INTERSTATE BANKING DEREGULATION AND BANK LOAN COMMITMENTS:
DISCUSSION

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Question: What is the impact of agency costs on loan commitments?

Method: Use interstate bank deregulation,
\[ \text{COMM}_{st} = a_s + b_t + \lambda_1 \text{INTER}_{st} + \lambda_2 \text{INTRA}_{st} + \mathbf{X}_{st} \theta + \varepsilon_{st} \]

Results: Following interstate deregulation banks issue more loan commitments (estimate of \( \lambda_1 \) is positive and statistically significant).
Comment 1 – post 1984 data

- 5 states had inter-state deregulation before 1984
- 22 states had intra-state deregulation before 1984
- For these states deregulation indicators don’t “switch”
- Is the impact of intra-state deregulation on loan commitments smaller because of the non-switchers?
Comment 1 – post 1984 data

The difference-in-differences estimator is,

\[
E(y_{s\tau+k} - y_{s\tau-j} \mid d_{s\tau+k} = 1) - E(y_{s\tau+k} - y_{s\tau-j})
\]

Before and after for states that deregulated

Before and after for all states ("control" group)

where “tau” is the year of deregulation

d=1 if t > “tau”, k,j>0

Note that non-switchers are in a control group

Intra-state deregulation DID has more non-switchers in the “control” group than inter-state dereg.

This may make the intra-state effect smaller
Comment 2 – specifications

- Dynamic plot
- Years since deregulation plus its square
  - Potential non-linearity in the effect
- State-specific linear time trend
- Region-year fixed effects
- Bank level analysis with bank fixed effects
Comment 3 – channels

- Is there evidence that interstate deregulation affected agency costs?
- Are agency costs the only channel through which deregulation affects loan commitments?
- Could changes in loan commitments be driven by firm entry following deregulation (demand side)?
The Impact of Bank Deregulation on Log New Firms Per Capita

(From Black and Strahan, 2002)