Integrated Intermediation and Fintech Market Power

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The Changing Landscape of Financial Intermediation

- Traditional banking model: integration of origination, financing, and servicing alongside deposit-taking
- Securitization increasingly unbundled lending services from loan ownership
- Servicers interact with the borrower over the life of the loan, rather than just one time at origination
- Therefore we care what the consequences are of who a borrower's servicer is

This Paper

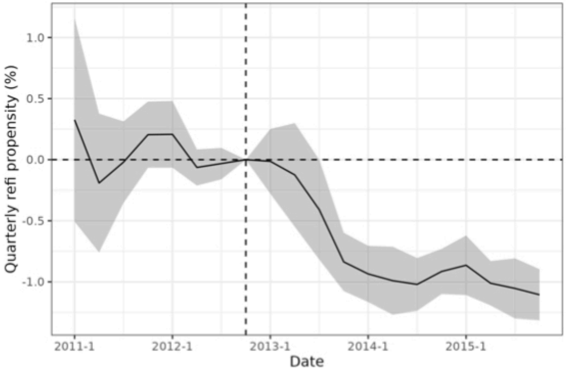
- Uses sample of agency mortgages between January 2000 to December 2012
- Estimates post-period decrease in refis by pre-period bank serviced/originated loans
  - Yields estimate of refi decrease associated w/ decrease in “integrated" lenders
- Feeds estimated parameter into structural model to run counterfactuals
  - How does amount of refinances change if there are no integrated lenders?
  - How does amount of refinances change if there is no fintech acquisition technology?
- **Great paper!** Much needed structural model. I will focus mainly on the empirics.

This Paper: Difference-in-Differences Refinance Specification

$$Refi_{it} = \sum_{2015Q4}^{2011Q1} \beta_\tau I_{t=\tau} \times Bank_i + \gamma_{ct} + \gamma_{cb} + \epsilon_{it}$$

Bank Refinances

- Agency mortgages between January 2000 to December 2012
- Refi probability falls in post period by 1.504%

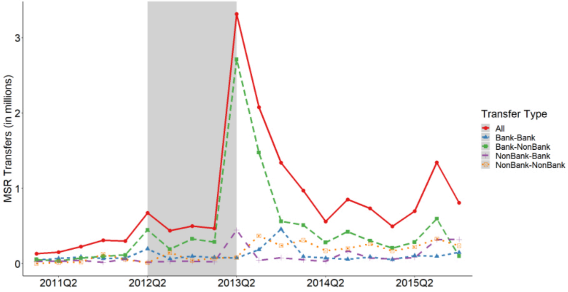


Agree - Basel III caused MSR transfers!

- Predisposed to agree that Basel III had an effect!
- Hamdi, Jiang, Lewis, Padi, Pal (2024) show that raw transfers of MSRs spiked following Basel III

Raw Transfers

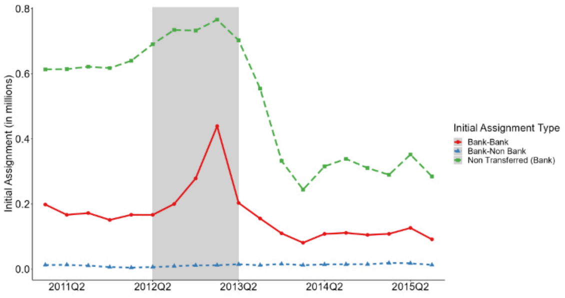
Figure 3. Aggregate MSR Tranfers Around Basel III MSR Rule Change



Main Comment 1 - Intent To Treat (ITT) Difference-in-Differences

- Originations ↓ post-Basel III
  Hamdi, Jiang, Lewis, Padi, Pal (2024)
- ITT design: Treated = originated/serviced by banks pre-2013
  - Treated group = avg refi-decrease from dis-integration + avg refi-decrease from bank held loans due to other Basel III regulations
  - Retained bank loans in treated group less likely to refi since bank total originations decrease

Bank Originations



(a) Loans Originated by Banks

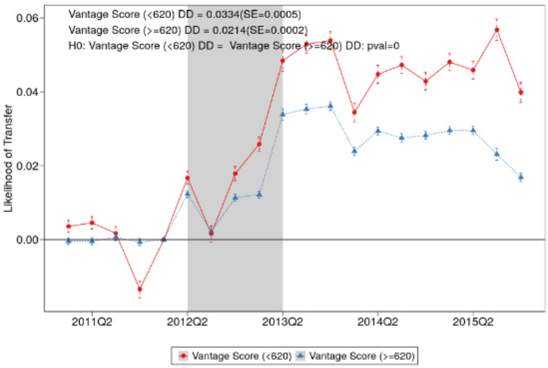
Main Comment 1 - Intent To Treat (ITT) Difference-in-Differences (cont'd)

- ITT argument: Basel III caused refis $\downarrow$
  - Difficult to say caused by certain type of intermediary
  - Could be due to post Basel III environment, selection, effect of transfer on selected loans
- Placebo: loans already transferred pre-Basel III not affected
  - May not include any bank retained loans (post Basel III environment)
  - Could be selected such that they're not differentially likely to refi post Basel III (effect of transfer on selected loans)
    - i.e. Fin Crisis legacy loans that had already been sold and received modifications, etc.
- Refi $\downarrow$ post Basel may not imply symmetric $\uparrow$ if more integrated intermediaries entered
  - May effect parameter in structural model

Main Comment 2 - Transferred loans are selected

- Riskier loans are selected for transfer Hamdi, Jiang, Lewis, Padi, Pal (2024)
- Defaults increase in the post period for these loans
  - Default decreases refi but not due to disintegration of servicer

Figure 10. Transfer Heterogeneity Across Loan Types

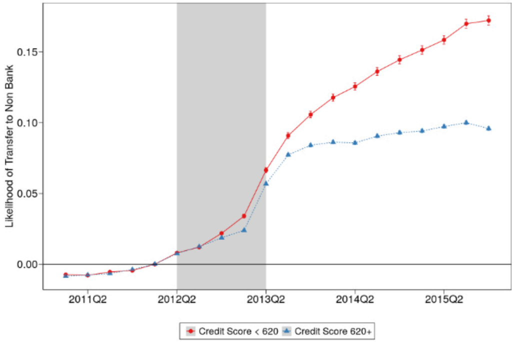


(a) Credit Score — Transfer

Main Comment 3 - Loans sold to fintech originator/servicers

- Hamdi, Jiang, Lewis, Padi, Pal (2024) documents ↑ in non-banks holdings of loans post Basel III, these include fintech lenders
- Some of loans are sold to fintech originator/servicers → refis could ↑ for transferred loans if new servicer is better at capturing refis

Figure 11. Non-Bank MSR Holdings by Credit score & Loan performance



(a) Credit Score

Main Comment 3 - Loans sold to fintech originator/servicers (cont'd)

- Could be that main result driven by bank retained loans, and defaults, not by fact that they were transferred and in fact all else equal transfer should have increased their refi probability
- In merged sample, could see how many refis were among loans originated by a bank in the pre-period, now held by a non-bank originator/servicer

Minor Comments

- Measure of integrated intermediaries could be overstating integration if loans are assigned to a third party servicer a few months after origination.
  - If these loans already have lower refi-propensities because they are selected differently, it would bias toward finding a result
- Refi propensities by originator type are calculated over the entire sample, pre and post Basel periods are very different, may want to estimate over just the pre or just the post period
- Why not show disintegrated refis in Panel B of Table 2? They enter into the structural model so it would be good to see them

Thank you!