



Financial Crisis and Bank Lending

Simon Kwan, FRB San Francisco

Discussion by

Kasper Roszbach

Sveriges Riksbank and University of Groningen

FRB Day Ahead Conference, Denver
5 January 2011

The views expressed in this paper are solely the responsibility of the authors and should not be interpreted as reflecting the views of the Executive Board of Sveriges Riksbank



■ Summary

- 2005 - 2008: average C&I loan spread was 23 bps *below* “normal”;
2010:I: 66 bps *above* “normal”
- Where is “tightening” strongest?
 - Large and medium-sized banks, but small banks always charge more
 - Larger loans, but smaller loans tend to carry higher spreads
- Monetary policy fully transmitted to C&I bank loan rate most of time
- Channels
 - Cut large-loan discounts, increase spread for riskier loans and non-commitment loans
 - Banks’ loan portfolio quality, capitalization and unused loan commitments influence degree of contraction





■ Accomplishments

- Great dataset: all C&I loans $> \$7.5'$ excl. mortgages, 350 banks, one firm and some bank controls 1997:II – 2010:I
- Excellent documentation of what happens to C&I loan rates during the financial crisis
- Anatomy of how banks alter interest rates





■ Comments and questions

1/2

- How do you account for rate changes on existing loans?
 - Are spreads fixed relative to a base rate, or can rebates be altered. Are rebate changes and rate re-sets registered (as a new loan)?
 - Demand or supply effects
 - At core of financial market and monetary policy debate during the crisis (Sweden)
 - Bassett, Chosak, Driscoll and Zakrajsek (2010): supply shocks from SLOOS
 - High correlation time FE and FFR => monetary policy is fully transmitted to loan rate
 - Rationing, quantity effects, fees
 - Jimenez, Ongena, Peydro and Saurina (2010a, 2010b) disentangle demand and supply, and look into the reject/accept dimension of rationing in a downturn
-



■ Comments and questions

2/2

- Framework to assess results
- Why don't banks tighten more on “bank dependent” borrowers?
 - Did banks trade off loan size against loan price, i.e., small loans were not necessarily given to small borrowers: loan size may not be a good proxy for bank dependence
 - Odd: in long-run medium-sized banks can charge higher spreads on large loans than large banks
- Non-commitment loans
 - More expensive than commitment loans: why?
 - What do commitment loans cost when they are not being drawn upon?
- Collateralization
 - Find that for small banks and small loans collateral is used to address adverse selection problems, while for large loans collateral mitigates moral hazard
 - Endogeneity of collateral and risk: Berger, Udell, and Udell (2004): moral hazard drives use of collateral, except for very new loans (< 6 months)
 - Can you observe relationship, or whether a loan is a renewal?



■ Minor issues

- Data
 - What is your definition of long term average?
 - What is definition of “secured by collateral”?
 - Why only 1.5” observations? (350 banks x 14 years)

 - Interpretation of results
 - If size does not proxy for quality, do we still expect lower rates for large loans?
 - Provide some guidance as to whether percentage rate increases or bps increases are the relevant measure
 - In c-s regressions, positive coefficient on CAPITAL => more risk-averse banks hold more capital? Alt: better capitalized banks able to earn money when credit is tight
-



■ Summary

- Clarify framework and assess findings
- Address some findings that are not fully in line with literature
- Supply versus demand of credit

