Discussion of:
Villains or Scapegoats? The Role of Subprime Borrowers during the Housing Boom

by James Conklin, W. Scott Frame, Kristopher Gerardi, Haoyang Liu

Matteo Crosignani
Federal Reserve Board

WFA

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Coronado

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Subprime Borrowers During the 2002-06 Boom

1) Subprime mortgages increased dramatically

   e.g., Mayer, Pence, Sherlund (2009); Mian and Sufi (2009)

2) Increase in default rates affected financial institutions

   e.g., Brunnermeier (2009)

Evidence in Mian and Sufi (2009):

$\uparrow$ credit supply to subprime borrowers

$\rightarrow$ $\uparrow$ increase in house prices in subprime zip codes

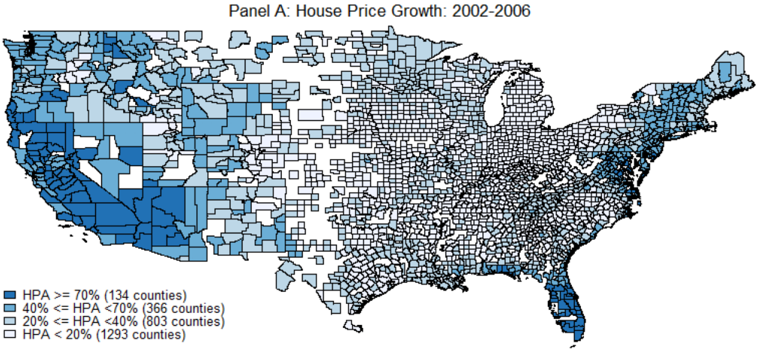
$\rightarrow$ $\uparrow$ increase in mortgage defaults in subprime zip codes

This paper: changes in subprime mortgage credit and in house prices are *negatively* correlated across counties

This Paper

The housing and subprime booms occurred in different places

- The **housing boom** occurred in Florida, West, and NE corridor



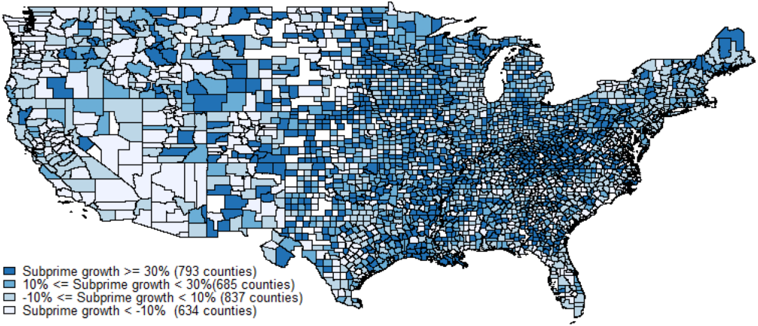
House price growth from 2002 to 2006 with FHFA data

This Paper

The housing and subprime booms occurred in different places

- The housing boom occurred in Florida, West, and NE corridor
- The **subprime boom** occurred in the Midwest and Ohio River Valley

Panel B: Growth in Share of Purchase Mortgages to Subprime Borrowers: 2002-2006



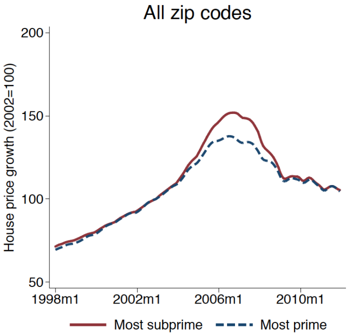
Growth in the share of subprime purchase credit from McDash-ABSNet

This Correlation is Robust

- The final data set is the merge of McDash and ABSNet
  - ✓ Holds using the two data sets individually
- Change 20% to 26% different from change 5% to 6.5%
  - ✓ but initial subprime share *negatively* corr. with HP change
  - ✓ Holds adding initial subprime share as a control variable
- (Many) potential omitted variables
  - ✓ Holds adding several level and growth control variables
  - ✓ Holds using state fixed effects
  - ✓ Holds with and without weighted regression
- Definitions of subprime loan and boom period
  - ✓ Holds changing FICO threshold
  - ✓ Holds changing boom period
- Measuring the subprime boom
  - ✓ Holds using changes in the *volume* of loans and in the share

Reconciling with Mian and Sufi

- Mian and Sufi (2009, 2016) find that house prices increase more for subprime zip codes *within* a given county



- Data?
  - Zip code- (>42,000 obs.) Vs. county-level data (3,000 obs.)
  - Fiserv Case Shiller Weiss/CoreLogic Vs. McDash/ABSNet
- Within variation?

What Explains the *Negative* Correlation?

No positive correlation is not that surprising

- Credit growth constant across income/FICO distribution

  e.g., Adelino, Schoar, Severino (2016), Albanesi, De Giorgi, Nosal (2017)

- More (corroborating) evidence
  - Rise of investor purchases during the boom almost entirely driven by borrowers with relatively high credit scores
  - Mortgage frauds also not concentrated in the subprime purchase mortgage market

But why a *negative* correlation?

- Very speculative discussion

  "One potential explanation is that prospective subprime purchase borrowers, which tend to also have lower incomes on average, were largely priced out of the boom markets."

  - Try to do more, e.g. check borrower age/income/LTV/LTI

Overall

This paper: changes in subprime mortgage credit and in house prices are negatively correlated

- Important contribution to the understanding of the crisis
- My comments:
  1) Reconcile this finding with the existing literature
  2) More work needed to rationalize the negative correlation