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Financing Competitors: Shadow Banks' Funding and Mortgage Market Competition

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Abstract

Using novel shadow bank funding data, I find that shadow banks are funded by the very banks with which they compete in originating mortgages. Empirical evidence suggests that banks have market power in the upstream market for shadow banks' funding, which in turn softens mortgage market competition through their strategic behaviors in both markets. I build and calibrate a quantitative model of vertical integration and competition to show that the costs are largely borne by consumers who would benefit most from shadow bank services. Secondary market innovation could increase downstream competition by reducing shadow banks' reliance on their competitors.

Keywords: Intermediaries, competition, shadow bank, warehouse lines, mortgages**JEL Classification:** G2, G5, L1, L5[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID4347835_code2033610.pdf?abstractid=3556917&mirid=1\)](#)[Open PDF in Browser \(Delivery.cfm/SSRN_ID4347835_code2033610.pdf?abstractid=3556917&mirid=1&type=2\)](#)

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