

Do Local Branches Shape Banks' Mortgage Lending Decisions?

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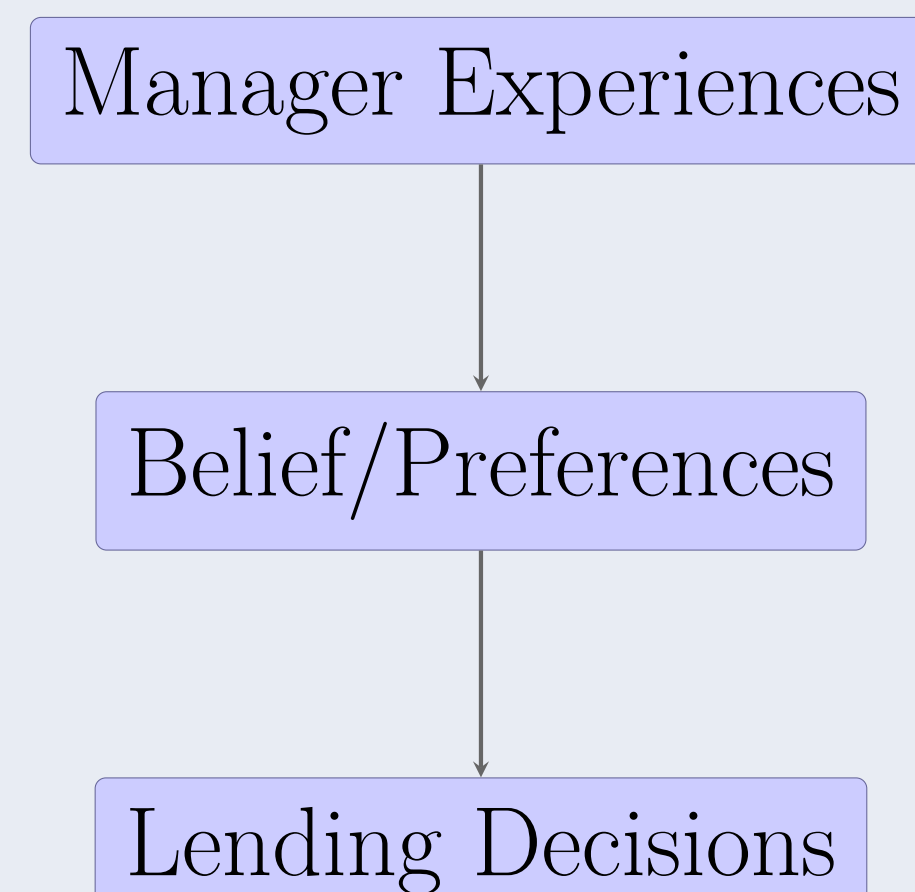
Introduction

- Delegation helps incentivize the collection and utilization of soft information (Stein, 2002).
- Despite the theoretical prediction, empirical evidence is sparse and indirect at best.
- In reality, it is not obvious that mortgage lending is delegated due to mortgage market frictions.
 - Mortgage market is highly regulated.
 - Securitization agencies (FHA, Ginnie Mae, etc.) have strict underwriting criteria.
 - Mortgage decisions are increasingly reliant on algorithms (Fuster et al., 2019).

Aim & Hypothesis

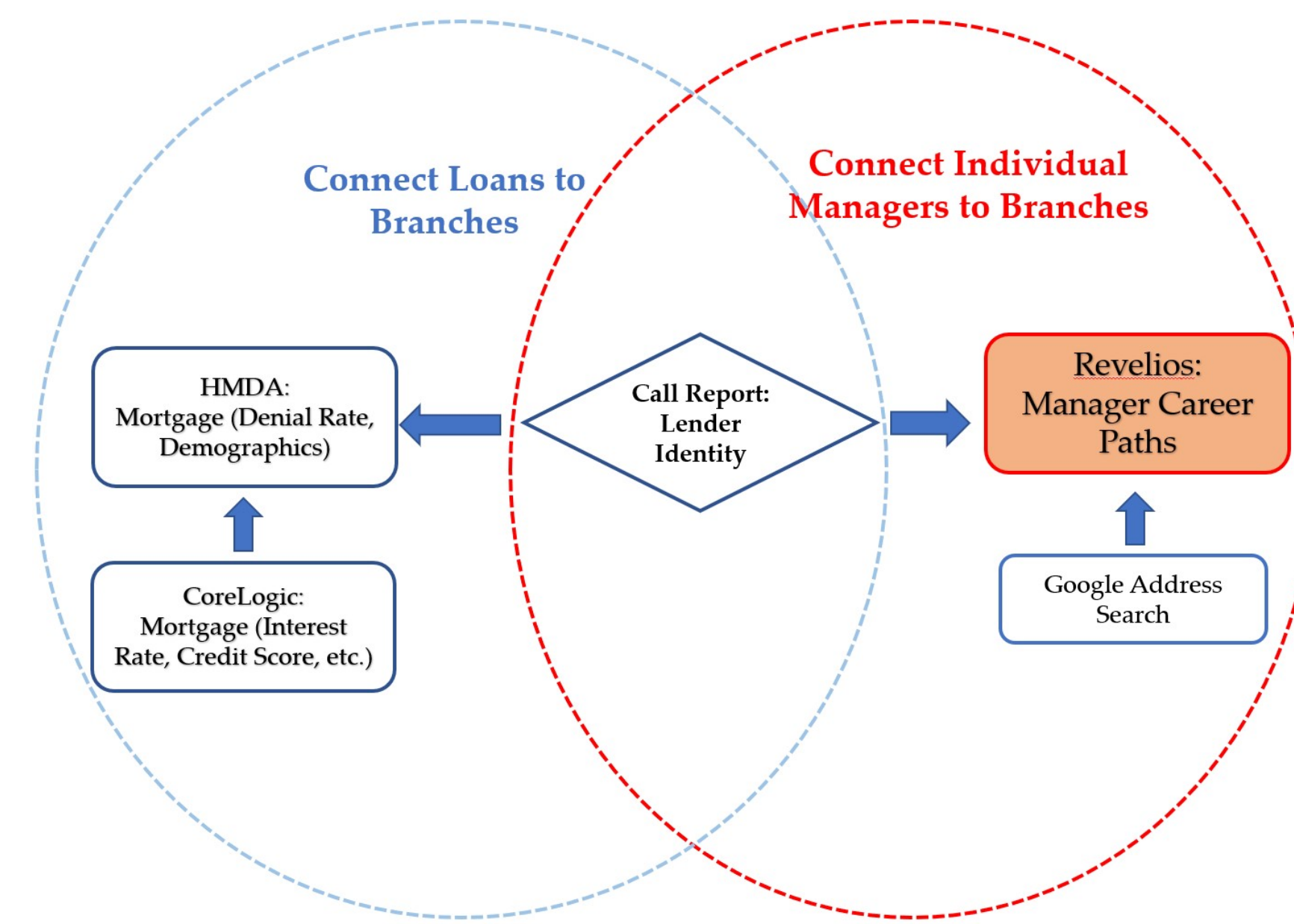
The aim of this study is to investigate whether banks delegate mortgage lending decisions to local branches where focusing on the role of individual bank branch manager's past experience.

- Personal experiences affect individuals' expectations and assessment of future conditions, even for sophisticated agents (e.g., Malmendier and Nagel, 2011; Dittmar and Duchin, 2016).
- Branch managers perform non-routine tasks. Their experience could influence their assessment of borrower quality.
- Hypothesis: if branch managers have discretion, their personal experiences can also affect lending outcomes.



Materials

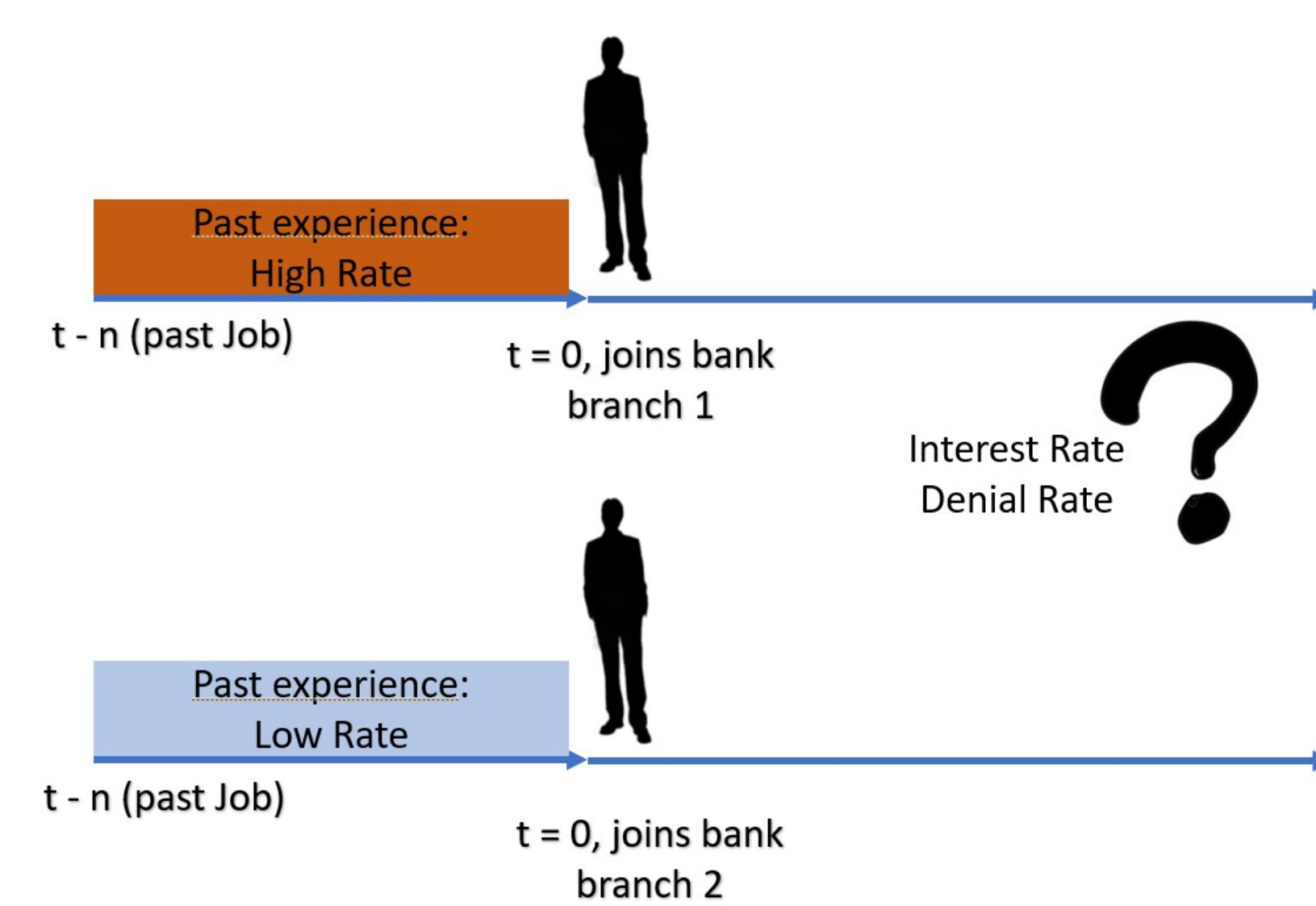
The following materials were required to complete the research:



Methods

$$\Delta Y_{ibct} = \beta Experience Gap_{ibct} + \gamma' X + \alpha_c + \theta_{bt} + \epsilon_{ibct}$$

- *Experience Gap*: Manager Experience – Bank Branch Past Policies.
- $Y \in \{Interest Rate, Denial Rate\}$

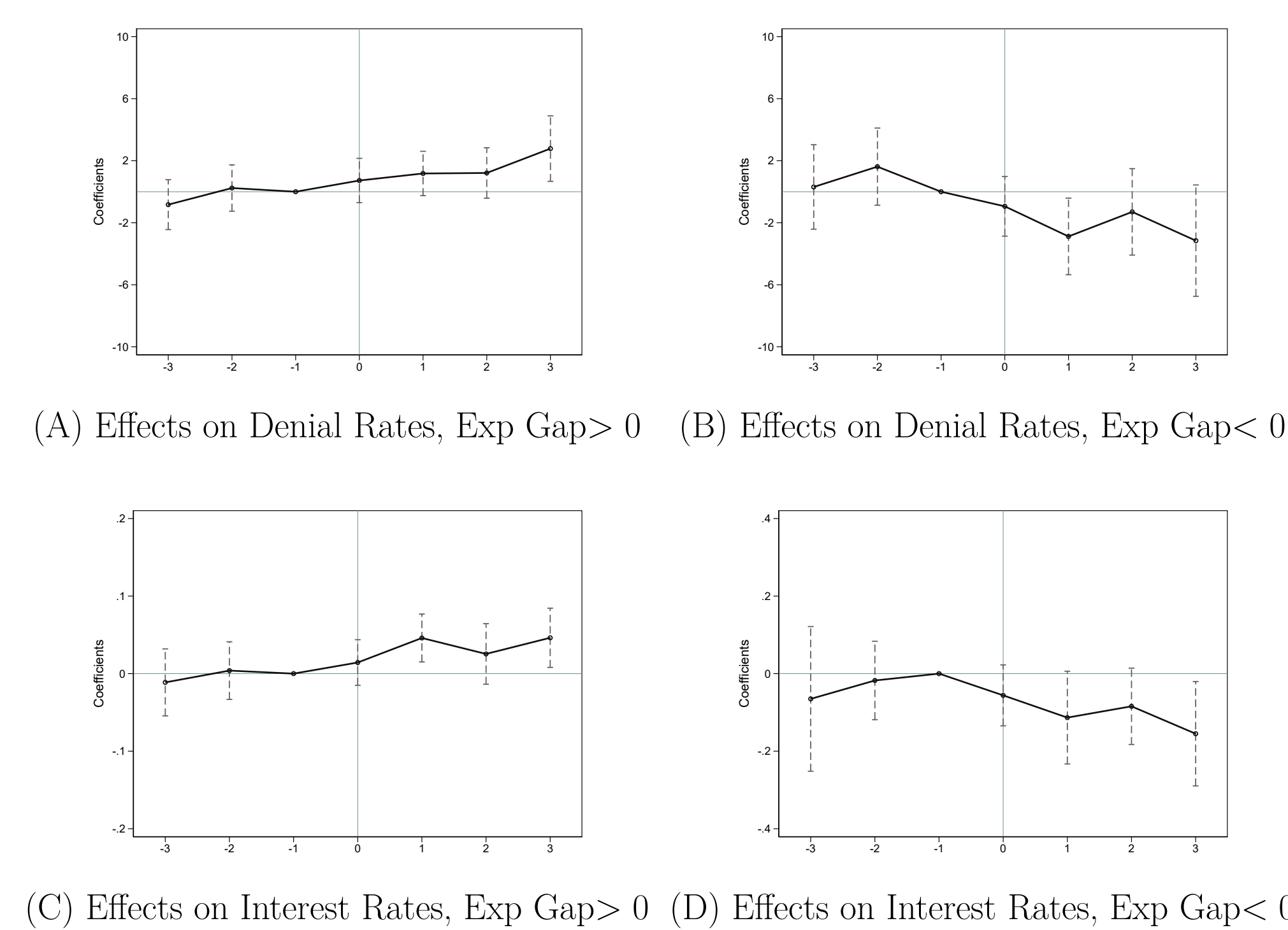


Main Results

- $1\sigma \uparrow$ in experience gap \rightarrow 3 ppt \uparrow in denial rate (28% of sample std).
- $1\sigma \uparrow$ in experience gap \rightarrow 3.1 bps \uparrow in interest rate (6% of sample std).

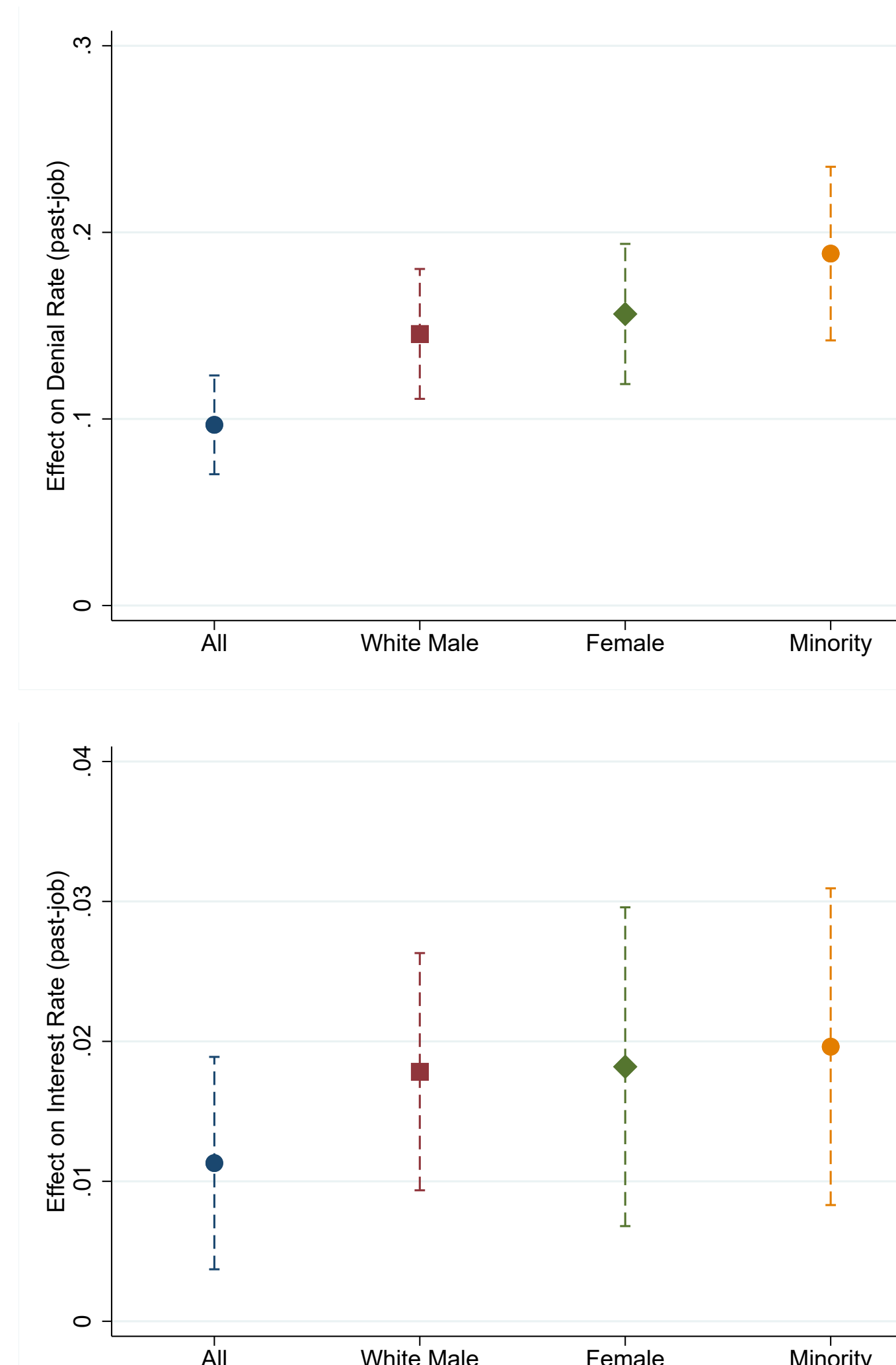
Event-Study Approach

Managers' experiences with mortgage approval and pricing have significant effects on current branch's lending outcomes after hiring the new manager.



Heterogeneity

Effects are “demographic-specific”.

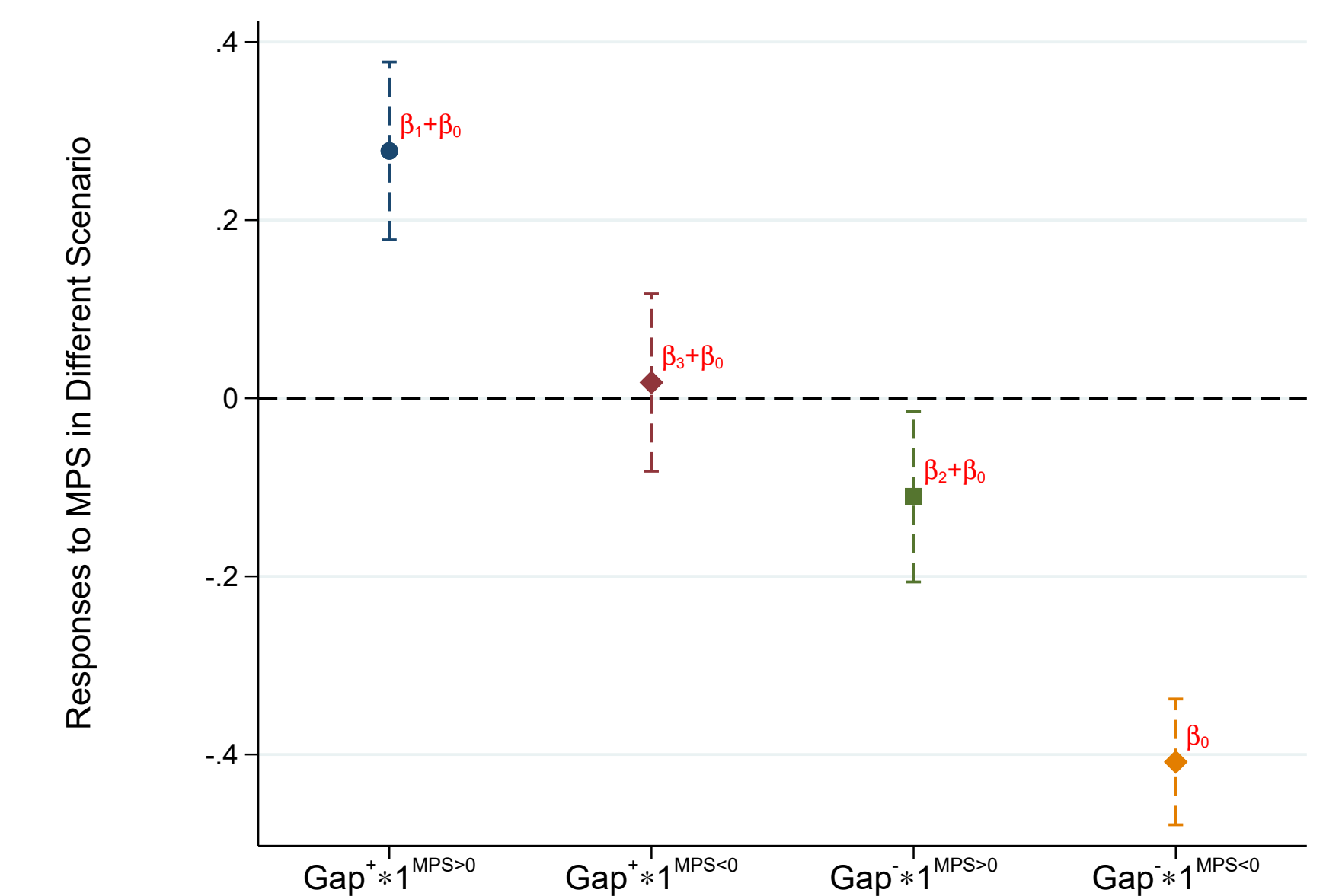


Effects are stronger for riskier loans.

Type	Low Income (1)	Jumbo (2)	Low Credit Score (3)
<i>Experience Gap</i> × <i>Type</i>	0.007*** (0.002)	0.008** (0.004)	0.036*** (0.007)
<i>Experience Gap</i>	0.022*** (0.005)	0.017*** (0.005)	0.027*** (0.006)

Monetary Policy Transmission

Manager experiences affect the pass-through of monetary policy shocks.



Conclusion

- We examine the extent to which mortgage lending decisions are delegated to local branches.
- We look at the role of idiosyncratic experiences of bank branch managers.
- Branch managers' past experiences significantly influence current lending policies as well as how branches respond to policy shocks.
- Evidence suggests that local branches have significant scope in shaping mortgage lending decisions.

References

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