# Discussion of
# "Nonbank Lending and Credit Cyclicality"

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# Facts

1. Nonbank lending is 3X as cyclical as lending by banks
    - Using “A” and “B” term loans in syndicated lending to classify as in Ivashina and Sun (2011)
    - Cyclicality in quantities, in probability of getting loans, and in pricing of loans
2. Banks are close to acyclical; the cyclicality comes from shadow bank behavior
3. Cyclicality in shadow bank behavior is matched by cyclicality in their funding

# Assessment

- Valuable compilation of syndicated loan data linked to non-bank investors
- Consistent with other findings in the literature on cyclicality of banks vs non-banks
  - Procyclicality of broker/dealer leverage (Adrian-Shin); banks funding inflows and asset expansion during crises (Gatev-Strahan, He-Khang-Krishnamurthy)
- Adds a new element to corporate bond vs bank cyclicality (Becker-Ivashina, Adrian-Colla-Shin)
- The "why" question:
  - Is it about heterogenous bank cyclicality? NO
  - Is about characteristics of borrowers and match to banks? MAYBE
  - Is it about banks' stable funding vs non-banks unstable funding? MAYBE
  - Is it about generalized investor risk aversion? MAYBE

# Is it about heterogenous bank cyclicality? NO

- Some banks are more cyclical, and they are mechanically related to non-banks in the origination process, and hence its banks that drive cyclicality

- Results based on cyclicality of A and B loans for the <u>same</u> originating bank rules this out

# Is about characteristics of borrowers and match to banks? MAYBE

- Some firms need bank monitoring (e.g.) in downturns

- Natural hypothesis is that these are risky firms; and paper shows that cyclicality remains after controlling for firm risk

- But may not just be riskiness:
  - Opaque hard to value business lines
  - Younger firms

# Is it about banks' stable funding vs non-banks unstable funding? MAYBE

- Paper shows correlation between cyclicality of flows into funds and share of non-bank lending
- Uses GZ spread as instrument aiming to show causality
  - Not sure why this is a good instrument; exclusion restriction?
- Suggestive evidence, but correlation at this point

# Is it about generalized investor risk aversion?
MAYBE

- Banks are backstopped; non-banks are not
- Bank lending will be less sensitive to shifts in generalized risk aversion
- Not my favorite explanation … but fits the data at this point

# Summary

- New data and new facts
  - Help to deepen our understanding of banks vs non-banks
- Questions about mechanism