Discussion of Through Thick and Thin: Relationship Lending, Credit Supply, and Loan Performance During Crises

by

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- Mexican credit market (banks and their borrowers)

- Impact of <u>relationship lending</u> in crisis (2008q1:2009q4) on:
  - Loan supply (i.e., loan size)
  - Loan demand (i.e., loan price)
  - Borrower risk (i.e., default probability)
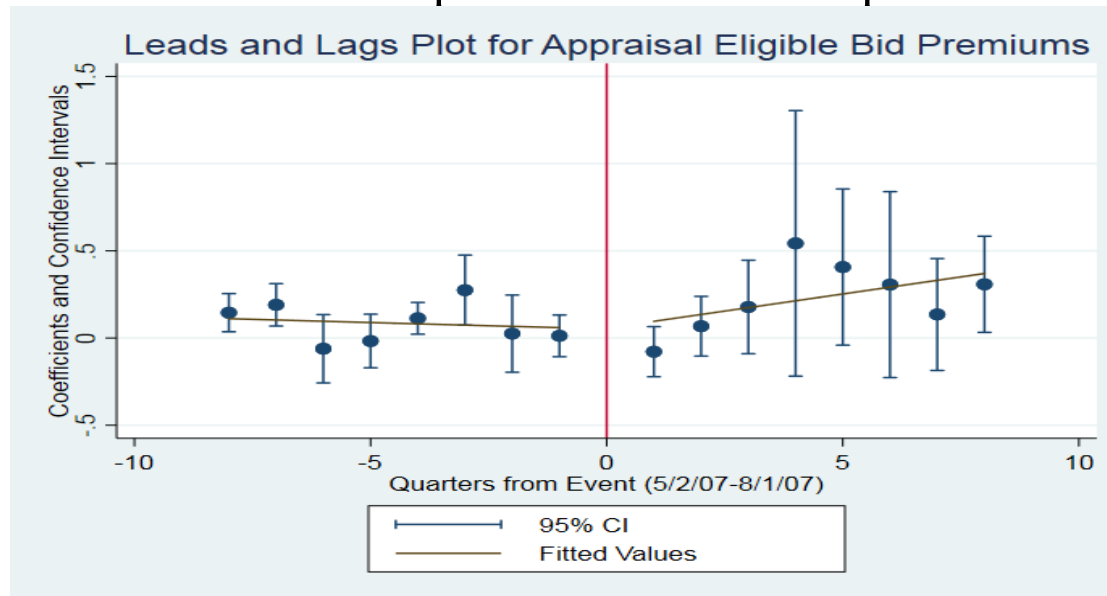 - Loan profitability (i.e., loan IRR)

- Sample:
  - December 2003 – May 2015
  - Non-financial firms who borrow from multiple banks in both the crisis and pre-crisis period
  - In a given month 60% of total credit to such loans

- How define relationship lender in the pre-crisis period? (other is transaction lender)
  1) Bank with the highest share of debt with that borrower
  2) Bank with the highest prediction error of a borrower fixed-effect regression of ln(loan size) on credit score of borrower
  3) Principal component of 1) and 2)

- Results:

    1) Relationship lenders **granted larger quantity of loa**ns during the crisis period than transaction lenders [Panel A of Table 2]

    2) Relationship lenders **did not charge higher prices** during the crisis period than transaction lenders [Panel B of Table 2]

    3) Did the above two effects vary by bank characteristics?

        ➢ **Larger banks** defined by higher assets, deposits, liabilities granted **lesser quantity of loans**, although there was **no differential price effec**t [Table 3]

    4) Relationship lenders **did not give loans to borrowers with higher default probability** during the crisis than transaction lenders [column 6 of Table 4]

    5) Relationship lenders gave loans to **better-quality borrowers (higher IRR)** during the crisis period than transaction lenders [column 6 of Table 5]

Comments

- Interesting paper explaining an important economic relationship
- Are we comparing pre-crisis to crisis OR post-crisis to crisis?
- Empirical methodology: Better to use a difference-in-difference regression approach (while including bank & sector fixed-effects)
  - Then can plot the relationships before, during, and after the crisis
  - Make sure check for parallel trend assumption

Leads and Lags: This Figure plots pre- and post-time trends bid premia for the treatment and control groups. The x-axis is the number of quarters between the Transkaryotic/interest pre-judgement court rulings. Coefficients are from the *Appraisal Eligible* indicator variable on the OLS model on *ln(1wkprem)* including deal/firm characteristic and industry control variables. 95% confidence intervals of the coefficients are shown.

Comments (continued)

- Paper assumes that hard information is fully proxied by borrower's credit score

  - Do lower credit quality borrowers have higher loan prices?
  - Look at column (2) of Table A1 loan price and credit score

Regression coefficient

- Find out what is included and omitted in credit scores?

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Comments (continued)

- This papers "using within-firm estimators" to control for firm-specific demand of credit

- But by definition these within-firm estimators are *time invariant*

- Can one use
  - *Loan demand*: outstanding commercial paper (Kashyap, Stein & Wilcox, 1993)
  - *Loan supply*: changes in spot lending to commitment lending; analog in Mexico to Survey of Terms of Business Lending (Black & Rosen 2007)

Comments (continued)

- Did the credit crisis increase the **loan officers' moral hazard problems** when information is costly to verify? [Agion & Tirole 1997, Stein 2002]

- Did the credit crisis change the **loan contract terms** for relationship v. traditional lenders [Liberti & Sturgess 2018]

- Can one use different measures of relationship as **geographical distance** [Bolton, et. al 2013] or **relationship length** [Petersen and Rajan 1994]