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

by: Camelia Minoiu, Rebecca Zarutskie, Andrei Zlate

Discussion by Ursula Vogel (Deutsche Bundesbank)
CGFS/BCBS Conference – May 10, 2022
The paper in a nutshell

• Main Street Lending Program (MSLP) was to support bank lending to SMEs during pandemic
• Paper explores the effects of the MSLP
  • Take-up very limited
  • Focus on spillover effects, i.e. lending outside the program
• Diff-in-diff framework comparing participating and non-participating banks
• Variety of very rich datasets: credit registry data, survey data, bank level data, and more
The paper in a nutshell 2

• Results indicate that the MSLP indeed generated spillovers to lending outside the program
• Banks participating the MSLP lend more
  • Extensive margin: higher probability to renew and originate loans
  • Lower probability to tighten lending standards
  • Intensive margin: larger loans, lower spreads
  • To larger and smaller firms alike
• Program worked through two different mechanisms:
  • Easing of future balance sheet constraints
  • Reducing banks’ risk aversion
Definition of the treatment status “MSLP bank”

• Mechanism: MSLP provides insurance and thereby serves as a backstop

• Dummy “MSLP bank” is defined based on banks’ lending status as of Nov 18, 2020 → marks *active participation* in the MSLP, i.e. transferred shares of loans to the SPV

• However, *active participation ≠ registration* for the MSLP as some banks apparently registered but did not actively participate

• Results for *registered banks* are larger and significant as to renewals, but insignificant for originations and loans to small businesses

→ Banks that registered but did not actively participate (how many?) make a difference!

→ Why do banks that registered but did not transfer loans to the SPV show different spillover effects?

→ Why do registered banks make a difference between renewed and new loans, and between larger and smaller firms?
Controlling for credit demand with firm x quarter FE

• Analysis limited to borrowers with loans from min 2 banks (of which min 1 is an MSLP bank)
• Exclusion of many borrowing firms
  • in particular those that may have difficulties to renew [Detragiache et al. 2000]

→ Possibly overestimation of effects!
→ Control for credit demand on higher level [Degryse et al. 2019]

Overall:

• Very insightful and interesting paper!
• Analysis is very useful for future lending program design
References
