ACPR
BANQUE DE FRANCE

Abstracts

1- "Understanding Bank Runs: Do Depositors Monitor Bank Runs?"

- **Rajkamal Iyer (Massachusetts Institute of Technology)**
- **Manju Puri (Duke University: The Fuqua School of Business)**
- **Nicolas Ryan (Massachusetts Institute of Technology)**

We use unique, depositor-level data for a bank that faced a run and was placed in receivership to study whether depositors monitor banks. Depositors with uninsured balances, depositors with loan linkages and staff of the bank are far more likely to withdraw in response to the shock. We are able to contrast depositor behavior to this fundamental shock with an earlier panic at the same bank. Our results suggest that these withdrawals are due in part to the information known to depositors though overall this information appears to be very coarse. Our results provide direct evidence of depositor monitoring and the significance of fragility in a bank's capital structure, and helps inform banking regulation.

2- "Government Guarantees and Bank Risk Taking Incentives"

- **Markus Fischer (Goethe Universität Frankfurt)**
- **Christa Hainz (Center for Economic Studies & Ifo Institute for Economic Research)**
- **Jörg Rocholl (European School of Management and Technology)**
- **Sascha Steffen (European School of Management and Technology)**

This paper analyzes the effect of government guarantees on bank risk taking. We exploit the removal of guarantees for German Landesbanken which results in lower credit ratings, higher funding costs, and a loss in franchise value. The removal was announced in 2001, but Landesbanken were allowed to issue guaranteed bonds until 2005. We find that Landesbanken lend to riskier borrowers after 2001. This effect is most pronounced for Landesbanken with the highest expected decrease in franchise value. Landesbanken also significantly increase their exposure to the global ABCP market. Our results provide implications for the debate on how to remove guarantees.

3- "Deposit Insurance Adoption and Bank Risk-Taking: the Role of Leverage"

- **Mathias Lé (Autorité de Contrôle Prudentiel et de Résolution)**

Explicit deposit insurance is a crucial ingredient of modern financial safety nets. This paper investigates the effect of deposit insurance adoption on individual bank risk-taking. Using a panel of banks across 117 countries during the period 1986-2011, I show that bank risk-taking significantly increases after deposit insurance adoption. This increase is almost entirely driven by an increase in leverage: introduction of deposit guarantees pushes banks to significantly reduce their capital buffer. Most importantly, I find that deposit insurance has important competitive effects: I show that large, systemic and highly leveraged banks are unresponsive to deposit insurance adoption.

4- "Macroprudential Policy, Countercyclical Bank Capital Buffers and Credit Supply: Evidence from the Spanish Dynamic Provisioning Experiments"

- **Gabriel Jiménez (Banco de España)**
- **Steven Ongena (University of Zurich)**
- **Jose-Luis Peydro (Universitat Pompeu Fabra and Cass)**
- **Jesus Saurina Salas (Banco de España)**

We analyze the impact of countercyclical capital buffers held by banks on the supply of credit to firms and their subsequent performance. Spain introduced dynamic provisioning unrelated to specific bank loan losses in 2000 and modified its formula parameters in 2005 and 2008. In each case, individual banks were impacted differently. The resultant bank-specific shocks to capital buffers, coupled with comprehensive bank-, firm-, loan-, and loan application-level data, allow us to identify its impact on the supply of credit and on real activity. Our estimates show that countercyclical dynamic provisioning smooths cycles in the supply of credit and in bad times upholds firm financing and performance.

5- "The Real Effects of Bank Capital Requirements"

- **Matthieu Brun (Banque de France)**
- **Henri Fraisse (Autorité de Contrôle Prudentiel et de Résolution)**
- **David Thesmar (HEC Paris)**

This paper evaluates the impact of regulatory capital requirement on lending and corporate outcomes. The implementation of the Basel II regulatory framework in 2008 in France led banks to substantially modify the regulatory capital associated to each credit line of their corporate portfolio. Exploiting the French national credit register and the internal bank rating models, we are able to match each loan at the firm-bank level with a risk weighted asset charge applied by the bank. We identify the impact of the capital requirement by contrasting the lending of several banks charging different regulatory capital to the same firm.

These charges differ across banks because banks are either under different regulatory regimes (e.g. advanced, foundation or standard approach of Basel II) or simply because they differ in their internal models.

6- "Trading Partners in the Interbank Lending Market"

- **Gara Afonso (Federal Reserve Bank of New York)**
- **Anna Kovner (Federal Reserve Bank of New York)**
- **Antoinette Schoar (Massachusetts Institute of Technology Sloan & NBER)**

There is substantial heterogeneity in the structure of trading relationships in the US overnight interbank lending market: Some banks rely on spot transactions, while most form stable, concentrated borrowing relationships to hedge liquidity needs. As a result borrowers pay lower prices and borrow more from their concentrated lenders. Exogenous shocks to liquidity supply (days with low GSE lending), lead to marketwide drops in liquidity and a rise in interest rates. However, borrowers with concentrated lenders are almost completely insulated from the shocks, while liquidity transmission affects the rest of the market via higher interest rates and reduced borrowing volumes.

7- " Bank Leverage Shocks and the Macroeconomy: a New Look in a Data-Rich Environment"

- **Jean-Stéphane Mesonnier (Banque de France)**
- **Dalibor Stevanovic (Université du Quebec à Montréal)**

The recent crisis has revealed the potentially dramatic consequences of allowing the build-up of an overstretched leverage of the financial system, and prompted proposals by bank supervisors to significantly tighten bank capital requirements as part of the new Basel 3 regulations. Although these proposals have been fiercely debated ever since, the empirical question of the macroeconomic consequences of shocks to banks' leverage, be they policy induced or not, remains still largely unsettled. In this paper, we aim to overcome some longstanding identification issues hampering such assessments and propose a new approach based on a data-rich environment at both the micro (bank) level and the macro level, using a combination of bank panel regressions and macroeconomic factor models. We first identify bank leverage shocks at the micro level and aggregate them to an economy-wide measure. We then compute impulse responses of a large array of macroeconomic indicators to our aggregate bank leverage shock, using the new methodology developed by Ng and Stevanovic (2012). We find significant and robust evidence of a contractionary impact of an unexpected shock reducing the leverage of large banks.

8- " Macroprudential and Monetary Policy: Loan-Level Evidence from Reserve Requirements"

- **Cecilia Dassatti Camors (Banco Central del Uruguay)**
- **Jose-Luis Peydro (Universitat Pompeu Fabra and Cass)**

During the first half of 2008, the Central Bank of Uruguay introduced changes in the regulation of reserve and liquidity requirements, increasing the requirements for short-term funding and funding from non-residents as well as introducing a requirement for interbank funding. The conjunction of these reforms with data that follows all loans granted by non-financial firms in Uruguay allows to identify their impact on the supply of credit. Following a difference-in-difference approach, we compare lending before and after the introduction of the policy changes among banks with different degrees of exposition to the funds targeted by the policies. The results suggest that those restrictions to short-term finance from banks imply a reduction of credit availability as predicted by Diamond and Rajan (2001) and Calomiris and Kahn (1991).

9- "An Empirical Test of Information Spillover and Lending Standards with Sequential Loan Applications"

- **Ugo Albertazzi (European Central Bank)**
- **Margherita Bottero (Banca d'Italia)**
- **Gabriele Sene (Banca d'Italia)**

We present the first empirical study of lending standards in a context where a bank observes whether a borrower applying for a loan has previously applied with other lenders and has been rejected. We do so by exploiting a unique dataset that takes advantage of the fact that the Italian Credit Register discloses such information. We use a robust identification approach, based on the use of loan application and rejection data and bank- and firm- time varying fixed effects; we also corroborate our findings by conducting a regression-discontinuity type of exercise. Our results show that such information is actually incorporated in lending decisions, the more so for opaque borrowers. Credit intermediaries differ in the degree of reliance on other banks lending decisions, in a way that at least partly reflects a larger information content that such signal carries for them.

10- "On the Non-Exclusivity of Loan Contracts: an Empirical Investigation"

- **Hans Degryse (KU Leuven & Tilburg University)**
- **Vasso Ioannidou (Tilburg University)**
- **Erik von Schedvin (Sveriges Riksbank)**

Theory argues that the non-exclusivity of financial contracts generates important negative externalities on lenders that may undermine credit availability. Using a difference-in-difference analysis and a unique dataset with internal information on a bank's willingness to lend to each firm, we find that the bank's willingness to lend to a previously exclusive firm decreases when the firm obtains a loan at another bank ("outside loan"). Consistent with the theoretical literature, the effect is more pronounced the larger the outside loans and is muted when the initial bank's existing and future loans retain seniority and are secured with valuable collateral.

11- "Inconsistent Regulators: Evidence from Banking"

- **Sumit Argawal (Federal Reserve Bank of Chicago)**
- **David Lucca (Federal Reserve Bank of New York)**
- **Amit Seru (Booth School of Business, University of Chicago & NBER)**
- **Francesco Trebbi (University of Columbia & NBER)**

We find that regulators can implement identical rules inconsistently due to differences in their institutional design and incentives and this behavior adversely impacts the effectiveness with which regulation is implemented. We study supervisory decisions of U.S. banking regulators and exploit a legally determined rotation policy that assigns federal and state supervisors to the same bank at exogenously fixed time intervals. Comparing federal and state regulator supervisory ratings within the same bank, we find that federal regulators are systematically tougher, downgrading supervisory ratings almost twice as frequently as state supervisors. State regulators counteract these downgrades to some degree by upgrading more frequently.

Under federal regulators, banks report higher fraction of nonperforming loans, more delinquent loans, higher regulatory capital ratios, and lower returns on assets. Leniency of state regulators relative to their federal counterparts is related to costly consequences and likely proxies for delayed corrective actions—more lenient states have higher bank-failure rates, lower repayment rates of government assistance funds, and more costly bank resolutions. Moreover, relative leniency of state regulators at the bank level predicts the bank's subsequent likelihood of severe distress. The discrepancy in regulator behavior arises because of differences in how much regulators care about the local economy as well as differences in human and financial resources involved in implementing the regulation. There is no support for the corruption hypothesis, which includes "revolving doors" as a reason for leniency of state regulators. We conclude by discussing broader applicability of our findings as well as implications of our work for the design of banking regulators in the U.S. and Europe.

12- "The Valuation Effects of Geographic Diversification: Evidence from Banking"

- **Martin Goetz (Federal Reserve Bank of Boston)**
- **Luc Laeven (International Monetary Fund)**
- **Ross Levine (Brown University & NBER)**

This paper assesses the impact of the geographic diversification of bank holding company (BHC) assets across the United States on their market valuations. Using two novel identification strategies based on the dynamic process of interstate bank deregulation, we find that exogenous increases in geographic diversity reduce BHC valuations. These findings are consistent with the view that geographic diversity makes it more difficult for shareholders and creditors to monitor firm executives, allowing corporate insiders to extract larger private benefits from firms.

13- "A Century of Firm – Bank Relationships: Did Banking Sector Deregulation Spur Firms to Add Banks and Borrow More"

- **Fabio Braggion (Tilburg University)**
- **Steven Ongena (University of Zurich)**

We study how firm-bank relationships and corporate financing evolved during the Twentieth century in Britain. We document a remarkable transition from single to multiple relationships. Transparent, larger, and global companies were more likely to add a bank, especially when located in more competitive local banking markets. Deregulation and intensifying competition in the banking sector during the 1970s spurred banks to supply credit through multilateral arrangements. Firms that added a bank following deregulation borrowed more than similar firms that did not add a bank, and their bank debt expanded while their trade credit and share issuance contracted.

14- "The Impact of Sovereign Debt Exposure on Bank Lending: Evidence from the EuropeanDebt Crisis"

- **Alexander Popov (European Central Bank)**
- **Neeltje Van Horen (De Nederlandsche Bank)**

This paper identifies the international transmission of tensions in sovereign debt markets to the real economy through the channel of bank lending. We show that while the syndicated loan market recovered in the aftermath of the 2008-09 financial crisis, lending by European non-GIIPS banks with

sizeable balance sheet exposure to Greek, Irish, Italian, Portuguese, and Spanish (GIIPS) sovereign debt was negatively affected after bond markets became impaired in 2010. We also observe a reallocation away from foreign lending (home bias). The overall reduction in lending is not driven by changes in borrower demand and/or quality, or by other types of shocks that concurrently affect bank balance sheets. Furthermore, we find tentative evidence that the ECB's liquidity injection in December 2011 has arrested the decline in credit supply.

15- " Dissecting the Effect of Credit Supply on Trade: Evidence from Matched Credit-Export Data"

- **Daniel Paravisini (London School of Economics & NBER)**
- **Veronica Rappoport (Columbia Business School)**
- **Philipp Schnabl (New York University)**
- **Daniel Wolfenzon (Columbia University & NBER)**

We estimate the elasticity of exports to credit using matched customs and firm-level bank credit data from Peru. To account for non-credit determinants of exports, we compare changes in exports of the same product and to the same destination by firms borrowing from banks differentially affected by capital flow reversals during the 2008 financial crisis. We obtain elasticity estimates for the intensive and extensive margins of exports, size and frequency of shipments, and the method of freight and payment. Our results suggest that the credit shortage reduces exports through raising the cost of working capital for general production, rather than the cost of financing export-specific cash cycles or sunk entry investments.