

Shock Propagation and Banking Structure (Giannetti-Saidi)

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Research questions

- Interconnections between different firms and industries are known to lead to the propagation of shocks throughout the economy in a way that can drive aggregate fluctuations and lead to credit market freezes
- To what extent does the propagation of shocks due to the interconnections between firms depend on the structure of the banking system? and on the lenders' share of the loans outstanding in an industry?

The channel at work

Concentration in the credit market increases the internalization of distress costs

- Negative shocks and industry distress can lead to asset fire sales → negative shocks affecting one borrower may deplete the balance sheets of other firms in the same industry (ζ effect on competition? ζ systematic or idiosyncratic?)
- Shocks may also operate through the supply chain
- These spillover effects can adversely affect lenders of the industry in distress: not only because the propagation of shocks may impair the value of the loans they have retained, but also because it may disrupt future business with firms in the distressed industry.

Main Results

- Lenders that have a large share of the loans outstanding in an industry in distress are more likely to initiate new loans to firms in that industry, especially if the industry is prone to fire sales, as proxied by the presence of industry-specific assets (i.e. tangible?)
- Lenders that are prominent providers of credit to an industry in distress are more likely to extend credit to firms upstream and downstream
- High-market-share lenders also provide credit to suppliers and customers of distressed industries
- Overall, high-market-share lenders' liquidity provision along the supply chain stabilizes distressed industries.

Identification/Causality

- Main specification: Loan volume on market share and industry in distress
- Fixed effects: bank-industry (JPM-Oil), bank-time (JPM-Q2-2011), industry-time (Oil-Q2-2011): are reasonably expected to clear “market share” from demand and supply effects
- Possible endogeneity bias: omitted variable (informational advantage) which explains the market share as well as the supplied loan volume
- Unlikely explanation because results are stronger for industries with higher asset tangibility (less subject to information asymmetry) and along the supply chain (\downarrow asset tangibility both proxies for information and specificity?)
- Solution: exploit exogenous variation in industry market shares due to bank mergers

Precommitted credit lines or new loans

- How is lending to industries in distress taking place?
Precommitted credit lines or loans?
- If it was via committed credit lines the story would be relatively more convincing
- Covenant violations and waivers
- Benchmark against Acharya, Almeida, Campello (2013) on the relation between CL and aggregate risk (distress mostly driven by aggregate risk - literature on the distress premium)
- Also consider liquidity choices by firms: are industries with lower lender concentration more likely to manage liquidity with cash rather than credit lines?

Portfolio Share in the industry

- Table 12 explores the role of a lender's portfolio exposure to a given industry
- This measure is considered to be positively correlated with banks' informational advantage in extending loans to an industry (Acharya, Hasan, and Saunders (2006); Loutskina and Strahan (2011)).
- The coefficient for portfolio share of industry is negative both uninteracted and interacted with industry distress
- Is this necessarily a story of information advantage? or instead about portfolio diversification?
- If a bank is exposed to one industry, it may not want to increase that share of the portfolio, particularly if the industry is in distress
- Retention percentages?
- More effort to separate the story of diversification from that of concentration

Possible data issue: Allocation of loan shares

- Bank lending is measured as the dollar amount of loans for which a bank serves as lead arranger
- More explanation seems needed for why this is the right approach. More importantly, is it robust?
- Ignores allocation to other lenders, for which data are notoriously patchy in LPC-Dealscan

Conclusions

- A solid paper that delivers a credible story
- Advice the authors to investigate the credit line vs loan channel
- Better separate their story from one based on portfolio concentration and the need for diversification
- Industry wide distress versus heterogeneity in distress within the industry (effect on competition?)
- Helpful to run robustness checks on how dollar amount of loans are measured
- Relate to debt overhang and zombie lending