“The real effects of relationship lending” – Discussion of Banerjee, Gambacorta, Sette (2016)

First BdF-Bdl Workshop in empirical corporate finance
BdF, Paris, 9 June 2017

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The lender-borrower relationship: a definition

• Relationship = « provision of financial services by a financial intermediary that:
  
  – invests in obtaining customer-specific information, often proprietary in nature;
  
  – and that evaluates the profitability of these investments through multiple interactions with the same customer over time and across products » (Boot, JFI 2000)

• Raises issues of:
  
  – Firm’s switching costs, bank’s rents depending on: duration, scope…
Relationship banking: some (light) theory

- Repeated information exchanges => informational capital that is firm-bank specific

- Bank’s informational advantage => bank can charge slightly above cost rate to good customers.
  - These customers would get (higher) rate for average firm from other uninformed banks (cf. e.g., Sharpe, 1990).

- Banks and firms may have interest in increasing switching costs (transactional and informational):
  - Bank locks in borrower to preserve rents,
  - Borrower receives liquidity insurance from lender…
**Relationship lending during a crisis: what do we expect?**

- During a financial crisis:
  - Banks hit by funding/capital shock: credit supply decreases
  - Firms hit by ensuing recession: possible run on credit lines

- Relationship banks may [cf. Gobbi & Sette, 2014]:
  - Support relationship borrowers **more**: informational advantage hypothesis / liquidity insurance hyp.
  - Support relationship borrowers **less**: hold-up hyp.
  - **No difference** / transactional lenders: bank’s liquidity constraint hyp. (what matters is exposure to bad shock)

- Financial health of bank should matter: continuation values
Relationship lending during a crisis

• Identification problems:
  – Selection of borrowers (on unobservable) into relationship lending
  – Correlation of borrowers’ credit demand with their quality
  – Correlation of banks’ characteristics/business model with their lending policy during the crisis

• Solutions:
  – Look at multibank borrowers only => Firm*time FE included
  – Include Bank*time FE
Overview of this paper

• Questions:
  – Do longer credit relationships insulate borrowers more from credit contraction during a financial crisis (Lehman) / a truly systemic banking crisis (Italy post 2011)
  – what are the real effects (on fixed capital investment, total labor costs)?

• Empirical approach (1):
  – Bank-firm panel regressions of credit growth / interest rates paid on (log) relationship duration and its interactions with crises dummies:
  – Coefficient of interest: \( \ln(relationshipduration_{ij}) \times PostXX \)
    where XX=2008 or 2011
  – Saturation with Bank*time and Firm*time FE, double clustering of innovations at Bank and Firm levels
Overview of this paper (2)

- Empirical approach (2):
  - Firm panel regressions of credit growth / interest rates / investment / growth of labor costs on credit weighted (log) relationship duration and interactions with crises dummies
  
  - Coefficient of interest: \[ \left[ \sum_j \text{credit}_{ij} \times \ln(\text{reldur}_{2006,ij}) \right]_i \times \text{PostXX}, \]
    where XX=2008 or 2011
  
  - TV firm controls (leverage, ROA, interest-income coverage)
  
  - Saturation with *Bank and Firm FE*, double clustering of innovations at *Bank and Firm* levels
Overview of this paper (3)

• Results:
  – Longtime borrowers more insulated from Lehman shock: credit lines (more, cheaper credit) and term loans (not more but cheaper)
  – Insulation reinforced during following systemic crisis when lender well capitalized + when pre-crisis rates higher (liquidity insurance hyp.)
  – Real effects: more investment, more employment growth

• Praise:
  – Nice extension of Gobbi and Sette (JEEA, 2014)
  – Lots of results and robustness checks: 14 Tables + 11 Appendix Tables…
  – Not many low-hanging fruits for discussant to pick!
Comments

• Two stories: liquidity insurers vs zombie lenders
• Data issues: monobank firms, sampling, attrition
• Relationship duration: why, what for?
• Other, minor issues
## Liquidity insurance or zombie lending?

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<td>Stronger CL growth post ’08, but not for TL</td>
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<td>4</td>
<td>Lower rates post ‘08 (CL)</td>
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<td>Lower rates post ‘11 (TL)</td>
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<td>Stronger credit growth, high cap banks post ‘08</td>
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<td>Lower total rates, high cap banks post ‘08</td>
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<td>Lower total rates, highly leveraged firms post ‘11 (CL)</td>
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<td>Lower total rates, high ROA firms post ‘11 (CL)</td>
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<td>Higher positive impact of duration on post ‘08 credit when higher ex ante interest rates</td>
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<td>13</td>
<td>More credit, investment, employment, high cap banks, post ‘08, ‘11</td>
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<td>More investment, high leverage firms, post ’08, ‘11</td>
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<td>More investment, low ROA firms, post ’08, ‘11</td>
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Data issues

- Multibank firms only: too limitative?
  - French credit registry, threshold 25k EUR (2011Q3): monobank firms = 80% of firms (out of 1.4 millions), 60% of credit links (out of 2 millions), 24% of outstanding credit...
  - Alternative (Ongena et al.): all firms + Region*Industry*Size*Time FE

- Sampling
  - Random draw + keep 10% of observed links out of 3 millions: OK, except if some covariates have strongly non-gaussian distributions (eg, duration, credit size…)
  - As robustness: try another draw
Data issues (2)

- Attrition in firm-level regressions: only long durations and resilient firms (or zombies?) at sample end: unknown sign of bias, but my guess is positive (compare magnitudes of firm-bank with firm-level results?)
**Relationship duration: open the black box?**

- What does relationship duration measures?
  - What theory predicts: gathering of information and acquisition of liquidity insurance…
  - Other, structural/institutional features?

- Possible reasons why duration may be longer:
  - Political connections at local level?
  - Business model of some types of banks? (Monte di Pieta, Savings banks… vs large nation-wide banks)? => describe relationships by bank type
  - Link with issue of more multiple banking in Italy. Why? A case for bank-specific loan demand? (long duration but small scope?)
Minor comments

- WLS yields same results as OLS => small firms benefit more from insulation?

- Say more on economic significance: for instance, impact of 1 year more duration in tables 3-4 (cf. coeff of 1 in table 4: interpretation = mean duration * 3 ? From 6 to 18 years then?)

- Table 13: bank’s CET1 ratio instead of “leverage” col. 1-2

- Log(duration) in equation 1 (instead of duration)