

Motivating Banks to Lend? Credit Spillover Effects of the Main Street Lending Program

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*The views expressed in this presentation are those of the authors and **do not** necessarily represent the views of the Bank of Spain and the Eurosystem.*

The paper in a nutshell

- ▶ Evaluates the impact of the Main Street Lending Program (MSLP) on bank lending
- ▶ The MSLP may have served as a backstop, increasing bank willingness to extend credit
- ▶ The paper combines a rich data set: lenders and borrowers of MSLP, survey data on banks' lending standards, loan-level data from credit registers and economic data
- ▶ It allows them to study changes in lending standards controlling for borrowers characteristics and MSLP participation
- ▶ The results suggest that MSLP lenders tightened by less their credit standards and were more likely to extend credit

The relevant analysis

- ▶ Two questions develop the model hypothesis that constructs the empirical analysis
 - ▶ What are the banks' incentives to participate in the program: Larger banks with higher shares of loans on assets or banks with low deposits relative to total debt?. Linear probability regression
 - ▶ How does it affect the willingness to grant outside the program: Acting as a backstop, banks may have more risk appetite. DIF in DIF estimation
- ▶ Dataset is extraordinarily rich! not only by quantity but also by traceability
- ▶ This is a very neat paper, based on an event study that sheds light on the participation (and lack of it)
- ▶ On the first hypothesis, both holds in the estimation, but predictability of MSLP from PPP participant may be problematic
- ▶ On the second hypothesis, results show positive spill-overs of MSLP lending banks (or less tightening). Again, unobservable may be a concern, but here is treated as much as possible

Open questions

- ▶ The choice to participate or not seems to a large extent driven by difficulties, but, could it depends on the banks' demand profile for loans?
- ▶ To what extent it is beneficial to the economy the lending to these firms: Were there zombie firms? and what happens to those non financed?
- ▶ Self-selection? Banks and firm that are oriented to more COVID-19 affected sectors, as it is the case in the euro area Falagiarda, Prapiestis and Rancoita (2020)

While in the euro area

- ▶ Anderson, Papadia and Véron (2021) show a large demand for backed loans, but with large difference across countries, explained on the demand side by liquidity needs and the economic losses rather than supply-side conditions

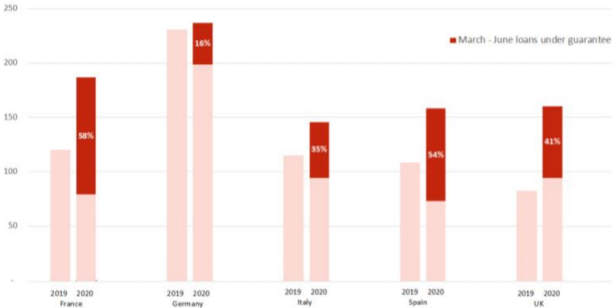


Figure: Total flows of bank loans to non-financial corporations (NFCs) and credit supported loans, in € bn