

Discussion: Integrated Intermediation in Loan Production

Authors: Greg Buchak, N Vera Chau, Adam Jørring

Discussant: Ramiro de Elejalde (Central Bank of Chile)

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Summary of the paper

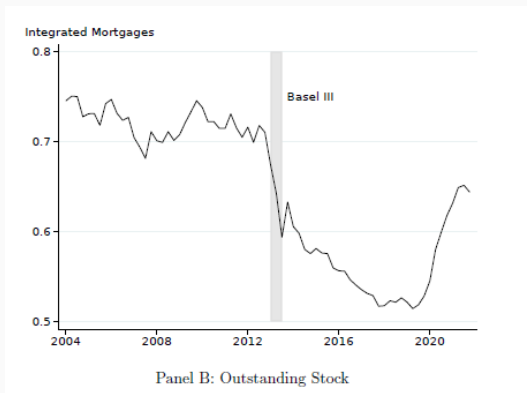
- **Research Question:** What are the effects of separating loan origination from loan servicing?
- **Context:** US mortgage market for conforming, agency-guaranteed single-family mortgages (private originators, credit risk absorbed by GSEs).
- **Activities**
 - **Loan origination:** acquisition, screening, underwriting and disbursing funds.
 - **Loan servicing:** collecting payments, monitoring delinquencies, and assisting with ex-post modifications.

Why does integration/disintegration matter?

- **Integrated loan:** Originator keeps servicing rights (MSR) → can recapture borrowers at **refinance** (new origination fee + continued servicing fee).
- **Disintegrated loan:** Servicer loses fee when borrower refinances.
- **Underlying assumption:** Servicer can influence refinancing (information, convenience, pre-filled processes).
- **Integration can affect refinancing.**
- **Mechanisms.**
 - **Selection:** Lenders may selectively disintegrate loans less likely to refinance.
 - **Treatment:** Integrated servicers can increase the probability of borrower refinancing.

Why does integration/disintegration matter?

- Evidence of increasing disintegration after Basel III → higher capital requirements for banks holding MSR.



- **Shock:** Basel III (2013) raised capital requirements for MSR holdings (banks only).
- **Approach:**
 - **IV-DID:** Bank $\times$ Post indicator as instrument for integration.
 - **Lender FE vs. Loan FE** specifications.
 - Loan FE specification should control for the selection mechanism.
- **Findings:**
 - Integration increases refinancing probability by:
 - **6 pp ($\approx 20\%$)** in lender FE estimates (baseline mean 38%).
 - **0.6 pp ($\approx 30\%$)** in loan FE estimates (baseline mean 2%).
 - Effects consistent with a borrower **recapture mechanism**.

Structural Model

- Dynamic borrower-lender-servicer model with adverse selection and recapture.
- **Simulations:** Higher retention costs $\implies$ lower integration, lower refinancing, higher origination fees, lower borrower welfare.
- **Main takeaway:** Differences mainly driven by the treatment mechanism (recapture advantage), not selection.

- This is a very nice paper.
- The new version clarifies many questions I had with the previous version, especially regarding how the market works and who bears the credit risk (GSEs), the role of Fintech, among others.
- Excellent data work: novel forward-linking of GSE + HMDA → can track borrower refinancing and recapture.
- Convincing evidence that integration/disintegration impacts on borrower outcomes.
- Structural model clarifies underlying mechanisms and likely welfare impacts.

Comment 1: Identification

- **Policy change might have affected non-banks** → changes in the comparison group
 - Basel III may have affected the portfolios of banks and, indirectly, those of non-banks.
 - Suggestion: Show trends in refinancing, retention, default, and interest rates for non-banks to hint at changes in portfolio composition.
 - This critique does not apply to the loan FE estimates.
- **Exclusion restriction**
 - IV interpretation requires that the implementation of Basel III only affected refinancing through the change in the integration decision.
 - Can Basel III have a direct effect on refinancing (funding, origination margins)?
 - Again, more credible in the loan FE estimates.

Comment 2: Results

- **Large discrepancy refinancing probabilities in lender and loan FE sample:**
38% refinancing in lender FE vs. 2% in loan FE sample.
 - Is this just due to means using a different variation (cross-sectional vs. within-loan)?
If yes, is it within-loan variation (2%) the right benchmark to scale effects?
- **Event study:** Why an increase in refinancing in the 1st quarter after Basel III in the event study specification?
 - Worth discussing and/or testing robustness with “honest DiD” (Roth & Rambachan, 2023).
 - Clarification: Does the event study correspond to the lender FE specification? Can you do the same for the loan FE specification?

Comment 3: Structural model

- The model focuses on servicing retention, but does not consider **impacts on new originations**.
- Could this margin matter for welfare?

Comment 4: Policy implications

- The paper provides convincing evidence that disintegration decreases refinancing, with potential negative effects on borrower welfare.
- **What are the optimal policy responses or policy alternatives to address this issue?**
 - Reduce risk weights to encourage integration?
 - Or provide borrowers with better rate information? (easier said than done)
- Does the rise of integrated Fintech lenders already address some of these frictions?

Concluding Thoughts

- A very nice paper. I enjoy reading it and I learn a lot from it.
- My methodological concerns are relatively minor.
- I would stress: policy implications are important and welfare effects are large enough for us to worry about the integration/disintegration issue.