

Discussion of
“Mortgage Lending,
Banking Crises and
Financial Stability in
Asia” by Peter Morgan
and Yan Zhang

Ji Huang

National University of Singapore

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Main result

During normal periods

- ▶ an increased share of mortgage lending (financial inclusion) is positive for financial stability up to a certain level (49% - 68%)
 - ▶ lowering banks' default probability
 - ▶ reducing the non-performing loan ratio
- ▶ for higher levels of mortgage lending, the impact on financial stability becomes negative.

During crises, the impact of more mortgage lending on financial stability turns negative.

Fast Growing Literature

Credit boom followed by poor economic outcomes

- ▶ Schularick and Taylor (2012): credit growth and financial crises
- ▶ Greenwood and Hanson (2013): in credit booms, quality of debt issuers falls
- ▶ Fahlenbrach, Prilmeier, and Stulz (2016): loan growth and bank performance
- ▶ Mian, Sufi, and Verner (2016): household debt and low growth similarity: focus on a type of credit rather than overall credit difference: country-level and the linearity

Intuition

Bank performance as a concave function of its portfolio weight of mortgage lending.

Extending too many mortgages or too much household credit implies

- many sub-prime mortgages
- too much credit to households with low income and/or no decent credit history

Does mortgage lending equal financial inclusion?

Jumbo mortgages in the U.S.

Anecdote evidence in China: Lots of rich families utilize mortgages to buy 2nd, 3rd, ..., Nth apartments simply for the purpose of growing their wealth.

Detail comments on samples and econometrics

Sample selection: 1,899 banks in 65 countries

- ▶ specify sample selection mechanism:
largest banks in a country or some sampling involved
does U.S. have the same number of banks in the sample as Zimbabwe has?
- ▶ consolidated balance sheet information?
up to global ultimate shareholders?

Standard errors: try “clustered” ones at country and/or bank level

Final remarks

a very interesting paper

related to a very dynamic and important literature

could become a crucial paper in the literature if authors could refine the paper further