Discussion of:

Lending Standards Over the Credit Cycle

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Summary

- Question:
  - How do lending standards applied by banks to small and medium firms change over the credit cycle?
- How:
  - RDD thanks to institutional feature in screening process
  - Firms A, B differ only in the assessment of perceived risk
  - Allocation of credit: quantity and interest rate
- Results:
  - *In bust:* tightening by cutting quantity to substandard firms $\rightarrow$ real effects
  - *In boom:* relaxation by narrowing interest rates between substandard and performing firms

Discussion plan

Very important question, clean identification

Two main discussion points:

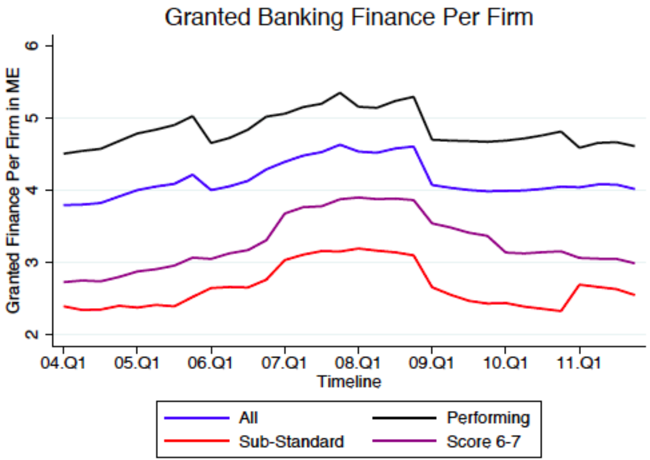
1) Credit cycle or eurozone crisis?
   - Many moving parts in Italy in 2004-11
   - Internal/External validity of economic channels

2) What can we learn from the cross-section of banks?
   - Role of sovereign risk, liquidity shocks, central bank
   - Beyond the scope of this paper, future work?

Credit cycle or eurozone crisis?

- ✓ **Late 2007:** interbank market shock
- **2007-2012:** banks buy risky domestic government bonds
- **2007-11:** ECB gradually substitutes private funding
  - ECB balance sheet from €1 tn in 2007 to €3 tn in 2012
  - ECB as a lender-of-last-resort from October 2008
- **June 2011:** sovereign yields jump to record high

When does the credit cycle peak?



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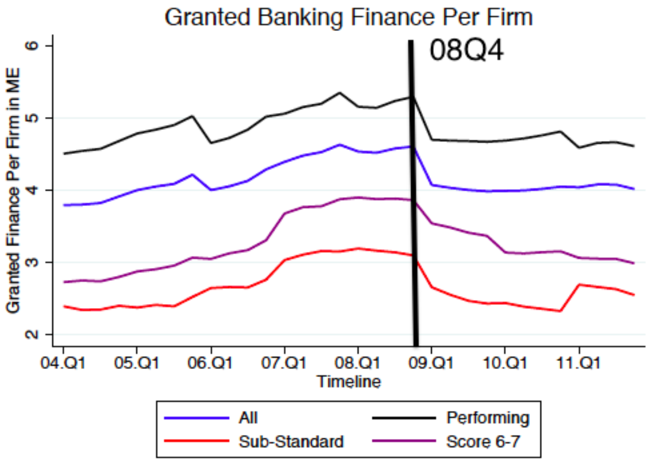

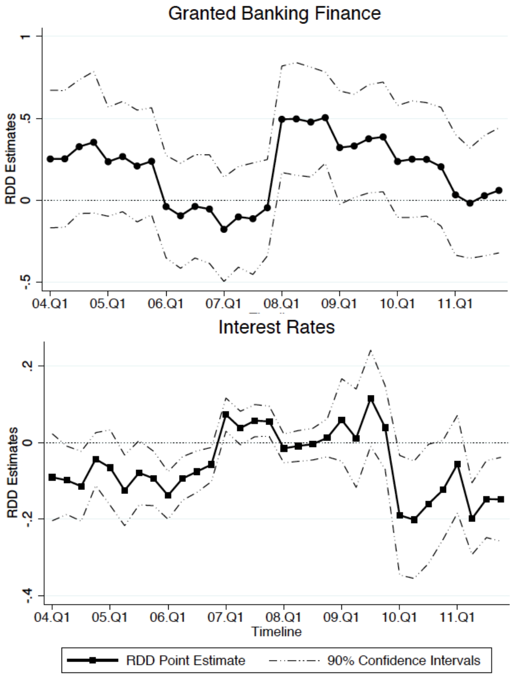

Granted Banking Finance
RDD Estimates
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05.Q1
06.Q1
07.Q1
08.Q1
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10.Q1
11.Q1
Interest Rates
RDD Estimates
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-.4
04.Q1
05.Q1
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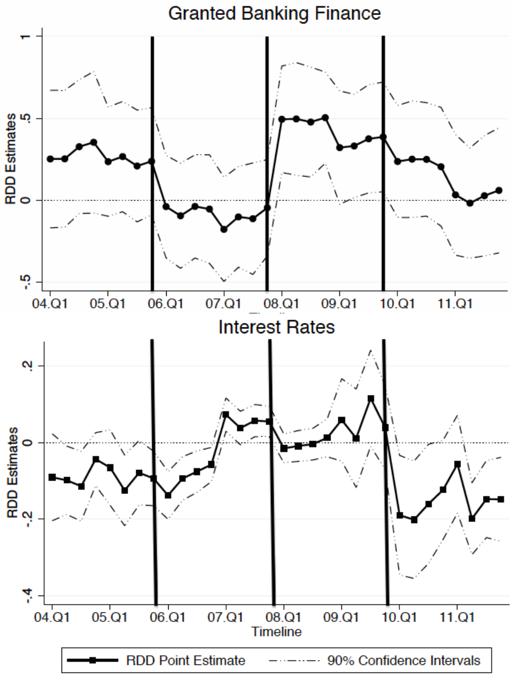
Timeline
RDD Point Estimate
90% Confidence Intervals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Overlooked interesting findings

- Boom:
  - more credit granted to substandard than performing firms (2006-07, not significant)
  - substandard firms charged less than performing firms (2007, significant)
  - → Credit quality deteriorates in booms (Greenwood and Hanson, 2013)
  - → Interesting given current Italian problems
- Bust:
  - Cut to substandard firms against zombie lending

What can we learn from the cross-section of banks?

- Can we understand what drives the boom?
  - More bank cross-sectional analysis neeeded
  - Role of monetary policy
- Can we understand what drives the bust?
  - ✓ Exposure to 2007 interbank shock
  - Extend analysis to 2013 to include 2011-14 cycle
- Can we test credit rationing due to informational frictions (e.g., Tirole, 2006)?
  - Length of relationship
  - Number/types of relationship

Thank you!