NA	6	RI	
17	BANC OF CALIFORNIA, NA	5	CA	
18	KEYBANK NATIONAL ASSOCIATION	5	OH	
19	THE HUNTINGTON NATIONAL BANK	4	OH	
20	COMPASS BANK	4	AL	

# Largest 2005 Mortgage Originators

Rank	Bank	Origination Volume (bil)	State	Off 2010 Cycle
1	WELLS FARGO BK NA	183	SD	
2	BANK OF AMER NA	87	NC	Yes
3	JPMORGAN CHASE BK NA	74	OH	
4	NATIONAL CITY BK IN	70	IN	Yes
5	COUNTRYWIDE BANK NA	25	VA	Yes
6	WACHOVIA BK NA	15	NC	Yes
7	U S BK NA	13	OH	
8	BRANCH BKG&TC	8	NC	Yes
9	CHASE MANHATTAN BK USA NA	8	DE	Yes
10	REGIONS BK	7	AL	
11	FIRST NB OF AZ	6	AZ	
12	LASALLE BK NA	6	IL	
13	AMSOUTH BK	5	AL	
14	UNION BK OF CA NA	4	CA	
15	U S BK NA ND	4	ND	Yes
16	HUNTINGTON NB	3	OH	
17	KEYBANK NA	3	OH	
18	WEBSTER BK NA	3	CT	
19	M&I MARSHALL & ILSLEY BK	3	WI	
20	BRANCH B&TC OF VA	2	VA	Yes

## Other minor questions

Do effects differ by time period (mortgage market changed a lot over 1990-2014)

- Interstate deregulation (90s), Private label securitization boom (2000s), decline of private securitization and regulatory changes (Post crisis)

Do banks facing election uncertainty shift lending to affiliated mortgage companies?

- Demyanyk & Loutskina (2015) find bank holding companies take advantage of looser regulation of mortgage companies