Discussion of

"Relationship Lending, Accounting Disclosure, and Credit Availability during Crisis"

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Objectives and Results

General topic:

- Economic value of relationship lending (RL).
- Specifically:
  - Value of RL in a macro-crisis w.r.t. credit availability.
  - Impact of accounting / disclosure quality.
  - Cross-country evidence.

Proceeding

- Description of macroeconomic conditions.
- Determinants of credit availability.
- Impact of accounting certification on credit availability.

Key results:

- More intensive relationships *can* improve credit availability in macro-crisis.
- Heterogeneous effects for different countries.
  - Due to state-ownership of banks and severity of credit supply shocks.
- Accounting certification does not affect credit availability.

Strengths of the Paper

Contribution / New Insights

- First empirical paper that addresses the value of RL in macroeconomic crises.
    - ◆ Allows to test specific predictions from theoretical literature on the value of multiple bank lending (Detragiache/Garella/Guiso 2000).
    - ◆ Cross-country comparison highlights the importance of regulatory / economic conditions.

Methodology

- *Selection Bias*: Measure for credit denial is not affected by potential selection bias
    - ◆ Such as a firm anticipates that it will be denied credit and does not demand credit in the first place.
- *Endogeneity*: Empirical design accounts for endogeneity between key variables.
    - ◆ Credit availability, incidence of RL, loan terms (collateral), audit.
- *Identification of RL*: Number of bank relationships seems good choice in light of theory and empirical evidence.

Comments (I): Fundamentals

Interpretation of Results

- ■ What explains cross-country differences :
  - ◆ No explicit analysis relating credit supply / state-ownership to impact of lender diversity.
  - ◆ Control for the type of bank the firm borrows from?

- ■ *Why* should state-ownership of banks affect value of RL?
  - ◆ No obvious theoretical argument.
  - ◆ Evidence:
    - ▪ Indonesian banking sector has highest share with 48% of state-ownership.
    - ▪ In Germany, the prime example for the relevance of RL, publicly owned savings banks have a share of 35% in total banking assets (2000).

Comments: Fundamentals (II)

Measuring Credit Rationing

- What exactly is „more restrictive / somewhat more restrictive" credit availability?

- Provide some evidence that the measure truly reflects rationing.
  - Compare firms that answered „more restrictive" to firms that did not.
    - Use standard indicators (trade credit, leverage etc.)
  - Consider macro-variables (e.g. change in aggregate loan volume) to test plausibility.

Information Complementarity RL / Auditing

- External, independent audits potentially eliminate bias or provide certification of information.

- It is unclear whether valuable *new* information is generated.
  - A substitution effect for RL is not that obvious.

- As argued in the paper, banks may *require* audited annual reports.
  - Why not included as regressor in audit regression?

Comments: Methodology (I)

Control for Investment Opportunities

- Credit availability should crucially depend on future investment opportunities.

- R&D expenses seem not very informative
  - 96.1% of Korean but only 19% of Indonesian firms conduct R&D?
  - What are corresponding disclosure requirements? Alternative measure?

- No real measure for profitability included.

Endogeneity / Instrumental-Variable Approach

- IV-approach requires (at least) one instrumental variable specific for each endogenous variable.
  - Identical instruments for *collateral-* and *lender diversity*-equations for each country. Identification?
  - Covariance matrix needs adjustment to account for using estimates rather than observed values.

Comments: Methodology (II)

Other Issues (Robustness)

- Information Structure of Regression
  - ◆ Information from three periods, the last captures the crisis.
  - ◆ Data for explanatory variables are taken from which period?
  - ◆ Panel Data?
    - ▪ Potentially severe bias by assuming independence of observations.

- Sample Selection / Sample Size
  - ◆ Huge difference in number of observations between descriptive statistics and regressions
    - ▪ Indonesia   164 / 697
    - ▪ Phillipines   107 / 550
    - ▪ Thailand   106 / 693

Suggestions

Summary

- Paper makes a really nice contribution by focusing on the value of RL (multiple bank relationships) in macroeconomic crises.

Suggestions

- Describe data, time structure and construction of variables more carefully.

- Examine characteristics of rationing measure.

- Validate R&D as a proxy for investment opportunities.

- Check IV-approach and provide more detailed description.

- Test for relevance of state-ownership of banks, if possible.

- If neccessary, focus on RL rather than auditing issue.