

## 1 LOAN ORIGINATIONS AND DEFAULTS IN THE MORTGAGE CRISIS: THE ROLE OF THE MIDDLE CLASS

- 1.1 Although the crisis was associated with a large increase in the overall volume of delinquencies, this was not due to a concentration of defaults in low-income or low-credit-score borrowers, but rather to an increase in the share of delinquencies by borrowers with higher income and higher credit scores. Mortgage credit expanded uniformly across various income levels, resulting in a relatively consistent distribution of credit across the income spectrum in the period preceding the housing crisis.
- 1.2 The paper provided new evidence that the expansion of mortgage credit was not driven by lending to low-income borrowers. It highlights the importance of considering the involvement of middle- and high-income borrowers in understanding the dynamics of the mortgage crisis.

## 2 THE CONSEQUENCES OF MORTGAGE CREDIT EXPANSION: EVIDENCE FROM THE 2007 MORTGAGE DEFAULT CRISIS

- 2.1 The key findings of the paper indicate that there was a significant increase in new loan originations, house price appreciation, and subsequent default rates. This increase can be primarily attributed to an expansion in credit supply resulting from disintermediation. The study found that zip codes with high initial latent demand in 1996 experienced a substantial relative increase in house prices, mortgage debt, and default rates. Additionally, there was a strong positive correlation observed between disintermediation and future default rates, particularly in zip codes where loans were sold by the originator to unaffiliated institutions, which supports the presence of intermediation.
- 2.2 This paper is the first to demonstrate the causal effect of mortgage credit expansion driven by disintermediation, specifically between 2001 and 2005, on house price appreciation and subsequent defaults. The data analyzed in this study encompassed major geographic areas of the United States, which allows for the potential exploration of the macroeconomic effects of supply expansion. The paper establishes a causal link between credit supply, house prices, and subsequent financial crises, suggesting that this phenomenon is not an isolated incident.