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

by

Adrian de la Garza and Bruno Lopez-Videla

Author: Darius Palia
Rutgers Business School
• Mexican credit market (banks and their borrowers)

• Impact of relationship lending 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 loans 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 effect [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 Plot for Appraisal Eligible Bid Premiums

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(lwkprem) 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

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