Discussion: Nonbank Lenders as Global Shock Absorbers: Evidence from US Monetary Policy Spillovers

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Summary and Research Question

- Do non-banks absorb global shocks caused by U.S. monetary policy in the syndicated loan market?
- Focus of the existing literature on banking sector transmission: *international bank lending channel of monetary policy*
  - International bank lending declines when U.S. monetary policy tightens
  - Stronger effect for lending to riskier borrowers and emerging market borrowers
- Non-banks play increasingly important role in lending markets
- Little evidence on how lending by international non-bank financial intermediaries responds to US monetary policy

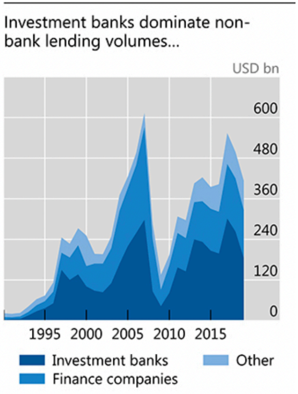
Channels

1. Lender risk aversion and borrower balance sheet strength
   - Contractionary US monetary policy leads to higher volatility $\rightarrow$ tightens Value-at-Risk constraints and causes dollar appreciation
   - Works similarly for banks and nonbanks
2. Deposit channel of monetary policy (DSS 2017)
   - Increase in the Fed Funds rate causes deposits to flow out of banks, due to market power in deposit markets
   - deposits flow to shadow banks such (e.g., MMFs), which provide funding to 'downstream' nonbank lenders
   - $\rightarrow$ nonbank lenders could attenuate US monetary spillovers, with nonbanks substituting for the reduction in bank credit supply

Results

- When monetary policy tightens, nonbanks increase the supply of syndicated dollar credit to non-US borrowers, relative to banks
- Relative increase in nonbank lending is stronger for riskier borrowers
- At firm-level, a tightening of US monetary policy leads to
  1. a decrease in total bank lending
  2. an increase in total non-bank lending
  3. a decrease in total borrower credit
  4. borrowers with non-bank relationships increase investment and employment relative to borrowers without non-bank relationships
- Many robustness checks, cross-sectional test...
- Very convincing evidence

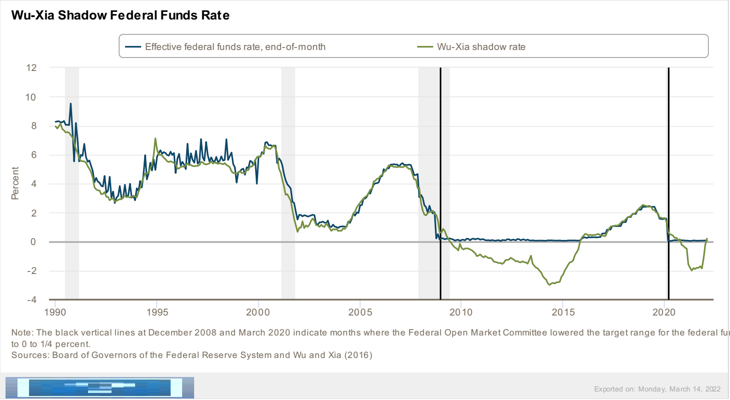
The rise of nonbank lending



Source: Aldassaro and Doerr (2022)

- Significant growth in nonbank lending between 2004-2007 and 2010-2015

Yet, evolution of monetary policy stance differs substantially



- Tightening of U.S. monetary policy between 2004-2007
- Highly accommodative monetary policy between 2010-2015

Effect in recent years with zero (negative) rates?

- Authors confirm that the key result holds for pre-2007 period?
- What about the last decade? We saw a significant rise in non-bank financing despite highly accommodative monetary policy?
- Does this relation still hold in the more recent period?
- Deposit channel potentially less powerful in zero/negative interest rate environment?
- Retail deposit rates barely went negative in the first years of negative interest rate policy
- Potential decoupling of bank market power and deposit rates

Has the effect changed? Last decade driven by reaching for yield?

- Is the recent rise in nonbank lending driven by reaching for yield in a low interest rate environment?
- Would be interesting to see whether interest rates charged on syndicated loans that include nonbanks behaved in the same way in 2004-2007 and 2010-2015
- Low interest rates make it difficult for nonbanks that promise fixed nominal yields to deliver on their promises

Last decade driven by reaching for yield? - Cross-section of nonbanks

- Is the nonbank lending increase post-GFC driven by specific types of nonbanks (e.g., insurance companies) that promise debtors fixed nominal yields?
- Would be helpful to see more on the cross-section, i.e., whether different types of nonbanks drive results in different time periods (pre/post-GFC)
- Some more discussion on whether the function of nonbanks as global shock absorbers still works post-GFC would be important from a poilcy perspective

Conclusion

- Highly important paper
- Very well executed
- A bit more on whether this effect holds in general or is present only in certain time periods would help to sharpen the message even more