Discussion of:

Bank Lending to Nonbanks: A Robust Channel Fueled by Capital Constraints

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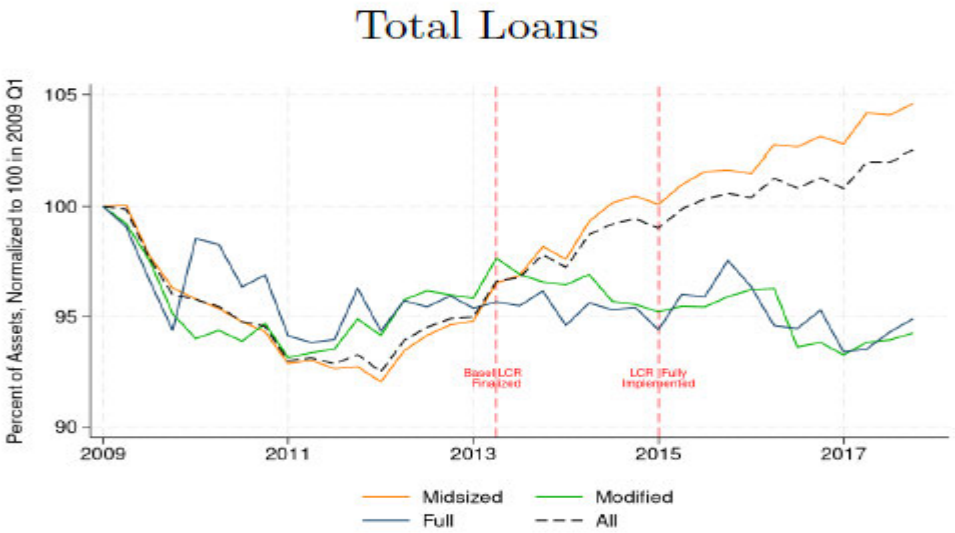
Bank and Nonbank Lending

- Decline in lending (esp. by large banks) from LCR (Roberts, Sarkar, Shachar; 2023), changes in regulations and technology (Buchak, Matvos, Piskorski, Seru, 2024)



- Private credit grew to $1.7T in 2023

- One story: non-banks disintermediating banks

- Alternative story: lengthening credit intermediation chain: banks lend to nonbanks that lend to nonfinancial corporations
  - Growing share of bank lending to NBFIs in US (>$1.3T; Acharya, Cetorelli, Tuckman, 2024) and Europe (63% of total bank lending; Li , Ma, Mendecino, Supera, 2025)

Implications for Financial Intermediation and Policy

- Effect on bank lending channel
  - Traditional: banks lend less to nonfinancial firms when more constrained
  - Now: Do banks increase share of nonbank lending?
    - Yes: when facing greater capital constraints (this paper)
    - Yes but: lend relatively more to non-lending NBFIs like funds (Li et al.)
    - Yes: when interest rates are higher (Haque, Jang, Wang; 2025)

- Why do banks switch to nonbank lending?
  - This paper, Li et al. & Chernenko, Ialenti, Sharfstein, 2025: balance sheet constraints as nonbank loans have lower credit risk
  - Haque et al.: banks charge higher risk-adjusted rates to nonbanks (more demand from non-financials)

- Effect on total lending to nonfinancial firms?
  - Li et al.: declines
  - Haque et al.: cushions lending but at higher rates
  - This paper: cushions lending

- Financial stability effect: depends on price/quantity trade-off

Summary of Paper's Results

- Banks' syndicated loans to nonbanks and non-financial firms
  - Secular increase in share of bank lending to nonbanks
  - 3 shocks (potentially to bank capital): Basel III, oil price shock of 2014, COVID
    - After shocks, banks' loan composition shifts towards nonbanks
  - Nonbanks with more access to bank funding cut lending less following shocks

- Comments:
  - Motivation: Why do banks switch to nonbank lending when facing capital constraints?
  - Can the effect of shocks be interpreted as shocks to capital?
    - Is there causation from shocks to lending outcomes?
  - What are the real economy effects from non-financial firms borrowing more from nonbanks and less from banks?

Capital effects of Nonbank lending

- Banks switch to nonbank lending to take advantage of "*lower capital and regulatory burden associated with it*"

- How are these burdens lowered?
  - Discussion in footnote
  - Chernenko et al. discussion about BDCs only; applies to syndicated loans?

- Evidence from share of non-pass- (low credit quality) loans
  - Figure 5: higher share for non-financial firms
  - Need to provide statistical evidence

- Only Basel shock speaks directly to capital constraints
  - Shock likely anticipated due to prolonged discussions + many other regs, including liquidity regs, during this period

- COVID and oil shocks are more exogenous but aggregate shocks not specific to capital

Can Demand Effects be Ruled Out?

- Uses borrower FE to rule out demand effects:

$$\Delta\ Ln\ Credit_{ij} = \alpha + \mu_j + \beta\ ShockExposure_i + \gamma\ X_i + \varepsilon_{ij}, \quad (6)$$

where μ_j are the borrower fixed effects intended to capture any cross-sectional shift in the borrowers' credit demand, common across banks.

- Difficult to completely rule out demand effects
  - Variation in shock exposures (across sectors) could be correlated with demand
  - Nonbanks tend to sell to bank customers; thus sectoral exposure of bank and nonbank customers may be correlated

- Is it possible to examine the interest rates faced by non-financial firms when borrowing from non-banks funded by banks vs non-banks not funded by banks?
  - Theory predicts that banks charge higher rates to nonbanks (Cetorelli, Cisternas, Sarkar; 2025) who pass it on to end borrowers
    - In model, absent bank lending to non-banks, project unfunded in eqm
    - Banks have lower funding costs; they lend to non-banks at a rate intermediate between their own and non-banks funding costs

Effects on Lending to Non-Financial borrowers

$$LoanSales_{ijt} = \alpha + \mu_i + \psi_j + \beta\ LenderBankLoan_{jt} \times EBP_t + \gamma\ X_{ijt} + \varepsilon_{ijt}, \quad (9)$$

where $LoanSales_{ijt}$ is an indicator variable equal to one if any portion of the loan i held by nonbank j in quarter $t-1$ is sold in quarter t and 0 otherwise. $Lenderbankloan$ is the sum of the committed exposure of all loans that lender has received as of quarter t. This variable takes the value of 0 if we can't find any loans associated with the lender in SNC data. In this analysis, we use the Excess Bond Premium (EBP) from Gilchrist and Zakrajsek (2012) as a proxy for overall credit condition.

- Beta<0: loan sales by nonbanks lower when receiving more bank loans when EBP is also high
  - Unclear what is being identified; EBP likely correlated with a variety of aggregate shocks
  - Example: during tight conditions in bond markets, banks switch from bonds to loans; and syndicated loan sales also decrease
  - Selection: nonbanks with and without bank loans could be intrinsically different

Conclusion

- Important contribution to literature on bank lending to non-banks
  - Key contribution: Proposes that bank balance sheet constraints drives changes in composition of bank loans

- Main concerns:
  - While mechanism is plausible in general, need to establish in context of syndicated loans
  - Empirically, remains unclear whether the documented outcomes result from capital constraints or some other shocks