

# Intermediation services for non-bank depository and non-depository lenders

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BEA Advisory Committee Meeting

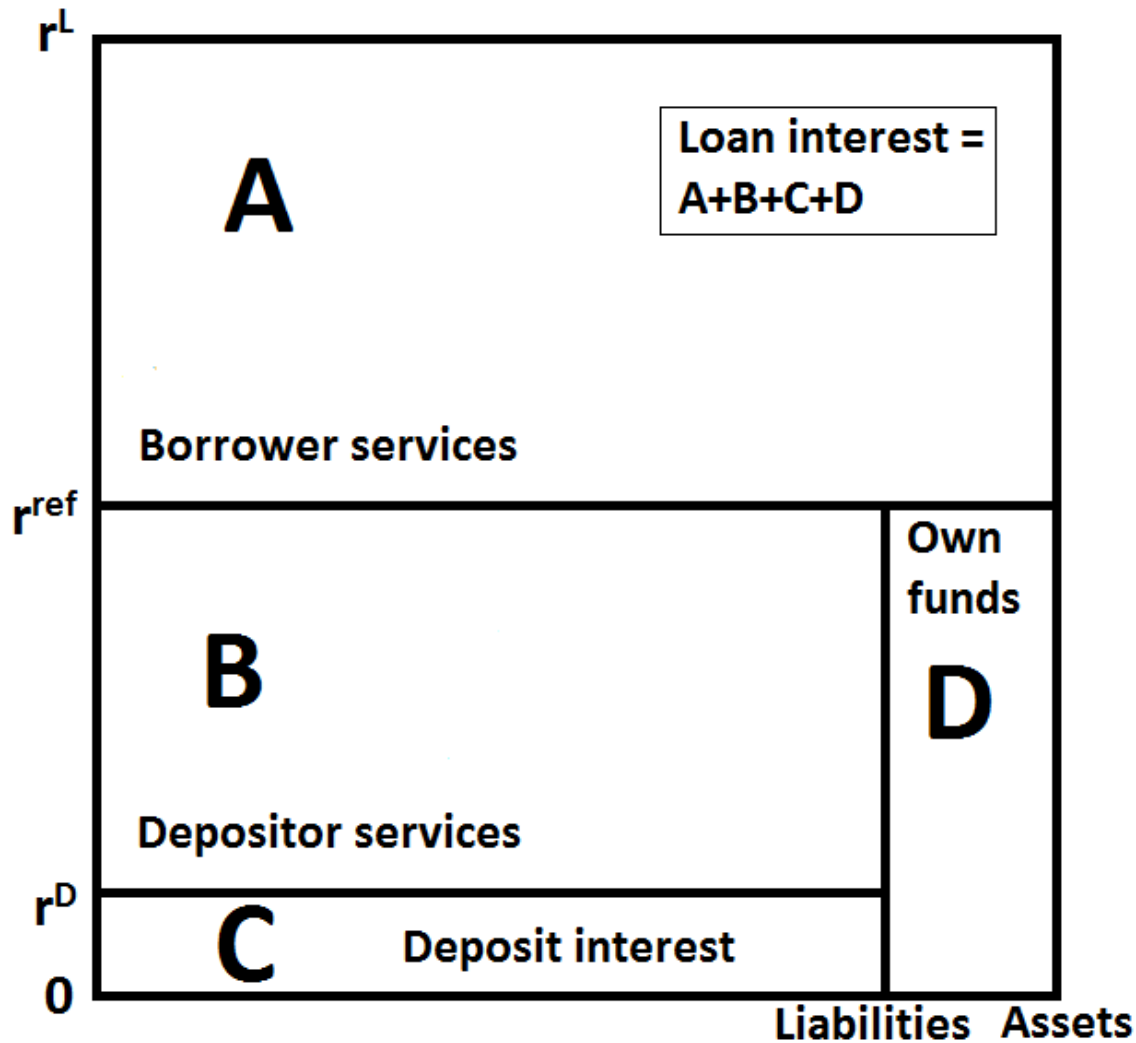
1441 L Street NW

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# Implicitly priced financial services

- Some intermediation services are provided by financial institutions without explicit payment
  - Financial Intermediation Services Indirectly Measured (FISIM)
  - Services include safe-keeping, bookkeeping, liquidity, ATM network, payments/check clearing, retail locations, monitoring, servicing, etc.
- SNA has evolved over time
  - 1953 SNA: Depository institutions provide services only to depositors (NIPAs use for credit unions/savings institutions)
  - 1993 SNA: “Reference rate” method (NIPAs use for banks)
  - 2008 SNA: Some clarifications and extensions
    - Now: All intermediaries produce FISIM (even those that don’t take deposits)
    - Key: Consistent treatment across institutions playing similar roles in the economy

# The reference rate method



# Current projects

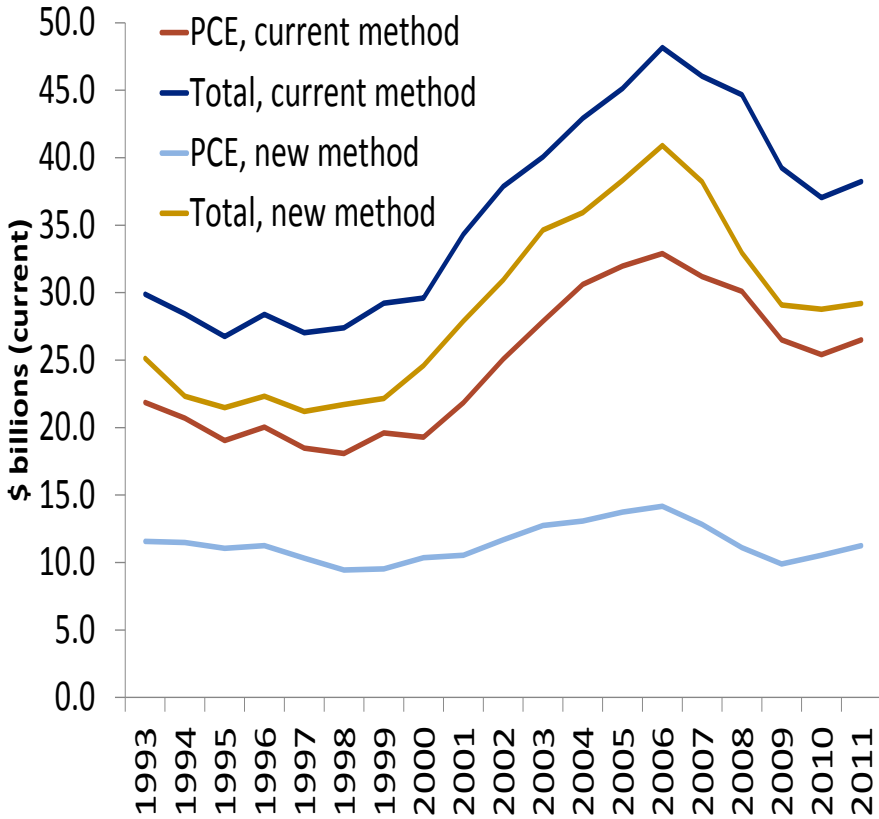
- Experimental estimates for savings institutions and credit unions have been developed (Hood 2013); these are currently being tested (Plan: Ready by 2018)
- Experimental estimates are currently being developed for non-depository financial intermediaries (NDFIs) (Plan: Ready by 2018)
  - Motivation: This sector is becoming increasingly important
  - “First pass” estimates are available from 1993 (Corrado, Hood and Reinsdorf 2014)
  - We are continuing to refine the methods for certain institutional sectors

# Non-bank depository institution FISIM

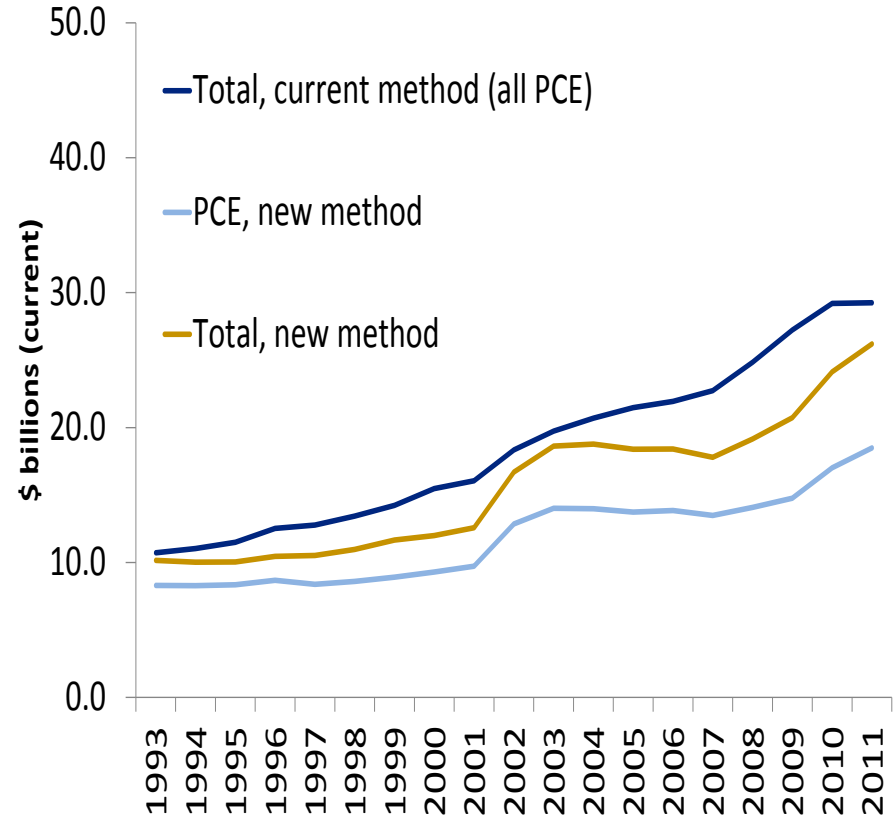
- Savings institutions
  - Method: Similar to commercial bank method
  - Data sources: Thrift Financial Reports (up to 2012), Call Reports
  - Of note: Reclassification of some FISIM to borrower services means many such services are purchased by the owner-occupied housing sector (reducing GDP)
  
- Credit unions
  - Method: Similar to commercial bank method
  - Data sources: Quarterly Aggregate Financial Performance Reports from the National Credit Union Administration
  - Of note: Reclassification is less extreme than for savings institutions because assets include more consumer loans
  
- Notes: We adjust loan interest income for expected credit losses, especially important during 2007-10

# Experimental estimates from Hood (2013)

### Savings institutions



### Credit unions



Notes: Estimates labeled “new method” are experimental, and may differ from what may appear in the NIPAs. Estimates labeled “current method” are based on author’s calculations and do not reflect currently published figures.

# Non-depository FISIM

- In this talk, I focus on borrower services
- Corrado, Hood and Reinsdorf (2014) also look at funder services and intermediation chains
- Borrower services of non-depository financial intermediaries are almost all consumed outside of the sector

# Financial Account sectors

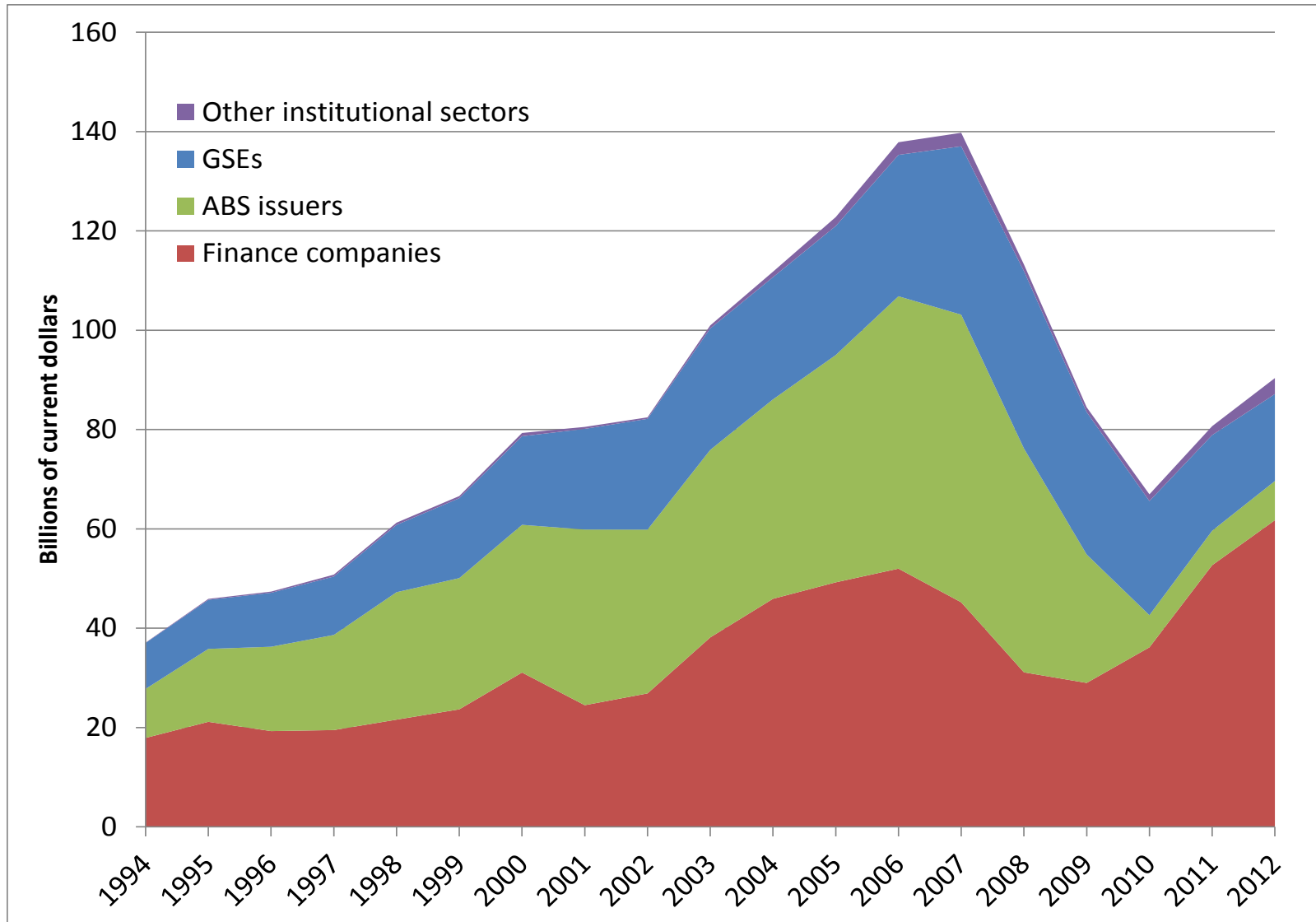
<b>Traditional banks</b>
<ol style="list-style-type: none"> <li>1. Monetary Authority</li> <li>2. Private Depository Institutions               <ul style="list-style-type: none"> <li>U.S.-chartered Depository Institutions, ex. Credit Unions</li> <li>Foreign Banking Offices in U.S.; Banks in U.S.-Affiliated Areas</li> <li>Credit Unions</li> </ul> </li> </ol>
<b>Long term funders and pass-through institutions</b>
<ol style="list-style-type: none"> <li>3. Property-Casualty Insurance Companies</li> <li>4. Life Insurance Companies</li> <li>5. Private and Public Pension Funds               <ul style="list-style-type: none"> <li>Private Pension Funds</li> <li>State &amp; Local Government Employee Retirement Funds</li> <li>Federal Government Employee Retirement Funds</li> </ul> </li> <li>7. Mutual Funds</li> <li>8. Closed-End and Exchange-Traded Funds</li> </ol>
<b>Shadow banks</b>
<ol style="list-style-type: none"> <li>6. Money Market Mutual Funds</li> <li>9. Government-Sponsored Enterprises</li> <li>10. Agency- and GSE-Backed Mortgage Pools</li> <li>11. Issuers of Asset-Backed Securities</li> <li>12. Finance Companies</li> <li>13. Real Estate Investment Trusts (mortgage REIT segment; <b>equity REITs are pass-throughs</b>)</li> <li>14. Security Brokers and Dealers</li> <li>15. Holding Companies</li> <li>16. Funding Corporations</li> </ol>



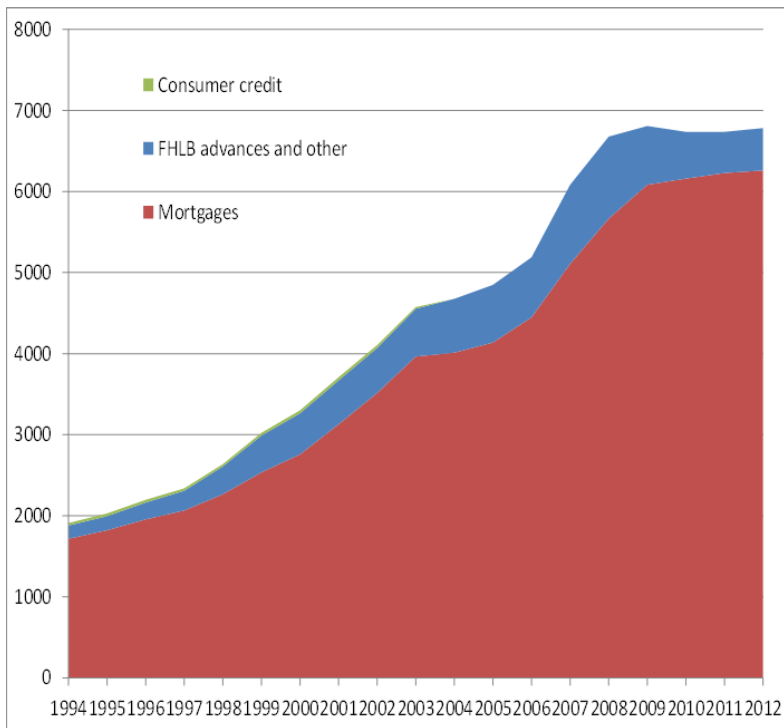
# NDFI methodology

- General idea
  - Single loan interest rate, based on a weighted average of loan rates from the various loan categories
  - Single reference rate, also a weighted average over loan categories
  - Loan balances are from the Financial Accounts
- Major loan categories: Mortgage loans, auto loans, revolving consumer loans, other consumer loans, business loans
- Loan rates
  - Mortgages: Average interest rates on loans in GSEs/pools less GSE/pool default rates
  - Other loans: Based on various data sources (all loan rates are adjusted for expected default)
- Reference rates
  - Mortgages: Coupon rates on GSE pass-through securities
  - All other: Commercial bank reference rate
- Balances are used as weights for averaging loan and reference rates

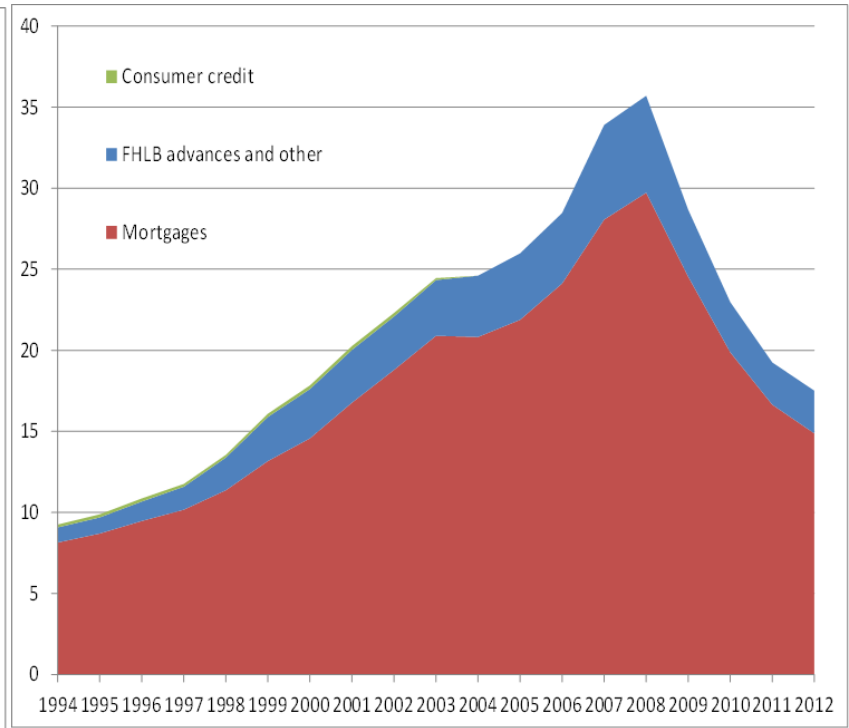
# Total (gross) borrower services



# Ex: GSEs/pools borrower services

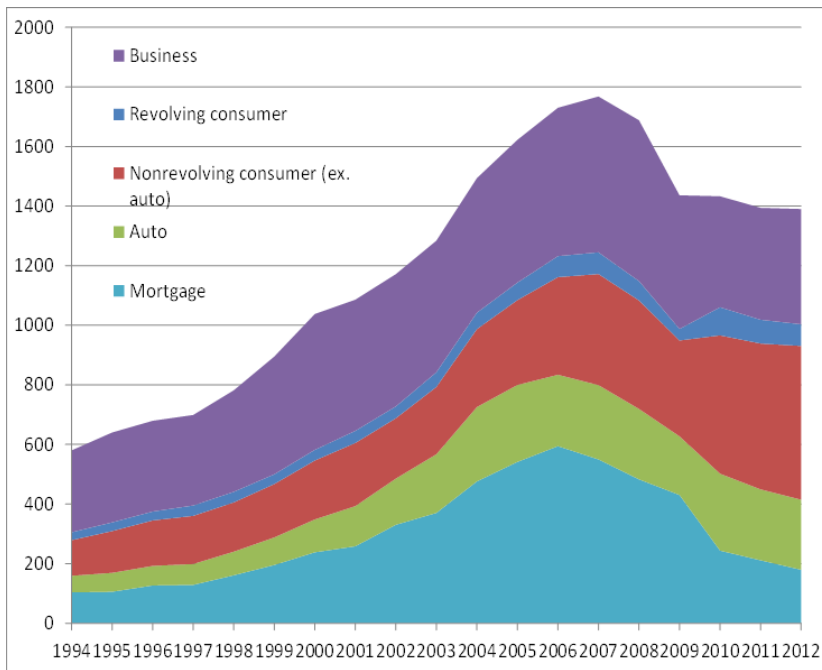


Asset balances

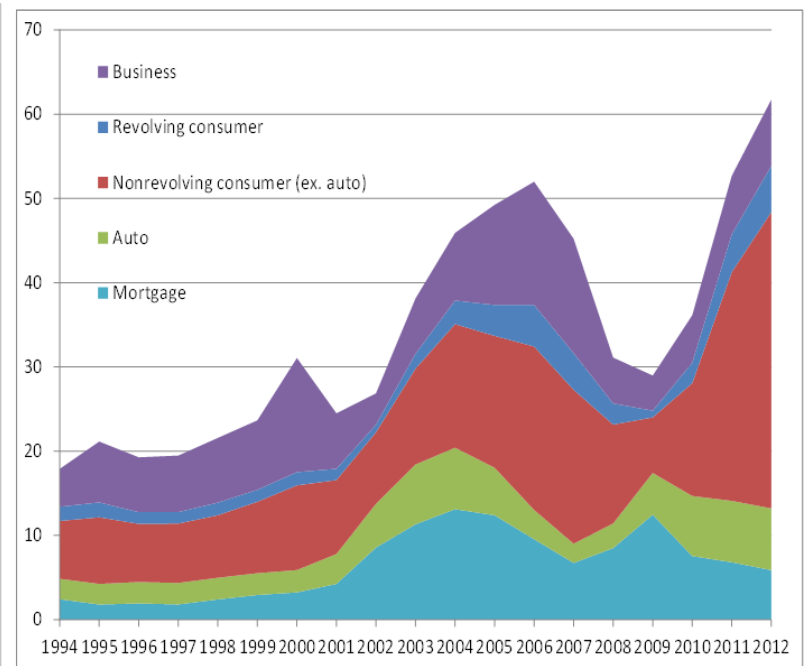


Borrower services

# Ex: Finance companies borrower services

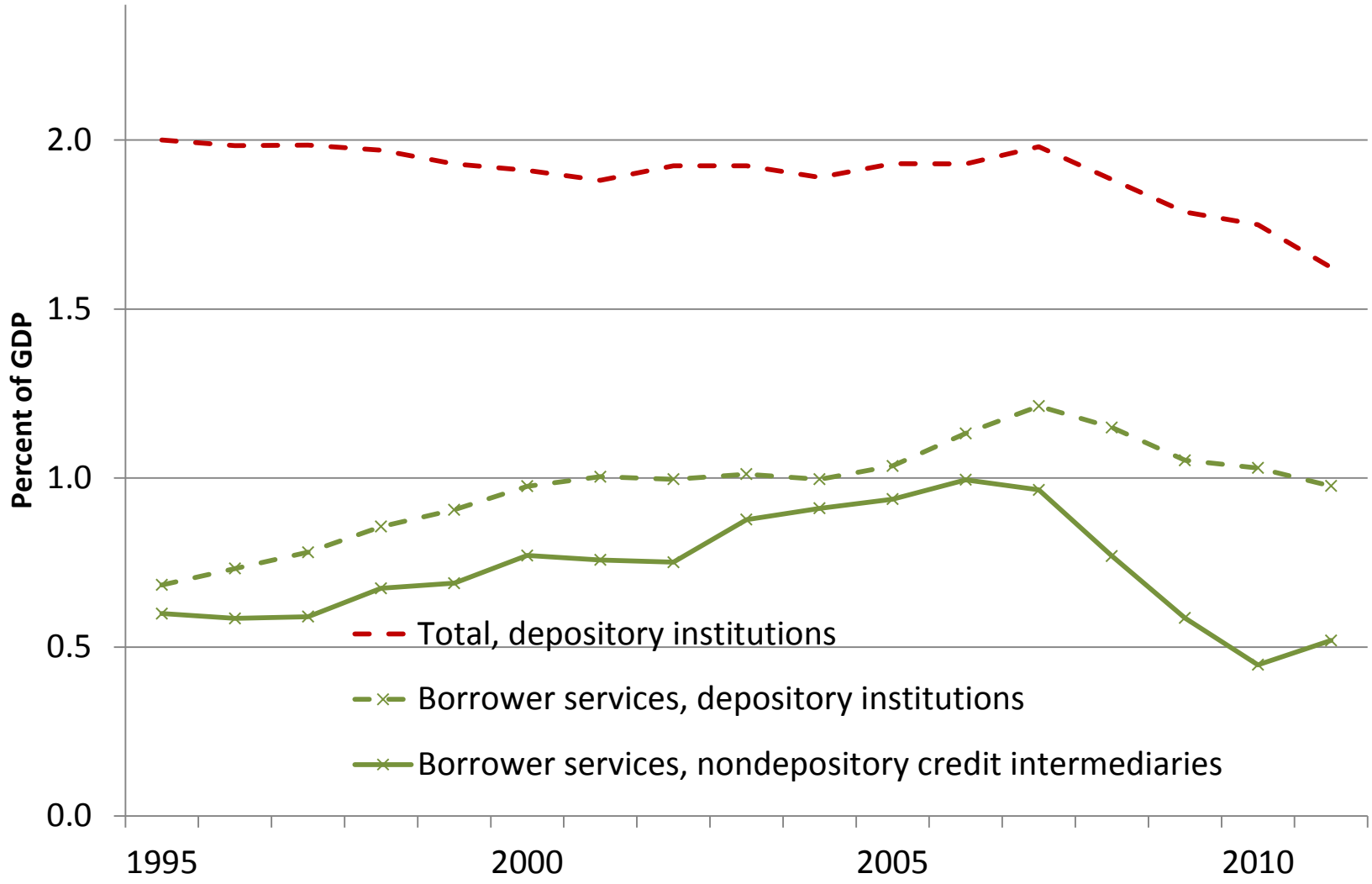


Asset balances



Borrower services

# Borrower services (as % of GDP)



# Current work and next steps

- Current: Developing comprehensive estimates for private asset-backed securities issuers using financial data (estimates presented above assume that spreads net of default rates are the same as GSE pools)
- Next: Developing comprehensive estimates associated with securities repurchase agreements