Financial Crisis and Bank Lending

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Discussion by

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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

- 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, Frame, Ioaniddou (2010): moral hazard drives use of collateral, except for very new loans (< 6 months)
  - Can you observe relationship, or whether a loan is a renewal?
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- **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