Australian National University

FIRN Australia's Global Finance Research Network

2024 Banking and Financial Stability Meeting

Conference Schedule

Venue
Kambri Superfloor, Top Floor, Marie Reay Teaching Centre, University Avenue, Australian National University, ACT

Monday 9 September

10:50am-11:00am	Opening Remarks & Welcome to Country
11:00am-12:30pm	Session 1
12:30pm-1:30pm	Lunch
1:30pm-3:00pm	Session 2
3:00pm-3:30pm	Afternoon tea
3:30pm-5:00pm	Session 3 (keynote speech)
6:00pm	Dinner @ Monster Kitchen & Bar 25 Edinburgh Ave, Canberra ACT (website)

Tuesday 10 September

8:30am-9:00am	Tea & coffee
9:00am-10:30am	Session 4
10:30am-11:00am	Morning tea
11:00am-12:30pm	Session 5
12:30pm-1:30pm	Lunch
1:30pm-2:15pm	Session 6

Register for the event here

Conference Program

<u>Monday 9 September</u>

10:50am-11:00am	Opening Remarks & Welcome to Country by Serena Williams
<u>Session 1</u>	**Chair:** Shashta Shakya (ANU)
11:00am-11:45am	**Title:** Flight to Safety and the Regional Bank Crisis of 2023 **Presenter:** Jennifer Dlugosz (Federal Reserve Board) **Discussant:** Kristle Romero Cortés (UNSW)
11:45am-12:30pm	**Title:** Stress Testing Australian Mortgagors **Presenter:** Amelia Gao (Reserve Bank of Australia) **Discussant:** Harry Scheule (UTS)
12:30pm-1:30pm	Lunch
<u>Session 2</u>	**Chair:** Bruce Grundy (ANU)
1:30pm-2:15pm	**Title:** Climate Change and Bank Deposits **Presenter:** Ozlem Dursun-de Neef (Monash) **Discussant:** Gloria Yu (Singapore Management University)
2:15am-3:00pm	**Title:** Financial Misconduct and Depositor Discipline **Presenter:** Thomas Matthys (UTS) **Discussant:** Jennifer Dlugosz (Federal Reserve Board)
3:00pm-3:30pm	Coffee break
<u>Session 3</u>	**Chair:** Ding Ding (ANU)
3:30pm-5:00pm	**Keynote Speaker:** Allen Berger (University of South Carolina) **Title:** Global Banking
6:00pm	Dinner @ Monster Kitchen & Bar

Tuesday 10 September

8:30am-9:00am	Tea & coffee
Session 4	**Chair:** Nhan Le (ANU)
9:00am-9:45am	**Title:** Shifting Paradigms in Bank-Firm Relationships: Post-GFC Dynamics in the Syndicated Loan Market **Presenter:** Han Zhou (Monash) **Discussant:** Greg Buchak (Stanford University)
9:45am-10:30am	**Title:** The Impact of Assumption Financing on Housing Sale prices and Supply **Presenter:** Jiayi Zheng (ANU) **Discussant:** Brittany Lewis (Washington University St. Louis)
10:30am-11:00am	Morning tea break
Session 5	**Chair:** Takeshi Yamada (ANU)
11:00am-11:45pm	**Title:** The Impact of Collateral Value on Mortgage Originations **Presenter:** Brittany Lewis (Washington University St. Louis) **Discussant:** Mandeep Singh (Sydney)
11:45pm-12:30pm	**Title:** Are Borrowers Paid to Repay? Payday Effect in FinTech Lending **Presenter:** Gloria Yu (Singapore Management University) **Discussant:** Shasta Shakya (ANU)
12:30pm-1:30pm	Lunch
Session 6	**Chair:** Phong Ngo (ANU)
1:30pm-2:15pm	**Title:** The Secular Decline of Bank Balance Sheet Lending **Presenter:** Greg Buchak (Stanford University) **Discussant:** Hassan Naqvi (Monash)

Abstracts

Presenter: Jennifer Dlugosz (Federal Reserve Board)
Title: Flight to Safety in the Regional Bank Crisis of 2023
Abstract: Using confidential weekly data on U.S. banks, we document a flight to safety by depositors to large banks in early 2023. In weeks of heightened stress, large banks experienced faster deposit growth than small and regional banks without raising deposit rates. Large banks' deposit growth rates remain higher than other banks' even after accounting for characteristics associated with failures during the period, including uninsured deposit funding and unrealized mark-to-market losses. Banks with the largest deposit outflows did not recover those funds and reduced lending over the following months.

Presenter: Amelia Gao (Reserve Bank of Australia)
Title: Stress Testing Australian Mortgagors
Abstract: How resilient indebted households are to adverse macroeconomic shocks has implications for the Bank's assessment of financial stability risks, given household loans account for a sizeable share of banks' balance sheets. It is particularly relevant in the current environment where many borrowers are facing a squeeze on their budgets because of high inflation and interest rates. We use loan-level data from the Securitisation System to assess financial stability risks arising from mortgage debt in Australia. Specifically, we estimate cash flows of indebted households and stress test their ability to repay their debt against a range of financial or economic shocks. Our household stress testing model can shed a light on the distribution of vulnerable households and the results can feed into the Bank's broader stress testing framework to assess banks' credit risks.

Presenter: Ozlem Dursun-de Neef (Monash)
Title: Climate Change and Bank Deposits
Abstract: Abnormally warm temperatures are associated with an increase in people's beliefs about climate change. Using branch-level deposit data from the United States, we find that depositors move their money away from fossil-fuel-financing banks when experiencing warmer-than-usual temperatures. This effect is more pronounced in counties with more climate change deniers, measured by the percentage of Republican voters in each county. Our results shed light on people's responses to the impacts of global warming by studying the relationship between households' beliefs about climate change and their non-financial preferences in their choice of bank for deposits.

Presenter: Thomas Matthys (UTS)
Title: Financial Misconduct and Depositor Discipline
Abstract: We use a largely unexplored data set on consumer complaints to study depositor behavior. After establishing that complaint levels are adequate predictors of future enforcement actions, we show that a larger number of complaints is associated with lower deposit growth at the bank-county-year level. Next, we exploit the first disclosure of complaints by the Consumer Financial Protection Bureau (CFPB) to properly identify this relation. Our findings indicate that depositors monitor and discipline banks, reducing savings allocations to those banks with more instances of misconduct. We uncover diverse depositor responses influenced by bank size, depositor sophistication, and technological factors. Collectively, our findings shed new light on the impact of transparency and education on depositor behavior, emphasizing their crucial role in enhancing market discipline.

Presenter: Han Zhou (Monash)
Title: Shifting Paradigms in Bank-Firm Relationships: Post-GFC Dynamics in the Syndicated Loan Market
Abstract: This paper studies the transformative dynamics of bank-firm matching in the U.S. syndicated loan market after the Global Financial Crisis (GFC). Contrary to the pre-GFC era, where bank-dependent, typically unrated firms predominantly borrowed from well-capitalised banks, we observe a paradigm shift in these relationships post-2010. Our analysis reveals that the prolonged low-interest rate environment and the expansion of the bond market collectively weakened the traditional ties between unrated firms and well-capitalised banks. On the demand side, better access to the bond market reduces incentives for many unrated firms to seek out well-capitalised banks. On the supply side, lower-capitalised banks displayed an increased propensity to reach for yield by lending to unrated firms. Unlike in previous economic downturns, we also find that matching with well-capitalised banks does not influence unrated firms' access to bank credit during the COVID-19 period. The most plausible explanation is that stricter capital requirements introduced after the GFC have improved low-capital banks' ability to provide lending during the COVID-19 shock.

Presenter: Jiayi Zheng (ANU)
Title: The Impact of Assumption Financing on Housing Sale prices and Supply
Abstract: The growth of assumable mortgages, alongside the recent increase in interest rates, provides an opportunity to analyze their impact on housing prices and supply. Assumable mortgages allow buyers to take over existing loans with historically lower interest rates, prompting them to pay a premium for this benefit. Using a novel dataset of properties with assumption financing in 14 U.S. regions, we find that the assumable feature increases the average property price by over $20k, translating to a premium exceeding 5% of the sale price. This premium captures nearly 90% of the market value of the assumption option, influenced by factors such as seller bargaining power, buyer financial constraints, and local age demographics. We present evidence consistent with a lock-in effect induced by high interest rates, and show that mortgage assumption mitigates this effect, thereby promoting housing supply and household mobility.

Presenter: Brittany Lewis (Washington University St. Louis)
Title: The Impact of Collateral Value on Mortgage Originations
Abstract: This paper establishes that high income-volatility, minority borrowers were disproportionately exposed to the expansion of credit following the BAPCPA 2005 policy that granted preferred bankruptcy status to mortgage backed collateral in the sale and repurchase market. This shock only affected risky alternative mortgages. I generate a model of mortgage lending where a lender lends in two markets: one for conforming mortgages and one for alternative mortgages. When the collateral value of alternative mortgages increases, it decreases lenders' cost of capital, leading them to decrease the price they charge. If the price falls below the borrowers' reservation price, lending expands in this market. I interpret BAPCPA 2005 as an increase in collateral value of alternative mortgages. Consistent with the model, the paper documents that BAPCPA caused the sudden and disproportionate expansion of alternative mortgage products among high-income-variability minority-dominant zip codes leading up to the Global Financial Crisis, and disproportionately increased defaults in these areas during the crisis.

Presenter: Gloria Yu (Singapore Management University)
Title: Are Borrowers Paid to Repay? Payday Effect in FinTech Lending
Abstract: We conduct a field experiment to investigate how payday loan contracts design affects loan out- comes. Using a FinTech lending platform in Indonesia, we randomly extend the loan term by one or two days to align the loan due date with borrowers' salary payday after the loan has been approved. Difference-in-difference estimator suggest that the extension postponing the due date after borrowers' salary payday increases the repayment likelihood by 27%, although such loan extension does not affect loan repayment when the due date is far away from salary payday. The effect is larger for small-sized loans, borrowers with low credit ratings, and borrowers with overdue records. Our results highlight the relationship between loan contract flexibility and loan performance.

Presenter: Greg Buchak (Stanford University)
Title: The Secular Decline of Bank Balance Sheet Lending
Abstract: This paper examines the decline of the bank balance sheet model of financial intermediation since 1970 and its implications for financial regulation. The balance sheet share of private lending has decreased from 55% in the 1970s to 33% in 2023, while the deposit share of savings fell from 21% to 13%. Additionally, loans as a percentage of bank assets dropped from 70% to 55%. We develop a model capturing the interaction between bank balance sheets and originate-to-distribute (OTD) intermediation through bank securities holdings. We use the model to identify three main factors which explain the secular trends: technological improvements in debt securities issuance, shifting saver preferences, and evolving government regulations. We find that all these forces contributed to the decline in the bank balance sheet lending share. Advancements in securitization play the dominant role in this regard, particularly in the 1970s-1990s period, and also drive changes in aggregate lending. Changes in saver preferences impacted bank balance sheet sizes but had minor effects on overall lending. Regulatory changes, especially since the Great Financial Crisis, have altered bank balance sheet composition,. Simulations of increased capital requirements in both early (1960s) and recent (2020s) scenarios show that while bank balance sheets contract in both cases, the effect on overall lending is smaller in the 2020s. The substitution of bank balance sheet loans with debt securities explains the modest decline in aggregate lending despite the contraction of bank balance sheet lending. Our results indicate that the financial sector has become more resilient to regulatory changes due to shifts in household preferences and declining frictions in OTD intermediation. Overall, the substantial shift away from bank balance sheet intermediation in the last half century significantly affects trade-offs faced by macroprudential policy and financial regulation.