The Usability of Bank Capital Buffers and Credit Supply Shocks at SME's during the Pandemic

Jose M. Berrospide, Arun Gupta, Matthew P. Seay

Discussion by Esther Segalla[1] Oesterreichische Nationalbank

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[1] Additional to the usual disclaimer, the opinions expressed in this paper solely represent those of the author and do not necessarily reflect the official viewpoint of the Oesterreichische Nationalbank or of the Eurosystem.

Summary

- *"Banks treat capital buffers as additional minimum requirements [...] rather than a cushion to be drawn upon during a downturn."*
- Compare low versus high capital headroom banks pre-pandemic
  Low banks start pandemic with capital ratio $\approx$ regulatory buffer
  High banks start pandemic with capital ratio $>$ regulatory buffer
- Controlling for demand factors
  Low banks $\downarrow$ number of SME's borrowers more than high banks
  Low banks $\downarrow$ loan commitment growth more than high banks

Data and analysis

- Event type regression analysis:

  Banks differ by pre-pandemic distance to the regulatory buffer
- Specifications:

  Cross-sectional estimation: firm exits (across industries)

  Panel estimation: Loan commitment growth (intensive margin)

  Industry-county employment growth rates
- Data:

  bank-firm-quarter, span 2018Q1-2020Q3

  526,449 observations consisting of

  16 banks, 11 quarters and $\approx$ 43,463 firms
- Sample Splits:

  SME's, Young Relationship Firm's, Firm Maturing Credit

  Selection bias analysis: Firms substituting bank credit with PPP?

General Comments

- Nice contribution to quantify
  unintended consequences of banking regulation
- during an economic downturn
- Great data that I would like to see more of being in summary statistics in the paper ...
- Rich set of results

My comments are about ...

1. Data structure

   $\longrightarrow$ show more data descriptiveness

   $\longrightarrow$ to convince even more about the identification strategy

   How do banks look like across low and high grouping?

   How do groups of borrowing firms look like across low and high?

2. Sensitivity of results

   how much do your results depend on the threshold level?

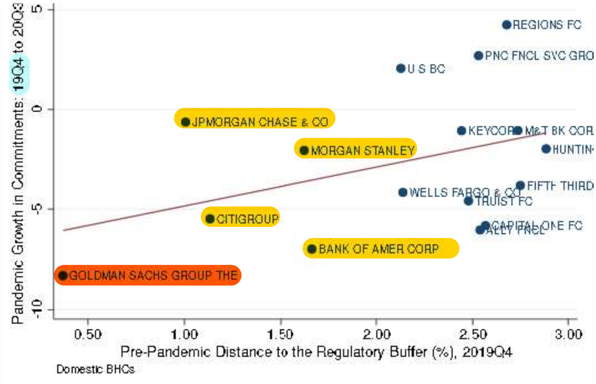
   Sample splits: results for non-SME?

3. What happens to the exiting borrowers?

   FR Y-14Q has a minimum threshold of 1 million USD

Headroom distribution

Figure 3. Buffer-Constrained Banks and C&I Commitment Growth in the Cross-Section



Source: Public FR Y-9C reports

Suggestion for summary statistics

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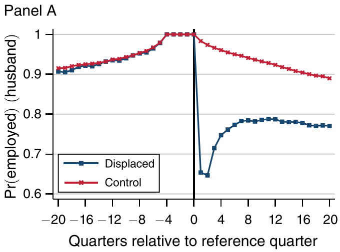
Table 1—Sample Characteristics

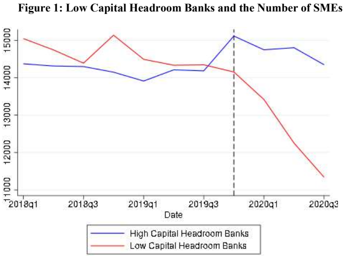
	Displaced		
	Closure (1)	Mass layoff (2)	Control group (3)
Panel A. Husband			
Age (years)	39.41	39.05	40.09
	[38.95]	[38.54]	[39.84]
	(6.75)	(6.79)	(6.63)
Experience in employment (years)	16.97	16.70	18.54
	[17.03]	[16.75]	[18.61]
	(6.77)	(6.72)	(6.61)
Tenure (years)	6.92	6.92	9.66
	[4.58]	[4.73]	[6.86]
	(6.24)	(6.06)	(6.91)
Number of previous jobs	4.44	4.11	2.90
	(4.34)	(4.17)	(3.29)
Number of previous mass layoffs	1.41	1.92	0.53
	(2.26)	(2.39)	(1.31)
Share blue collar	0.47	0.48	0.38
	(0.50)	(0.50)	(0.49)
Real monthly earnings (€)	2,443.16	2,500.61	2,706.99
	[2,319.86]	[2,455.63]	[2,722.46]
	(918.09)	(776.33)	(725.15)
Censored earnings	0.16	0.20	0.25
	(0.37)	(0.40)	(0.43)
Panel B. Wife			
Age (years)	36.66	36.39	36.99
	[36.38]	[35.97]	[36.77]
	(6.14)	(6.20)	(6.14)

See "Job displacement, Family Dynamics and Spousal Labor Supply", Halla, Schmieder and Weber, American Economic Journal: Applied Economics, October 2020;

Suggestion for figures



(a) Example graph many quarters



(b) Paper graph few quarters

- Number and growth rates should be relative to the event date
- Are low and high banks truly similar?
- Effect persistence?

Questions that I asked myself . . .

- *Firm exit the FR Y-14Q* means that bank-firm lending position is no longer reported. The median SME firm is not so small with 6 million USD in assets. Any evidence to what has happened? Higher NPL for low headroom banks?
- Were the firms targeted not only by PPP but also the main street lending program? Firms matched to PPP, but what about self selecting banks?
- I am in addition interested to know about non-SME's dynamics
- Can you think of a relative measure such as entry/exit growth rates relative to total number of lenders?
- Are borrowing firms stand-alone firms or can they represent connected firm structures?
- Figure 1 refers to numbers of SME's; Is figure 5 the corresponding graph to growth rates of commitments for SME's or for all borrowing firms? missing label?
- Which industry breakdown grid did you use? In other words how narrow were industry codes and how populated were your demand factor groups? (my guess it is not a big issue using US data . . .)
- Suggestion to use different color coding for firm entry and exit in Figure 8 as in the other figures red refers to low and blue to high headroom banks;
- Results for young relationship firms are not as strong as for SME's/maturing credit firms.

Suggestion for another references

DeMarco, F., Kneer, C., and Wieladek, T. (forthcoming). The real effects of capital requirements and monetary policy: Evidence from the united kingdom. *Journal of Banking and Finance*.

DeMarco et al. (ming)