Discussion of: "Does Policy Uncertainty Matter For Bank Mortgage Credit" Gazi Kara & Youngsuk Yook

David Glancy¹

Federal Reserve Board

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¹Disclaimer: 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

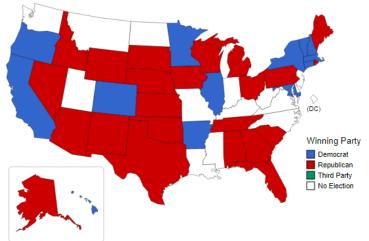
Identifying variation

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 states × 4 quarters)
- Most states are on the same cycle, thus variation disproportionately comes from banks headquartered in off-cycle states

Most states have same election years





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 Cylcle |
|------|--------------------------------|--------------------------|-------|-----------------|
| 1 | WELLS FARGO BANK, NA | 140 | SD | |
| 2 | JPMORGAN CHASE BANK, NA | 83 | ОН | |
| 3 | BANK OF AMERICA, N.A. | 56 | NC | Yes |
| 4 | CITIBANK, N.A. | 29 | SD | |
| 5 | US BANK, N.A. | 27 | ОН | |
| 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 | ОН | |
| 19 | THE HUNTINGTON NATIONAL BANK | 4 | ОН | |
| 20 | COMPASS BANK | 4 | AL | |

Largest 2005 Mortgage Originators

| Rank | Bank | Origination Volume (bil) | State | Off 2010 Cylcle |
|------|---------------------------|--------------------------|-------|-----------------|
| 1 | WELLS FARGO BK NA | 183 | SD | |
| 2 | BANK OF AMER NA | 87 | NC | Yes |
| 3 | JPMORGAN CHASE BK NA | 74 | ОН | |
| 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 | ОН | |
| 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 | ΑZ | |
| 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 | ОН | |
| 17 | KEYBANK NA | 3 | ОН | |
| 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