Big Bad Banks? Shock Propagation When Workers and Firms Share the Same Bank

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Rising Scholar Conference on Finance
July 2025

Summary

- Due to frictions, a decrease in bank loan supply affects firms and their employees
  → Chodorow-Reich (2014), Moser et al (2021), etc
- At the same time, such decreases affect households
  → Mian et al (2017), Jensen&Johannesen (2017)

This paper

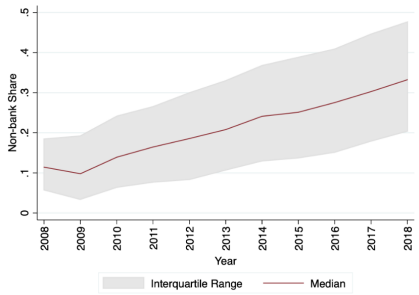
- What happens if households are affected directly and via their employers simultaneously because they **share the same bank** with their employers?
  → **The effect of a negative loan supply shock would be bigger**!
- Uses detailed data from Norway
- Policy implications: The policy tools should consider this channel

Channels

- Total lending effect on workers = Direct effect + via employer + **same bank**
  → Main contribution: to document the importance of the same bank mechanism
- The mechanism crucially depends on two pillars
  1. Workers and firms should share the same bank (**same bank**)
     → If sharing the same bank becomes less likely over time due to changes in the market structure, this channel becomes less important
  2. Workers should rely on loans to consume
     → In some countries, households do not want to rely on credit for their non-housing consumption (like Germany)
     → We already know that many firms rely on loans

Shared bank in the US

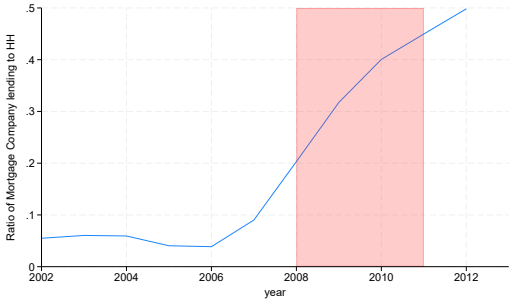
- Motivation: Sharing the same bank has become more like due to bank consolidation
  → **What about nonbanks?**



- The share of nonbanks in the mortgage market has been rising substantially in the US (Buchak et al 2018, Degerli&Wang 2024). Also, in the commercial loans market (Gopal&Schnabl 2022)
  → The same bank problem must be declining in the US

Shared bank in Norway

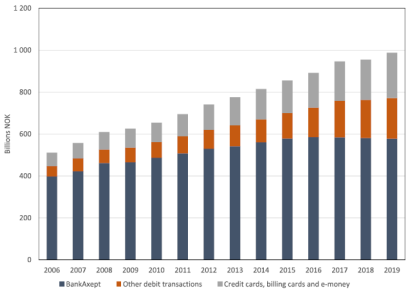
- In the post period, the share of mortgage lenders has reached 50% in Norway



- The same bank may be more likely. However, the shared lender has to fall, as mortgage lenders do not lend to firms.
- ⚠ The # of banks (143) in 2005 is in line with NB statistics. **What about 13 mortgage lenders?** Aren't they in the sample? Without them, the picture is incomplete and could be misleading. ⚠

Credit card use in Norway

- Spending done via credit card is less than 10% in Norway
  → Limited role for unsecured debt?



(a) Value of Transactions

- Secured debt and refinancing? Refinancing is mainly served by mortgage lenders who do not play a role in the same-bank problem.
- What type of lending is the main driver of the mechanism?

Empirical specification

- Total lending effect= Direct effect (1) + via employer (2) + **same bank (3)**
  → The main contribution of this paper is the shared bank channel
- The comparison groups in the main specification
  1. Treatment group: Workers whose employers and banks are affected and share the same bank with their employers: (1)+(2)+**(3)**
  2. Control group: Workers whose employers are affected, but not their banks. They don't share the same bank: (2)
- The main specification gives us (1)+**(3)**. BUT, we want only **(3)**!
- In table A27, the paper uses workers whose employers and banks are affected.
  → This table estimates the main channel **(3)**!
  → The effect is likely to be insignificant
- Maybe, what matters is whether the worker bank and firm bank are affected simultaneously
  → Same bank is a special case of this simultaneity

Identification

- In its current version, the discussion about identification is mostly about the loan supply shock
- However, the exogenous variation in *Same Bank*$_i$ is as important!
- The paper tackles the issues in *Same Bank*$_i$ in two ways
  1. Interact control variables with time trends. This is great!
  2. Use bank mergers as an IV for *Same Bank*$_i$
- Using bank mergers directly, instead of an IV, is more intuitive
  → A description of these mergers would be helpful
  → What is the increase in *Same Bank*$_i$ due to these mergers?
  → Are there any mergers after 2008?
  → In the IV, the first stage should be *Same Bank*$_i = \beta Merger_b$, and the F-statistic seems to be too high (65132).

Other Comments

- In Figure 1, the shared-bank is below 30% in the entire duration. However, the mean of this variable is 33% in the summary statistics table. Why is that?
- What is the average job search duration in your sample? (So that, we can understand whether a 30-day duration is large or small
- The lack of bank switching behavior is interesting. Is it because the treated banks are clustered together, therefore, the borrowers do not have an unaffected bank close by? $\rightarrow$ I'd look at switches to all other banks, not only to unexposed banks.
- Due to filters, the sample size decreases when you use consumption. I'd use the consumption sample for the other dependent variables.
- How many treated banks are there in the sample? There must be a heterogeneity in banks' reliance on interbank market and you can exploit this heterogeneity.

Other Comments

- Clustering of standard errors should reflect the treatment level. The negative loan supply shock happens at the bank level (ie, $Treated_{f(b)}$ is at the bank level). Therefore, the correct clustering is at the bank, not at the worker level (Abadie et al, 2023). (As banks encapsulate workers, double clustering at the worker level shouldn't be necessary).
  → Chrodor-Reich (2014) and Jensen&Johannesen (2017) cluster at the bank level
- As you have the data, using workers who lost their jobs due to a mass layoff is more reasonable for the relevant parts. For the workers who leave their jobs voluntarily, the mechanism doesn't sound reasonable. (Your displaced worker sample is 30% of your full sample. Thus, this sample must include voluntary unemployed workers).
- I'm not sure about the measure that you use in table 10 (retail credit channel). If the purpose of this is to investigate portfolio spillovers, I'd use
  $Retail\ Loans_{bift}/(Retail\ Loans_{bit} + Commercial\ Loans_{bift})$