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Market power and risk: Evidence from the U.S. mortgage market

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Abstract

We use mortgage loan application data of the Home Mortgage Disclosure Act (HMDA) to shed light on the role of banks' market power on their presumably insufficient risk screening activities in the U.S. mortgage market in the pre-crisis era. We find that banks with higher market power protect their charter value. The effect is stronger for banks that have more information about local markets.

Keywords: Banking competition, mortgage crisis, bank risk, information
JEL: G21, G28

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