

# The Credit Channel of Monetary Policy Transmission: Evidence From the Chonseil System

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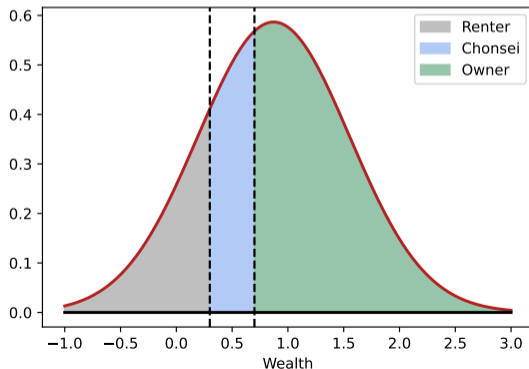
AREUEA Annual Meeting, Jan 2023

# Summary

- ▶ Chonsei system: instead of paying rent, tenant makes large interest-free loan.
  - Allows LTVs much higher than traditional mortgages in Korea.
- ▶ Model where landlords and tenants choose between standard rental and Chonsei.
  - Predicts higher interest rate pass through to house prices in high-Chonsei areas.
  - Validated empirically using very nice data set.
- ▶ Calibrated model used to analyze time series patterns and run counterfactuals.
  - Explains divergence between house prices in high-Chonsei and low-Chonsei areas as rates fell.
  - Tax on Chonsei deposits dampens pass through.
- ▶ This discussion: what drives Chonsei usage, and does it matter?

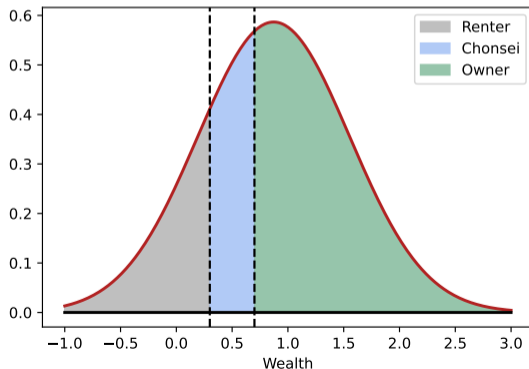
# Selection on Wealth

- ▶ What drives the Chonsei decision?
- ▶ Model: households are indifferent, landlords receive exogenous shocks.
- ▶ But authors mention alternative possibility: selection on wealth.



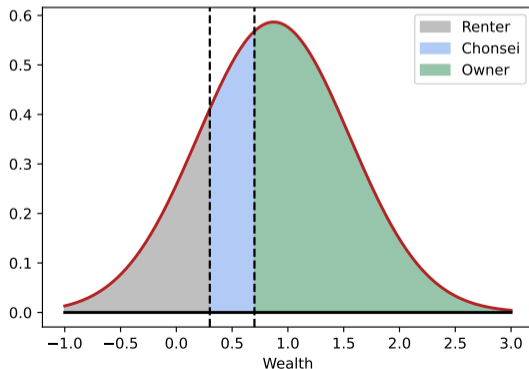
## Selection on Wealth

- ▶ Need  $\sim 70\%$  of house value for traditional mortgage, potentially less for Chonseis.
- ▶ Intuitive equilibrium where lowest-wealth rent, medium-wealth choose Chonseis, high-wealth buy with cash or traditional mortgage.



# Selection on Wealth

- ▶ Landlord situation completely analogous (just change labels).
- ▶ Lowest-wealth do not participate, medium-wealth choose Chonsei, high-wealth use cash or traditional mortgage.

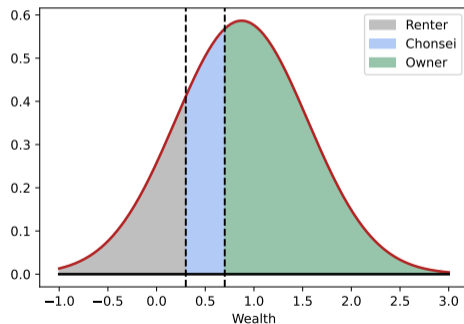


# Selection on Wealth

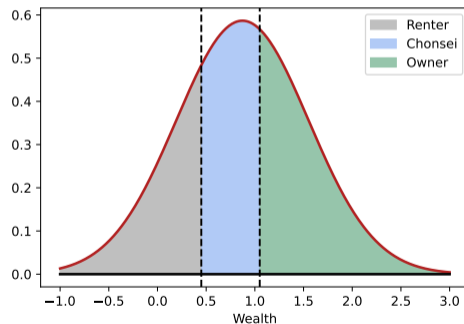
- ▶ Authors argue that we should just interpret representative agent as marginal agent.
- ▶ This sounds reasonable for a single market, but is trickier when looking across areas.
  - Guren, McKay, Nakamura, Steinsson (2021): cities vary in exposure to house price cycles.
  - If cyclical variation lines up with Chonsei usage in the right way, potential for confounding.
- ▶ Why might higher-priced (and high-Chonsei) areas load more on interest rate?
  - Construction (supply) elasticity likely lower.
  - Higher elasticity areas react more (Aladangady, 2014; Aastveit + Anundsen, 2022).
  - High-price areas have more value in land vs. structure, which is more sensitive to shocks.
  - Associated with Chonsei use, but not directly caused by it.

# Selection on Wealth

- ▶ Conjecture: Chonseis use increases with house prices.
- ▶ Intuition: need more wealth to buy outright, so more households in middle-wealth group.
- ▶ At empirically plausible rates of Chonseis take-up, this increases the share.



(a) Low-Price Area



(b) High-Price Area

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# Suggestion #1: Avoiding Confounding

- ▶ If possible, control for alternative sources of differential exposure.
  - Not a trivial problem, even two-way (geography, time) fixed effects won't do it.
  - Measures of elasticity, affordability could work as controls.
- ▶ In general, hard to evaluate confounding when model's mechanism is not super clear.
  - Proposition 2, which motivates pass-through prediction, is about  $\partial p_o / \partial r_C$ : the derivative of house prices to **interest rates on Chonseil loans**, holding other rates fixed.
  - Intuitive: this increases housing demand by Chonseil tenants, which affects market more where they have more weight.
  - But monetary policy usually moves **all discount rates**, not just Chonseil loan rates. Not obvious how theory maps to this case, or how to distinguish role of Chonseil vs. discount rate effect.

## Suggestion #2: Chonsei and Speculation

- ▶ Small subsets of speculators can play large roles in housing and mortgage cycles.
  - See e.g., Mian and Sufi (2018), Albanesi et al (2022).
- ▶ Chonsei contracts are **ideal instruments for speculation**.
  - Allow much higher leverage than traditional mortgages (in Korea).
  - Claim on house price only, stripping off rental flows.
- ▶ Potentially powerful mechanism, **directly linked to Chonsei structure**.
  - More levered/exposed speculators  $\implies$  feedback loop in prices, speculator wealth.
  - But requires more heterogeneity, so that speculator wealth/contract set matters.

# Conclusion

- ▶ Interesting paper on fascinating and unusual Chonsei contract.
- ▶ But why do some households and landlords use Chonsei and not others?
  - Chonsei use by area may covary with house prices or affordability.
  - These could influence house price cyclicalities and interest rate transmission for reasons unrelated to Chonsei contract structure.
- ▶ Adding heterogeneity may unlock interesting economics.
  - Exact link between Chonsei structure and pass through not clear in current model.
  - Role of Chonsei contracts in speculation seems like low hanging fruit.