Discussion of:

Tracing Banks' Credit Allocation to their Funding Costs

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How do bank funding costs affect bank lending?

- Institutional feature creates variation in funding costs across banks and across time
  - Usually depend on bank level characteristics, macro conditions, and (monetary) policy
  - Here *in part* set by the government for political (exogenous!) reasons

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- Correlation driven by weakly-capitalized banks
- Reallocation in favor of higher-yielding (riskier and longer maturity) loans

Regulated retail deposits in France

- €700 billion savings account are in regulated deposits (75% of savings deposits)
- Tax free, risk free, highly liquid deposits (minimum balance €15)
  - Rate is set by the govt (2.25% in Feb12; 1.25% in Feb14)
  - There is a cap per depositor (€22,950 for "Livret-A")
  - Typically, depositors max out regulated deposits before demanding regular savings products

$$\Rightarrow DepositRatio_{bt}$$

Regression design

$$ln(Credit)_{fbct} = \beta_1 DepositRatio_{bt-1} \times Gap_t + \beta_2 DepositRatio_{bt-1} + \mu_{fbc} + \theta_{ft} + \phi_{ct} + \epsilon_{fbct}$$

- Data collapsed at $\{fbct\}$ level, but RHS variation is at the $\{bt\}$ level
  - Why including the county-level unit of observation?
  - e.g., firm borrowing from the same bank in two different counties
  - Market power argument for the inclusion of ϕ_{ct} is unclear
  - Show robustness

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- What is driving variation in $DepositRatio_{bt-1} \times Gap_t$?
  - Disentangle effect of non-eligible vs. net eligible (latter is anticipated)
  - Are changes is Gap_t driven by MP or by govt deposit rates decisions?

- Gap_t is the difference between the rate on livret-A and the ECB's deposit facility rate
  - but rates on LDD, LEP, livret jeunes, PEL can differ from livret-A

  → can you *check*, at least for a few banks, how accurate the approximation is?

External validity

- Banks with a large share of regulated deposits are different from other banks
- Many convincing tests to address *internal* validity
  - most notably addressing time-varying bank heterogeneity
- More can be done for *external* validity
  - Are treated banks representative? Do the results plausibly extend to other settings?

Feedback effects through capital

"Nonlinear effect of banks' funding costs on their lending supply is consistent with an additional feedback effect from depressed net worth as a result of higher funding costs."

- Potentially very interesting result
- More directly check the effect of funding costs on net worth?

Portfolio rebalancing

Rebalancing is interpreted as yield-seeking following an increase in funding costs

- Do you observe loan rates in the credit register? Rates would the paper more direct evidence
- What about other asset classes? e.g., securities

Overall

- Fundamental question
- Careful execution
- Just a few suggestions