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Lending relationships and credit rationing: the impact of securitization

Discussion by
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- **Paper in a nutshell**

  - Study to what extent banks’ securitization (ABS, covered bonds) activity influences credit supply before and during the 2007-2008(9?) financial crisis
    - Argument: ABS and CB enable banks assets to generate liquidity (i.e., get funding) and should therefore stimulate lending
    - Because ABS activity may lower lending standards (in normal times, a crisis-time consequence may be that ABS prone banks cut lending more as a result of previously higher risk-taking
  - Longer relationship with a firm’s main bank improves credit supply
  - Firms with main banks involved in securitization have credit constraint relaxed in normal times
  - In crisis times, having a main bank involved in CB relaxes credit constraints, while ABS banks tighten the constraint
• Contribution of the paper

  • Zooming further in on why securitization had effects during the crisis
  • Moving from aggregate data level to analysis of micro-level data and show at firm-level how securitization activity affected credit rationing of firms
  • Match firm-level data (balance sheets, bank relations, amount of credit with each bank) with bank level data and Dealogic securitization data
  • Place results in the perspective of the “bank relationship” literature
Framing your question

- There is scope for clarifying the question you pose and your position on what constitutes excessive risk-taking (i.e., lowering lending standards):
  - Survey data on lending standards of banks contains ambiguity: “easier access” to credit” is typically interpreted as “softening the lending standard”.
  - But captures movements along the supply curve and shifts of the supply curve

- Do you mean that any generation of “extra” liquidity or “expansion of credit supply” leads to lowering of lending standards?
  - Purpose of financial intermediation: optimally transforming deposits etc. into lending
  - Liquidity enhancing measures increase multiplier
  - Good or bad? A general equilibrium issue
Framing your question

- Paper’s focus is on cyclicality, not optimality
  - More cyclicality can be welfare enhancing
  - Paper suggests – but does not say so – that more cyclicality is bad because it increases rationing in bad times
  - To fully appreciate the results in the paper, I would like to know what (i) more credit in good times brought about, and (ii) what consequences (real effects) rationing in bad times has
  - [There is aggregate evidence of the effects of credit rationing due to securitization activities by banks, but can these results withstand a test by micro data?]
Questions, comments

- Identification strategy: Maddala (1980): Unobserved switching model
  - Are you really measuring credit supply and demand?
  - Signs on some variables suggest “reduced form”

- Explain better your choice of proxies:
  - Collateral = tangible fixed assets / TA(-1)
  - Firm activity = TS/TA(-1)?
  - Credit substitutes = CF/TA(-1)
  - Measurement of default risk

- Identification of effects of ABS on credit supply:
  - How many banks do you have? Std error of parameter estimated with N(banks) or N(firms)?

- Could you benchmark against banks that depend on market funding, irrespective of whether they securitize?
  - Relevant benchmark should be “banks that need market funding but do not securitize”, rather than that group plus banks that do not need market funding (i.e. rely on deposits)
Questions, comments

- Weak instruments?

- Robustness test on definition of constrainedness (P(S>D)>.5)

- Original dataset contains 700,000 firms in Spain, final only 56,572.
  - Explain how you get there (I suppose this is not only due to entry and exit).

- As a possible explanation for your findings you mention how ABS and CB may differ: “assets underlying CB may be of higher quality as issuer absorbs default and prepayment risk”
  - Would indeed increase liquidity of CB relative to ABS because of reduced agency problem
  - But: loss absorption for CB should depress lending by CB-issuing bank
  - Results suggest loss absorption is dominated by liquidity effect

- What about the impact of the concurrent countercyclical capital buffer experiment in Spain? (Jimenez, Ongena, Peydro and Saurina, 2012)
  - Three policy shocks affecting banks differently, interact with state of the economy
Minor issues

- “ABS and CB are both covered by a pool of mortgages ---”
  - Not necessarily. More specificity about what ABS you are referring too is useful, because it may helps us understand why ABC and CB have different cyclical properties

- Does Dealogic contains self-reported information, with quite some omitted data?

- Strength of bank relationship: why not use “length of relationship with Bank A - length of relationship with Bank B”?  
  - Should give a proxy for the hold-up problem when main bank tightens lending standard
Thank you!