DISCUSSION OF:

“DID AFFORDABLE HOUSING LEGISLATION CONTRIBUTE TO THE SUBPRIME SECURITIES BOOM?”

Ghent, Hernandez-Murillo, Owyangy (2013)

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GSE involvement in PLS important topic

GSE’s bought a lot of subprime MBS (~25% share)

Overview of the paper

Q: What role did affordable housing legislation play?
   - One view: GSEs / Government caused growth of the market
   - Alternative view: they were participants, but did not drive growth

Data on securitized non-prime mortgages from CA and FL, 2004-2006

RD around goal thresholds (similar to Bhutta, 2011, 2012),
   - Examine affordable housing and CRA goal eligibility at the loan level (tract- and borrower-level)

No significant effects on volume, rates or defaults.
General Comments

Nicely done empirically

- Merging of HMDA and Corelogic is as good as possible given the limitations

Plausible results, and in line with previous findings.

Very important question, lots of interest in the profession

- Adelino, Gerardi, Frame (2013) look at default differences within PLS deals

Some of the key questions are left for future research

- I.e. it’s not goals, but are there other channels? What is the counterfactual evolution of the market without the GSEs?
Tract goals are more suited for the analysis than borrower goals, because of (potential) endogenous manipulation of assignment variable.

I agree, people mostly manipulated upwards, not downwards to help an institution make their goals.

More States? Detail within states (see next point). More years?

I like the robustness tests
RD (cont’d)
Very heterogeneous goals

• CRA1 “(relatively) poor neighborhoods” + CRA2 “(relatively) poor borrowers”
• CRA Relevant for depository institutions

• UAG1 (high minority tracts); UAG2 (relatively poor tracts)
• SAG1 relatively poor borrowers; SAG2 (poor borrowers in poor tracts)
• LMIG: Loans to low-to-moderate income borrowers
• Relevant for GSEs only
Which ones should matter? And where?

- Do they bite more in rich or poor MSAs?

- A relatively poor borrower in a “rich” MSA may be an attractive loan to make. Similarly for tracts.

- I.e. some places may be more attractive than others to satisfy the goals, but signal to noise ratio is too big to detect this if you use the whole distribution of MSAs.

- In the same vein: are there years that the GSEs are farther from their goals / within year variation (trying to catch up?)
Questions for future research: did the GSEs matter for the evolution of the market?

- If they participated for reasons other than the affordable housing goals, they may have still played a role in driving the growth of the market.
Goal detail

1. CRA1: Loans to borrowers living in Census tracts with median tract to metropolitan statistical area (MSA) income of 80% or less.
2. CRA2: Loans to borrowers with incomes of 80% or less of the median MSA income.

1. UAG1: Loans to borrowers living in Census tracts with a minority population of 30% or more and median tract to MSA income of 120% or less.
2. UAG2: Loans to borrowers living in Census tracts with median tract to MSA income of 90% or less.
3. SAG1: Loans to borrowers with incomes of 60% or less of the median MSA income.
4. SAG2: Loans to borrowers with incomes of 80% or less of the median MSA income and who live in Census tracts with median tract to MSA income of 80% or less.
5. LMIG: Loans to borrowers with incomes of 100% or less of the median MSA income.