Discussion of Kapan & Minoiu (2020)

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[1]The views expressed herein are solely mine and do not necessarily reflect the ones of the Federal Reserve Bank of San Francisco or the Federal Reserve System.

Motivation

- This paper addresses an important topic !
- Credit lines are a **double-edged sword**
  - They provide insurance to a set of firms to obtain credit at predetermined conditions and pricing
  - ... but, *because of that*, other firms may face even tighter credit conditions after adverse macroeconomic shocks
- This paper studies these negative spillover effects

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Empirical Strategy

1. Dealscan: $i = \text{country-industry}$, $j =$ bank

$$\frac{L^{new}_{t,i,j} - L^{new}_{t-1,i,j}}{L^{new}_{t-1,i,j}} = \alpha_i + \beta_1 \frac{CL^{new}_{j,t-1}}{Assets_{j,t-1}} + \gamma X_{j,t-1}$$

2. SLOOS: $j =$ bank

$$CS_{j,t} = \alpha + \beta_2 \frac{CL^{new}_{j,t-1}}{Assets_{j,t-1}} + \gamma X_{j,t-1}$$

3. PPP: $i =$ firm, $k =$borrower state x industry x week

$$log(L_{t,i}) = \alpha_k + \beta_3 \frac{CL^{new}_{j,t-1}}{Assets_{j,t-1}} + \gamma X_{j,t-1}$$

Results: β_1**,** $\beta_3 < 0$**;** $\beta_2 > 0$

Small questions: Why not use unused credit from Call Reports? Evidence that FE works in 1.? Evidence that PPP lending was in fact risky? Scale dependent variable in 3.?

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Comments

Substitution Effect

- When spreads rise, credit lines are relatively more attractive because of predetermined conditions
- Firms with term loans and credit lines from the same bank may reduce term lending and increase credit line usage
- Does this switching effect explain the results?
- Optimally: Exclude firms with both types of borrowing at the same bank

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Alternative Channel

- Potential relation: banks with larger ex-ante credit line exposure also do riskier lending (more exposed to Covid)
- Banks with larger credit line exposure may have been hit more on their legacy assets and cut lending because of that as opposed to the drawdowns
- Optimally: Control for changes in riskiness of legacy assets (excluding the credit lines that are drawn)

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Other Comments

1. Controling for deposit inflow
2. Rather use CL exposure as an instrument for drawdowns
3. Converting estimates into $-amounts
4. Tracing out dynamic effects: Q1, Q2, Q3, ...
5. Other threats to the identication:
    1. Credit demand bank-specific: relationship lending
    2. Firms running on unhealthy lenders