Discussion of:
Financing Competitors: Shadow Banks' Funding and Mortgage Market Competition

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The views expressed here are my own and do not necessarily reflect the opinions of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

1. Nexus between banks and nonbanks

- Banks and nonbanks interact in many different ways in the mortgage market:
  1. Compete for borrowers in the primary mortgage market ☆
  2. Banks provide warehouse lending to nonbanks (+ other financial services) ☆
  3. Banks purchase mortgages from nonbanks (correspondent lending)
  4. Banks and nonbanks service each others' loans (servicing transfers)

- **This paper:** Evidence of competitive effects arising from banks' dual role as warehouse lenders and mortgage originators.
  - → Banks reduce warehouse funding to nonbanks when own mortgage lending is high
  - → Banks raise mortgage rates when warehouse funding to nonbanks is high

2. General reactions

- Very interesting and wide-ranging paper. Contributes to literature several ways:
  1. Rich new data on financial condition of nonbanks
  2. Maps network of wholesale lending relationships + traces effects of bank shocks
  3. Enriches our understanding of warehouse mtg lending (important for systemic risk)
  4. Interesting IO setting (effects of market power in finance industry)

- Not just for mortgage nerds!! Broad relevance for banking & intermediation
  - → Nonbank intermediation is growing, but banks finance / backstop / underwrite a lot of it (e.g., syndicated lending, P2P loans, fintech consumer loans etc.)

3. Descriptive analysis

- Data very rich. Would like to see more "simple" empirics & stylized facts

1. Question: How pivotal are individual warehouse lenders?

   Distribution of # relationships? Correlations with nonbank size, liquidity etc.?

   - Quicken: 12+ relationships → low exposure to any individual warehouse lender
   - Average = 3.6 (but unweighted? – reflects "long tail" of small nonbanks?)

2. Question: Are mortgage lending, warehouse lending complements or substitutes?

   - E.g., if you regress: $\frac{\text{warehouse loans}}{\text{assets}} = \alpha \frac{\text{HMDA lending}}{\text{assets}} + \text{controls} + \epsilon$

     is α positive or negative? What if we restrict to upper part of bank size distribution?

Evaluating “overlap” analysis

- I had some trouble interpreting the results of section 3 taken together
- A bank is:
  - *more* likely to lend to a nonbank if they operate in overlapping mortgage mkts
  - but *less* likely to lend to nonbank if they originate more mtgs in those markets
- Why do intensive and extensive margins work in opposite directions?
- Two margins highly collinear? → why does *overlap* coefficient drop by 90% from table 2 to table 3?

Assortative matching on size

- Do large banks typically lend to large nonbanks in warehouse credit market?
  - Typically true – see relationship banking literature (e.g., Berger et al. 2005)
  - Less clear here given monoline business model of nonbanks – interesting to look!
- Could $similarity_{ij}$ be correlated with $overlap_{ij}$?
  - *Overlap* is nonlinear joint function of $lending_{bank}$ and $lending_{nonbank}$ → not soaked up by additive bank and nonbank FEs
  - Control for measures of similarity?

Terminology

Shadow bank

Nonbank financial intermediary

- Is every nonbank a "shadow bank"? Feels like a pejorative term to me
- I realize this is a lost cause....

Wrapping up

- Very innovative and thought-provoking paper bringing rich novel data to bear on an important topic.

- Should be of broad interest: Setting where we can learn a lot about interaction between banks and nonbanks

Thanks!