Comments on: Risky Mortgages

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Comments by:

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General Thoughts

- Enjoyed the paper
  - Really, I’m not just saying that.
- Important Contribution
  - Few papers that have embedded housing into monetary policy analysis.
  - This is now popularly acknowledged to be important, but still missing from many models.
Summary

- Iacoviello (2005) and Iacoviello and Neri (2010)
  - one borrower, one saver
- Add endogenous borrowing
  - function of economy-wide LTV ratio that emerges as a savers participation constraint.
- Lenders collect collateral on defaulted loans
- Evaluate impact of increased housing prices volatility
What do we learn?

- In a BGG model, more default leads to more output volatility.
- We can interpret this default as being generated by housing price volatility.
Some Comments

- What does it mean for one member of the household to experience a housing shock?
  - This is a convenient assumption to ensure that the model fits into Iacoviello and Peri.
  - Hard to rationalize

- Housing price volatility generates default
  - What is the relationship between default and volatility implied by the model? How well does it match data?
    - Should be a nonlinear function of volatility
    - Calibration: for a 60% LTV loan, there should be little default. Why does the model generate so much?
    - Core issue: in a housing default model, must find a way to match LTV and delinquency rate.
How well does model explain data?
  - In US? Across countries?

Some figures:
  - Assume correlation between volatility and default is perfect.
  - How does delinquency rate change with various:
    - Delinquency v residential lending (no relation)
    - Delinquency v 30 year mortgage rate (works)
    - Delinquency v Commercial lending (no relation)

Delinquency v volatility
Delinquency and 30 Year Rate

Change in Delinquency vs Change in 30 year Fixed Rate

\[ R^2 = 0.3332 \]

- Change in Delinquency
- Lineare (Change in Delinquency)
Delinquency and Commercial Loan Volume

Change in Delinquency vs Change in Commercial Lending

\[ R^2 = 0.0004 \]
Delinquency and Real Estate Volume

Change in Delinquency vs Change in Real Estate Lending

Change in Delinquency

Linear (Change in Delinquency)

Linear (Change in Delinquency)

$R^2 = 0.0002$
Volatility v Delinquency

Housing Price Variance v Delinquency Rate
Other questions likely outside the scope of paper:

- Should we promote a rental market?
- Other policy implications
- Distribution of ‘constrained’ households?
  - Who defaults? How often?
Suggestions and Take-Home Message?

A. I would have liked to see an explicit implication for monetary policy:
   A. Central bank should target prices?
   B. Central bank should use price/output targeting optimally given housing prices?
   C. Can monetary policy have been different given this model?

B. Calibrate to elasticities, rather than means.
end
Residential Real Estate Loans Vs. Delinquency Rate in Residential Loans

Real Estate Loans, all Commercial Banks, Seasonally Adjusted
Delinquency Rates - Real Estate Residential Loans
Mortgage 30 yr Fixed rate Vs. Delinquency Rate

Average 30 Yr Fixed Rate Mortgage

Delinquency Rates - Real Estate Residential Loans

Time Period

01/01/1992 01/01/1993 01/01/1994 01/01/1995 01/01/1996 01/01/1997 01/01/1998 01/01/1999 01/01/2000 01/01/2001 01/01/2002 01/01/2003 01/01/2004 01/01/2005 01/01/2006 01/01/2007 01/01/2008 01/01/2009 01/01/2010