Discussion of McGowan and Nguyen's "Deposit Competition and the Securitization Boom"

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Context and summary

➢ Innovations in banking resulted from change in regulation

  ➢ Until 1994 cross-state banking was discouraged in US; a peculiar history

➢ The questions addressed in this paper are important

  ➢ What were the effects of the reduced regulation of interstate banking?

  ➢ Why did so much mortgage securitization happen?

Detailed data here: 1994-2006, with 140,000 bank-quarters

States had varying rules, so can compare effects of 1994 IBBEA law change in panel

Some key findings

➢ After deregulation, deposits are a more costly source of revenue than before

➢ This helps explain by the banks increasingly package mortgages into securities

➢ Selling mortgage securities is a source of revenue that became relatively cheaper.

Data and methods are strong and convincing.   Many robustness checks.

Data: Are the Call Reports (Condition and Income Reports) required to the FDIC? What's the source? Researchers seem to have different sources.

I do not know the literature and the paper is technical, using advanced / precise banking and econometric language.

I have some questions driven by curiosity.

Interpretation/clarification questions

- The mean cost of deposits across all bank/quarters is about 1.2% per year?
- This rises after 1994, but by how much? A small effect?
- It would explain almost 20% of the increase in banks doing securitization?
  - OTD platforms terminology
- What other assets were securitized by these banks?
- Did the different regulators have different effects? Inference from non-banks.
- Or do the different bond raters have big effects?

- There is an expansion of the Internet, Web, and other networks at this time.
- Is that also encouraging growth in both securitization and interstate banking ?