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Contents; I. Introduction; II. Related Literature; III. Data and Descriptive Statistics; IV. Empirical Methodology; V. Empirical Findings; A. Effects of Changes in the Pool of Applicant Borrowers; B. Identification and Robustness Issues; C. Sensitivity Analysis: Time and Size Effects; D. Effects of Entry and Changes in Market Structure; E. Alternative Proxies for Lending Standards; F. Effects of Loan Sales; VI. Discussion and Conclusions; References; Tables; 1. Coverage in HMDA; 2. Definitions and Sources of Variables; 3. Summary Statistics; 4. Evolution of Denial Rates
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Sommario/riassunto

This paper links the current sub-prime mortgage crisis to a decline in lending standards associated with the rapid expansion of this market. We show that lending standards declined more in areas that experienced larger credit booms and house price increases. We also find that the underlying market structure mattered, with entry of new, large lenders triggering declines in lending standards by incumbent banks. Finally, lending standards declined more in areas with higher mortgage securitization rates. The results are consistent with theoretical predictions from recent financial accelerator models based on asymmetric information, and shed light on the relationship between credit booms and financial instability.