Discussion of "The Paradox of Liquid Loans" by Nada Mora and Rhiannon Sowerbutts

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The major contribution of the paper

- Paper looks at empirical evidence for the relation of lead bank credit exposure in a loan syndicate and the long run performance of borrowers.

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- While this is an investigation of loan syndicates it empirically addresses a question of wider relevance: What are the monitoring incentive implications of credit risk sharing?

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- The theory part is however only weakly related to the empirical part. The empirical part could indeed stand alone without loosing too much of overall substance of the paper.

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The core equation

$$\text{Prob}(\text{Default}_{ij}) = f(\alpha + \beta(\text{exposure of syndicate lead bank}_i) + \gamma X_i + \theta Y_{ij} + D + \epsilon_i$$

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- There is evidence that a larger share of the syndicated loan held by the lead bank is associated with a lower default probability of the borrower.
- The borrowers of syndicate lead banks that hold a larger share of the syndicated loan perform better according to various measures of performance.
- If the lead bank holds a larger share of the syndicated loan this is reflected in equity prices at the time a syndication is announced.

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- How relevant are the facts about loan syndicates for credit risk transfer in general?
- Are there any insights to be gained about the optimal loan share a lead bank in a syndicate should retain?

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- In the setup there seems to be no incentive to lend through a syndicate in the first place: Assume for instance $K = \frac{pR}{4}$. Then lending by a syndicate has a strictly smaller total profit than lending through a single bank.

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- In the setup there seems to be no incentive to lend through a syndicate in the first place: Assume for instance $K = \frac{pR}{4}$. Then lending by a syndicate has a strictly smaller total profit than lending through a single bank.
- I found it difficult to relate the theory part of the paper to the empirical part.