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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• 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
<table>
<thead>
<tr>
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<th>AAK</th>
<th>CSZ</th>
<th>ISS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Event</td>
<td>2007 ABCP Freeze</td>
<td>2011 European sovereign crisis</td>
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</tr>
<tr>
<td>Data</td>
<td>DealScan Syndicated Loans</td>
<td>FFIEC Reports for total lending; SNC dataset for syndicated</td>
<td>DealScan Syndicated Loans</td>
</tr>
<tr>
<td>Result</td>
<td>Interest rises</td>
<td>Volume falls</td>
<td>Volume falls</td>
</tr>
</tbody>
</table>
• 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
• 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
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???