Abstract:

We document that banks reduce supply of jumbo mortgage loans when policy uncertainty increases as measured by the timing of US gubernatorial elections in banks' headquarter states. The reduction is larger for more uncertain elections. We utilize high-frequency, geographically granular loan data to address an identification problem arising from changing demand for loans: (1) the microeconomic data allow for state/time (quarter) fixed effects; (2) we observe banks reduce lending not just in their home states but also outside their home states when their home states hold elections; (3) we observe important cross-sectional differences in the way banks with different characteristics respond to policy uncertainty. Overall, the findings suggest that policy uncertainty has a real effect on residential housing markets through banks' credit supply decisions and that it can spill over across states through lending by banks serving multiple states.