

COMMENTS ON
“HOW WELL DID LIBOR MEASURE
BANK WHOLESale FUNDING
RATES DURING THE CRISIS?”
BY KUO, SKEIE, VICKERY

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**My views and not necessarily those of the Federal Reserve Bank of San
Francisco or Federal Reserve System**

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Goal of the paper

- Assess whether LIBOR was a good measure of bank wholesale funding rates during the crisis
 1. Did it understate the level of actual rates?
 2. Was LIBOR the best measure of the funding rates?
 3. Did LIBOR-survey participants understate their funding costs?

Major contribution

- Provide answers based on imputed rates of actual transacted term loans
 - Constructed by matching Fedwire transactions
- Important implications for studies of crisis-time bank lending – can one use LIBOR as a benchmark?

Answers

1. LIBOR is close to the average transacted borrowing rates
2. LIBOR might not be a sufficient statistic
3. LIBOR understates the rates at which LIBOR-panel banks borrow

Additional observation

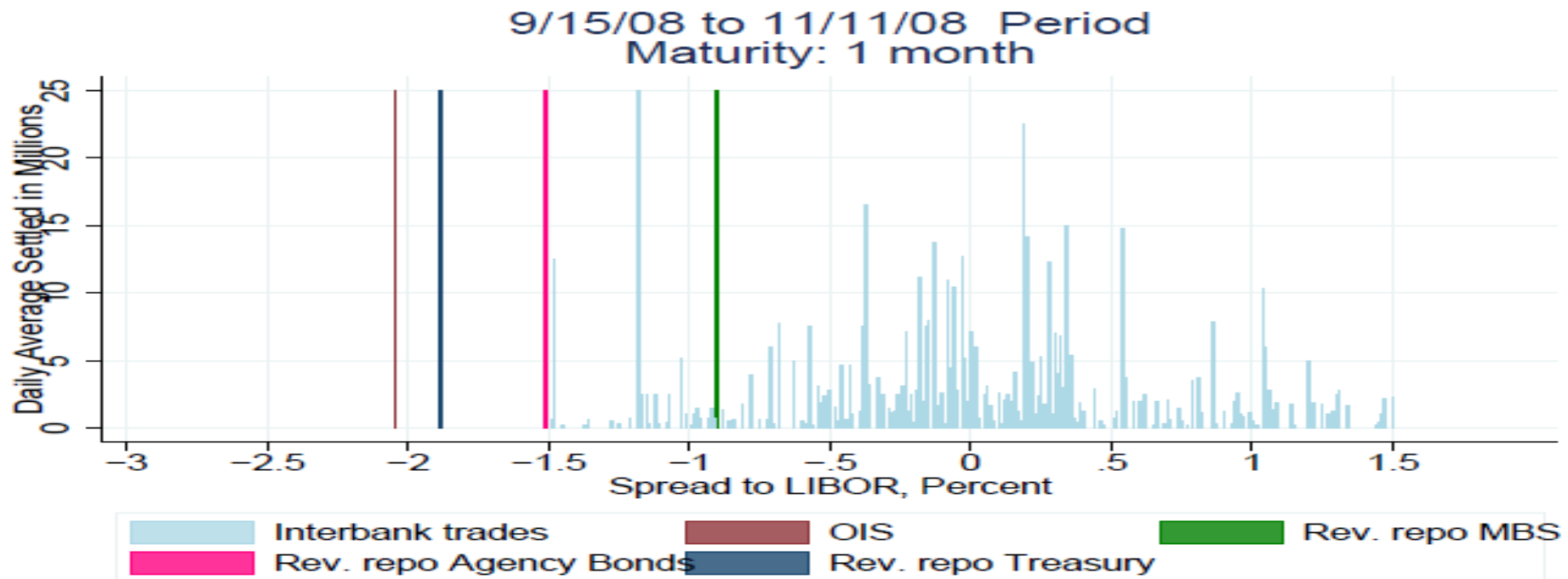
- One of reasons to be concerned with LIBOR as a measure of borrowing cost may be low transaction volume during the crisis
- There is no basis for this:
“term interbank market did not disappear or decline dramatically during the crisis”

Suggestion to broaden the scope

- ◎ The authors seem to suggest that NYFR may be a better measure
 - Subject NYFR to the same additional tests
 - How well did NYFR match the average cost of borrowing during the crisis?
 - Is it an unbiased representation of funding costs of NYFR participants?

A philosophical question

- Given that the transaction rates were very dispersed during the height of the crisis, is *any* point measure useful, whether it gets daily average right or wrong?



Concerns with current answers

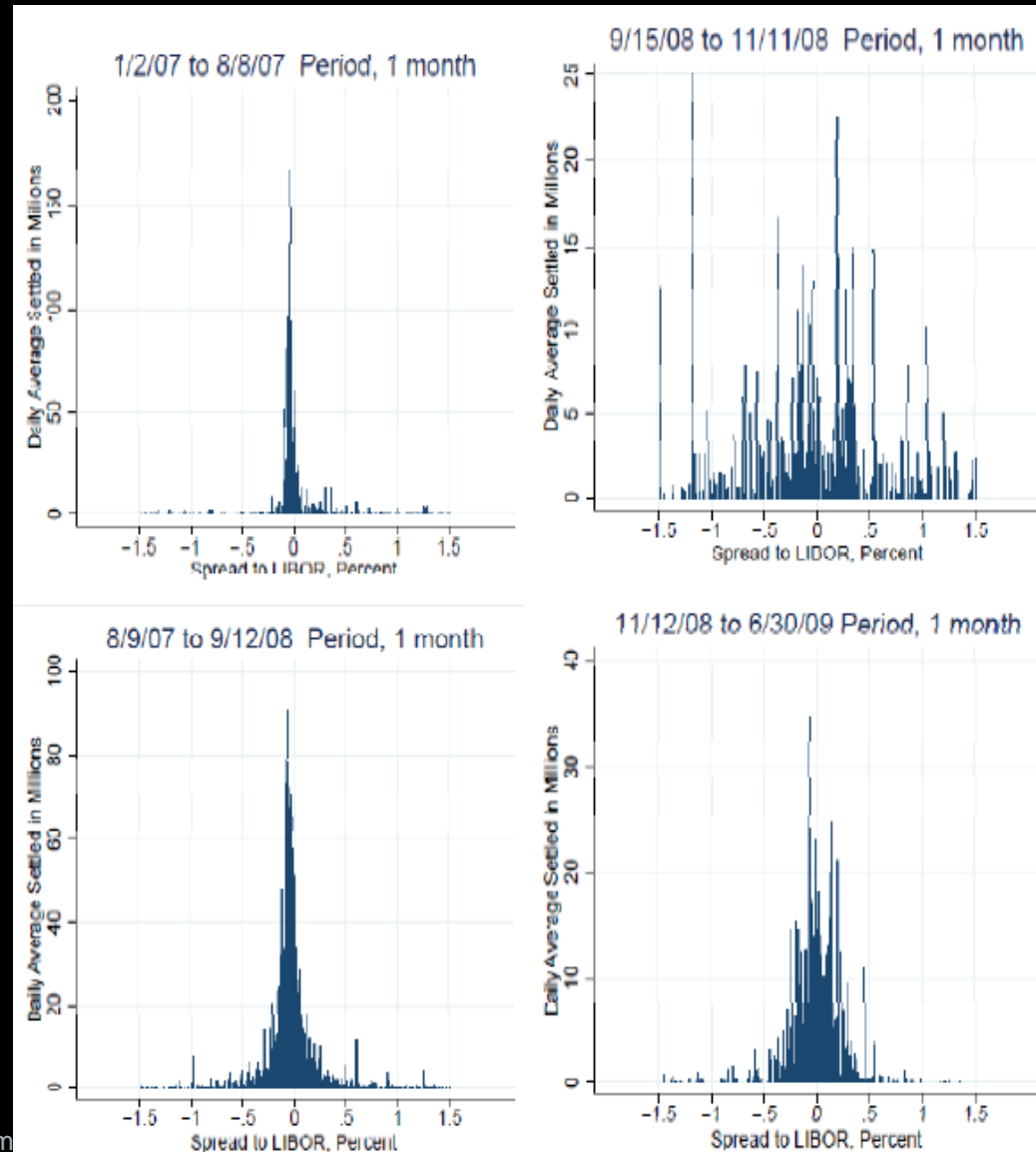
- ◎ Main concerns with the regression analysis
 - LIBOR and NYFR are likely to be highly correlated, including them both on the RHS is not a convincing way of studying informational content of each
 - Orthogonalize them by running a first stage of LIBOR on NYFR or vice versa
 - Include one of them and regress the residual on the other to see if it contains *additional* information
 - Use factor analysis?

Concerns with current answers (cont.)

- ◎ Other concerns with regression analysis
 - Are other controls also highly correlated with LIBOR and NYFR?
 - Table 3, Col. 6 seems we cannot reject coefficients on LIBOR and NYFR are the same once we control for other rates

Concerns with current answers (cont.)

- Does clustering standard errors by trading day imply homoschedastic errors across days?
 - If so, clearly violated by changing dispersion of loan rates across periods in consideration
 - Would underestimated standard errors on peak of the crisis period



Need for clarification: Fedwire

- ◎ How representative is Fedwire?
 - Is there any information available on the composition of loans in CHIPS as opposed to Fedwire?
 - Are LIBOR-survey participants more likely to settle through Fedwire or other systems?

Need for clarification: sample

- ◉ Why exclude from the sample loans with implied rates in non-whole-basis points?
 - Since they are not as tightly clustered around LIBOR, aren't you biasing result in LIBOR's favor?
 - Is the implication that these loans are somehow different?

My personal confusion

- ⦿ Are the loans in the sample likely to be priced in LIBOR-based terms?
- ⦿ If so, what does this imply for the analysis?

Bottom line

- ⦿ A very important contribution
- ⦿ I learned a lot
- ⦿ I am convinced of two answers out of three
- ⦿ There is a lot more to learn
- ⦿ Looking forward to the next draft