Discussion of Paper: Liquidity Insurance versus Credit Provision: Evidence from the COVID-19 Crisis
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➢ Social distancing, lockdowns and uncertainties weighted on the economies worldwide during 2020-21;

➢ Sharp declines in revenues in affected economic sectors;

➢ Disruptions in funding=> accelerated credit drawdowns on existing credit lines=> pressure on banks in terms of liquidity and capital;

❖ **Novel research**–very useful to understand how external shocks (COVID-19) and subsequent mitigation policy actions could influence bank lending decisions and implications for financial stability and monetary policy;

- **Objective**: to examine the effects of the surge in credit line utilization on banks' subsequent lending decisions and discuss policy implications financial stability and monetary policies;

- The paper sheds light on the link between the provision of liquidity insurance to firms through access to bank credit lines and the sustained supply of credit
    - Specifically, it examines the link between the bank balance sheet pressures caused by drawdowns and banks' credit provision in subsequent quarters;
    - Use of data across a variety of credit markets—including syndicated lending to large and mid-sized firms, small business lending, and lending through government-sponsored credit programs—in U.S. and foreign banks;

    - A unique novel contribution to examine possible mechanisms linking credit line drawdowns to banks' lending decisions, to better understand the role of changes in risk tolerance caused by unexpected drawdowns

    ➢ This is a **paper** that contributes to better understand banks' lending behaviours in crises situations, fundamental to building resilience to extreme shocks;
    ➢ Important implications for stress testing and bank risk monitoring;

Data and Methodology:

Bank data for US and Global

- Loan-level data from Refinitiv Dealscan, a global database of syndicated C&I loans to large and mid-sized firms (ranging in size between $100,000 and $50 billion). The dataset includes loans by foreign and U.S. banks;
- Bank-level survey data from the 2020 Senior Loan Officer Opinion Surveys (SLOOS) administered by the Federal Reserve;
- Supervisory Segment-level Data (U.S. Credit Register for Small Business Loans);
- Loan-level data from the Paycheck Protection Program, for loans below $150,000 granted between April and June 2020, come from the U.S. Small Business Administration (SBA) website;
- Bank-level data on participation in the Main Street Lending Program (MSLP)
- are drawn from public sources.

Empirical paper build on three-steps empirical strategy:

1. construct a bank level measure of exposure to credit line drawdown risk – Data on credit lines originated by banks in the syndicated loan market and estimate the size of outstanding credit commitments in percent of total assets, before the onset of the pandemic
2. Use of a variety of datasets at the loan- and bank level to establish a link between pre-pandemic credit line exposure and lending decisions;
3. Examine potential mechanisms by which credit line exposures may affect lending decisions using confidential survey data on banks' motivations to tighten lending standards during the crisis

Results:

1. Global banks with high ex-ante credit line exposures (measured at 2019 year end) curtailed the supply of new syndicated loans in 2020:Q2;
2. Using banks' responses to the 2020 Senior Loan Officer Opinion Surveys (SLOOS) conducted by the Federal Reserve, more exposed banks tightened the standards and terms of new C&I loans and credit lines, especially in 2020:Q2, while controlling for changes in the demand for loans;
3. Using loan-level data from U.S. Small Business Administration's Paycheck Protection Program (PPP), more exposed PPP lenders made fewer loans under the program. In bank-level data, more exposed banks were less likely to grant loans through the Federal Reserve's Main Street Lending Program (MSLP);
4. Evidence on the mechanisms behind the negative link from credit line drawdown risk and bank loan supply. Highlighting the importance of changes in risk tolerance at banks during the pandemic;

Improvements/extensions:

➢ On the data:
  ➢ Period of analysis could be extended to 2021 to include extended COVID-19 period;
  ➢ Consider to do the same analysis for other markets if data avail;

➢ On the overall structure of the paper :
  ➢ Expand the discussion on the liquidity insurance versus credit provision

➢ On the results and policy discussion :
  ➢ Preliminary results and policy recommendations for the US market
  ➢ Impacts of the programs to alleviate the impacts of COVID-19

- *Thank you*
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