

Mortgage Liquidity Shocks and Corporate Lending:
Evidence from Household-Initiated Bank Balance Sheet Adjustment

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Discussion

by

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ChaMP closing conference; Rome, July 6, 2026

Findings

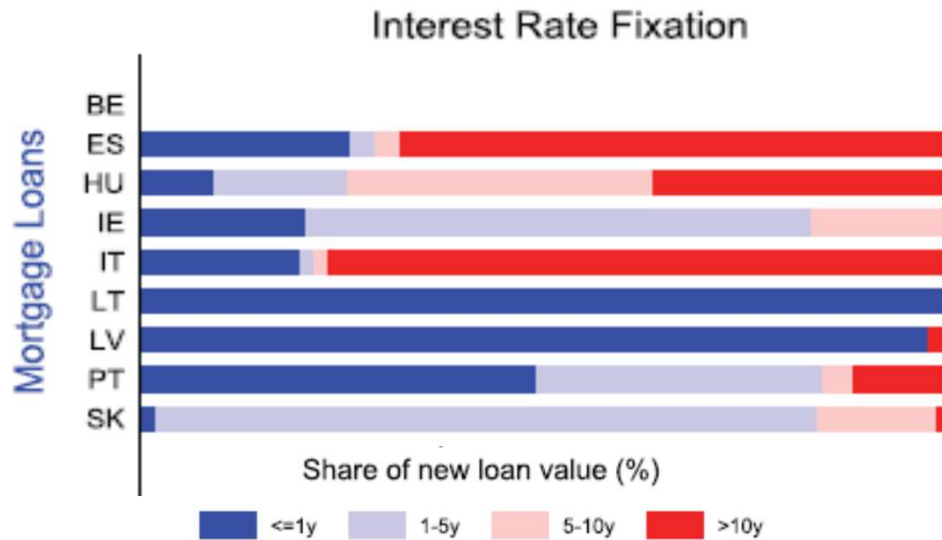
- Monetary tightening cycle in 2022-2023 induced
 - high-income Spanish households with ARMs to early redeem (part of) their mortgage – 9% of outstanding.
 - Bank liquidity position improved
 - Banks more exposed to this mechanism redirect this additional liquidity disproportionately towards safer and smaller SMEs implying a lower contraction in overall credit.
 - No evidence of risk taking as these loans exhibit lower delinquency rates.
- This paper identifies a “cross-segment” mechanism where households’ decisions spill over towards SMEs

Novel Contribution

- Paper links different segments (i.e., households and firms) in terms of loan prepayments through bank balance sheets
- Makes a clever use of various granular datasets
 - Spanish household and firm credit register/ income at zip code
- Previous work has linked segments through
 - Capital channel: macroprudential policies on mortgage exposures spills over to SME segment (e.g., Auer et al. JFI 2016)
 - Deposit funding channel: banks' greater reliance on household deposits versus bonds leads to more lending to firms (Carletti et al., JFE2021).
- This paper: liquidity channel as banks more exposed to positive liquidity shock grant more loans to SMEs relative to less affected banks

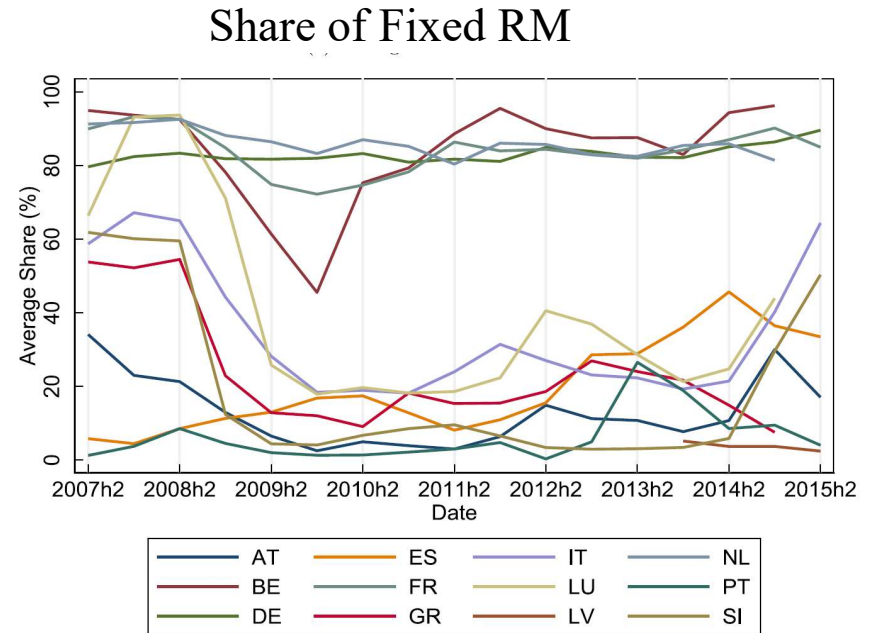
Broader picture (1)

- Loan contracts and interest rate fixation periods differ considerably across Eurozone countries.



Period 2022-2024

Source: De Jonghe et al., (IJCB 2026)



Albertazzi et al., (EER 2024)

- Fixation periods in Spain seem to vary quite a bit over time
- External validity of results?

Broader picture (2) – potency of channel

- A one standard deviation increase in exposure leads to a 2.5 percentage point larger firm credit growth
- Drop in credit growth changes from -4.8% to -4.23%
 - Is this a lot? Possibly it is an underestimate given
 - the cross-sectional identification
 - Loan renegotiations: banks may offer lower spreads in case they have fewer investment opportunities (Core et al., 2025)
 - It could be an overestimate if firms substitute away from less affected banks – firm level regressions could help
- Symmetry of channel: what happens in case of interest rate drop?

Alternative channels

- Bank balance sheet can be impacted in many ways due to redemption of mortgage loans
 - Asset side:
 - fewer mortgage loans (in case loans were not securitized)
 - More cash (or reserves) with central bank
 - Liability side
 - Less deposits if households use deposits to redeem mortgage loans
 - Key assumption is that households do not use deposits to redeem mortgage loans
 - Banks' deposit rate setting influences this

Alternative channels (2)

- Banks specializing in regions with high income and early redemptions may differ in other dimensions
 - Relationships with firms and their investment opportunities
 - banks with greater exposure to early redemptions may also have lending relationships with firms with better investment opportunities.
 - Finding could be a credit demand effect
 - Business models
- Reassuring that authors include other bank controls but one could learn from removing them to see in which direction the bias goes.

Alternative channels (3)

- Regulatory capital
 - Banks with greater redemptions see a release in regulatory capital
 - May lead to greater credit supply to SMEs

Dep. Variable	(1)	(2)	(3)	(4)
	$\Delta\text{Credit}_{f,b,t}$			
$\text{Post}_t \times \text{FRM}_{b,p75}$	0.399*** [0.127]	0.478*** [0.144]	0.360*** [0.135]	0.362*** [0.114]
$\text{Post}_t \times \text{Distance Tier 1 Capital Ratio}_b$		0.535*** [0.117]	0.674*** [0.147]	0.672*** [0.157]
$\text{Post}_t \times \text{Income Gap}_b$			0.152*** [0.052]	0.149*** [0.052]
$\text{Post}_t \times \text{Liquidity Ratio}_b$				0.244 [0.268]

- “Distance Tier 1 capital ratio” may not fully capture this mechanism as it does not proxy for “release in capital”.
- Preservation of risk weights

Concluding remarks

- Clever use of granular datasets.
- Monetary tightening cycle in 2022-2023 induced richer households to redeem adjustable-rate mortgages.
- Greater liquidity seems to be dampening the bank lending channel of monetary policy towards firms.
- Households' behavior impacts potency of bank lending channel towards SMEs.
- Shock might also trigger alternative channels.