INTERSTATE BANKING DEREGULATION AND BANK LOAN COMMITMENTS: DISCUSSION

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The paper

- Question: What is the impact of agency costs on loan commitments?
- Method: Use interstate bank deregulation,

  $COMM_{st} = a_s + b_t + \lambda_1 INTER_{st} + \lambda_2 INTRA_{st} + \mathbf{X}_{st}\boldsymbol{\theta} + \varepsilon_{st}$
- Results: Following interstate deregulation banks issue more loan commitments (estimate of λ_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,

$$E\left(y_{s\tau+k} - y_{s\tau-j} \mid d_{s\tau+k} = 1\right) - E\left(y_{s\tau+k} - y_{s\tau-j}\right)$$

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 <u>firm entry</u> following deregulation (demand side)?

Comment 3 – channels

The Impact of Bank Deregulation on Log New Firms Per Capita
(From Black and Strahan, 2002)