Bank Heterogeneity and Mortgage Supply under Negative Policy Rates

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Abstract

We use a triple-diff strategy on Swedish bank-level data to study how specific bank features, such as reliance on deposits, on covered bonds, and capital surplus relative to the required level, affected mortgage supply at the bank level during the negative rate period. We find that banks relying heavily on deposits did not contribute to the mortgage expansion and this result was driven by weakly-capitalized banks. We also find that banks more reliant on the covered bonds expanded mortgage supply faster than their counterparts under negative rates, as they could shift into cheap deposits to reduce funding costs. We build a general equilibrium model consistent with these empirical findings, featuring banks with different deposit and covered bond ratios that compete in the deposit and mortgage market. We use the model to study the effectiveness of covered bond purchases by the Riksbank during the Covid-19 pandemic.

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