Mortgage Credit: Lending and Borrowing Constraints in a DSGE

Discussion by:
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Introduction

Related literature

- Iacovello (2005) : House Prices, Borrowing Constraints, and Monetary Policy in the Business Cycle.
- Gerali et al. (2010) : Credit and banking in a DSGE model of the Euro Area.
- Brzoza - Brzeina et al. (2011) : Credit crunch in a small open economy.
- Justiniano et al. (2015) : Credit supply and the housing boom.

This paper

- Add Lending constraints and borrowers holding foreign currency denomonated debt to Brzoza - Brzeina et al. (2011)'s model.
- Then, they estimate this augmented model for the Peruvian economy.

Results

- By using historical shock decomposition for households leverage, the autor finds that Peruvian mortgage fluctuations were driven mainly by credit demand shocks.
- This result is consistent with housing demand-boosting public programs implemented by Peruvian government in the 2000s.

Comments I

- It is a serious approach to explain and quantifying the main drivers of Peruvian mortgage fluctuations.
- The idea and the approach are nice but robustness of paper's conclusion needs more work.

    1. From standard models with borrowing constraints we learn that consumption is extremely sensitive to changes in borrowing limit when agents are binding. No way to smooth consumption.
    2. In this paper borrowers are always binding and housing good's intertemporal substitution elasticity is low, therefore any shock on borrowing limits plays an important role in consumption and housing decisions.

Comments II

3. Unlike Justiniano et al. (2015) and Iacovello (2015), in this paper housing booms are explained by shocks to the BC.

- So, I suspect that author gets different conclusions from above two papers because:
  1. The lending constraint shocks are modeled as stochastic capital-to-assets ratios that are arguments in the smoothed quadratic functions of capital banking's adjustment costs.
  2. This is not the same strictly speaking of modeling LC as Justiniano et al. (2015) .
  3. I suggest the author to check how his conclusions change when banks' LC is always binding as happens in the borrowers case. (change the way of modelling LC.)

Comments III

- We know also from standard models with borrowing constraints that shocks to BC are not the same when the BC are binding or not.
- Therefore, Iacovello (2015) reflects on this issue and decide to incorporate in his model occasionally binding constraints and find that housing prices matter more during severe recessions than during booms through their asymmetric effects on collateral constraints.
- The author should include in his agenda this new technique because Iacovello (2015) not only provide the model's solution method but also its respective estimation technique.

Comments IV

- The author should consider BC for external debt, because when banks are binding with respect to its foreign debt, they are quite sensitive to external shocks such as copper's price or foreign interest rates shocks.
- This last comment also can explain why external shocks do not explain well mortgage fluctuations in Peru. For example in many commodity exporters economies, NT prices and NT goods fluctuations are explained by commodity shocks.
- The author should report priors and posterior distributions because some parameters distributions like (e.g ϕ_π,ϕ_y,ρ_{IDC},ρ_{IFC}) are very sensitive to priors and therefore they cannot be identified by the BE.