Discussion of Li (2025)

"Credit Expansion and Housing Cycle"

Discussant: Heejin Yoon (University of Wisconsin–Madison)

2025 FMA Annual Meeting

October 23, 2025

Summary of Paper I

- **Research Question**: Was the housing cycle driven by credit supply or speculation?
  - Within metros: income $\downarrow \rightarrow$ mortgage growth $\uparrow$ (credit expansion, Mian & Sufi 2009)
  - Across metros: income $\uparrow \rightarrow$ mortgage growth $\uparrow$ (speculation, Adelino et al. 2016)
- **Empirical Design**
  - **Treatment:** Metro exposure to manufacturing net-export growth
  - **IV:** Gravity-model instrument (Feenstra et al, 2019)
- **Findings**: Evidence supporting the credit expansion
  - Net-export growth $\rightarrow$ Private-Labeled Mortgage (PLM) growth $\rightarrow$ HP growth
  - No impact on GSE loans
  - No effect for PLM loans for the 1991–1999 period
  - Credit-independent speculation has marginal impact on home price growth

Summary of Paper II

- **Model**
  - Two segments of the mortgage securitization market:
    - GSE loans cannot price regional risk (Hurst et al. 2016)
    - PLM loans can price regional fundamentals
  - 2003 drop in PLM funding cost $\rightarrow$ credit surge in high net-export metros
  - Predicts “double-difference”: low-income ZIPs in high-exposure metros show stronger boom–bust
- **Key Contribution:**
  - Speaks to the long-lasting debate on the source of housing boom-bust: supply vs. demand
  - Reconciles seemingly opposing empirical facts by incorporating net export growth:
    - negative correlation b/w income & credit within metro areas
    - positive across metro areas

Point I. Identification: Net Export Growth $\neq$ Credit Shock

Point I. Net Export Growth $\neq$ Credit Shock

- **Paper's Core:** MSA-level ***net export growth*** is an exogenous ***credit-supply*** shock

Point I. Net Export Growth $\neq$ Credit Shock

- **Paper's Core:** MSA-level ***net export growth*** is an exogenous ***credit-supply*** shock
  - But export booms are textbook ***demand-side*** shocks that raise local income, employment, and migration
  - What the author calls a "credit-supply shock" is, in fact, an income-driven demand expansion
  - The author implicitly acknowledges this mechanism:

    (Page 2) $\cdots$ *credit expansion would be stronger in areas with stronger tradable-sector growth due to (1)* ***higher foreclosure prices*** *and* $\cdots$

    This logic implies: **export** $\uparrow \Rightarrow$ **future home price** $\uparrow \Rightarrow$ **local credit** $\uparrow$.

$\Rightarrow$ The IV cannot satisfy the exclusion restriction,

and thus cannot isolate credit supply from demand fundamentals

Point I. Net Export Growth $\neq$ Credit Shock

- **Suggestions**: there are many other better identification strategies
  - (i) **Variation in Local Loan Securitizability** (Greenwald & Guren, 2025; Adelino, Schoar & Severino, 2020; Loutskina & Strahan, 2015)
    - Regional exposure to GSE conforming-loan limits or securitization shares
  - (ii) **Regulatory Preemption of State Anti-Predatory Laws** (Di Maggio & Kermani, 2017)
    - Exploit the **2004 preemption** of state-level anti-predatory lending laws (APLs) for OCC-regulated banks: $Z_i = \text{APL}_{2004} \times \text{OCC}_{2003}$
  - (iii) **Local Loan-Officer Supply** (Huang, Mayer, Titman & Xu, 2025)
    - Instrument local changes in loan officers using lenders' *outside-county* workforce growth (shift–share over lenders)

$\Rightarrow$ These IVs isolates credit-supply variation independent of local demand shocks

Point II. Contribution Beyond the Literature?

Point II. After Fixing Identification, What Is New?

- **Recap:** Point I shows the net export IV conflates real demand with credit supply
- **Fix:** Use exogenous credit-supply variation

Point II. After Fixing Identification, What Is New?

- **Recap:** Point I shows the net export IV conflates real demand with credit supply
- **Fix:** Use exogenous credit-supply variation
- **Issue:** Even with a stronger IV, is showing that credit expansion raises home prices a contribution beyond existing work?
- E.g., **Greenwald and Guren (2025)**
  - **Core mechanism**: house-price response depends on degree of housing market segmentation
  - **Two extremes**:
    - *Fully segmented market*: favorable credit conditions $\rightarrow$ housing demand & price $\uparrow$
    - *No segmentation*: landlords absorb demand at PV of rents $\rightarrow$ minimal price effect

$\Rightarrow$ To add value beyond this, the paper must deliver new mechanism, or dynamics

Point II. After Fixing Identification, What Is New?

Suggestion:

- Do shocks *shift segmentation* over time?
- Test dynamic effects: short-lived vs. persistent credit-supply shocks
- Effects on buy-to-own vs. buy-to-rent demands

$\Rightarrow$ Adds value by discussing the *evolution* of market structure, not just assuming fixed local tenure-supply slope

Point III. Model Assumptions

Point III. Model Assumptions

- The model prediction consistent with the reduced-form pattern shown earlier

Point III. Model Assumptions

- The model prediction consistent with the reduced-form pattern shown earlier

- **Issue**: assumptions are arbitrarily chosen so the model delivers the pattern mechanically
  - (p. 37) ***households with sharp rising wealth self-relocate to rich ZIP codes*** *and* ***households with sharp declining wealth self-relocate to poor ZIP codes*** $\cdots$
  - (p. 40) *In the second period,* ***house prices only vary with area-specific economic growth rate****,* $H_0(1 + \Delta g + \Delta e + \Delta p)$ *in high-net-export-growth areas and* $H_0(1 - \Delta g - \Delta e - \Delta p)$ *in low-net-export-growth areas*
  - (p. 43) $\cdots$ *high-risk investors would require a higher return:* $rf + \delta(g_u - g_d)$*, where* δ *is a risk-averse parameter and* $(g_u - g_d)$ *is difference in household income growth rate for two states*

$\Rightarrow$ PLM pricing and home prices inherit local growth by model design, not by evidence

Suggestion: focus on empirics unless the model delivers falsifiable predictions

Final Thoughts

- **Important question**: does credit expansion lead to housing booms?
- **Impressive effort**: a 130-page draft
- **Path to a big paper**:
  - Refined identification strategy using exogenous credit-supply variation
  - Insights beyond Greenwald & Guren (2025)

$\Rightarrow$ **Promising and ambitious. Look forward to the next version!**