

Nonbanks, Banks, and Monetary Policy: U.S. Loan-Level Evidence since the 1990s

By: Elliott, Meisenzahl, Peydro, and Turner

FRBNY: Financial Stability Considerations for Monetary Policy

September 30, 2022

Christa H.S. Bouwman

Adam C. Sinn '00 Department of Finance at Texas A&M University,
ECGI, and Wharton Financial Institutions Center

Summary

- Nonbanks (funds, shadow banks, fintech) play an increasingly important role in lending.
 - Provide more than half of new consumer loans (incl. mortgages) and increasing share of corporate loans.
- Effect of monetary policy on bank lending is well studied.
 - Bank lending channel: tightening → banks cut credit supply.
- Effect of monetary policy on nonbank lending is unclear.
 - Tighter monetary policy negatively affects funding conditions of all financial intermediaries that borrow short-term?
 - Tighter monetary policy reduces risk appetite → affects nonbanks more negatively since they are less regulated?
 - Tighter monetary policy affects nonbanks less negatively since it causes deposits to flow from banks to nonbanks?

Summary

- Main question: Do nonbanks affect the transmission of monetary policy via a ***credit supply channel?***
(Paper does not formulate a question.)
 - Approach:
 - Use Gertler-Karadi monetary policy shocks.
 - Use loan-level data including banks *and* nonbanks 1990 - 2012.
 - Consumer auto loans
 - Corporate loans
 - Mortgages
- } kudos!
- Match loans to outcomes (firm output, auto sales, house prices).
 - Identify differential impact of monetary policy on credit supply by comparing how banks–nonbanks differentially lend in same loan.

Summary

- Main question: Do nonbanks affect the transmission of monetary policy via a ***credit supply channel?***
- Main finding: YES!
 - Tightening → shift credit supply from banks to nonbanks.
 - Attenuates effects on investment (via corporate credit).
 - Non-banks increase lending by 3.4% relative to banks following 25 bps increase in fed funds rate.
 - Neutralizes effects on consumption (via consumer loans).
 - Attenuates effects on house prices (via mortgage supply).
 - Tightening → increased risk taking
 - Nonbanks expand credit supply in all 3 markets, especially to riskier borrowers.
 - Different from ***risk-taking channel*** of monetary policy: tightening → reduced risk taking

Assessment

- Timely and relevant topic:
 - Role of nonbanks in monetary policy transmission.
- Very interesting findings.
- Main suggestions:
 - Formulate main hypothesis.
 - Who are the nonbanks?
 - Identification strategy is a bit unclear.
 - Improve discussion of Gertler-Karadi's (2015) shock measure.
- Provides a lot of food for thought.
 - Highly recommend it!

Comments

- The paper generally reads well.
- The paper would benefit from formulating a main hypothesis / several hypotheses.
 - p. 32: ... assess our main hypothesis that higher monetary policy rates increase nonbank credit availability in the mortgage market.
 - p. 34: Consistent with our main hypothesis, we find that, relative to banks, nonbank lenders reduce credit less than banks following higher monetary policy rates in the market for new home purchase conforming loans.

Comments

- Who exactly are the nonbanks?
 - The paper analyzes three lending markets: consumer auto loans, corporate loans, and mortgages. The nonbanks operating in these markets are very different.
 - To what extent are the results driven by different types of nonbanks in these markets?
 - Can the unintended consequence (tightening → increased risk taking) be reduced via capital requirements on (at least a subset of) nonbanks?

Comments

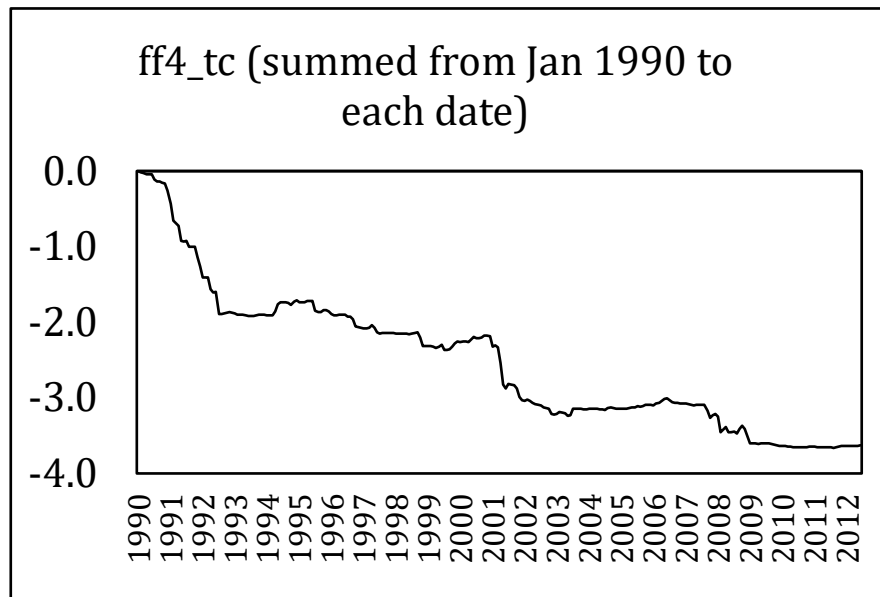
- The paper's identification strategy is somewhat unclear.
 - Uses Gertler and Karadi (AER 2015) monetary policy shocks.
 - Description in the paper is too succinct.
 - Issue: Monetary policy is not exogenous: affected by economic conditions.
 - Solution: use Gertler and Karadi monetary policy shocks.
 - Based on high-frequency measurement of fed funds and Eurodollar futures trading on FOMC dates.

Comments

- Issue: paper's dependent variable is based on level of new loan issuance.
 - Cannot be converted into changes because individual firms and loans do not take out loans frequently.
- Solution: aggregate the policy shocks to a cumulative shock series so that the measure captures a level of monetary policy.
 - Problem (?): papers cited (Romer and Romer, 2004; Coibion, 2012; Ramey, 2016; Cloyne and Hurtgen, 2016; Nelson, Pinter, and Theodoris, 2017) use **VAR** to estimate the effects of policy shocks.
 - Thus, cumulating shocks as an input to VAR with multiple lags naturally recovers the period-by-period shocks as independent variables.

Comments

- The paper should clarify which data series provided via Peter Karadi's website is used and how the data are aggregated into the cumulative shock series.
 - The paper likely cumulated the year-ahead fed funds futures shock available from 1990-2012L



If this figure reflects the shocks used in the paper, then the shocks are easing shocks and coefficients show activity moving from non-banks to banks under easing...

(Reversal of treatment described by paper.)

Estimated coefficients could be valid if effects of easing and tightening are symmetric.

Conclusion

- Timely and relevant topic:
 - Role of nonbanks in monetary policy transmission.
- Very interesting findings.
- Main suggestions:
 - Formulate main hypothesis.
 - Who are the nonbanks?
 - Identification strategy is a bit unclear.
 - Improve discussion of Gertler-Karadi's (2015) shock measure.
- Provides a lot of food for thought.
 - Highly recommend it!