Discussion of: Household Credit and Employment in the Great Recession

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Outline

1. Value of this Paper in the Literature

2. Extending the Analysis
   - Extending Outcome Variables
   - Extending to Multiple Banks/Regions
The Rise and Fall of Household/Small Firm Debt
Explaining the Rise/Fall in Household/Small Firm Debt

<table>
<thead>
<tr>
<th></th>
<th>Collateral</th>
<th>Credit Supply</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Mondragon (2015)</td>
</tr>
<tr>
<td></td>
<td>Corradin and Popov (2015)</td>
<td></td>
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<tr>
<td></td>
<td>Kleiner (2015)</td>
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</tbody>
</table>
How much did the contraction in the supply of credit to households contribute to the decline in employment during the Great Recession?
1 Value of this Paper in the Literature

2 Extending the Analysis
   - Extending Outcome Variables
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Natural Experiment of Wachovia’s Purchase of Golden West Financial

- Wachovia purchased the nation’s second largest thrift Golden West Financial in May 2006
- On the October 4, 2008 episode of Saturday Night Live the show lampooned the Wachovia takeover of Golden West Financial as part of a segment on the financial bailout. Darrell Hammond, as Herb Sandler, states that "My wife and I had a company which aggressively marketed subprime mortgages, and then bundled them as securities to sell to banks such as Wachovia. Today, our portfolio’s worth almost nothing, though, at one point, it was worth close to $19 billion."[17] In response to the show, the real Herb Sandler said that he’s been ”listening to this crap for two years” and ”we are being unfairly tarred.”
Identification Strategy and Extensions

\[ \text{CountyOutcome}_i = \alpha + \beta \text{WachoviaExposure}_i + \text{CountyControls}_i + \varepsilon_i \]

At its base, this paper details that counties exposed to Wachovia were (i) not fundamentally unique prior to the Golden West purchase and (ii) Different after the purchase

- County Outcome Variables Considered:
  - Mortgage Lending, Employment, Consumption
  - Home Sales, Home Prices
  - Non-Tradable Employment, Construction Employment

- Banks/Locations Considered
  - Wachovia
  - South-Eastern Counties

This Leads me to Two Questions:

- Does the Analysis Extend to Additional Outcome Variables?
- Does the Analysis Extend to Multiple Banks/Locations?
1. Value of this Paper in the Literature

2. Extending the Analysis
   - Extending Outcome Variables
   - Extending to Multiple Banks/Regions
Including Results on Delinquencies

<table>
<thead>
<tr>
<th></th>
<th>Mortgage Delinquency</th>
<th>Auto Delinquency</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2007</td>
</tr>
<tr>
<td>Wachovia Exp 2006</td>
<td>-0.571*</td>
<td>0.637</td>
</tr>
<tr>
<td></td>
<td>(-1.995)</td>
<td>(0.757)</td>
</tr>
<tr>
<td>Mortgage Lev 2006</td>
<td>0.572***</td>
<td>0.973***</td>
</tr>
<tr>
<td></td>
<td>(6.221)</td>
<td>(3.046)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.024</td>
<td>0.041</td>
</tr>
</tbody>
</table>
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It Wasn’t Just Wachovia that Experienced Losses

Residential Net-Charge-offs for 10% Most Affected Banks

- Percent of Assets

- Senior Liens
- Junior Liens
- Home Equity Lines of Credit
Golden West Financial held toxic mortgage loans due to:

1. A Focus on Subprime Lending
2. Locations in California and Arizona

Loan Applicants are Endogeneous

- Banks that lend to Subprime Borrowers cut Lending due to the Deteriorating Financial Health of the Clients

Bank Location Might be Exogenous

- Location of the Bank (especially if the branch is old) might be exogenous to lending
Follow house price declines in the bank’s primary housing market to all other markets outside the state

\[ \text{Approval}_{h,2010} = \beta \Delta \% \text{Price}^b_{2007-2009} + \text{Approval}^b,c_{2006} \pi X_{h,b} + \phi^c + \varepsilon_h \]

- Approval is a Binary Variable that denotes an Application is Approved
- Price is the House Price in the Bank’s Primary Lending Location
- X are Household Controls and Bank Controls
- \( \phi \) is a Fixed Effect for each Applicant’s County
## Baseline Results on Delinquencies

<table>
<thead>
<tr>
<th></th>
<th>Home Purchase</th>
<th>Home Improvement</th>
<th>Refinancing</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \Delta MSA \text{ Price}_{2006-2009} )</td>
<td>0.69***</td>
<td>0.50**</td>
<td>2.31***</td>
</tr>
<tr>
<td></td>
<td>(3.14)</td>
<td>(2.33)</td>
<td>(7.03)</td>
</tr>
<tr>
<td>Approval ( \text{Rate}_{2006} )</td>
<td>0.19***</td>
<td>0.15**</td>
<td>-0.11</td>
</tr>
<tr>
<td></td>
<td>(2.81)</td>
<td>(2.27)</td>
<td>(-0.65)</td>
</tr>
<tr>
<td>Bank Controls</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>County Fixed Effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Applicant Characteristics</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.10</td>
<td>0.11</td>
<td>0.15</td>
</tr>
<tr>
<td>N</td>
<td>15,051</td>
<td>15,051</td>
<td>12,691</td>
</tr>
</tbody>
</table>
Conclusion

1. Important Paper in an Important Literature
   - Considers the Employment Impact of Credit Supply Shocks during the Great Recession

2. Paper Holds for
   - Additional Outcome Variables
   - More Banks and Locations

3. Disappointed Indiana was not able to get him on our Faculty!