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 from 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 a 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 extend driven by difficulties, but, could it depend on the banks’ demand profile for loans?

- To what extend 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.