Discussion of:

No News is Bad News: Monitoring, Risk, and Stale Financial Performance in Commercial Real Estate

by Samuel Hughes and Joseph Nichols

Matteo Crosignani
New York Fed, CEPR

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The views expressed in this discussion are solely the responsibility of the author and should not be interpreted as reflecting the views of the New York Fed or of anyone else associated with the Federal Reserve System.

In a nutshell...

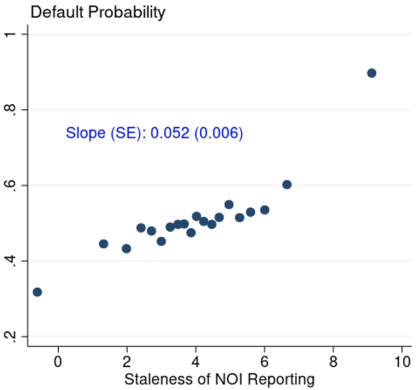
- Y-14 Schedule H.2 CRE loan-level data on offices, multifamily, retail, and industrial

- Banks are supposed to **produce** information by *screening* and *monitoring* borrowers.
- This paper is about *monitoring*
  - Banks seem to **collect** information from borrowers in normal times
  - Positive correlation between stale information and default risk
  - Banks demand more timely information in response to loan- or portfolio-level shocks

$\rightarrow$ **banks' don't *produce* much information?**

Banks rely on collected information but are not great at processing it

- Borrowers update their NOI or occupancy rate $\rightarrow$ banks are 50% more likely to change their PD estimate. My take: **collected information is valuable**
- Lag in reporting is bad signal but banks do not react. My take: **borrowers are strategic; banks are not great at processing information**

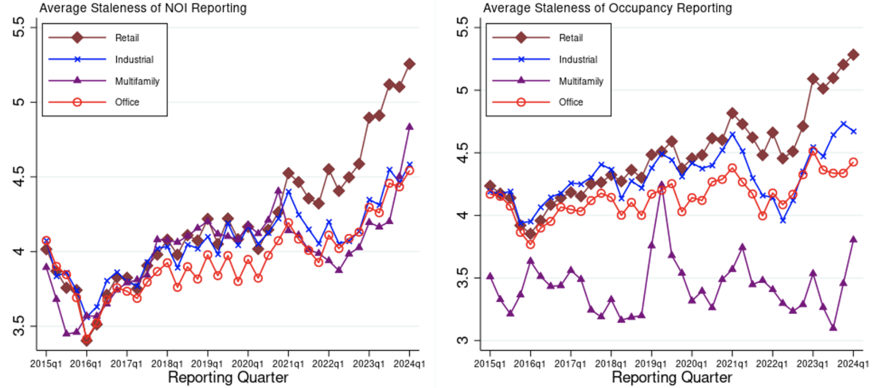


Data residualized with loan fixed effects. In each binned point, the minimum number of loan facilities is 21197 (with max of 67420), and minimum number of banks is 32 (with max of 34).

What are we learning about banks? What is the coherent interpretation of these facts?

Borrowers are likely strategic (hikes impacting NOI)

Figure 2: Average Staleness of Performance Reporting



In each point, the minimum number of loan facilities is 4190 (with max of 32186), and minimum number of banks is 26 (with max of 34).

In each point, the minimum number of loan facilities is 4300 (with max of 32095), and minimum number of banks is 25 (with max of 34).

Two suggestions

- Very interesting set of facts but mostly around property-level information

→ Would be nice to add borrower level information (C&I?)

→ Also, check how the results so far differ in the cross-section of banks

Some evidence of monitoring in bad times

1. Oil price decline in late 2014 $\rightarrow$ banks increase information *collection*
2. Increase in rates $\rightarrow$ banks *collect* more information on floating rate loans
3. Banks *collect* less information on loans where they have recourse

Overall

- Extremely detailed and carefully executed work
- Addresses a fundamental question in financial economics
- Are banks letting firms being strategic only in good times?
- Is supervision playing a role in bad times?
- Is monitoring different than information collection?
- More on the cross-sectional variation across banks