Lending Next to the Courthouse: Exposure to Adverse Events and Mortgage Lending Decisions (Da Huo Mingzhu Tai Yuhai Xuan)

> Arkodipta Sarkar HKUST

> > ABFER May 2021

Arkodipta Sarkar

May, 2021 1 / 9

• This paper:

・ロト ・四ト ・ヨト・ヨト

• This paper:

studies the way exposure to foreclosure news can impact lending decisions.

• This paper:

- studies the way exposure to foreclosure news can impact lending decisions.
- attributes the effect to be driven by changes in risk preference or beliefs of individuals exposed to foreclosure news.

• This paper:

- studies the way exposure to foreclosure news can impact lending decisions.
- attributes the effect to be driven by changes in risk preference or beliefs of individuals exposed to foreclosure news.
- Instrument for salience of forclosure news

• This paper:

- studies the way exposure to foreclosure news can impact lending decisions.
- attributes the effect to be driven by changes in risk preference or beliefs of individuals exposed to foreclosure news.

• Instrument for salience of forclosure news

Distance of loan officer's work place and county courthouse

• This paper:

- studies the way exposure to foreclosure news can impact lending decisions.
- attributes the effect to be driven by changes in risk preference or beliefs of individuals exposed to foreclosure news.

• Instrument for salience of forclosure news

Distance of loan officer's work place and county courthouse

• Empirical Strategy

• This paper:

- studies the way exposure to foreclosure news can impact lending decisions.
- attributes the effect to be driven by changes in risk preference or beliefs of individuals exposed to foreclosure news.

• Instrument for salience of forclosure news

Distance of loan officer's work place and county courthouse

• Empirical Strategy

 Within county and within bank comparison of loan officers with varying distance to court.

• This paper:

- studies the way exposure to foreclosure news can impact lending decisions.
- attributes the effect to be driven by changes in risk preference or beliefs of individuals exposed to foreclosure news.

• Instrument for salience of forclosure news

Distance of loan officer's work place and county courthouse

• Empirical Strategy

- Within county and within bank comparison of loan officers with varying distance to court.
- Within-county-year controls for local macroeconomic shocks

• This paper:

- studies the way exposure to foreclosure news can impact lending decisions.
- attributes the effect to be driven by changes in risk preference or beliefs of individuals exposed to foreclosure news.

• Instrument for salience of forclosure news

Distance of loan officer's work place and county courthouse

• Empirical Strategy

- Within county and within bank comparison of loan officers with varying distance to court.
- Within-county-year controls for local macroeconomic shocks
- Findings

• This paper:

- studies the way exposure to foreclosure news can impact lending decisions.
- attributes the effect to be driven by changes in risk preference or beliefs of individuals exposed to foreclosure news.

• Instrument for salience of forclosure news

Distance of loan officer's work place and county courthouse

• Empirical Strategy

- Within county and within bank comparison of loan officers with varying distance to court.
- Within-county-year controls for local macroeconomic shocks

• Findings

▶ 8.2% increase in rejection rate.

• This paper:

- studies the way exposure to foreclosure news can impact lending decisions.
- attributes the effect to be driven by changes in risk preference or beliefs of individuals exposed to foreclosure news.

• Instrument for salience of forclosure news

Distance of loan officer's work place and county courthouse

• Empirical Strategy

- Within county and within bank comparison of loan officers with varying distance to court.
- Within-county-year controls for local macroeconomic shocks

• Findings

- ▶ 8.2% increase in rejection rate.
- 9.5% lower mortgage origination.

2

 Is the motivation about identifying whether individual's exposure can affect decision making; or

- Is the motivation about identifying whether individual's exposure can affect decision making; or
- Is the motivation about microfounding individual's preference as a potential source for aggregate credit misallocation

- Is the motivation about identifying whether individual's exposure can affect decision making; or
- Is the motivation about microfounding individual's preference as a potential source for aggregate credit misallocation
- If its the first

- Is the motivation about identifying whether individual's exposure can affect decision making; or
- Is the motivation about microfounding individual's preference as a potential source for aggregate credit misallocation
- If its the first
 - There exist literature that talks about individuals exposure to different events like great depression, communal conflicts, disasters affect their preferences.

- Is the motivation about identifying whether individual's exposure can affect decision making; or
- Is the motivation about microfounding individual's preference as a potential source for aggregate credit misallocation
- If its the first
 - There exist literature that talks about individuals exposure to different events like great depression, communal conflicts, disasters affect their preferences.
 - Why is this scenario of forclosure events/news particularly different?

- Is the motivation about identifying whether individual's exposure can affect decision making; or
- Is the motivation about microfounding individual's preference as a potential source for aggregate credit misallocation

• If its the first

- There exist literature that talks about individuals exposure to different events like great depression, communal conflicts, disasters affect their preferences.
- Why is this scenario of forclosure events/news particularly different?
- Is the takeaway about existence of temporary distortion in individual preferences?

- Is the motivation about identifying whether individual's exposure can affect decision making; or
- Is the motivation about microfounding individual's preference as a potential source for aggregate credit misallocation

• If its the first

- There exist literature that talks about individuals exposure to different events like great depression, communal conflicts, disasters affect their preferences.
- Why is this scenario of forclosure events/news particularly different?
- Is the takeaway about existence of temporary distortion in individual preferences?

If its the Second

- Is the motivation about identifying whether individual's exposure can affect decision making; or
- Is the motivation about microfounding individual's preference as a potential source for aggregate credit misallocation

• If its the first

- There exist literature that talks about individuals exposure to different events like great depression, communal conflicts, disasters affect their preferences.
- Why is this scenario of forclosure events/news particularly different?
- Is the takeaway about existence of temporary distortion in individual preferences?

If its the Second

It is more interesting and novel in the context of literature.

- Is the motivation about identifying whether individual's exposure can affect decision making; or
- Is the motivation about microfounding individual's preference as a potential source for aggregate credit misallocation

• If its the first

- There exist literature that talks about individuals exposure to different events like great depression, communal conflicts, disasters affect their preferences.
- Why is this scenario of forclosure events/news particularly different?
- Is the takeaway about existence of temporary distortion in individual preferences?

If its the Second

- It is more interesting and novel in the context of literature.
- The authors could quantify the misallocation/distortion of credit across counties (Restuccia, Rogerson 2013)

- Is the motivation about identifying whether individual's exposure can affect decision making; or
- Is the motivation about microfounding individual's preference as a potential source for aggregate credit misallocation

• If its the first

- There exist literature that talks about individuals exposure to different events like great depression, communal conflicts, disasters affect their preferences.
- Why is this scenario of forclosure events/news particularly different?
- Is the takeaway about existence of temporary distortion in individual preferences?

If its the Second

- It is more interesting and novel in the context of literature.
- The authors could quantify the misallocation/distortion of credit across counties (Restuccia, Rogerson 2013)
- Measure the misallocation contributed by individual preferences.

• Distance can possibly be a measure for higher information (Degryse and Ongena 2005).

イロン イロン イヨン イヨン

- Distance can possibly be a measure for higher information (Degryse and Ongena 2005).
- Loan officer closer to the court house can get soft information about the prevailing market conditions.

- Distance can possibly be a measure for higher information (Degryse and Ongena 2005).
- Loan officer closer to the court house can get soft information about the prevailing market conditions.
- Information advantage would also predict a higher rejection and lower loan disbursal.

- Distance can possibly be a measure for higher information (Degryse and Ongena 2005).
- Loan officer closer to the court house can get soft information about the prevailing market conditions.
- Information advantage would also predict a higher rejection and lower loan disbursal.
- Consequently the effect observed in the paper could be due to higher information and not preference.

イロン イロン イヨン イヨン

- Distance can possibly be a measure for higher information (Degryse and Ongena 2005).
- Loan officer closer to the court house can get soft information about the prevailing market conditions.
- Information advantage would also predict a higher rejection and lower loan disbursal.
- Consequently the effect observed in the paper could be due to higher information and not preference.

イロン イロン イヨン イヨン

May, 2021 5 / 9

• Shift in preference would entail that loan officers sacrifice profit to fulfill there preference.

- Shift in preference would entail that loan officers sacrifice profit to fulfill there preference.
- Consequently there should be lower profits in branches close to the court.

- Shift in preference would entail that loan officers sacrifice profit to fulfill there preference.
- Consequently there should be lower profits in branches close to the court.
 - Measures of Default.

- Shift in preference would entail that loan officers sacrifice profit to fulfill there preference.
- Consequently there should be lower profits in branches close to the court.
 - Measures of Default.
 - Measures of Return on Loans.

- Shift in preference would entail that loan officers sacrifice profit to fulfill there preference.
- Consequently there should be lower profits in branches close to the court.
 - Measures of Default.
 - Measures of Return on Loans.
- Lower appetite for risk would also imply higher screening leading to a higher dispersion in the loans disbursed

- Shift in preference would entail that loan officers sacrifice profit to fulfill there preference.
- Consequently there should be lower profits in branches close to the court.
 - Measures of Default.
 - Measures of Return on Loans.
- Lower appetite for risk would also imply higher screening leading to a higher dispersion in the loans disbursed
 - High standard deviation in the lending portfolios.

• Reverse Causality

• Reverse Causality

Could reduced credit supply itself cause higher foreclosure?

・ロト ・回ト ・ヨト ・ヨト

• Reverse Causality

- Could reduced credit supply itself cause higher foreclosure?
- It would be helpful if the authors to provide an event time graph?

• Reverse Causality

- Could reduced credit supply itself cause higher foreclosure?
- It would be helpful if the authors to provide an event time graph?
- α_{ct} : county×year allows estimate from across branch or bank.

• Reverse Causality

- Could reduced credit supply itself cause higher foreclosure?
- It would be helpful if the authors to provide an event time graph?
- α_{ct} : county×year allows estimate from across branch or bank.
 - branch/bank specific heterogeneities within county.

• Reverse Causality

- Could reduced credit supply itself cause higher foreclosure?
- It would be helpful if the authors to provide an event time graph?
- α_{ct} : county×year allows estimate from across branch or bank.
 - branch/bank specific heterogeneities within county.
- α_{bt} : bank×year allows estimate from across county.

イロト イヨト イヨト

• Reverse Causality

- Could reduced credit supply itself cause higher foreclosure?
- It would be helpful if the authors to provide an event time graph?
- α_{ct} : county×year allows estimate from across branch or bank.
 - branch/bank specific heterogeneities within county.
- α_{bt} : bank×year allows estimate from across county.
 - County specific heterogeneities of operation of the same bank

イロト イヨト イヨト

• Reverse Causality

- Could reduced credit supply itself cause higher foreclosure?
- It would be helpful if the authors to provide an event time graph?
- α_{ct} : county×year allows estimate from across branch or bank.
 - branch/bank specific heterogeneities within county.
- α_{bt} : bank×year allows estimate from across county.
 - County specific heterogeneities of operation of the same bank
- Is it possible to look at officer rotation?

イロト イヨト イヨト

イロン 不通 とくほど 不良とう

• A relevance test of distance as an instrument for salience

メロト メロト メヨト メヨト

• A relevance test of distance as an instrument for salience

News paper mentions

メロト メロト メヨト メヨト

• A relevance test of distance as an instrument for salience

- News paper mentions
- Reallocation from treated to control counties leading to overestimation of the impact

• A relevance test of distance as an instrument for salience

- News paper mentions
- Reallocation from treated to control counties leading to overestimation of the impact
- Placebo with randomly distributed location of courthouses

• A relevance test of distance as an instrument for salience

- News paper mentions
- Reallocation from treated to control counties leading to overestimation of the impact
- Placebo with randomly distributed location of courthouses
- It is not clear what is "log Foreclosure" dummy capturing after including countyαyear fixed effects

• A relevance test of distance as an instrument for salience

- News paper mentions
- Reallocation from treated to control counties leading to overestimation of the impact
- Placebo with randomly distributed location of courthouses
- It is not clear what is "log Foreclosure" dummy capturing after including countyαyear fixed effects
- Could potential data from Credit Unions add any benefit

• A relevance test of distance as an instrument for salience

- News paper mentions
- Reallocation from treated to control counties leading to overestimation of the impact
- Placebo with randomly distributed location of courthouses
- It is not clear what is "log Foreclosure" dummy capturing after including countyαyear fixed effects
- Could potential data from Credit Unions add any benefit

・ロト ・四ト ・ヨト ・ヨト

• Interesting paper showing the effect of salience on decision making

- Interesting paper showing the effect of salience on decision making
- Emphasis on the importance of it in aggregate credit misallocation would be great

- Interesting paper showing the effect of salience on decision making
- Emphasis on the importance of it in aggregate credit misallocation would be great
- Some more evidence on the preference/belief formation as channel would be helpful

- Interesting paper showing the effect of salience on decision making
- Emphasis on the importance of it in aggregate credit misallocation would be great
- Some more evidence on the preference/belief formation as channel would be helpful
- Looking forward to read the next draft

Thank You !

・ロト ・四ト ・ヨト ・ヨト