NHH

Monetary Normalizations and Consumer Credit: Evidence from Fed Liftoff and Online Lending loan portfolios

by

Christoph Bertsch, Isaiah Hull and Xin Zhang

Comments by

Øivind A. Nilsen (Norwegian School of Economics)

November 28, 2016
EBA Policy Research Workshop, London

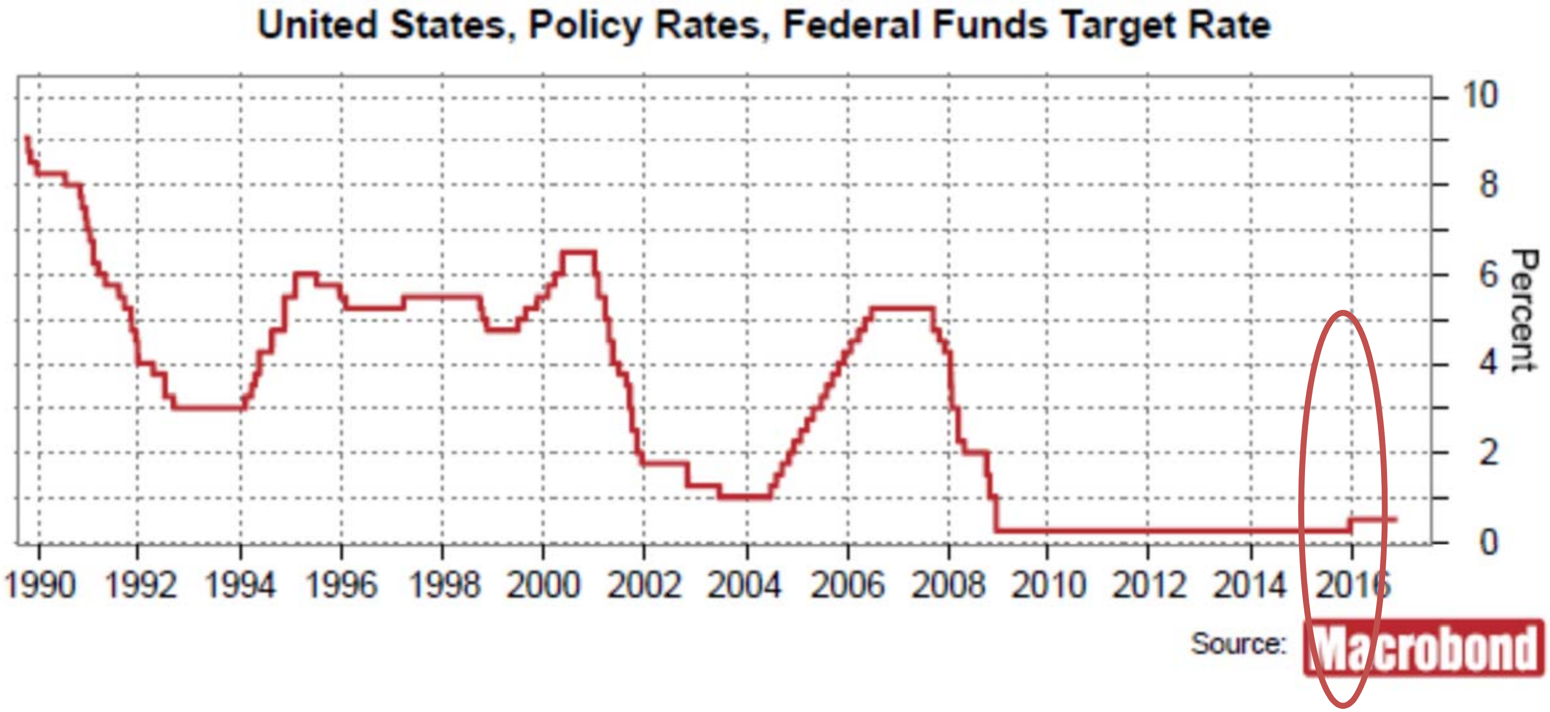
Idea

How are macroeconomic shocks affect interest rates in the consumer credit market?

Empirical paper using a high frequency (hourly measures) dataset to measure the impact of the Fed liftoff and online lending.

Findings

The lift from almost zero (0.25%) to something (0.50%)



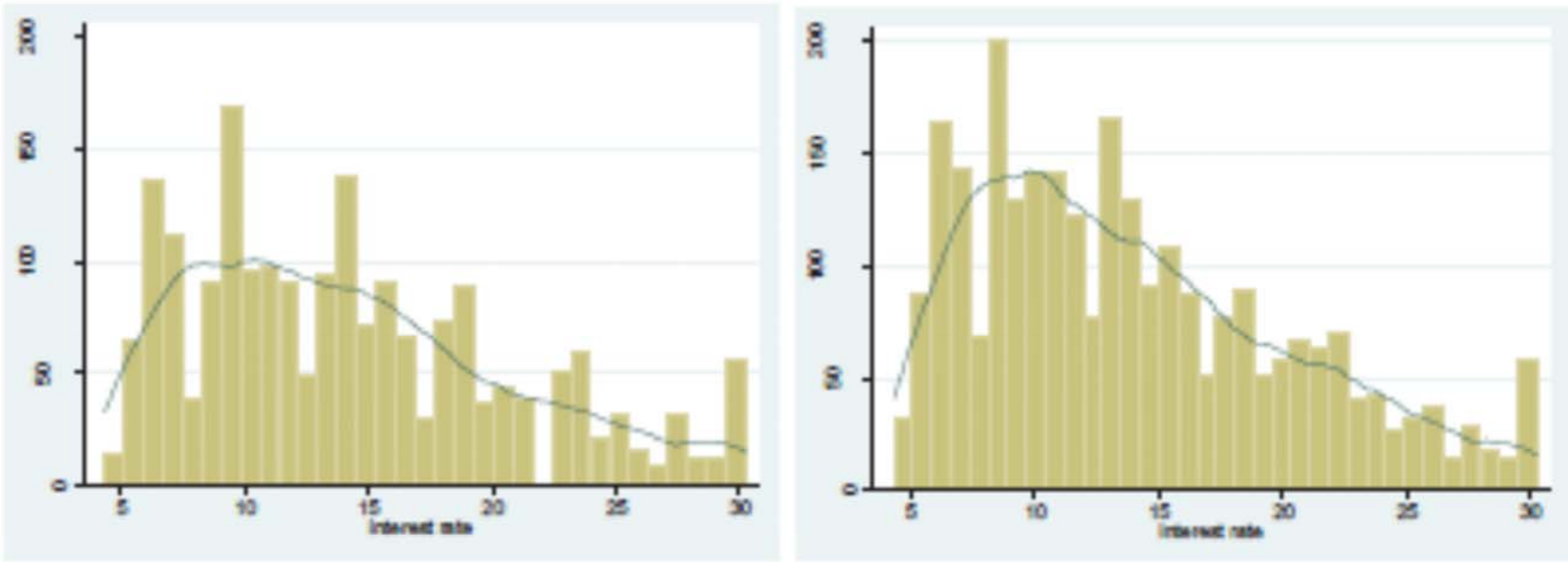


Figure I: Histogram of interest rates for loans in our observed period, before (left panel) and after (right panel) Fed liftoff on December 16th, 2015.

- average interest rate on loans fell by 16.9-22.9 bps
- spread between high and low credit-risk borrowers decreased by 16%.

Federal policy (the monetary transmission process) is based on that policy rates should be reflected in credit markets.

The authors find the opposite; an increase in Fed rate REDUCES the average the interest rate in the market for consumer credit.

The argument is based on some signalling story.

$$\text{InterestRate}_{i,t} = \alpha + \alpha_h + \alpha_d + \beta_1 \text{Liftoff}_t + \gamma_1 \text{LoanCharacteristics}_i + \gamma_2 \text{BorrowerCharacteristics}_i + \epsilon_{i,t}, \quad (1)$$

Table III: Baseline regressions

	Dependent variable: Interest rate			
	(1)	(2)	(3)	(4)
Explanatory variables				
Liftoff	-0.195*	-0.229***	-0.173***	-0.169***
	(-1.74)	(-3.10)	(-3.17)	(-4.36)
Controls				
Loan Characteristics	✓	✓	✓	✓
Borrower Characteristics	✓	✓	✓	✓
Main Effects				
Weekday FE		✓	✓	✓
Hour FE	✓	✓	✓	✓
Window size	±3d	±7d	±14d	LONG
Adj. R^2	0.971	0.972	0.972	0.970
Observations	445	987	1,818	4,257

Several robustness checks are applied

- placebo analysis
- varying the window

Additional analyses;

- funding gap
- demand
- supply (the prob. that a loan listing is funded)
- funding speed

Comments

Proper econometric tests

The paper would gain from a small model showing the signalling story.

In total: A very nice paper