Motivating Banks to Lend?

Credit Spillover Effects of the Main Street Lending Program

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The paper in a nutshell 1

- 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

Degryse, H., O. D. Jonghe, S. Jakovljevíc, K. Mulier, G. Schepens (2019). Identifying credit supply shocks with bank-firm data: Methods and application. *Journal of Financial Intermediation,* 40(10).

Detragiache, E., P. Garella, L. Guiso (2000) Multiple versus Single Banking Relationships: Theory and Evidence. *Journal of Finance* 55(3): 1133-1161.