



FACULTY & RESEARCH

Mimeo | 2015

Market Power in Mortgage Lending and the Transmission of Monetary Policy

by [David S. Scharfstein](#) and [Adi Sunderam](#)

Abstract

We present evidence that high concentration in mortgage lending reduces the sensitivity of mortgage rates and refinancing activity to mortgage-backed security (MBS) yields. We isolate the direct effect of concentration and rule out alternative explanations in two ways. First, we use a matching procedure to compare high- and low-concentration counties that are very similar on observable characteristics and find similar results. Second, we examine counties where bank mergers increase concentration in mortgage lending. Within a county, sensitivities to MBS yields decrease after a concentration-increasing merger. Our results suggest that the strength of the housing channel of monetary policy transmission varies in both the time series and the cross section. In the cross section, the overall impact of a decline in MBS yields is only 42% as large in a high-concentration county as it is in an average one. In the time series, a decrease in MBS yields today has a 32% smaller effect on the average county than it would have had in the 1990s because of higher concentration today.

Keywords: [Mortgages](#); [Banking Industry](#); [United States](#);

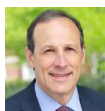
Language: English Format: Print [Read Now](#)

Citation:

Scharfstein, David S., and Adi Sunderam. "[Market Power in Mortgage Lending and the Transmission of Monetary Policy.](#)" April 2015. Mimeo.

[Export Citation](#)

About the Authors



[David S. Scharfstein](#)

Edmund Cogswell Converse Professor of Finance and Banking
Senior Associate Dean, Doctoral Programs

[Finance](#)

[View Profile »](#)

[View Publications »](#)



[Adi Sunderam](#)

Marvin Bower Associate Professor

[Finance](#)

[View Profile »](#)

[View Publications »](#)