

The Credit Supply Channel of Monetary Policy and its Distributional Impacts

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Discussion by

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Overview

Big Picture Question

- How do monetary policy shocks affect aggregate lending volume and real activity?

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 - Credit Demand?

$\uparrow r \rightarrow \downarrow \text{borrowing} \rightarrow \downarrow \text{consumption}$

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$\uparrow r \rightarrow \uparrow$ debt service | borrowing $\rightarrow \downarrow$ loan approvals $\rightarrow \downarrow$ consumption

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This Paper

- Focuses on mortgages, which have known limits on debt service payments (DTI)
- Asks two related questions about the 2022 interest rate hikes
 1. How many loans did this eliminate due to newly binding DTI constraints?
 2. How much lower was consumption in places where the answer to 1. is "a lot"?

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- Asks two related questions about the 2022 interest rate hikes
 1. How many loans did this eliminate due to newly binding DTI constraints?
A: Nearly the entire 2021-22 reduction in lending can be attributed to this channel
 2. How much lower was consumption in places where the answer to 1. is "a lot"?
A: Substantially

My Take

This is an important paper

- Part of a growing empirical literature showing that mechanical "frictions" in credit markets are key determinants of monetary policy pass-through
- It's not all about intertemporal preferences, or even GE multipliers
- Institutional details of financial markets matter in first-order ways!

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Area(s) for improvement

- I'm (mostly) convinced by the credit quantity analysis
 - Caveat: my incentives to criticize here are low given my own work
- I'm not (yet) convinced by the results on local "real" outcomes
 - Need to build the case that these results are really about binding DTI limits
 - Main suggestion: do more to exploit the DTI thresholds

Measuring the Effects on Local Real Outcomes

- Simple MSA-level regression

$$\Delta Y_i = \beta_{DTI} highDTI_i + \gamma X_i + \epsilon_i$$

- $highDTI_i$: share of 2021 mortgages that would have had DTI > 50% at 2022 rates
- Identifying assumption
 - Any correlation b/t the counterfactual high-DTI share and local outcomes is entirely due to monetary policy-induced tightening of DTI constraints

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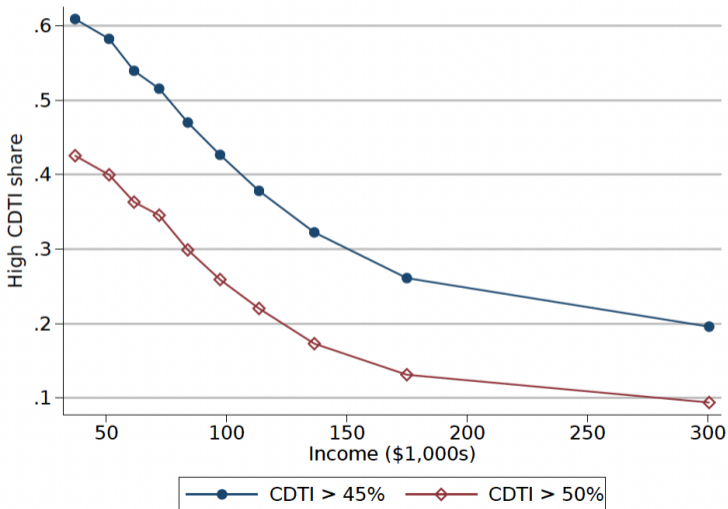
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MSAs with High Counterfactual DTI are Mechanically Lower-Income

Figure 6: High Counterfactual DTI by Income



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 - Might rate changes affect these places differently through non-DTI channels?

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 - Might rate changes affect these places differently through non-DTI channels?
 - Might we expect different trends in these places *even with no change in rates*?

Two Suggestions to Bolster the Case that it's Really About DTI Limits

Refine the Exposure Measure – *highDTI_i*

- Currently: share of 2021 mortgages that would have had DTI > 50% at 2022 rates
- Alternative: share that would switch from low to high-DTI given rate changes
 - Doesn't fix everything → still mechanically correlated with income
 - But at least it's more conceptually & rhetorically tied to the thought experiment

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Exploit the DTI Threshold(s) More

- Paper currently uses DTI cutoff of 50% (with robustness to 45%)
- Need to show that nearly all of the action is coming from these cutoffs
 - i.e. it's not just a "high DTI" effect, but an "above 50%" effect
- Run some placebos!
 - Restrict to DTI < 45% and show high/low split in that sub-sample is irrelevant
 - Run analysis at all possible candidate DTI thresholds show effect maxes out at DTI = 50

Conclusion

- Important (and well-written!) paper
- Credit market constraints key for understanding MP passthrough
- Need to do more work to tie credit quantity results to local real outcomes
 - Convince me it's not just a "high-DTI" correlation
 - Link your exposure measure more tightly to the thought experiment
 - Exploit the thresholds more!