DISCUSSION ON

MORTGAGE DEFAULTS, FINANCIAL DISINTERMEDIATION, AND MACROPRUDENTIAL POLICIES
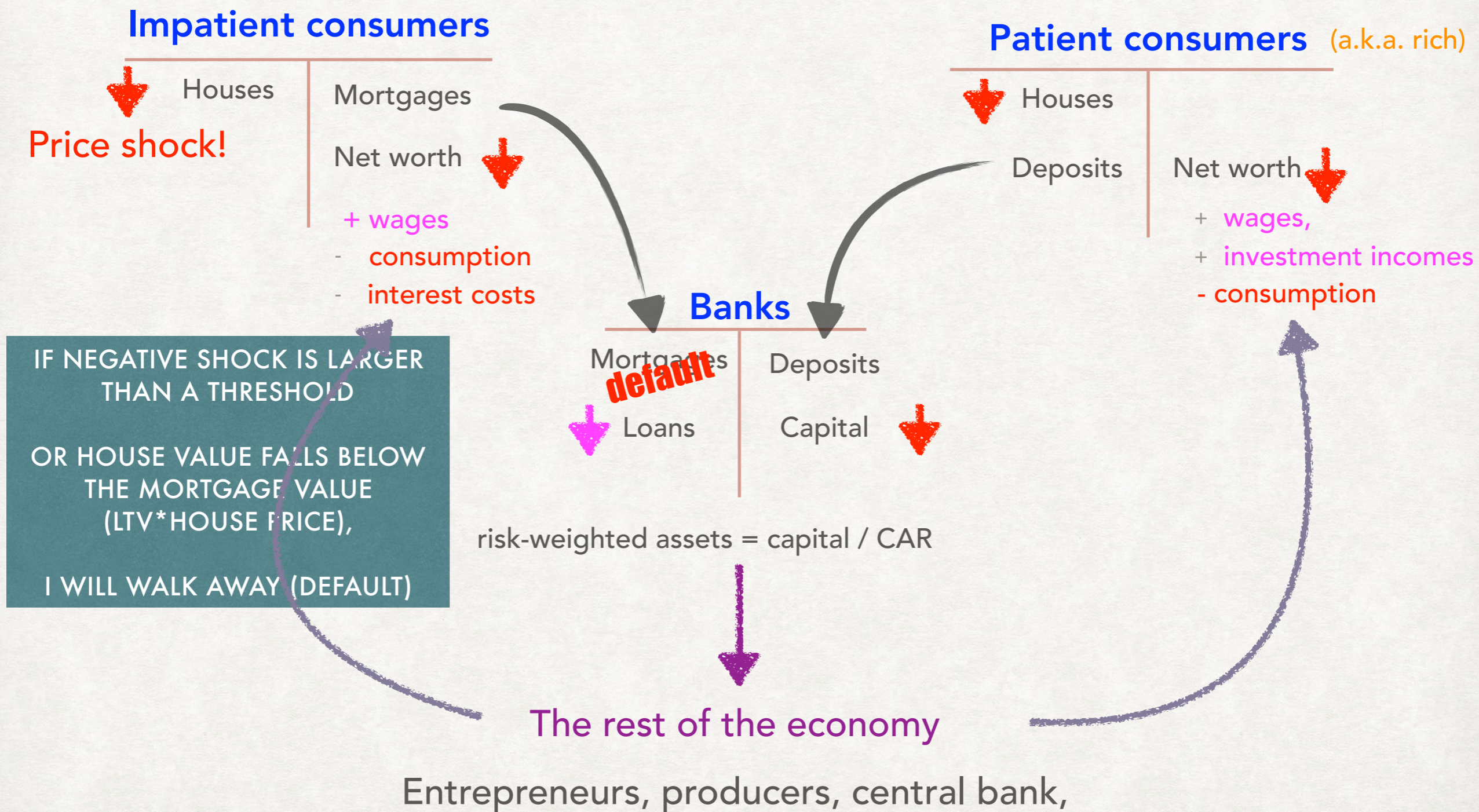
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BOT RESEARCH WORKSHOP

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GENERAL IMPRESSIONS

- A complete (and long) article

- Interesting insights from standard DSGE/NK models with banks and the mortgage sector

- Add the mortgages defaults

- Nice and elegant results

- Policy analysis on macroprudential policies: LTV caps, CCC, state contingent LTV?

(OVER) SIMPLIFYING THE MODEL

Impatient consumers

Houses | Mortgages

Price shock!

Net worth

+ wages
- consumption
- interest costs

Patient consumers (a.k.a. rich)

Houses

Deposits | Net worth

+ wages,
+ investment incomes
- consumption

Banks

Mortgages | Deposits

default

Loans | Capital

risk-weighted assets = capital / CAR

IF NEGATIVE SHOCK IS LARGER THAN A THRESHOLD

OR HOUSE VALUE FALLS BELOW THE MORTGAGE VALUE (LTV*HOUSE PRICE),

I WILL WALK AWAY (DEFAULT)

The rest of the economy

Entrepreneurs, producers, central bank,

QUESTIONS

- Are patient consumers "patient" or are they just rich?

- Do impatient consumers really "smooth" consumption?

Table 2: Important Rates and Ratios at the Steady State

	Description	Value
$F(\omega)$	Mortgage default probability	2.007 %
m^I	Loan-to-value ratio	70.00 %
r	Deposit interest rate (p.a.)	3.673 %
r^I	Mortgage interest rate (p.a.)	6.800 %
r^E	Business loan interest rate (p.a.)	7.736 %
$\frac{b^I}{b^I+b^E}$	Proportion of mortgages	57.26 %
$\frac{b^I}{Y}$	Mortgages to output	170.1 %
$\frac{b^E}{Y}$	Business loans to output	127.0 %
$\frac{c^P}{Y}$	Patient household consumption to output	52.96 %
$\frac{c^I}{Y}$	Impatient household consumption to output	19.24 %
$\frac{c^E}{Y}$	Entrepreneur consumption to output	10.95 %
$\frac{i}{Y}$	Investment to output	16.59 %
$\frac{\Theta G(\omega)q^h h^I}{Y}$	Monitoring cost to output	0.523 %
$\frac{q^h h^P}{Y}$	Patient household's housing demand to output	1164 %
$\frac{q^h h^I}{Y}$	Impatient household's housing demand to output	247.1%
k^B	Bank capital ratio	8.000 %

GENERAL COMMENTS

- **"Patient" consumers** are assumed to be better endowed (otherwise they would not be able to afford a house to begin with).

- Relative prices of house and other consumption goods are supposed to be large. Would it make sense to model a **"rent-vs-buy"** decision?

- The role of **credit market** outside banks?

- **Default rule?** Consumers may not decide to default even if the house price fell if he expects house prices to rebound?

- **The role of the "bubble"?** The house price shocks are assumed to random and iid. But crises are often preceded by bubbles (e.g. autocorrelated shocks?). How would that change the decision?

- Sensitivity to different parameter assumptions?

- Regulatory capital as a constraint?

RANDOM HOUSE PRICE SHOCKS?
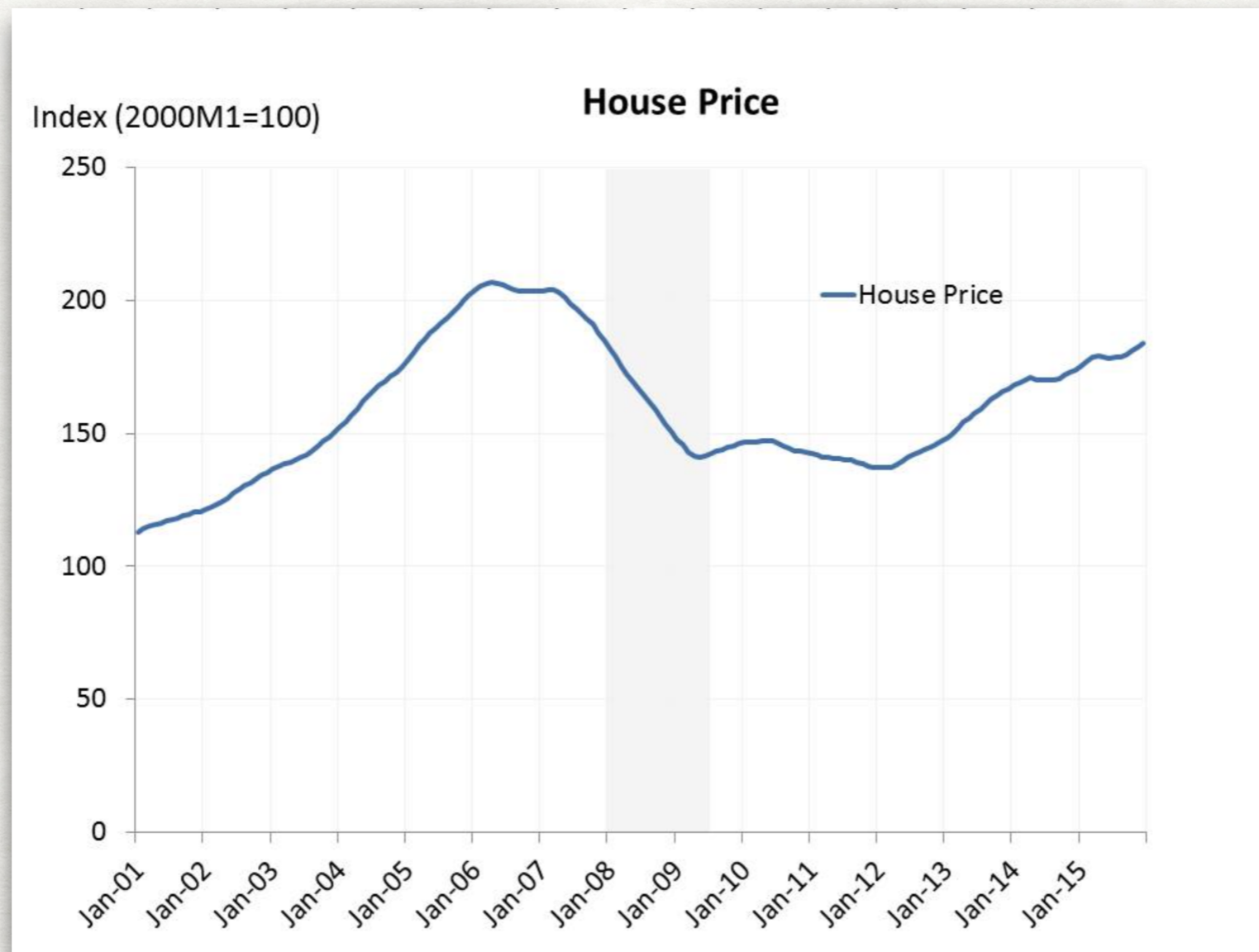
POLICY ISSUES

- **Macroprudential measures and the shadow banking**. What if the central bank can control only a fraction of the credit to the economy? For example, securitization, WMP, and AM and coop and SFI. Regulatory arbitrage?

- The role of market **leverage** and the amplification of shocks. CDO/CDS

- **Other macroprudential measures**? LTV-based RW? Debt service ratio? Debt to income limits?

- Transmission of monetary policy.