Abstracts

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Bank Lending Channel: Evidence from the Oil Price Shock (JMP)

Abstract: In this study, I find empirical evidence of the bank lending channel that transmits a shock from the banks to the corporate borrowers. In particular, when banks experience a shock that limits their credit availability, the banks change their lending standards by raising the loan interest rate or allowing less loan amount for the new loans. Consequently, the borrowers who are not affected by the shock initially then receive the burden indirectly from the banks, facing increased borrowing costs. To investigate the existence of the bank lending channel, I use the dramatic oil price drop in late 2014 as a shock, which stressed banks’ credit availability due to a large number of troubled oil loans that were accumulated since the Shale revolution in 2010. As a result, I find that the treatment banks - banks that are more exposed to the oil loans - charged higher loan interest rate to all borrowers after the oil price shock, than the control banks - banks that have less exposure to the oil loans - did. Furthermore, the difference in loan pricing between the treatment and control banks gets more prevalent among the firms who are bank-dependent which have limited access to external funds. These findings indicate that the banks propagate shocks to the firms through the bank lending channel and may raise the loan interest rates selectively to the bank-dependent borrowers. Moreover, using the Synthetic Control (SC) method, I find that the bank-dependent borrowers from the treatment banks performed relatively worse, which implies that the limited access to the external funds makes the firms’ performances more prone to the bank lending channel effects.

Systemic Risk Measures with Bank Portfolio

Abstract: Existing market-based systemic risk measures such as MES, SRISK, and CoVaR have limitations to correctly identify the systemically important financial institutions (SIFIs) or global systemically important banks (G-SIBs). This problem arises due to the conditioning information when calculating conditional expectation of a financial institution’s stock return. As a result, the ranks of systemically important banks vary depending on which statistical measure one uses and the results are not robust to changes in assumptions. To be able to identify the structure of the financial system, market-based measures need additional information other than stock returns. In this paper, I use banks’ portfolio to incorporate industry-specific risk exposure to the calculation of systemic risk.

Identifying Systemically Important Financial Institutions in Financial Network