



**Discussion of  
Acharya, Afonso, Kovner  
Correa, Sapriza, Zlate  
Ivashina, Scharfstein, Stein**

Charles M. Kahn

- The common question
- An international dimension to liquidity effects:



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- An international dimension to liquidity effects:
- Does a pinch in dollar funding for non US banks affect their dollar lending activity?

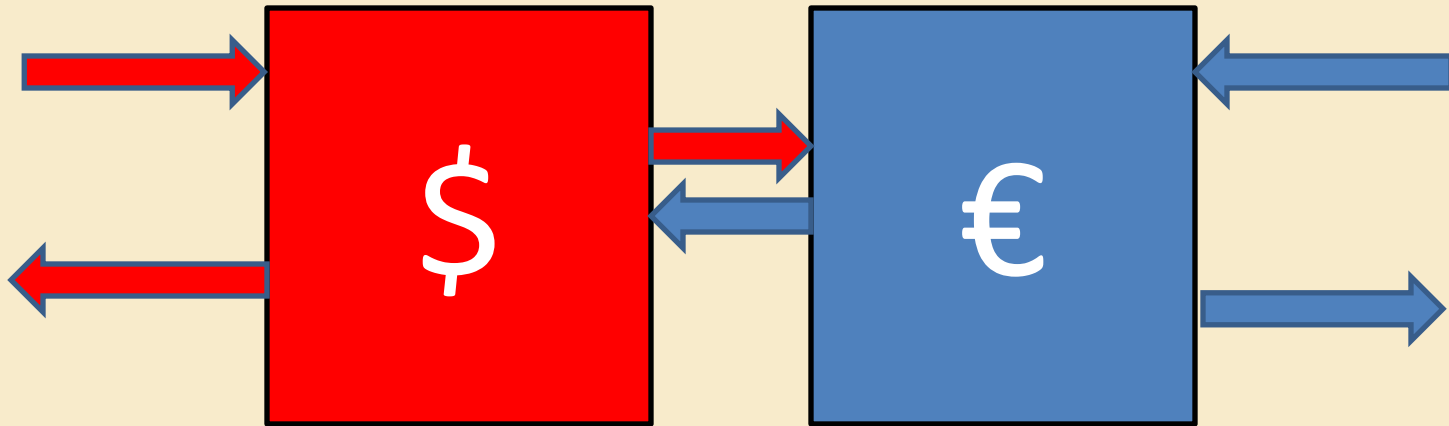


- The common question
- An international dimension to liquidity effects:
- Does a pinch in dollar funding for non US banks affect their dollar lending activity?
- The common answer: Yes

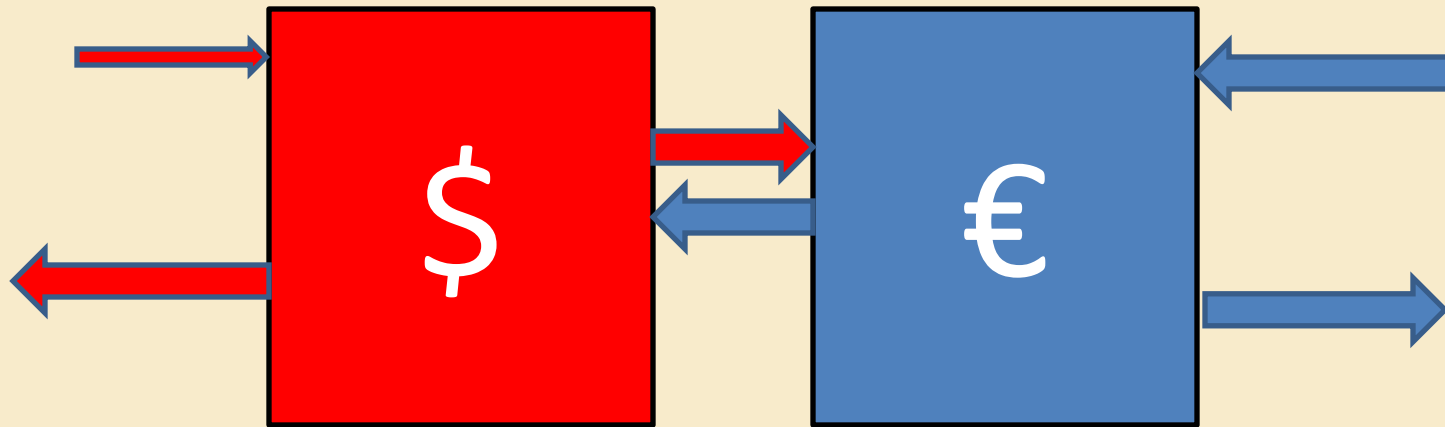


	<b>AAK</b>	<b>CSZ</b>	<b>ISS</b>
Event	2007 ABCP Freeze	2011 European sovereign crisis	2011 European sovereign crisis
Data	DealScan Syndicated Loans	FFIEC Reports for total lending; SNC dataset for syndicated	DealScan Syndicated Loans
Result	Interest rises	Volume falls	Volume falls

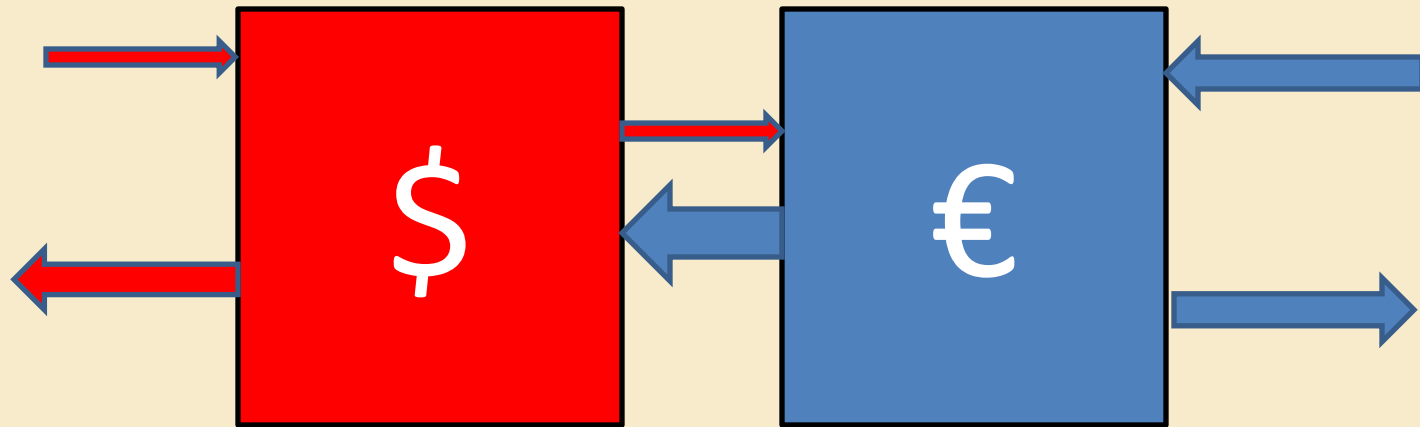
- The model



- The model

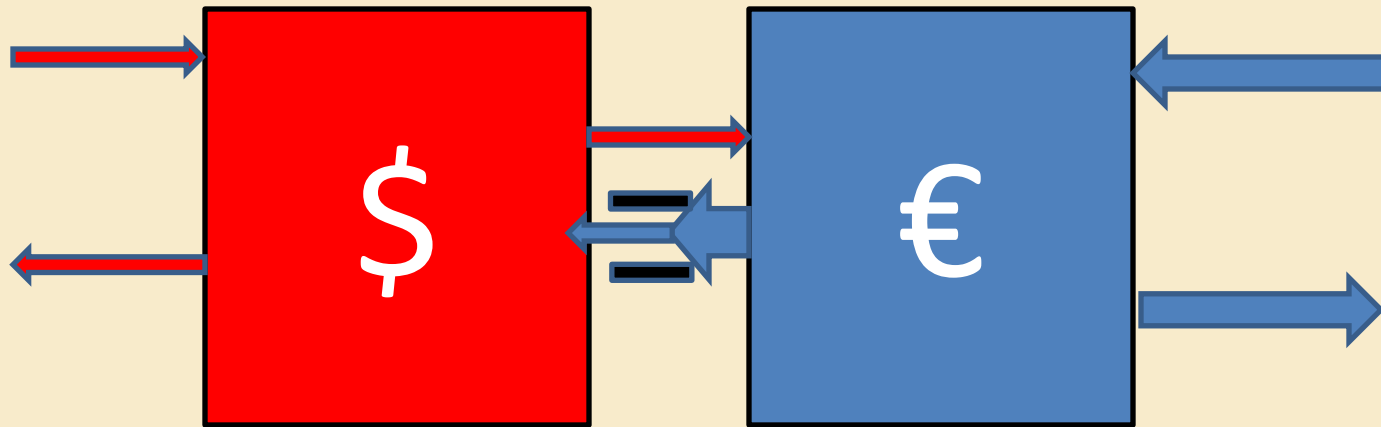


- The model





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- Identification
- So maybe it's decrease in demand for loans
- Or maybe it's decrease in bank's overall capacity to lend



- Identification Strategies
- Differential effect of shock on European-based banks' dollar lending
- Differential effect on most constrained European-based banks after shock
- Differential effect relative to American-based banks
- Restrict to European-based firms



- Step 1: Document the shock
- AAK: European banks more dependent on ABCP market, couldn't tap FHLB loans (TAF came later), so more dependent on repos
- CSZ and ISS: Euro spreads jumped, regulation changes, liquidity fell (is timing a problem?)



# Acharya, Afonso, Kovner

- Compare terms of loans immediately pre and post ABCP freeze.
- Higher interest rates are demanded post freeze in loans denominated in US dollars and including in the syndicate foreign banks exposed to ABCP freeze.



- Concerns
- Volume as well?
- Lead banks versus syndicate participants
- Limited effects of corporation characteristics
- Does differential go away after TAF?
- Euro basis



# Correa, Sapriza, Zlate

- Foreign banks with large drops in US time deposits reduced US lending (with controls for bank size and quality, loan characteristics, country characteristics). Advantage: actual levels of syndicated lending.
- But liquidity shock seems to be unconnected with details of bank strength.

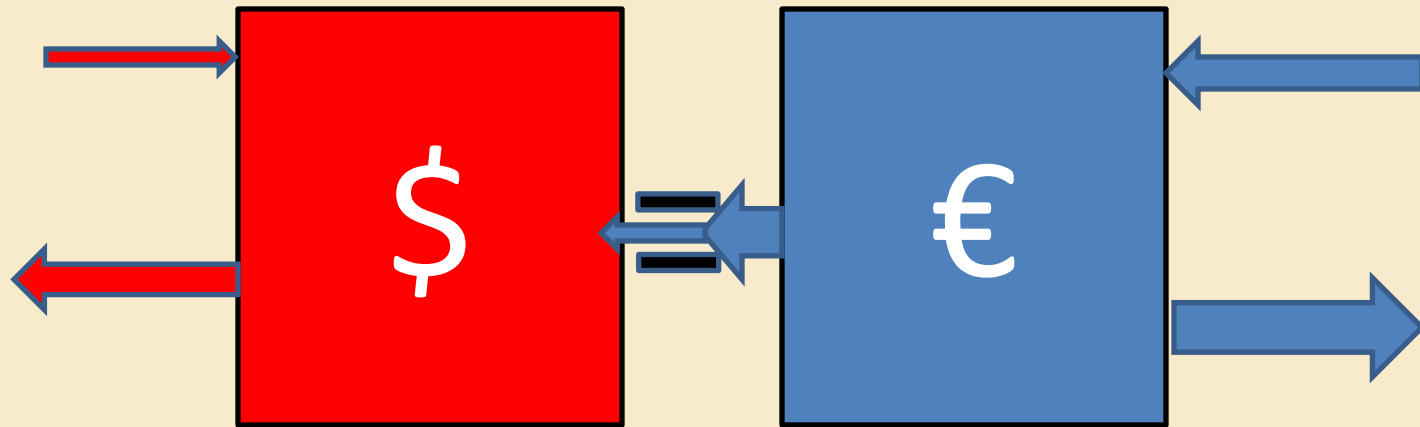


- Concerns
- Funding from other parts of the bank holding company is not quite the pinch point.
- Is the run information based? Country matters but sovereign debt doesn't, nor do most quality measures. (Including bank CDS)
- Credit Averaged across 2011





- The model



# Ivashina, Scharfstein, Stein

- Control for nationality of borrower as well
- Result: 11 Eurozone banks do relatively less lending in dollars after May 2011. This is also true relative to US banks, and true when confined to Eurozone borrowers.



# Concerns

- Advantage: Looks at quantities attributable to lead banks
- Data from 2005-2011 is used – necessary with small numbers?
- Short term funding (can't see dollar funding)



- Is it important?
- Magnitudes are large
- But, are there other institutions to take up the slack?
- Syndicated lending
- Both dollars and euros stay at home?
- Only short term, but short term may matter



- Policy implication
- Increase liquidity of swaps market???





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