

# Indirect Credit Supply: How Bank Lending to Private Credit Shapes Monetary Policy Transmission

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- ▶ **Effect on firms**
  - ▶ Higher asset growth and investment
  - ▶ Higher default risk

# Comments

- ▶ Important to understand monetary policy transmission through BDCs given their growing importance
- ▶ Impressive data effort
- ▶ Rich analysis: careful attempt to identify underlying economic mechanism driving all results
- ▶ **Suggestions** on the empirical analysis and interpretation of results

## Comment 1: Credit Lines vs Term Loans

$$Y_{i,b,t} = \alpha + \beta_1(BDC_i \times MP_t) + \beta_2 BDC_i + X_{i,t-1} + FE_{b,t} + \epsilon_{i,b,t}$$

- ▶ Dependent variables such as total loan amounts and interest rates are constructed using all types of loan facilities (term loans and credit lines)
- ▶ BDCs rely much more on credit lines than non-BDC borrowers (72% vs 33%)
- ▶ To what extent is the higher interest rate and lending to BDCs during monetary tightening driven by their reliance on credit lines?
- ▶ Credit lines provide flexibility to borrowers during stress periods and could therefore carry a premium, more valuable in stress periods
- ▶ Is it about lending to a **type of borrower** (BDC vs non BDC) or the **type of loan** (term loan vs line of credit)
- ▶ **Suggestions:**
  - ▶ Show that  $\beta_1$  is significant after controlling for Credit Lines  $\times$  MP?
  - ▶ Estimate the baseline equation at the loan level, especially to study the effect on interest rates, and include interactions of both borrower type and loan type with MP

## Comment 2: Mechanism

- ▶ Reallocation of credit towards BDCs during monetary tightening attributed to lower risk associated with lending to BDCs
  - ▶ Loans to BDCs more likely to be first-lien senior secured and collateralized
  - ▶ Lower loss given default
  - ▶ Favorable capital treatment of loans to BDCs

$Y_{i,b,t} : \Delta \text{ Log Loan}$	(1)	(2)	(3)	(4)	(5)	(6)
$BDC \times \text{Tightening}$	0.012** (0.005)	0.047*** (0.013)	-0.622 (0.382)			
$BDC \times \Delta FF$				0.810** (0.381)	2.648*** (0.925)	-28.915*** (8.621)
$BDC$	0.001 (0.003)	-0.011 (0.008)	0.483 (0.376)	0.004 (0.003)	0.002 (0.007)	0.159 (0.198)
Lagged Controls	Y	Y	Y	Y	Y	Y
Bank $\times$ Credit Rating $\times$ YrQtr FE	Y	Y	Y	Y	Y	Y
R-squared	0.046	0.256	0.204	0.046	0.256	0.204
Credit Line Sample	Existing	Limit Expanded	New	Existing	Limit Expanded	New
N	1,533,250	295,176	4,993	1,533,250	295,176	4,993

- ▶ Why do these positive features associated with lending to BDCs not apply to new credit lines? Huge reallocation away from BDCs in new lending (column 6)

## Comment 3: Empirical Evidence on Mechanism

- ▶ Possible to provide more evidence on the mechanism?
- ▶ Exploit heterogeneity in banks' regulatory constraints
- ▶ Banks closer to constraints reallocate credit towards BDCs during tightening
- ▶ Evidence on banks' market power
  - ▶ Exploit heterogeneity across bank-BDC pairs in market power of banks
- ▶ Does the cannibalization channel explain higher interest rates charged to BDCs during tight monetary policy (Jiang, 2023)?

## Comment 4: Transmission to Firms

- ▶ Show baseline effect of monetary policy on investment and other financials
  - ▶ This would help assess whether reliance on BDC dampens or amplifies the effect
  - ▶ Would also help us better understand the quantitative importance of reliance on BDC credit

	Capex/ Total Assets	Asset Growth	Sales Growth	ROA	Interest Coverage
	(1)	(2)	(3)	(4)	(5)
<i>High BDC Reliance</i> × <i>Tightening</i>	0.019*** (0.006)	0.142*** (0.043)	0.009 (0.026)	-0.042*** (0.009)	-1.840** (0.779)
<i>High BDC Reliance</i>	-0.006 (0.004)	-0.125*** (0.021)	-0.032** (0.015)	0.006 (0.005)	0.454 (0.338)
Lagged Firm Controls	Y	Y	Y	Y	Y
3-Digit Ind × Year FE	Y	Y	Y	Y	Y
R-squared	0.163	0.182	0.208	0.305	0.263
N	4,810	4,758	4,774	4,860	4,830

- ▶ To the extent that negative effects on real outcomes are mitigated, BDCs seem to **dampen** not amplify MP transmission

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- ▶ Clarify what the control group is: is it possible that firms with high reliance on BDC credit also have high reliance on bank credit
  - ▶ Total debt includes other types of debt, i.e. credit from banks not in Y-14 or bonds?
  - ▶ How harmful is BDC reliance for firm financial distress compared to bank reliance?
- ▶ Firms reliant on BDCs are smaller and have negative cashflows. These factors themselves can affect monetary policy transmission
  - ▶ Include controls interacting balance sheet variables with MP
- ▶ What factors determine the extent to which BDCs would pass through higher rates to firms?

## Other Comments

- ▶ Why are interest rates weighted by utilization rate and not loan size?
- ▶ Include borrower and lender-borrower fixed effects in all regressions
- ▶ Redo figure 2 by loan types: interest rate difference in credit lines for BDC vs non BDC borrowers, same for term loans

# Conclusion

- ▶ I really enjoyed reading the paper
- ▶ Exciting research agenda! Look forward to more research on this topic