

Discussion of Ono-Uesugi-Yasuda
paper

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Summary of the paper

- ▶ Examines the impacts of the Emergency Credit Guarantee (ECG) program (10/31/2008-present) on (1) availability of credit and (2) ex-post performance
- ▶ Use the propensity score matching to compare **a firm that received an ECG loan** to **a very similar firm that did not receive an ECG loan**



Finding

1. Firm that receives ECG loan sees its borrowings outstanding from every source increase (the bank that extends the ECG loan, other banks, and other creditors)
2. Total bank loans outstanding from the bank that extends the ECG loan do not increase as much as the amount of the ECG loan → the bank *decreases* non-ECG loan
3. ECG recipients *do not* invest more, hire more, or accumulate more cash.
4. ECG recipients experience declines in TSR credit score, gross revenue, and total cost. Their ROAs do not suffer significantly.
5. Similar results for ECG loan recipients from their main banks, except they increase cash holdings
6. For the recipients from non-main banks, ECG loan only increases the loan outstanding from that bank



Interpretations

1. ECG program increased credit availability
 2. But the main banks “misused” it by decreasing their non-ECG loans
- Close firm-bank relationships makes a public credit guarantee program less effective



Comments

- ▶ Very interesting paper on a very important issue
- ▶ As the paper argues, we have observed credit guarantee programs expanded in many countries after the financial crisis of 2008.
- ▶ Important to evaluate the effects.
- ▶ Interesting results but some of those need further investigations
- ▶ My list of questions follow



1. Firms that asked for ECG loans and got rejected

- ▶ It is not clear how they are treated in the analysis
- ▶ A TDB report in May 2009 reports the rejection rate of 8.2% according to their survey
- ▶ Do they form a better control group than the firms that did not ask for loans?
- ▶ Should we also separate the firms that made loan enquiries to the banks rather than considering that as one of the many firm characteristics? (Currently some comparisons must be between a company who asked and one who did not)



2. Loan Retirement

- ▶ Does the database include the amount of repayment to each bank?
- ▶ Did the firms use the ECG loans to repay the existing loans?



3. Retirement of Guaranteed Loans

- ▶ The evidence for the MB misbehavior:
(Difference in) ECG Loan > (Difference in) Changes in Outstanding Loan
- ▶ But:
Change in Outstanding Loan = ECG Loan + Other New Loan + Drawdown – Guaranteed Loan Retirement – Non-Guaranteed Loan Retirement
- ▶ Maybe better to look at ECG Loan – Guaranteed Loan Retirement
- ▶ Also a possibility that the reduction of MB loans mostly come from higher loan retirement (for example, ECG loan recipients tend to have more refinancing needs, or shorter maturity structure?)



4. Does the result suggest the main bank relationship is harmful?

- ▶ because it reduces the effectiveness of a credit guarantee program?
- ▶ We may want to ask an opposite question: do we need a credit guarantee program when the relationship banking is working?
- ▶ In an ideal case of the relationship banking, the problem of credit rationing is solved through relationship, so the problem that a credit guarantee program intends to solve does not exist.



5. “Spillover” effects of ECG loans?

- ▶ Even if an ECG loan is completely offset by a decline in non-guaranteed loans by the main bank, it could still lead to an increase in loans in the economy as a whole if the main bank lends to new firms
- ▶ Can this database capture such effects?
- ▶ We should probably look at the bank side data
- ▶ Do the banks that extend ECG loans increase their total loans?
- ▶ They can substitute some existing loans with ECG loans that do not cost capital.



6. Decline of Performance of ECG recipients

- ▶ Or do these suggest restructuring?
- ▶ Cost falls, although employment does not.
- ▶ Is Score an endogenous variable (does ECG loan change the TSR credit score?)

