Can Technology undermine Macroprudential Regulation?

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Brief recap

- Main question:
  How does P2P lending affect economic policy decisions? Can it pose a threat for financial stability?

- Main analysis:
  Using a novel database, authors develop a Diff-in-Diff framework to gauge the effects of increased P2P lending. Identification is based on a 'local' policy intervention leaving total demand unchanged and they control for supply effects

- Main results:
  P2P lending may lead to excessive household leverage and is (partly) able to undo policy interventions.
  In this sense, FinTech may be threat to financial stability

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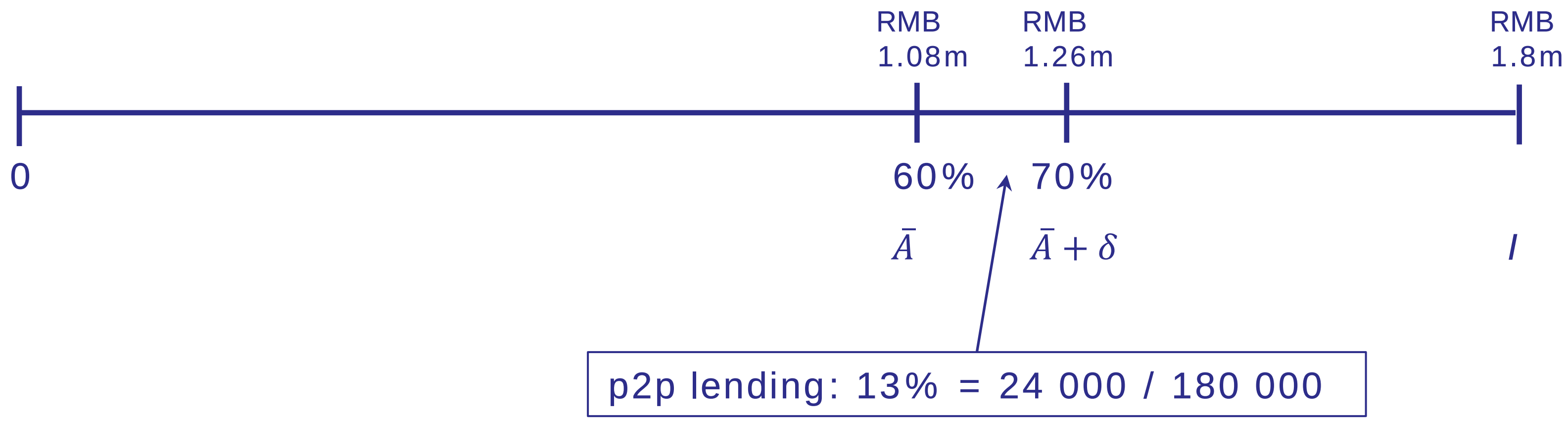
What happened in Shanghai..?



<u>First comment</u>: Is there any evidence that people take out more loans at other platforms? Do family/relatives play a role for financing needs? How do they finance the first 60%?

- Nice underpinning with HT (1997) model:
  - borrowers need credit, heterogenous in endowments (*A*), costly effort, IC constraint
  - banks extend loans, PC constraint

  - This gives $\bar{A}$ so that borrowers with $A \geq \bar{A}$ get a loan.

  - Result: due to monotonicity, if $\bar{A}$ goes up then less credit extended, less defaults and less interest payments

- However, with p2p lenders, they can 'fill the gap' under PC

  - Result: 'old' situation holds ($\bar{A}$) with unchanged credit and defaults, but higher interest payments

- <u>Second comment</u>: illustrative model, but not really taken to the data. To me, it is not clear that downpayment requirement coincides with cutoff, i.e. $A^* = \bar{A}$, which is somewhat suggested

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Comments: Data

- What is the exact sample period? In the text: oct10–nov16; in Table 1: 2011q1 to 2015q2; in Figure 1: dec11-dec14… (could also not figure out the units (N) in the regressions…)

- The intervention in 2013 regards second home mortgages. Is this really an important Chinese phenomenon? How many households own a second home (Table 2: s=0.21...)?

- Why is s=0.86 in Table 1 and s=0.21 - 0.31 in Table 2? Does this mean that average home ownership increased by factor 3 after nov 2013..?

- The duration seems short (27 mnths) – what happens afterwards..? Are these loans rolled over..?

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Comments: Interpretation and policy

- What about house prices in the treated cities – did they rise faster/slower/same pace than in the controlled cities without regulation..?

- P2P lending is expensive: i=12,5%. Large risk premium, not every household can probably afford that. Can you go to another bank to take out a cheaper consumer loan..? How much under the old regime was financed with p2p loans?

- <u>Real question</u>: Is P2P lending distortionary/welfare enhancing? Cost, risk, acute liquidity needs, credit rationing, etc. [eg. Compare to payday lending in the US]. FinTech is broader than only providing housing loans!

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Comments: Interpretation and policy

- What is the overriding policy recommendation? Can we fix the potential offset of macropru policies? Perhaps a credit registry that includes p2p loans, or regulate entry of lending platforms..?

- Who bears the financial risks? Financial system (and even economy) may become more stable, banks extend (less) credit due to p2p lending – sort of diversification…!

Thank you!

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