

# Credit Supply and House Prices: Evidence From Mortgage Market Segmentation

Manuel Adelino, Antoinette Schoar and Felipe Severino

Discussed by: Aurel Hizmo

September 23, 2011

Recent Developments in Consumer Credit and Payments

# 1. Summary

- Question: How does availability of cheap credit affect house prices?

# 1. Summary

- Question: How does availability of cheap credit affect house prices?
- Relevance: literature and policy

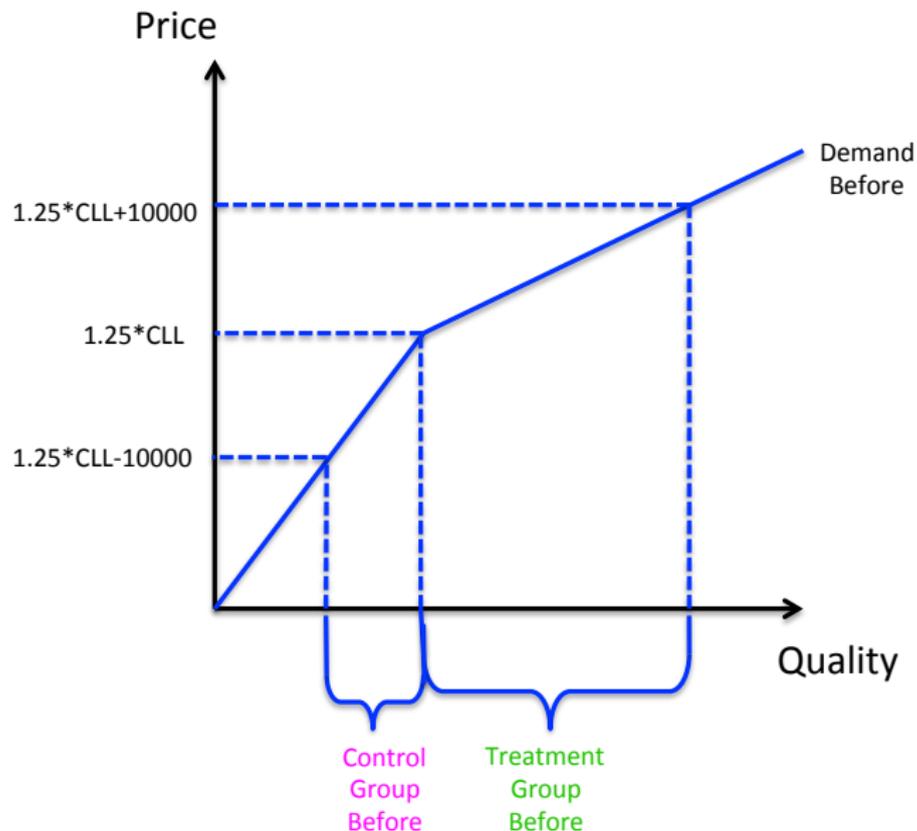
# 1. Summary

- Question: How does availability of cheap credit affect house prices?
- Relevance: literature and policy
- Identification
  - CLL is set at a national level so exogenous to local markets
  - Affects different types of home in different cities because of different price levels

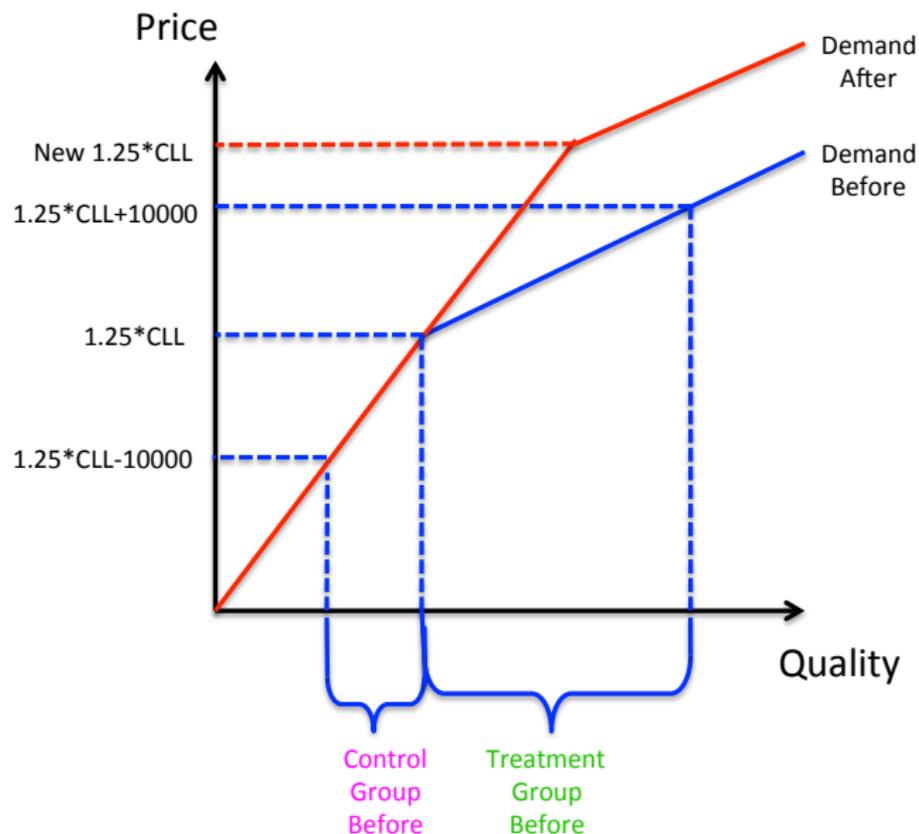
# 1. Summary

- Question: How does availability of cheap credit affect house prices?
- Relevance: literature and policy
- Identification
  - CLL is set at a national level so exogenous to local markets
  - Affects different types of home in different cities because of different price levels
- Main results
  - House prices increase by about .05% as a response to credit relaxation for 1999-2001.
  - Higher for more 'constrained' areas where wages are falling

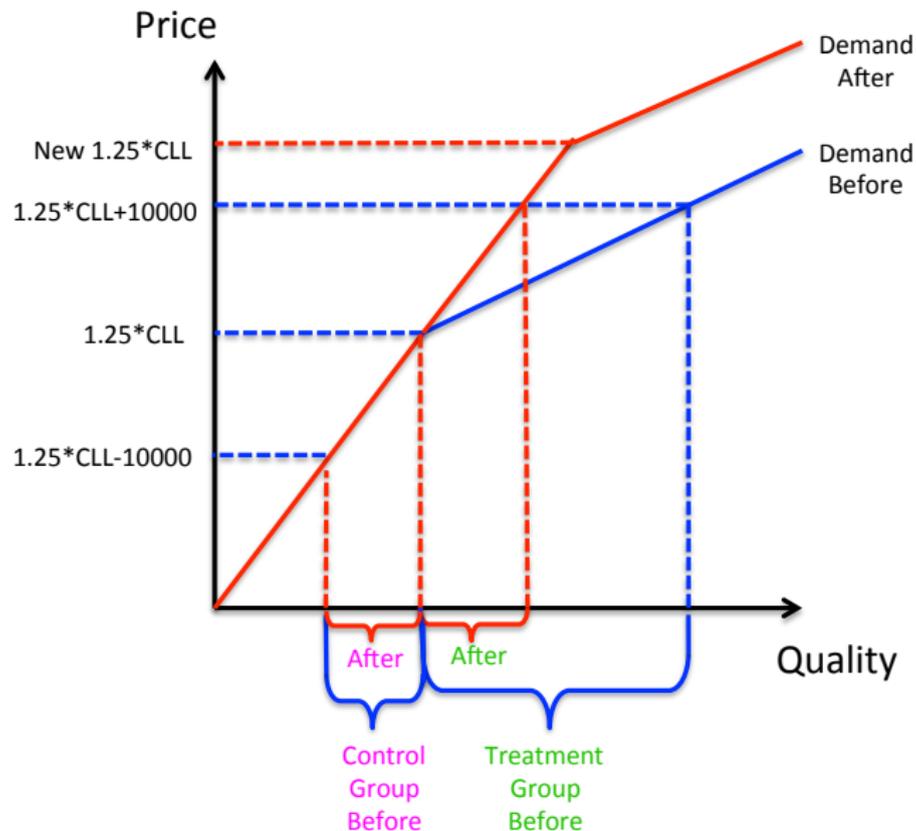
## 2. Graphical Illustration



## 2. Graphical Illustration



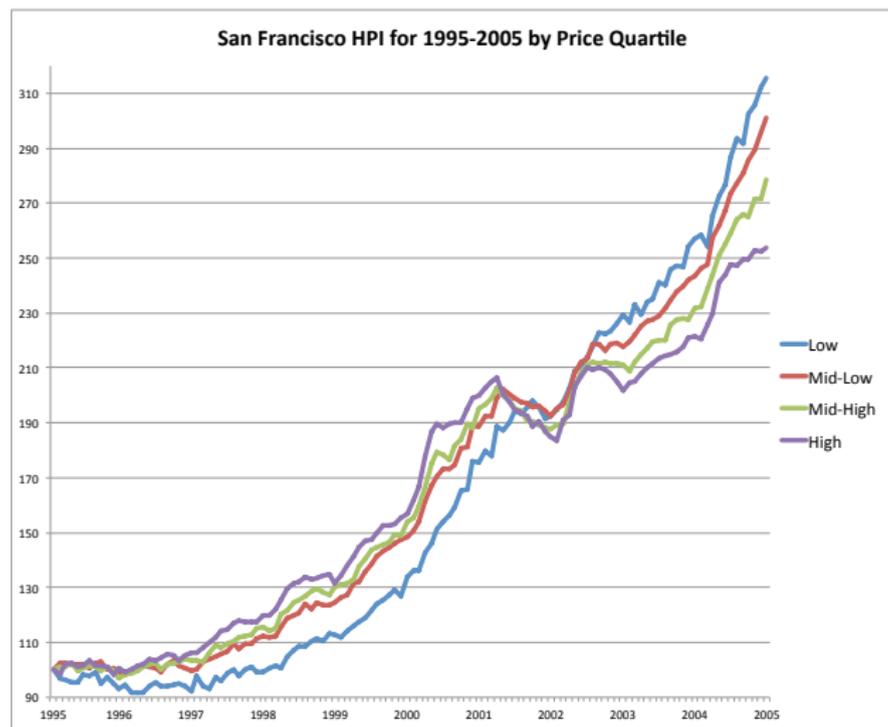
## 2. Graphical Illustration



## 2. Selection

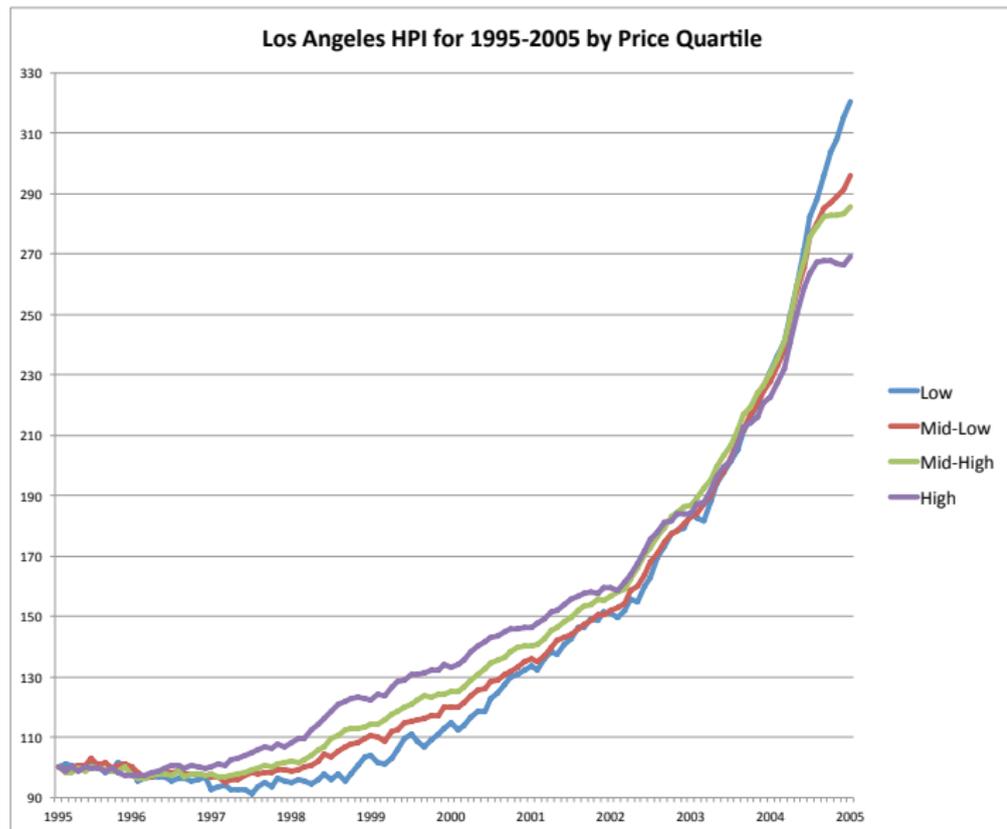
- Selection can lead to underestimation in areas with growing prices
  - Nice that paper identifies some effect despite this
- Estimated effect could be larger if observations are weighted by the propensity score.
  - Down-weight the observations that are more likely to be in treatment group before than after

### 3. Trends in House Prices

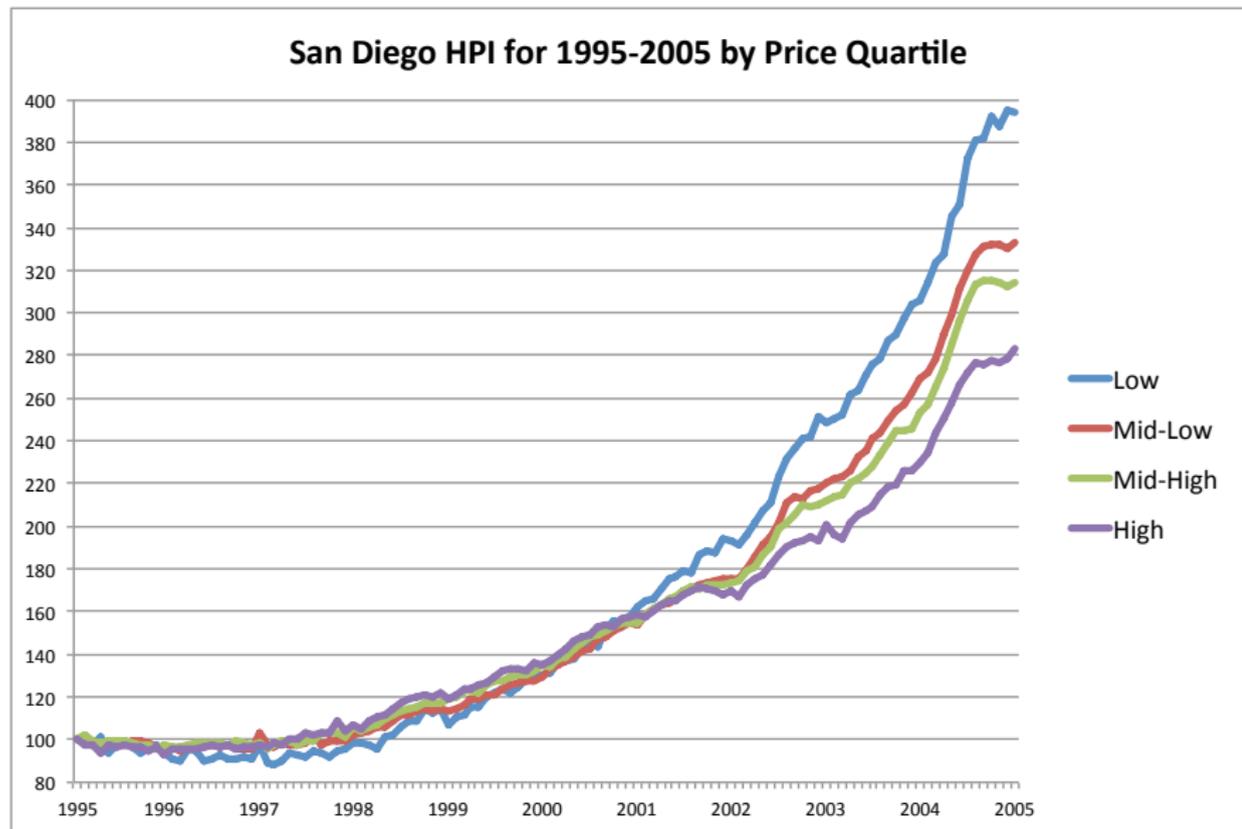


- Higher price homes may appreciate faster for other reasons
- After 2001 the effect reverses making it hard to identify effect

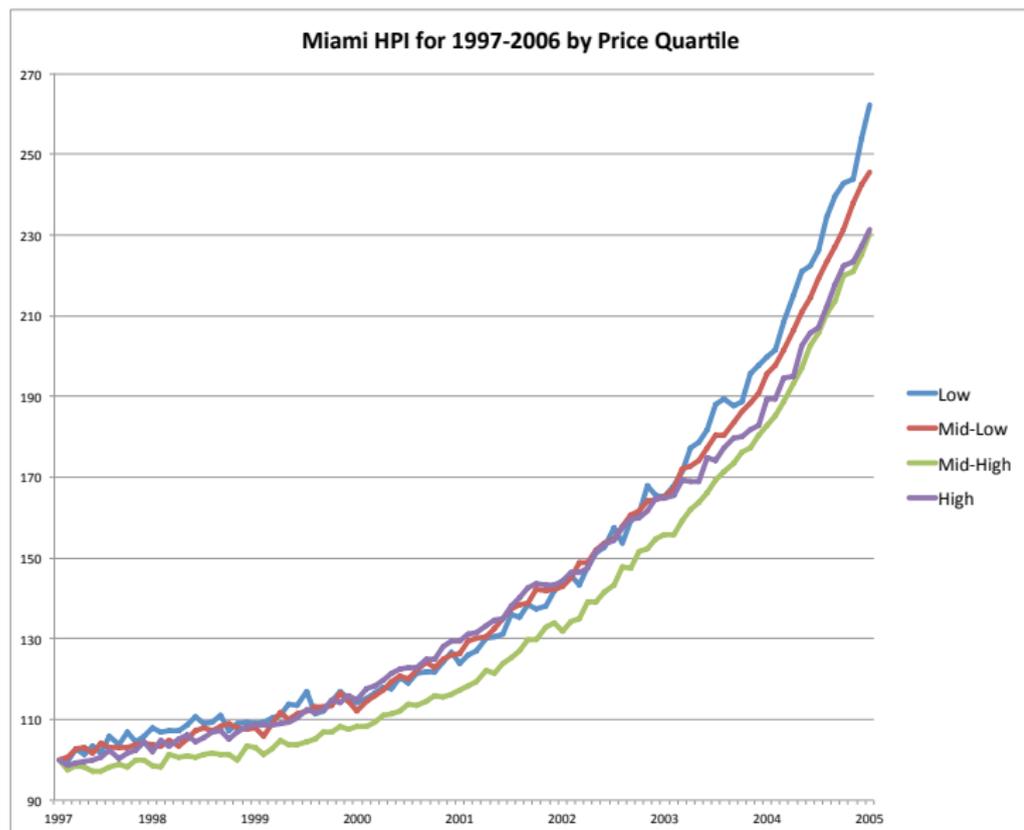
### 3. Trends in House Prices



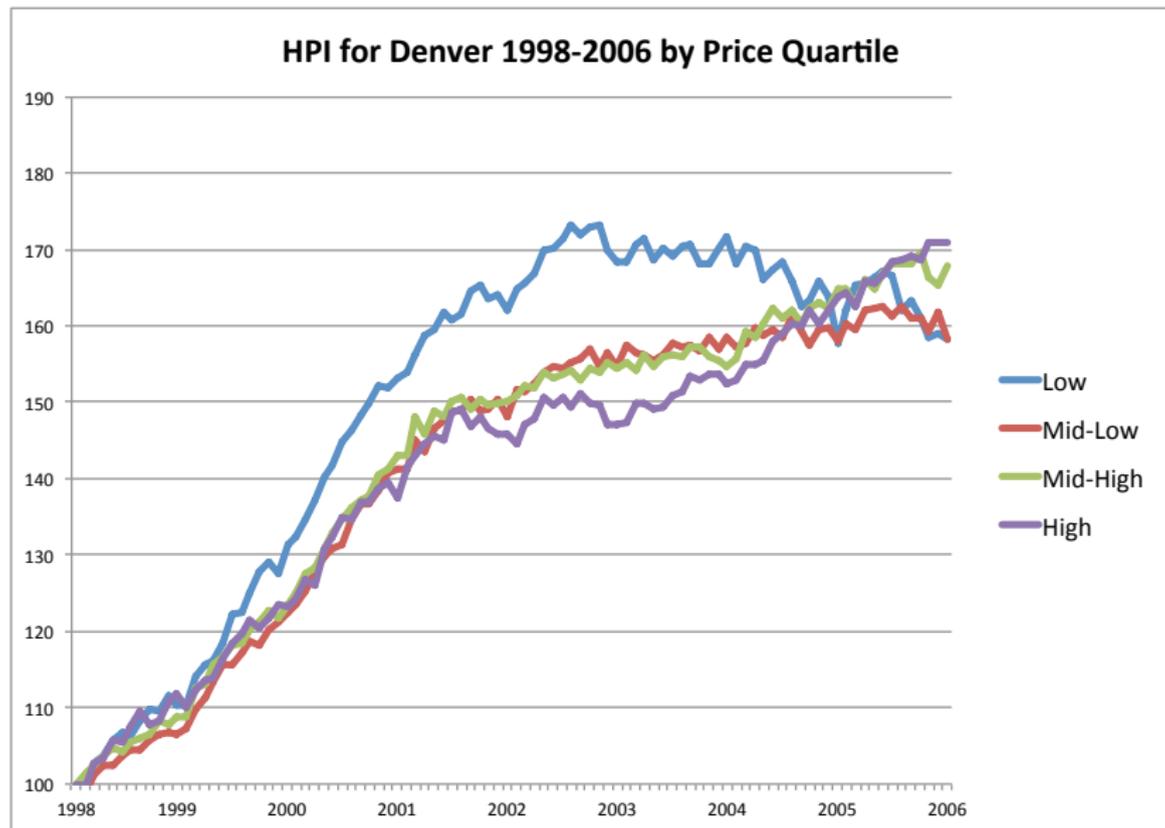
### 3. Trends in House Prices



### 3. Trends in House Prices



### 3. Trends in House Prices



## Additional Remarks

- Bootstrap standard errors
  - Prices are highly autocorrelated and Fama-Macbeth averaging ignores serial correlation

## Additional Remarks

- Bootstrap standard errors
  - Prices are highly autocorrelated and Fama-Macbeth averaging ignores serial correlation
- Compare treated group with another untreated group that is just above the new CLL. Results should be similar.

## Additional Remarks

- Bootstrap standard errors
  - Prices are highly autocorrelated and Fama-Macbeth averaging ignores serial correlation
- Compare treated group with another untreated group that is just above the new CLL. Results should be similar.
- To audience: Please read this interesting paper as it will answer some questions and make you think of some more