Discussion
Bank and FinTech Lenders

Tomasz Piskorski
Last Decade: Dramatic Change in Lending Landscape

- Rise of shadow banks (SBs) in the lending market
- Fintech lenders important part of this broader trend
  - Shadow banks early adopters of fintech technology

Shadow bank share in the $10 trillion US mortgage market

Source: Buchak, Matvos, Piskorski, and Seru (2018a)
Last Decade: Dramatic Change in Lending Landscape

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Shadow bank share in the $10 trillion US mortgage market

Key Drivers:
- 30% FinTech
- 60% Regulation

Source: Buchak, Matvos, Piskorski, and Seru (2018a)
Rise of Fintech & Shadow Banks: Key Questions

- **Key drivers of shadow bank expansion**
  - Post-crisis regulatory changes vs financial technology

- **Impact on consumers**
  - E.g., access/distribution/pricing of credit/financial services

- **Impact on the structure of lending market**
  - Including impact of incumbents (e.g., traditional banks)

- **Broader welfare consequences**
  - Would hope new technologies would make us better off
  - There could be winners and losers in the transition period

- **Implications for financial stability and regulation**
  - Need to rethink current regulatory framework?

- Focus: Assessment of fintech potential
- Can fintech bring down costs of financial intermediation?
- Impact of fintech on financial stability?
  - Leverage, narrow vs broader banking, systemic risk
  - Regulatory challenges due to new financial models/strategies

Figure 2: Unit Cost of Financial Intermediation

![Raw Unit Costs graph showing data from 1880 to 2020 with a comparison of 2012 data and new data.](image-url)
Fintech Premium: Fintech vs Bank Mortgage Rates

Source: Buchak, Matvos, Piskorski, and Seru (2018a)
Fintech Premium: Fintech vs Bank Mortgage Rates

- Fintech can offer borrowers convenience rather than costs savings
- Such benefits harder to capture in simple cost intermediation metrics

Source: Buchak, Matvos, Piskorski, and Seru (2018a)
2nd Paper: Di Maggio and Yao (2018)

• Focus: Fintech borrowers in personal loan market
  • Great data: Credit bureau panel of fintech and non-fintech borrowers

• Main findings:
  • Fintech borrowers are quite creditworthy
  • Fintech borrowers: lower credit outcomes after loan origination
  • Seem to have immediate consumption needs (suggestive of present-bias)

• Going forward more work on
  • What would happen in the absence of fintech lenders?
  • More assessment of welfare consequences
    o What fraction of fintech borrowers seem “present-biased”?

• Evidence on fintech consumers broadly consistent with other markets
  • E.g., Relatively more creditworthy fintech borrowers in the mortgage market
    o Buchak, Matvos, Piskorski, and Seru (2018a)
3rd Paper: Cornaggia, Wolfe, Yoo (2018)

- **Focus:** Impact of P2P fintech lenders on traditional banks
- **Main findings (unsecured consumer credit market)**
  - Suggestive of higher risk fintech loans substituting for bank loans
  - Fintech entry expansionary for lower risk loans
- **Comments**
  - Patterns also consistent with the effects of ↑ bank regulatory burden
    - Bank partly exit, especially riskier segment, due to increased burden
    - Non-bank fintech lenders partly fill this gap
    - Fintech comparative advantage: Lower regulatory burden & technology
  - Identifying causal effect of P2P entry challenging
    - Authors: IV strategy exploiting local variation in P2P funding availability
  - Relative contribution of technology vs regulation in this market?
4\textsuperscript{th} Paper: Braggion, Manconi, Zhu (2019)

- **Focus**: Bank regulation and fintech lending
- **Context**: LTV caps in the Chinese mortgage market
  - Meant among others to “cool” the housing market
- **Main findings**
  - P2P lenders helped households to borrow alleviating the impact of caps
  - Impact on effectiveness of policy to slow house price growth?
- **Broadly consistent with US evidence**
  - Increase in bank regulatory burden crucial factor in shadow bank expansion
    - Buchak, Matvos, Piskorski, and Seru (2018a)
Shadow Bank Expansion in the Residential Mortgage Market

2008

Source: Buchak, Matvos, Piskorski, and Seru (2018a)
Shadow Bank Expansion in the Residential Mortgage Market

2015

Source: Buchak, Matvos, Piskorski, and Seru (2018a)
Shadow Bank Entry in the US Residential Mortgage Market

• Asses shadow expansion in response to bank regulatory burden
• Shocks to Regulatory Burden (BMPS 2017)
• Banks retreated and shadow banks expanded where regulatory burden ↑

\[
\Delta \text{Shadow Bank Lending Share}_c = \beta_0 + \beta_1 \Delta \text{Regulatory Burden}_c + X'_c \Gamma + \epsilon_c
\]

Source: Buchak, Matvos, Piskorski, and Seru (2018a)
Rise of Fintech & Shadow Banks: Broader Implications

• Implications for Financial Stability

  • SBs have no deposit funding base, limited balance sheet capacity
  • Dependent on ability to sell loans/warehouse lines/GSEs/crowdfunding

Source: Buchak, Matvos, Piskorski, and Seru (2018a)
Rise of Fintech & Shadow Banks: Broader Implications

• Implications for Financial Stability
  • SBs have no deposit funding base, limited balance sheet capacity
  • Dependent on ability to sell loans/warehouse lines/GSEs/crowdfunding
  • SBs can quickly shutdown in the face of funding problems like in 2007
    o Mortgage market shadow bank share: 2007 ≈ 25% vs Now > 50%
  • New lending models have not been tested during downturn
  • In case of the shutdown of fintech/SB lenders who will pick up the slack?
    o Traditional banks (TB) may be unable due to limited experience/market presence
Rise of Fintech & Shadow Banks: Broader Implications

• **Implications for Regulatory Framework**
  
  • Need to recognize important role of shadow banks
  
  • SBs can significantly affect transmission of various polices
    
      o Quantity, pricing, distribution of credit, bank stability

Mortgage Lending Change ($B) and Capital Ratios

- **TB response**
- **TB+SB response**

Mortgage Lending Change ($B) and Conforming Limit

- Shadow banks “dampen” the response
- Shadow banks “amplify” the response

Source: Buchak, Matvos, Piskorski, and Seru (2018b)
Rise of Fintech & Shadow Banks: Broader Implications

• **Taxpayer Exposure**
  • No direct FDIC exposure…but GSE exposure in the mortgage market
    o Increased taxpayer risk due to limited regulation and GSE guarantees?
    o Can make scaling down the role of GSEs even harder

• **Consumer Welfare**
  • Need more work on it
  • Use of big data/credit scoring algorithms create regulatory challenges

• **Traditional Bank Response**
  • Shadow banks were early adopters of new technologies
    o Less concern about regulatory implications, no legacy investments/systems
  • Traditional banks are catching up
    o Evolving market structure can create further regulatory challenges
References
