

Report on Bachelor Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Zhang, Jiayan
Advisor:	Mgr. Magda Pečená, Ph.D.
Title of the thesis:	Risk management in commercial banks: housing mortgage loans after the subprime crisis

OVERALL ASSESSMENT:

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

Contribution

The goals of this thesis are numerous and extremely ambitious: to study the risk management systems of the American mortgage industry, and in particular the spillovers of the subprime crisis, and to benchmark the US mortgage market with the Chinese, BRICs, European markets regarding regulation, market trends, resilience, etc. It is hard to be original when working on the great financial crisis, on which so much was written already. The comparison between the US and China is a good idea. But this originality of the thesis should be better stressed. Enlarging the topic to a comparison between the US, the EU, and China is very ambitious. Chapter 4 would be more interesting if it was "the lessons learnt by China from the US subprime crisis to better manage banks in a time of booming prices" for example. Chapter 6 could definitely be the most interesting part of the thesis but it lacks in-depth analyses and would gain from using any methodology to compare countries.

Methods

The methodologies used would very much gain in being explicated and enriched. Most of the thesis is descriptive (even assertive): "It [the global economy] has gradually become rational for financial innovation." The methodology used could be better stated: „The literature research method will be employed to study the implementation of housing mortgage risk management policies in various markets after the financial crisis. Meanwhile, China is selected for conducting an in-depth study through the case study method to summarize the situation of housing mortgage risk management in emerging markets.“

Specific comments:

One doesn't analyze an hypothesis, he tests it (page 28 of the pdf).

The author should try to be precise/specific. For example hypothesis H3 in Chapter 6 should be the risk management of mortgages if I am correct?

Appendix 1. It would be interesting to add data with a longer period under review to see the boom until 2008. It would also be interesting to have the ratio of credit to GDP.

Appendix 3. This table would gain from being explained more.

Appendix 6. I may be wrong but I think that for China, economists look at some specific towns price indices to assess bubbles (Beijing, Shanghai). It could be interesting to put on the same graph the USA and China (both are based 100 in 2010). And it may be more interesting to use nominal growth rates than absolute values.

Appendix 7: I assume that it is also base 100 = 2010?

Appendix 10: add lines to be able to follow country's trends. "Real" How do you calculate these housing prices indexes? You should use longer periods under review to see trends/cycles. When using an index, specify the base (2014=100 for example). Indexes do not enable to compare prices between countries but trends. Maybe aggregating all the indexes in the same graph would ease the comment of the graph.

For all appendixes, state which country is under review, as you are using different jurisdictions.

Literature

I am not an expert on the topic, but I was surprised by the student's following statement: „Most existing literature focuses on the experience and lessons learned by the market in mortgage risk management

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after the financial crisis, and most are longitudinal alignment studies of a single market.“ I believe that the references could be enriched.

We quoting a referenced article, the student should use: „In Knight (1948)“, not „In the article Risk Uncertainty and Profit, the U.S. economist F. H. Knight (1948)“; or Faltin et al., 2012“ (not „Faltin, F.et al. 2012“); „or Clauretje and Jameson (1995)“ (not „Terence M. Clauretje and Mel Jameson (1995)“). In part 3.5, state directly that you analyze BRIC countries – rather than emerging countries – and add Brazil in the description.

Manuscript form

The thesis should be checked professionally for language and spelling. The thesis would gain in readability. Just to give one quick example from the abstract (page 4 of the thesis):

„I will introduce how commercial banks around the world China the emerging market and the U.S. (commas are forgotten?) as the original („origin“ most probably?) of the subprime crisis, (the comma should be a full stop; what does the author means? China, the emerging (financial?) market and the US are the origin of the subprime crisis?) The Europe“ (Europe) which was affected by the subprime crisis (wrong syntax). And (syntax „and“ at the beginning of the sentence) mainly discuss the comparison between the U.S. and China.“ All in all, it is not clear what the author aims at investigating...

The author would also benefit from using technical financial/economic terms as much as possible to be precise „policies for housing mortgages with commercial banks“. To my knowledge, mortgages are distributed by retail banks, them derivative products (CDOs) were structured and commercialized by commercial banks. Mortgage (loan) finances by definition a house. The „credit standards“ are the conditions under which mortgages are distributed (length, rate, down payment, etc.). „A cycle of interest rate hikes“ is a „monetary tightening“, and conversely „rate cut cycle“ is a „monetary easing“. The author style would gain in being more neutral („tsunami“, „disaster“, „exploded“, „trauma of the disaster“, „iconic“ three times in two consecutive paragraphs pages 26 and 27, „the previous crazy state“, etc.), in adding some figures and graphs to support statements (and state precisely figures when using some¹), and in defining acronyms before using them.

Be precise and not naive. For example: „Following the subprime crisis, commercial banks around the world realized the importance of risk management in personal housing loans.“ All banks (universal, commercial, and retail) had already major risk management in place before the subprime crisis, which was under regulatory supervision. The crisis rather led to a reinforcement of risk management with tougher sets of rules (regulatory tightening). Another example: „There are some measures in risk management in the bank in the U.S.“ Thanks God!

Be price when commenting graphs, for example page 33 of the pdf, the author says „From the comparison chart below, the increase in European housing prices from 2000 to 2008 was obviously higher than that of the United States. Although the growth rate of housing prices in Europe was higher, the default rate has not increased.“ But the data on the graph start in 2005! What the graphs show is that the drop in prices was higher in the US than in the EU, which is illustrated by the NPLs. Avoid repetitions.

Summary and suggested questions for the discussion during the defense

The thesis would gain in defining more precisely the research question, which would imply being more specific. The methodology could be more precise/technical, capitalizing on past research, and should be better explained.

Q1. Could you please develop the differences between commercial, universal, investment and retail banks? And how do they relate to your thesis?

¹ For example: „Citigroup and Merrill Lynch reporting a loss of USD 9.83 billion in the fourth quarter (2007 I guess?) and AIG offsetting the USD 15 billion in subprime debt losses (also in Q4 2007?)“.

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Q2. Could you please explain what were (and still are) the roles of Freddie Mac and Fannie Mae in the US mortgage market?

Q3. Why do you think “China is a representative of emerging market countries” (page 50)? Isn't it a very specific (though emerging) country for many reasons?

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
Contribution (max. 30 points)	15
Methods (max. 30 points)	16
Literature (max. 20 points)	10
Manuscript Form (max. 20 points)	10
TOTAL POINTS (max. 100 points)	51
GRADE (A – B – C – D – E – F)	E

NAME OF THE REFEREE: Laure de BATZ

DATE OF EVALUATION: 18/05/2020

Referee Signature



EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F