

Acharya, Viral V.; Afonso, Gara; Kovner, Anna

Working Paper

How do global banks scramble for liquidity? Evidence from the asset-backed commercial paper freeze of 2007

Staff Report, No. 623

Provided in Cooperation with:

Federal Reserve Bank of New York

Suggested Citation: Acharya, Viral V.; Afonso, Gara; Kovner, Anna (2013) : How do global banks scramble for liquidity? Evidence from the asset-backed commercial paper freeze of 2007, Staff Report, No. 623, Federal Reserve Bank of New York, New York, NY

This Version is available at:

<https://hdl.handle.net/10419/93622>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Federal Reserve Bank of New York
Staff Reports

How Do Global Banks Scramble for Liquidity? Evidence from the Asset-Backed Commercial Paper Freeze of 2007

Viral V. Acharya
Gara Afonso
Anna Kovner

Staff Report No. 623
August 2013



This paper presents preliminary findings and is being distributed to economists and other interested readers solely to stimulate discussion and elicit comments. The views expressed in this paper are those of the authors and are not necessarily reflective of views at the Federal Reserve Bank of New York or the Federal Reserve System. Any errors or omissions are the responsibility of the authors.

How Do Global Banks Scramble for Liquidity? Evidence from the Asset-Backed Commercial Paper Freeze of 2007

Viral V. Acharya, Gara Afonso, and Anna Kovner

Federal Reserve Bank of New York Staff Reports, no. 623

August 2013

JEL classification: G01, G21, G38

Abstract

In August of 2007, banks faced a freeze in funding liquidity from the asset-backed commercial paper (ABCP) market. We investigate how banks scrambled for liquidity in response to this freeze and its implications for corporate borrowing. Commercial banks in the United States raised deposits and took advances from Federal Home Loan Banks (FHLBs). In contrast, foreign banks – with limited access to the deposit market and FHLB advances – lent less in the overnight interbank market and borrowed more from the Federal Reserve’s Term Auction Facility (TAF) auctions. Relative to before the ABCP freeze and relative to their non-U.S. dollar lending, foreign banks with ABCP exposure charged higher interest rates to corporations for syndicated loan packages denominated in dollars. The results point to a funding risk in global banking, manifesting as currency shortages for banks engaged in maturity transformation in foreign countries.

Key words: funding risk and liquidity, global banking, ABCP freeze

Acharya: New York University Stern School of Business. Afonso, Kovner: Federal Reserve Bank of New York. Corresponding author: Viral V. Acharya (e-mail: vacharya@stern.nyu.edu). The authors thank Kevin Pan and James Traina for outstanding research assistance and Philipp Schnabl for providing them with the bank-level exposure data on asset-backed commercial paper. They are also grateful to Philip Strahan and Charles M. Kahn for excellent discussions and to Charlie Calomiris, Mark Carey, Jean Helwege, Victoria Ivashina, George Pennachi, and participants at Boston College, Columbia Graduate School of Business, HEC Montréal, and Washington University in St. Louis, and the Federal Reserve Bank of New York’s Money and Payments Workshop (Fall 2011), the NBER Risks of Financial Institutions Summer Institute 2012 Workshop, the Eighth New York Fed/NYU Stern Conference on Financial Intermediation, and the 2013 Bank Structure and Competition Conference. The views expressed in this paper are those of the authors and do not necessarily reflect the position of the Federal Reserve Bank of New York or the Federal Reserve System.

Motivation and Overview

In August of 2007, significant maturity transformation undertaken by the global financial sector came to a screeching halt. The market dislocation began by affecting banks that had borrowed short-term in the asset-backed commercial paper (ABCP) market – via special purpose vehicles (ABCP “conduits”) guaranteed by these banks – and invested in subprime mortgage-backed and other asset-backed securities. Within a few days after BNP Paribas suspended withdrawals from three subprime mortgage backed funds on August 9, 2007, ABCP spreads (relative to the federal funds target rate) rose by over 100 basis points, and the ability of bank-sponsored conduits to roll over ABCP fell significantly (see Figure 1, adapted from Acharya, Schnabl and Suarez (2009), as well as their paper for detailed evidence). This “freeze” in the ABCP market put severe funding stress on bank balance sheets as in many cases sponsoring banks ended up taking the conduit assets back on their balance sheets.¹

Interestingly, Acharya and Schnabl (2010) document that while much of the ABCP exposure was US dollar (USD) denominated, a substantial portion of this ABCP exposure was concentrated amongst foreign banks. Of the total \$1,235 billion ABCP outstanding, only \$489 billion was sponsored by banks from the United States. Other significant ABCP underwriters include banks headquartered in Germany and the United Kingdom (about \$200 billion each), and large banks from a number of Western European economies (often in amounts large relative to the size of their balance sheets and capitalization). Equally importantly, about 60% of the total ABCP outstanding of German, French and UK banks was denominated in USD, rather than in Euros or

¹ See also Acharya and Richardson (2009), Brunnermeier (2009), Diamond and Rajan (2009), Gorton (2009), Greenlaw et al. (2008), Kacperczyk and Schnabl (2009), and Krishnamurthy (2010) for summaries of how the financial crisis of 2007-08 unfolded, the liquidity and credit problems faced by banks in different markets, and the underlying causes behind banks being exposed in a substantial manner to these problems.

pounds. Many of these foreign banks with large exposure to US ABCP did not have large US-regulated banking operations.²

How did these global banks scramble for US dollar liquidity in response to the ABCP freeze? What avenues did they explore in private markets and from public (government or central bank) sources to meet their USD funding needs? Were banks successful in muting the impact of the ABCP freeze, or did the freeze immediately lead to some loss of intermediation by banks to the real sector? Were the responses different between USD and non-USD loans, and between US and foreign banks, given their differential access to the USD funding markets? These are some of the questions we attempt to answer in this paper.

Our first main finding is that in the immediate aftermath of the ABCP freeze, banks headquartered in the United States were able to tap into alternative funding sources, especially in the deposit market and in the form of advances from the Federal Home Loan Banks (FHLBs) (as documented by Ashcraft, Bech and Frame (2008) and He, Khang and Krishnamurthy (2010)).³ In contrast, foreign banks which had engaged in significant maturity transformation denominated in US dollars were neither able to access the deposit market in the United States in the same amounts as their US counterparts nor did many have access to advances from FHLBs. Foreign banks scrambled for liquidity by trying to raise deposits, reducing their lending in the interbank market, and much later by actively participating in the Term Auction Facilities (TAF) set up by

² Acharya and Schnabl (2010) document that ranked by ABCP outstanding to Tier 1 capital, only three of the top ten banks were US headquartered (Citigroup, Bank of America and JP Morgan ranked 1st, 3rd and 5th, respectively). The others (in increasing rank) were all foreign: ABN AMRO, HBOS, HSBC, Deutsche Bank, Societe Generale, Barclays and Rabobank.

³ Federal Home Loan Banks were set up in 1932 when Congress created twelve regional FHLBs owned by the savings and loans (S&L) institutions and some life insurance companies. As a creation of the federal government, the FHLB System can borrow funds in the capital markets at favorable rates, and individual FHLBs can lend these funds to their member-owners, who were the primary originators of mortgages at the time. In an important sense, the FHLB System was an early “government-sponsored enterprise” (although that term was not introduced until decades later).

the Federal Reserve.⁴ This asymmetry highlights an important funding risk in global banking, manifesting as currency shortages for banks engaged in maturity transformation in foreign countries.

Importantly, many of these foreign banks play a large role in underwriting syndicated loans in the US. More than 63% of facilities in 2007 had at least one foreign bank in the underwriting syndicate and 35% had a foreign bank leading the syndicate. Despite this important role in underwriting US dollar loans, many foreign banks do not have large US-regulated subsidiaries, such as commercial banks or bank holding companies (BHCs). The ratio of total US-regulated assets to underwritten revolvers outstanding as of August 2007 was 256x for US banks and only 7x for foreign banks.⁵ And, of banks with exposure to US ABCP, the ratio of total US-regulated assets to exposure was 10.9x for US banks compared to only 6.0x for foreign banks.

We examine the importance of the funding asymmetry between US and foreign banks for the transmission of bank-level funding risk to corporations in the form of access to and terms for borrowing through syndicated lines of credit. Our second main finding sheds light on this issue: relative to before the ABCP freeze and relative to non-USD loans, foreign banks with ABCP exposure charged higher spreads on syndicated loans denominated in US dollars. Interestingly, we find this effect to be present even in the period following the ABCP freeze of August 2007 through mid-December 2007, when the Federal Reserve initiated dollar-funding support for foreign banks, which eased dollar funding risk. As Figure 1 illustrates, this period is one of relative calm for large corporations in the United States, whose syndicated loans we study, as

⁴ The TAF is a temporary program conducted by the Fed between December 17, 2007 and March 8, 2010 which provides term funding to depository institutions on a collateralized basis, at interest rates and amounts set by auction.

⁵ These calculations assume that the share of underwriter in a syndicated loan is proportional to the number of underwriters.

evinced in the remarkably stable behavior of the S&P500 index between 9th August and mid-December 2007. Our analysis exploits the fact that global banks make loans in USD, as well as in euros and pounds. By examining the within-bank rise in USD syndicated loan costs relative to euro loan costs, when lenders are European relative to US banks, we can understand the effects of the differential currency funding structures for these two sets of banks at a time before US macro conditions deteriorated. Finally, a further confirmation of the transmission of bank funding stress comes from the fact that the effect on syndication loan premiums is stronger for corporations that do not have public equity and are limited in terms of the external sources of finance they can access to substitute away from expensive credit lines.

We stress that our difference-in-differences approach helps control for variation in some inherent characteristics across banks, differences in banks between before and after the shock, and between USD and euro-denominated syndicated loans for a given bank (allowing us to hold constant the bank solvency shock, if any). At the same time, the approach allows us to exploit the variation among banks due to funding shocks (ABCP exposed versus not exposed banks) and due to differential access to funding in the USD markets (foreign versus US banks). The differences are statistically significant, and economically within the relevant range for cost of credit lines and their substitutes such as cash holdings.

Results in detail

We now provide a more detailed introduction to our research methodology and results. We first consider the sources of immediate funding available to banks and divide them into two types: *private* and *government*. In private sources, we include federal funds in the unsecured overnight interbank market and sale and repurchase agreements (“repos”) which are collateralized, and can be considered close substitutes to ABCP and deposit markets (demand deposits as well as time

deposits). In government sources, we include Discount Window borrowing, and FHLB advances. In order to understand if there was residual funding demand, we examine access to TAF auction repos with the Federal Reserve, although that liquidity was not available until December 2007. These liquidity sources differ in ease of access and, in the case of private sources, also in terms of associated funding risk. For instance, while interbank and repo markets are relatively arm's length and easier to access in normal times on a day-to-day basis, they are far more fragile, particularly relative to insured deposits in terms of the risk of a "run" (such as the ABCP freeze). FHLB advances against most kinds of mortgage assets are obtained relatively easily, but are available only to commercial banks who are FHLB members, that is, many foreign banks do not have access to these funds. Discount Window funding can be readily accessed by solvent banks with pledgeable US assets, but banks may be reluctant to access these funds due to the "stigma" attached to Discount Window lending. Finally, while there was substantial demand from foreign institutions at the TAF auctions, which allowed greater access to Federal Reserve funding without the stigma associated with the Discount Window, these auctions were not in place until mid-December 2007.⁶ While we cannot measure the extent to which foreign banks accessed local deposits and swapped them into USD, we focus our analysis on the period before December 12, 2007 when the Federal Reserve instituted swap lines with most foreign central banks in an attempt to alleviate US dollar funding pressure.⁷

We find that these differences mattered. US-headquartered banks grew their government funding substantially relative to the foreign banks, especially through FHLB advances; they also grew significantly their overall USD deposits, but importantly through time deposits. In contrast,

⁶ See Armantier, Krieger and McAndrews (2008) for an overview of the design and creation of TAF. See also <http://www.federalreserve.gov/monetarypolicy/taffaq.htm> for additional information on the TAF auctions.

⁷ See http://www.federalreserve.gov/monetarypolicy/bst_liquidityswaps.htm for information on the dollar liquidity swap lines.

foreign banks grew their net repo borrowing and were not able to increase their borrowing at their US subsidiaries in the interbank market as much as US banks did. In part, this reflects the fact that deposits at this time grow in proportion to US assets, and foreign banks have less US assets.

Overall, while US banks were able to access more stable government and longer-term sources of funding, foreign banks did not increase funding by as much and their funding remained relatively short-term or demandable. We hypothesize that this differential access in terms of funding following the scramble for liquidity in the fall of 2007 meant that foreign banks, particularly ABCP-exposed foreign banks, were exposed to a greater dollar liquidity crunch. To the extent that there are frictions in USD funding markets, we expect that foreign banks became less willing to take on USD funding risk on their asset side and through extension of commitments on the liability side, or in other words, foreign banks will demand a greater compensation for dollar funding risk in return by charging higher spreads to borrowers.

To test this hypothesis, we exploit the idea that funding should have a direct effect on commercial banks' lending, focusing on syndicated loans made in US dollars.⁸ In particular, we examine banks' commitment to syndicated loans, recorded at time of their origination in the Loan Pricing Corporation's DealScan dataset. We design a difference-in-differences test to study the terms (spread, maturity and amount) of syndicated loans denominated in USD and loans that

⁸ Kashyap, Rajan and Stein (2002) argue that as long as deposits raised by banks are not too correlated with corporate demand for immediate credit, banks can act as liquidity providers on both sides of their balance-sheets. Acharya, Almeida and Campello (2009) provide rationale for why in times of aggregate risk, banks reduce provision of lines of credit in the aggregate (as their ability to smooth liquidity shocks reduces), and that banks more exposed to aggregate risk experience greater reduction. Gatev and Strahan (2006) and Gatev, Schuermann and Strahan (2009) document that banks benefit from deposit inflows when commercial paper spreads widen and this enables them to meet loan commitment drawdowns; Pennachi (2006) shows that this effect was nonexistent prior to the formation of the FDIC in 1934; and, Acharya and Mora (2011) document using deposit rates and flows data that during the 2007-September 2008 period (and in earlier periods of stress) banks in fact struggled to raise deposits, especially weaker banks, which had to offer substantially higher deposit rates (a cost that we expect would be passed on in the form of costlier loans and credit lines).

are denominated in euros or pounds (we will refer to these loans as euro-denominated or euro loans for simplicity). We exploit several types of differences-in-differences, the first difference being between USD- and euro-denominated loans, the second between foreign banks and US banks, and the third difference being between after and before August of 2007 (in order to exploit within-firm variation). Finally, we also employ a quadruple-difference test where we study the impact of exposure to ABCP.

We find that the contractual feature of bank credit that is affected in our difference-in-differences test is mainly the spread (rather than maturity or amount).⁹ Compare, for example, Bank of America, BNP Paribas, and West LB. All three banks were exposed to the US ABCP market, with ABCP outstanding of \$45 billion (34.5% of equity), \$5 billion (8.6% of equity) and \$30 billion (368.3% of equity), respectively. Comparing the pre and post period, Paribas and West LB grew the average spread on its USD loans by 16 basis points and 15 basis points respectively, while the average spread on Bank of America's USD loans fell by 22 basis points. In contrast, in their European loans, Paribas and West LB lowered spreads by 41 and 48 basis points on average, respectively, and Bank of America lowered similarly spreads by 41 basis points.

While this example does not control for differences in the characteristics of the loans made, we find that even after controlling for observables, USD loans by foreign-exposed banks after the ABCP shock had higher spreads by 5 basis points, controlling for bank fixed effects and borrower and loan characteristics. Relative to the change in spread in their non-USD loans, foreign exposed banks increased loan prices by 16 basis points. For borrowers without public equity, the difference is even larger. All else equal, relative to the earlier part of 2007, affected

⁹ This empirical point is consistent with the evidence in Adrian, Colla and Shin (2012) who argue that for large firms in the crisis of 2007-09, bond financing made up for the quantity of credit not provided through bank loans, albeit at higher yields just like heightened bank loan premiums.

foreign banks increased spreads for private USD borrowers by 11 basis points, while lowering spreads for private Euro borrowers by 41 basis points.

Besides documenting an important dollar funding risk for foreign banks engaged in maturity transformation in the United States, our results suggest that the transmission channel of the ABCP freeze when studied just for the US banks may understate the true underlying strength of the channel. Since most US banks had access to FHLB advances and could also employ their deposit franchises to raise USD funding, their response in terms of transmitting the ABCP freeze to the real sector was already muted by prevailing government interventions and market structures. In this sense, studying the transmission channel of foreign banks facing USD funding risk on to USD borrowers provides for a cleaner identification.¹⁰

The rest of the paper is organized as follows. Section 1 discusses the related literature. Section 2 documents the information available on foreign banks and their funding in the US. Section 3 examines how banks scrambled for liquidity following the ABCP freeze, via private and government sources of funding. Section 4 investigates the transmission of bank funding risk – and realized funding – to the real sector. Section 5 presents concluding remarks.

1. Related Literature

Our paper is related to Bord and Santos (2011) and Irani (2011), which also analyze the effect of the ABCP freeze. Bord and Santos (2011) find that US banks that increased their use of funding from the Federal Home Loan Bank System or the Fed’s Discount Window following the ABCP freeze charge higher fees to grant new lines of credit to corporations. The increase was driven by credit lines that pose more liquidity risk to banks and that affected predominantly bank-

¹⁰ While these results suggest that access to deposits and government funding – stable liabilities – can help stabilize the banking sector and the transmission channel in a crisis, their ex-post efficacy must be weighed against any ex-ante moral hazard they induce.

dependent borrowers. Similarly, Irani (2011) finds that the deterioration of contract terms into 2009 from exposed banks is concentrated among speculative grade borrowers, long-term credit lines, and borrowers with weak banking relationships or without access to the commercial paper market. He further finds that, relative to other syndicate members, exposed banks are more likely to exit relationships with borrowers; investment grade borrowers are more likely to exit relationships with exposed banks; and that such an exit is typically associated with worsening of contract terms, except for investment grade borrowers. These papers do not exploit the differentiation between US-based and foreign banks, which is the focus of our paper. The economic magnitude of our findings on the impact of ABCP exposure of a bank on the cost of its credit lines appears an order smaller than in these other papers. This is likely due to the fact that we are looking at the differential response between US-based and foreign banks, as well as between their US-based and foreign borrowers, which controls more conservatively for differences in the macroeconomic environment and the degree of pure (dollar) funding shock.

Our paper is also related to the recent literature on the transmission of funding shocks across borders through operations of global banks. Cetorelli and Goldberg (2010) examine the global transmission of shocks emanating from the financial crisis of 2007-08 and find that regions with higher aggregate exposure to dollar funding shocks lent less following the shock to emerging markets countries. Giannetti and Laeven (2012) show that there is a rebalancing of banks' loan portfolios back to home markets (that is, in countries where banks are domiciled) in the 2008 financial crisis. Schnabl (2011) investigates the liquidity shock of the Russian default, and finds that it was transmitted by global banks to borrowers in Peru.

Perhaps closest to our paper is Ivashina, Scharfstein and Stein (2012), who compare the amount of lending across currencies by European banks suffering from solvency and USD funding

shocks, the latter being from money market funds' withdrawal from short-term lending to European banks, during the second half of 2010-11. They find that foreign banks contracted dollar lending more than they contracted euro lending. While both time periods are marked by shortages of USD funding for foreign banks, in 2011 US banks that lend in both currencies were *not* affected by solvency or funding shocks unlike their European counterparts, preventing the difference-in-differences analysis of liquidity shocks – between US and European banks, and in USD and euro lending – as conducted in this paper.

Ivashina, Scharfstein and Stein (2012) also argue that the differential access to dollar funding from money market funds for the European banks led to substantial violations of the covered interest parity (CIP) between USD and euro exchange and interest rates. Such CIP violations existed – in fact, became substantive for the first time in recent crises – right after the ABCP freeze of August 2007 (see Figure 2, adapted from Hrungr and Sarkar (2012)), even though the magnitude of violations is naturally smaller in this early phase of financial crisis relative to the highest levels reached in the second half of 2011. While Ivashina, Scharfstein and Stein (2012) stress the private – money market based – USD funding differential between the US and European banks, our paper stresses the differential deposit base as well as the access to public funding sources such as through the Federal Home Loan Bank (FHLB) System and the Federal Reserve System. The importance of segmentation in funding different currencies for banks domiciled in different countries, arising from public funding sources, is also validated by Bottazzi, Luque, Pascoa and Sundaresan (2012), who focus on the role of currencies as collateral in funding contracts (such as in repos, in private markets, or with central banks).

In another related set of papers, banks reliant on core deposit funding have been shown to be able to insulate access to finance even in the face of shocks to their lenders (Ivashina and Scharfstein

(2010); Cornett, McNutt, Strahan and Tehranian (2010); and Gozzi and Goetz (2010)). However, these papers do not study the effect of the funding source (private versus government) and of the differential access to these sources on foreign bank lending. Liu (2011) analyzes the effect of financial crises over the past 20 years globally on banks operating with branches in crisis-affected and non-crisis countries. She finds that banks with deposit exposure cut back lending significantly in branches outside the crisis country (funding shock); and the magnitude of this effect is twice as large as that stemming from non-depository asset exposure only (capital shock).¹¹ Duchin et al (2010) exploit cash holdings of businesses to separate effects due to the fall in demand at the onset of the crisis in 2007, and show that loan supply effects were important in the first year of the crisis. Carvalho et al (2011) find that in the financial crisis of 2007-08, client stock returns are associated with negative shocks to banks.

Our analysis is complementary to both of these sets of papers in that we focus on the effect of *lending in the crisis-affected country from foreign banks* whose limited access to funding in the crisis country (relative to domestic banks) helps us isolate the supply effect of bank lending terms on credit lines to the real sector.

2. Foreign Banks

2.1. Institutional Background

In the aftermath of the collapse of the ABCP market in 2007, banks with exposure to conduits financed with ABCP needed short term liquidity to finance their assets (see Acharya, Schnabl and Suarez (2009) for detailed evidence). In a nutshell, global commercial banks funded long-term assets such as mortgage- and asset-backed securities (MBS and ABS), and credit card receivables, through overnight wholesale funding in the ABCP market. The “conduits” through

¹¹ In similar spirit, Aiyar (2010) provides evidence that the external funding shock for banks in the United Kingdom translated into greater reduction in lending in the UK by foreign subsidiaries and branches compared to banks that were domestically-owned (in the UK).

which the ABCP was issued had little equity capital of their own, other than the guarantees provided by sponsoring banks (which found it attractive to do so due to the favorable treatment of such guarantees in the regulatory capital requirements). When the underlying assets, especially MBS and ABS, experienced a drying up of liquidity following the housing-market collapse in various parts of the world, the ABCP investors “ran” on the conduits, that is, they reduced overnight rollovers and charged higher spreads for doing so. Specifically, the run began on August 9, 2007, following the announcement by BNP Paribas’ hedge funds on August 8, 2007, that their sub-prime MBS investments could no longer be marked to market due to the evaporation of liquidity in the market for these securities.

Being exposed to this run through their guarantees, the sponsoring banks had to either take over the conduit assets “on balance-sheet,” which resulted in greater capital requirements, or generate overnight funding against the assets through alternative sources to the ABCP. Acharya, Schnabl and Suarez (2009) document that this ABCP run – effectively on the global commercial banks – was very large, with the market collapsing from its peak of over \$1,200 billion in beginning of August 2007 to just over \$600 billion by the end of 2008. Throughout the paper, we label this the “freeze” in ABCP or the ABCP “shock”. We are particularly interested in understanding differences in access to liquidity between exposed US and foreign banks, and thus we first outline sources of short-term liquidity available to US and foreign banks.

Foreign banks can access USD liquidity in the short run in many ways. In terms of private sources of immediate funding, they may have US cash on hand in the form of reserves or interest bearing balances with other banks. They can borrow from other banks on an unsecured basis in the fed funds or Eurodollar market or on a secured basis in the repo market. They can also borrow from US depositors and money market funds or issue dollar denominated commercial

paper. In addition, foreign banks can borrow from home country depositors or issue local currency commercial paper and swap that into USD in foreign exchange markets. Finally, they can sell liquid assets.

US branches and agencies of foreign banks that hold reserves can also access liquidity from US government sources, including the Discount Window. An alternative source of government funding is advances from FHLBs, but these funds are available only to foreign banks with US commercial bank subsidiaries. While many programs were ultimately designed to alleviate US dollar and liquidity shortages, including swap lines with many foreign central banks (e.g. the Term Auction Facility (TAF) auction and the Term Asset-Backed Securities Loan Facility (TALF)), we restrict the analysis in our paper to the period before December 12, 2007, when the first of these programs was instituted, to better isolate the liquidity shock.

Foreign banks engage in US banking through six principal types of organizations: representative offices, branches, agencies, banks, Edge Act and Agreement international banking corporations, and international banking facilities (IBFs). Reporting requirements vary depending on organizational structure. *Representative offices* are subject to minimal regulation and file no reports with the Federal Financial Institutions Examination Council (FFIEC), Office of the Comptroller of the Currency (OCC), or Federal Reserve. These offices engage in representational and administrative functions but do not conduct bank activities. *Branches and agencies of foreign banks (FBOs)* file FFIEC 002 (Report of Assets and Liabilities of US Branches and Agencies of Foreign Banks). The activities of a branch of an FBO are similar to those conducted by a branch of a US bank, including wholesale and foreign deposit acceptance as well as other credit fiduciary activities. However, the FDIC does not insure the deposits of foreign bank branches, and branches of FBOs are not required to join the Federal Reserve

System. Foreign banks can establish *subsidiary US banks or bank holding companies*, which file the Call Report (FFIEC 031) or Y-9C.¹² These subsidiary banks have the same legal and regulatory restrictions and reporting requirements as domestic banks. Foreign banks can also create separate *Edge Act subsidiaries* to engage in international banking activities. No regulatory data on these exist in either the Call Report, Y9-C or 002 filings except for a breakdown of interest income accruing from Edge and Agreement subsidiaries. Finally, foreign banks may create an *international banking facility (IBF)* as an extension of the previous five structures. These facilities are used to book deposits unrestricted by US reserve requirements or other deposit insurance premiums. The activities of the IBF are consolidated in the 002 filing for branches and agencies of foreign banks. In addition, FBOs can own other structures including savings associations, industrial LLCs, and other securities LLC companies for which no Federal Reserve regulatory filings are available. Finally, no regulatory information is available for foreign banks' holding of dollar-denominated assets or dollar funding at non-US subsidiaries. We review the availability of these data for foreign banks, and aggregate the various filings into a picture of foreign banks' change in USD funding at this time. Unfortunately, comprehensive data are not available for all possible liquidity sources on a daily bank-by-bank basis, and we are forced to examine funding mostly by looking at changes in quarterly figures. In order to get some estimates at a higher frequency, we also take advantage of information from the Federal Reserve's weekly survey of banks (approximately 815 domestic and 60 foreign-related institutions in 2007). Data items are a subset of call report items that are aggregated and released publicly. However, participation in this panel is voluntary and not all banks file in all weeks.

¹² After the enactment of the Foreign Bank Supervision Enhancement Act of 1991, foreign banks accepting insured deposits must establish a US subsidiary bank. The difference between branches and agencies is that the agency primarily makes commercial and corporate loans, but does not have deposit-taking authority.

3. Bank Funding of ABCP Exposed Banks in 2007

3.1. Data

We use Moody's data to identify 53 banks that sponsored conduits funded by US dollar-denominated ABCP and thus were exposed to a liquidity shock in August 2007 (see Acharya, Schnabl and Suarez (2009) for a detailed discussion of these data). On average, exposed banks sponsored \$13.2 billion of assets with US dollar-denominated ABCP. Average exposure is very high relative to Tier 1 equity – a mean of 53x. We build a comparison set of similar banks without ABCP exposure by gathering information on US BHCs and foreign banks that file US regulatory reports. We limit US banks to the 427 BHCs with more than \$500 million in assets, since banks with ABCP tend to be larger.¹³ We include all 87 foreign banks with any US regulatory filings, since they are likely to be similar to foreign banks with a US presence. The resulting dataset includes 567 banks, of which 22% are foreign. Of banks with ABCP exposure, 75% are foreign. We use BankScope to gather information on foreign banks' total assets and Tier 1 equity. ABCP-exposed foreign banks are much larger than non-ABCP exposed foreign banks, with mean total assets of \$784 billion and \$176 billion, respectively. Summary statistics for these banks are presented in Table 1.

For information on foreign banks' funding, we aggregate several different US regulatory reports (Call Report (FFIEC 031), FFIEC 002, FR Y-9C) filed by foreign banks' offices (FBOs) and other subsidiaries supervised by the Federal Reserve.¹⁴ Of the foreign exposed banks, approximately 63% file a US regulatory report of some kind. The remaining seventeen exposed

¹³ The smallest US ABCP-exposed domestic bank holding company (BHC) has \$100.7 billion in assets while the mean of all non ABCP-exposed domestic BHCs is only \$9.9 billion.

¹⁴ FBOs report some consolidated regulatory capital information quarterly on the FR Y-7Q; however, balance sheet line items are not available in this reporting form. We effectively assume that all funding and loans reported in US regulatory filings are dollar denominated. However, domestic BHCs may have foreign deposits and loans included in these numbers. Similarly, foreign banks may hold dollar denominated assets or liabilities at non US entities which will not be included in their US regulatory filings.

banks file no US regulatory reports. We assume that these banks have no US deposits.¹⁵ Since most regulatory report data are available on a quarterly basis, we compare funding as of the quarter immediately before (June 30, 2007) and after (September 30, 2007) the ABCP market shock on August 9, 2007. In addition, we examine the subset that file the H.8 form and look at changes from the week before (August 1, 2007) to the week after the shock (August 15, 2007). In Figure 3, we outline the availability of US regulatory filings for foreign banks in the sample.

Figure 3: Availability of US Regulatory Reports for Foreign Banks

US Regulatory filings	ABCP Exposure	
	No ABCP	ABCP
Y9-C Filer		
Y9-C and 002 Filers	13	11
No Y9-C Filer		
CALL Filer(s) Only	6	0
CALL and 002 Filers	5	2
002 Filers Only	60	14
No Regulatory Report Filers		
No Y9-C, CALL or 002	3	13
TOTAL	87	40
H8 (FR 2644)	35	20
In reporting panel	265	31

3.2. Private Funding

We begin by looking at the change in funding between the second and third quarter of 2007 for following liability items: Total US Deposits, Repo Net, Fed Funds Net, Fed Funds Sold, and Other Borrowed Money. We also measure changes in Cash and Balances and AFS Securities, asset categories that may serve as sources of short-term liquidity. Exact variable definitions are in Appendix A.

¹⁵ The banks in the sample that file no regulatory reports are as follow: KBC Groep NV, Credit Agricole SA, Dresdner Bank AG, Landesbank Hessen-Thüringen Girozentrale, Bayerische Hypo-und Vereinsbank AG, WestLB AG, Bayerische Landesbank, Natixis, Danske Bank A/S, Norddeutsche Landesbank Girozentrale, Eurohypo AG, ING Groep NV, Hypo Real Estate Holding AG, Sachsen Bank KG, Nomura Holdings Inc, LBB Holding AG, and Nationwide Building Society.

On average, banks in the sample increase short-term liquidity in the third quarter of 2007, both by increasing short-term liabilities and by decreasing short-term assets. The ABCP Exposed sections of Table 2 present summary statistics separately for the ABCP-exposed banks. As shown in Table 2, Panel A, banks increase deposits and dramatically increase borrowing from government sources. There are large differences between banks with and without exposure – on average, banks increase deposits by \$435 million, while ABCP-exposed banks increase deposits by more than \$2.5 billion.

Within the sum of US deposits, we also examine changes in the following subcategories of deposits: Demand Deposits, Core Deposits, Time Deposits (<\$100K), Time Deposits (>\$100K), and Other Deposits. On average, as banks search for liquidity at the end of 2007, they grow time deposits and other deposits, but not demand deposits nor core deposits. Net repo and fed funds are falling as well, and banks, particularly exposed banks, are reducing their cash balances.

We aggregate funding variables into the total *Private Funding* – the sum of the change in Fed Funds Net, Total US Deposits, Repo Net, Cash and Balances, AFS Securities, and Other Borrowed Money. ABCP exposed banks increase funding by more than six times as much as non-exposed banks at this time.

Differences between exposed and non-exposed banks are not the only differences we see at this time. Also in Panel A of Table 2, we separate the sample between domestic and foreign banks and find dramatic differences between foreign and US banks' access to liquidity. For example, while on average banks exposed to ABCP grow deposits more than do non-ABCP-exposed banks, the difference is driven by the US banks. In fact, US banks with ABCP exposure grow deposits by over three times more than foreign banks with ABCP exposure, despite having experienced similarly sized liquidity shocks. This seems to suggest that foreign exposed banks

were not able to switch to more stable sources of funding as US banks did. Within types of deposits, exposed US banks grow their time deposits and other deposits, while foreign banks grow more flighty large time deposits and other deposits only. US exposed banks also raise other debt financing, increasing other borrowed money, selling available for sale securities, and shrinking cash balances, while foreign exposed banks pay back other borrowed money and grow cash balances. Foreign banks with exposure to ABCP are growing funding by more than their non-exposed peers, although perhaps not by as much as we would have expected. Foreign banks with ABCP grow deposits by nearly two times as much as their non-exposed peers. They also increase repo and cash, but shrink other borrowed money.

Of course, this analysis is univariate in nature. In Table 3, we present the results of a number of specifications in which the change in funding (the difference between balances as of 2007Q3 and 2007Q2) is the dependent variable. As explanatory variables, we include bivariate controls for whether the bank is foreign and for whether the bank is exposed to USD ABCP. We considered normalizing the dependent variable to account for differences in bank size, but it is unclear what an appropriate normalization factor would be. We cannot normalize by the amount of the US ABCP shock experienced by the bank, since we would be dividing by 0 for the control set. An alternative factor could be total bank assets, but because of disparities in where banks choose to hold assets, neither the amount of US assets nor the amount of total assets is proportional to US ABCP exposure (since some small foreign banks have a higher amount of US ABCP assets than their larger peers). Therefore, we include these normalizing variables as explanatory variables, which allows us to estimate the effect of different size variables on access to funding directly.

In the fall of 2007, we see that the increase in total US deposits is associated with the amount of regulated US banking assets – for a 10% increase in US assets, banks grow total US deposits by

\$34 million. Looking across the nine regression specifications, each with a dependent variable measuring a source of short term funding, we do not find any statistically significant relationship between the interaction of US ABCP exposure and foreign banks. In short, banks increase deposits proportionately to their US regulated assets, but exposed foreign banks do not increase funding in any area by more than do similarly exposed US banks. In fact, when we examine different types of deposits in columns 7 through 9, all exposed banks seem to be losing core deposits at this time, but US banks seem to be making up the difference with time deposits and other wholesale deposits. In summary, while ABCP exposed foreign banks had dramatically greater funding needs, exposed foreign banks grew funding by only 1.7x as much as did their foreign peers without ABCP exposure. Similarly, while ABCP exposed foreign banks had similar funding needs to their US peers, US exposed banks grew funding by six times more.

3.3. Weekly funding

Since funding conditions may be affected in the shorter term, but perhaps may be resolved within one quarter's time, we confirm our results with changes in balances between August 1 and August 15, 2007. We present summary statistics for the subset of 276 banks (27 ABCP-exposed banks) in our sample that file weekly reports in Panel B of Table 2. Because these filings have different line items, we can also look at transfers between foreign bank subsidiaries, which would approximate liquidity raised outside of the US and swapped into dollars.¹⁶ We examine both the change in Net Due From (To) Related Institutions and the change in Borrowing from US Commercial Banks at this interval. The former is a measure of intrabank liquidity flowing to US-regulated entities from their non-US corporate parents and affiliates, while the latter measures interbank lending within the US.

¹⁶ While this information includes transfers among foreign commercial banks and their US offices, it represents a lower bound on access to dollars, since it measures only funds sent to US-regulated subsidiaries.

Looking within the two-week time period around the ABCP funding shock, foreign exposed banks raise substantial amounts of liquidity from their affiliates, growing the net amount due to foreign parents by close to \$2 billion between August 1 and August 15 of 2007, on average, and \$4 billion from quarter-end June to quarter-end September. This is in contrast to the behavior of other foreign banks at this time and is consistent with the transfers documented in Cetorelli and Goldberg (2012).

While exposed foreign banks are raising money from their affiliates, they are losing liquidity from US banks over the quarter – foreign exposed banks return almost \$126 million borrowed from US commercial banks in the two weeks around the shock (almost \$300 million from quarter to quarter), while their exposed US peers borrow an additional \$3 billion.

3.4. Government Funding

We next compare funding from government sources, specifically the Discount Window and advances from FHLBs. We calculate the change in funding from the Discount Window primary credit program by summing the borrowing amount of primary credit at the Discount Window for the months September, October, November, and December, and subtracting the amount for the months April, May, June, and July. These data come from the proprietary Federal Reserve database and exclude borrowing done through secondary credit and seasonal credit lending programs. While not all banks access the Discount Window, we have complete information for all banks that borrow. Although the aggregate borrowing level was low, US bank borrowers increase Discount Window borrowing by three times as much as their exposed foreign peers.

We also measure the quarterly change in Federal Home Loan Bank advances over all maturities reported on the Call Report. As shown in Panel A of Table 4, in aggregate, US ABCP exposed banks borrow more than 10 times as much from the FHLB as do their exposed foreign peers. In

fact, only 27 of the 128 foreign banks in the sample even had access to FHLB advances. Going back to our earlier example, during this period Bank of America borrowed more than \$16 billion from FHLBs, while Paribas borrowed only \$345 million and West LB did not receive any FHLB advances. Adding up both sources of government funding, we obtain *Total pre-TAF Gov. Funding*, and again find that the US exposed banks expand funding much more than do foreign exposed banks (more than 40 times). Examining borrowing from the discount window and the FHLBs, and adding linear controls for bank size, we see the same strong results in Panel B of Table 4 – funding is significantly associated with US regulated assets, but not with total assets, and foreign exposed banks access dramatically less liquidity than do their US peers.

The last item in Panel A of Table 4 sums up the total amount of funding that banks add in the third quarter of 2007, before the TAF is instituted. It is the sum of private and government funding in our previous analysis, *Total pre-TAF Funding*. By this measure, we see the funding gap clearly illuminated. In aggregate, US ABCP exposed banks increase their funding from private and government sources by dramatically more than do their foreign exposed peers. However, foreign banks with ABCP exposure grow their funding dramatically less than US banks with ABCP exposure do (approximately 1/8th as much). In fact, they only grow their funding by as much as do non-ABCP exposed foreign banks, on average (approximately 1.5 times as much).

3.5. Residual Funding Demand

As a measure of the unmet demand for USD liquidity, we next examine borrowing from the Term Auction Facility (TAF), which was instituted in December 2007, and calculate the sum of the amount borrowed in the TAF auctions held on December 17th and 20th of 2007.¹⁷

On average, foreign ABCP-exposed banks borrow more from the TAF than do any other category of bank, although not all exposed foreign banks bid at the TAF auctions. In Panel B of Table 4, we run simple OLS regressions to understand if our results are driven by bank scale. We control for the size of banks' total assets, as well as banks' US assets held through Federal Reserve regulated subsidiaries, because US assets may determine access to deposits. We find that foreign banks in general are disproportionately likely to access the TAF. While exposed banks borrow more from the TAF on average, there is no statistically significant difference between foreign and US exposed banks. Adding together the TAF and FHLB funding, we see a dramatic difference in access to US government funding – foreign exposed banks access much less government funding than do US exposed banks.

Our analysis has some limitations. We have no comprehensive information on USD or dollar-denominated assets of non-US entities, and we lack information on USD commercial paper issuance of foreign banks.¹⁸ This lack of information itself is symptomatic of a mismatch between bank exposure to US assets and incomplete information on banks that are headquartered outside of the US. It is worth noting that while exposed US banks accessed dramatically more

¹⁷ On December 17, 2007, the Federal Reserve conducted a 28-day TAF auction of \$20 billion at a stop-out rate of 4.65 percent. The awarded loans settled on December 20, 2007, and matured on January 17, 2008. On December 20, 2007, the Federal Reserve held another TAF auction of \$20 billion in 35-day credit at 4.67 percent stop-out rate. Loans settled on December 27, 2007, and matured on January 31, 2008. TAF transaction data is publicly available through http://www.federalreserve.gov/newsevents/reform_taf.htm

¹⁸ Comprehensive data on CP issuance has been made available only since August 2008. While some of this information is on Bloomberg, the fields are not well populated.

funding, in terms of amounts relative to Tier 1 Capital, foreign banks actually had 2.5% more US ABCP exposure than did US banks, on average.

4. Real Market Response

4.1. Syndicated Loans

Having documented differential access of domestic and foreign banks to USD funding sources, we turn to the syndicated loan market to understand if the ABCP funding shock had real effects on corporate credit; and if this effect differs between US and foreign banks, and for USD versus foreign currency denominated loans. In perfect markets with no frictions in access to US dollars, we would not find differences between lending in dollars and in other currencies within banks.

We use the Loan Pricing Company's (LPC) DealScan database to analyze the terms of syndicated loans arranged in 2007. LPC data have been extensively described in previous literature (see, for example, Ivashina (2009)). We link (by hand) banks from our sample to LPC using bank names and RSSD information from the National Information Center hierarchy to assign a match when the LPC lender name matches to any of the bank's subsidiaries. These banks comprise 20% of unique LPC lender names, and matched banks participate in 92% of the loans made in 2007.¹⁹ We are able to find matches for 312 of the 567 sample banks (117 of the matched banks are foreign). We limit the analysis to observations with sales data from LPC to better control for borrower quality. Of the 312 banks, only 159 underwrote syndicated loan facilities with available data in our sample period of January 1, 2007 to December 12, 2007 (154 underwrote USD-denominated loans, 69 underwrote euro-denominated loans, 64 underwrote

¹⁹ LPC lender names and IDs are not unique by bank. Large banks such as JP Morgan may have as many as 22 lender IDs in LPC. In 2007, there were 9,489 syndicated loans made excluding Bond and Note loan types. The banks in our sample were lenders in the syndicate for 92% of the loans (98% of the total facility amount outstanding) and a lead arranger in 89% of the loans (95% of the total facility amount outstanding).

both USD- and euro- denominated loans, and 149 underwrote revolving credit lines). The remaining banks did not underwrite syndicated loans reported to LPC in this period. In addition to information on the lending syndicate, we use this database for information on each loan facility, including all-in-drawn spread, maturity, amount, purpose, and the sales and industry of the borrower.

It is notable that just as we see a mismatch between foreign banks' US ABCP exposure and their US-regulated assets, we see a mismatch between foreign banks that underwrite USD denominated syndicated loans and their US regulated assets. Table 5 presents summary statistics on the underwriting of USD syndicated loans by foreign and US banks. Adding up all loans likely to be outstanding as of August 9, 2007, defined as facilities with a start date before and maturity after August 9, 2007 (162,555 facilities), and assuming that each member of the underwriting syndicate underwrites an equal amount of each facility, the numbers are striking – exposed US and foreign banks underwrite roughly the same amount of syndicated loans. These underwriting commitments are approximately 30% of US banks' total assets, but more than 4 times larger than foreign banks' US regulated assets.

Of course, many of these loans are underwritten but sold off. To be more conservative, we assume that banks keep only their portion of the revolver, and retain no exposure to the term loans. Even under this assumption, we find that foreign exposed banks' revolving credit line commitments are 1.8 times larger than their regulated US assets. To be even more conservative, if we assume that banks keep only 25% of their underwritten share of the revolver and 5% of the term loans, ABCP-exposed foreign banks still have an exposure to USD-denominated loans that approaches 60% of their regulated US assets (the comparable number for US banks is 8%). In part, this reflects the fact that large syndicated loan underwriters such as Deutsche Bank and

Credit Suisse have relatively small regulated assets in the US relative to their total assets. While this small asset base relative to total assets would not be relevant if US dollars could be raised at will and in a frictionless manner, aggregate dollar shortages as well as frictions in raising market funding (due to moral hazard and adverse selection concerns) render such a small asset base as a significant exposure to future dollar funding risk.

Do USD funding frictions affect foreign banks' US lending? We use information on 11,210 syndicated loan facilities in the pre-ABCP crisis period and 4,444 in the post period (August 9, 2007 to December 12, 2007), a total of 15,654 lender-facility observations. In the pre-period, 10,593 are denominated in US dollars, and 617 are denominated in euros or pounds; of the facilities in the post-period, 4,168 are denominated in USD, and 276 are denominated in euros or pounds.²⁰ We also use information about the Moody's loan ratings from the DealScan database. If the Moody's loan rating is not available, we use the first available of the following ratings: S&P Loan Rating equivalent, Moody's Senior Debt, S&P Senior Debt, Fitch Senior Debt, Fitch Long-term Borrower Rating, and S&P Long-Term Borrower Rating.

We begin by comparing loans arranged before and after the shock to ABCP funding markets in USD and in euro or pounds (GBP). We tabulate the average terms of loans made before and after the shock in Panel A of Table 6. On average, after the ABCP shock, spreads fall by almost twice as much in the Euro/GBP market as they do in US dollar denominated loans. On average, the share of exposed foreign banks in the underwriting syndicate also falls; however, it falls by more in non-USD loans. Further, these results do not control for systematic differences in the types of banks, borrowers, and loans granted.

In Panel B of Table 6, we split the sample between US and foreign banks. In the beginning of 2007, on average, foreign and US banks seem to be making similar USD-denominated loans,

²⁰ See Carey and Nini (2007) for a discussion of the US versus European syndicated loan data.

with mean loan spreads around 160 basis points. In Europe, relative to USD loans, both exposed US and foreign banks seem to be making riskier loans, with mean spreads around 200 basis points. US banks seem to be participating in riskier loan facilities in the European market. After the ABCP market shock, US and foreign banks still seem to be making riskier (higher spread) loans in the European market, US banks appear to participate in significantly larger loan facilities in Europe, and on average euro/pound-denominated loans seem to be of similar or slightly longer maturity than USD loans. These univariate differences point out the importance of controlling for bank and currency fixed effects.

4.2. Empirical Methodology

In order to control for important differences in the type of loans that banks make, and for differences in different loan markets, we employ a differences-in-differences strategy, where we estimate the terms of loan facilities extended before and after the ABCP shock, in USD and other currencies, by foreign and domestic banks, and by ABCP- and non-ABCP-exposed banks. We begin by looking at the effect of the share of loans that is financed by ABCP-exposed or foreign banks, and then expand the dataset to one observation per loan facility-bank.

We can thus estimate how loan terms changed in the following segments: i) after the ABCP shock, ii) in USD loans vs. non- USD loans, iii) for foreign banks after the ABCP shock, and iv) for foreign banks with ABCP exposure after the ABCP shock, while controlling for bank fixed effects, borrower characteristics and loan characteristics. Specifically, we estimate the following equation:

$$LPC\ Term_{b,l,f} = \alpha + \gamma_0 * USD + \Lambda\Psi * Post + \Gamma\Psi * Post * USD + \tau X_b + \varphi Y_l + \omega Z_f$$

where b indexes banks, l indexes loan facilities and f indexes borrower firms; the dependent variable $LPC\ Term_{b,l,f}$ is a term from the loan package, either spread, amount, or maturity; $\Lambda = [\lambda_i]$ and $\Gamma = [\gamma_i]$, for $i=1,...,4$, are row vectors of coefficients; and Ψ is a column vector of variables of interest defined as:

$$\Psi = [1, ABCP, Foreign, ABCP * Foreign]^T.$$

And our variables of interest are the following: *USD*, a dummy variable equal to 1 if the currency of the loan is USD; *Post*, a dummy variable equal to 1 on or after August 9, 2007; *Foreign*, a dummy variable equal to 1 if the bank's ultimate parent is headquartered outside of the US, and *ABCP*, an indicator variable equal to 1 if a bank has USD ABCP exposure. In the analysis at the loan facility level, we calculate the *ABCP (%)*, the percentage of banks in the syndicate with USD ABCP exposure; and *Foreign (%)*, the percentage of syndicate banks with an ultimate parent headquartered outside of the US. Lacking detailed information on the share taken by each bank, we do not weight these percentages by loan share. Results are similar, but with reduced statistical significance if we include only lead banks.

We include fixed effect controls for each bank, X_b . In addition, we add Y_l a vector of controls for loan characteristics associated with terms of syndicated loans, including loan security, and fixed effects controls for the loan purpose. We also include Z_f controls for borrower characteristics including sales divided by package amount and fixed effects for the borrower industry, as well as the loan's credit rating when available. In our sample, approximately 29% of loans are rated. In some of the spread specifications, we include controls for other co-determined loan characteristics such as maturity and amount. Results are similar if those controls are omitted. Standard errors are clustered at the loan package level. Detailed variable definitions are available in Appendix A.

In short, we estimate differences in loan terms after controlling for observable loan characteristics, borrower characteristics, and for any fixed differences among currencies and banks. Results emerge from differences in the differences in bank terms between currencies before and after the ABCP shock. Of course, there are limitations to any analysis of syndicated loan data. First, loans are priced in a syndicate, and therefore terms are jointly determined. This would bias us against finding any results, since a withdrawal of credit by foreign banks might be mitigated by additional credit provision by other syndicate members. Second, syndicated loans are underwritten by the syndicate banks, but they may originate the loan to sell off some of or the entire loan package. Third, we can only analyze the prices of the loans that are actually made after the liquidity shock (the intensive margin). In Section 4.5, we attempt to understand the extent to which the extensive margin changes, although we are limited by the lack of data on loan demand.

4.3. Loan Pricing after the ABCP Funding Shock

We hypothesize that banks exposed to the ABCP shock suffered more of a liquidity shock than banks without ABCP exposure. This liquidity shock is denominated in USD, and since we find evidence that US banks have differential access to USD liquidity in Section 3 (by raising deposits and accessing FHLB financing), we expect there to be differential impacts in the US lending market relative to other currencies, assuming that there are frictions in liquidity across currencies for foreign banks. Thus in order to estimate the impact of a negative liquidity shock to lending, we look to see if foreign exposed banks offer different terms than do US exposed banks, or than foreign or domestic non-exposed banks.

We begin in Table 7 by looking at the pricing of loans before and after the ABCP shock, and at the characteristics of the bank syndicate in each loan facility. In each specification in the table,

we include controls for observable loan characteristics of the borrower and loan that are associated with loan pricing. For each loan term (spread, amount and maturity), we estimate two specifications. First we estimate the effect on USD and non-USD loans of the percentage of the loan syndicate that is exposed to the ABCP shock, but without distinguishing between US and foreign banks (columns (1), (3) and (5)). Then we allow the estimated coefficient to differ for the share of the syndicate that is foreign and exposed to the ABCP shock. The size of the coefficient on the interaction of *USD*, *ABCP (%)*, *Foreign (%)* and *Post* captures the marginal effect of the share of exposed foreign banks in the syndicate in the post-shock period on the terms of loans denominated in USD, relative to non-USD loans.

Before looking at the nationality of the lenders, we do not find differential effects in the share of ABCP exposed banks on loan terms – if anything, it appears that non-USD loans are disproportionately affected (column (1)). However, once we allow coefficients to vary with the share of foreign exposed banks, we see that it is the share of foreign exposed banks that is associated with higher prices for USD loans. For a 10 percentage point increase in the syndicate share of foreign exposed banks, spreads increase by 132 basis points, amounts decrease by \$2 million, and maturities increase by 24 months, all else equal. All estimated coefficients are statistically significant, although amounts are significant only at the 10% level. Estimated coefficients are larger when calculated using all banks in the syndicate, rather than just leads.

Of course, there may be unobservable differences in the types of borrowers that have foreign banks in their lending syndicate. Since many of the banks in our sample lend both in USD and non-USD, we can use bank fixed effects to control for unobservable differences in the types of borrowers that match with the foreign exposed lenders. In addition, while a given bank may change lending in response to solvency concerns after the ABCP shock, there is no a priori

reason to think that the solvency effect on lending in USD should be different from the change in lending terms in other currencies. In this way we can estimate cleanly the effects of USD liquidity shortages, while controlling for variation among banks' liquidity and solvency at this time through bank fixed effects. In order to add controls for bank fixed effects, we expand the sample out to one observation per bank-facility and cluster standard errors at the loan package level to account for the correlation among loans to the same borrower. To the extent that loan terms are jointly determined across banks in the syndicate, this empirical approach will bias us against finding any relationship between loan terms and bank characteristics.

In Table 8, we begin by repeating the first two specifications of Table 7, where the lender variables are now binary variables (instead of percentages) indicating if the bank is foreign or exposed to US ABCP. We start with specifications that include loan level, rating, amount, and maturity controls, but not lender fixed effects. Prices on USD loans increase in the post shock period, as do prices for loans made by exposed banks. In the fourth specification, when we look only at the variation within banks, the statistical significance of the results actually strengthens.

As in Table 7, significant differences emerge when we allow the effect of ABCP exposure to vary by loan currency. Foreign banks with exposure to ABCP raise interest rates on US dollar loans after the ABCP funding shock, particularly when compared to US exposed banks or to non-exposed foreign banks. The effect is statistically and economically significant, with a marginal difference in interest rate for foreign exposed banks lending in US dollars of 85 basis points, even after controlling for loan maturity, size, level, and loan rating (specification 4). Adding up the coefficients, exposed foreign banks are raising prices after the ABCP shock. The sum of the marginal effects is an additional 5 basis points on USD loans – at a time when they are dropping interest rates on their non-USD loans.

Since relationship banks may play a more important role in the syndicate, we identify banks that participated in a borrower's previous syndicated loan (*Relationship*) and repeat the analysis in specification (4) but splitting the sample between borrowers for which the lender has previously participated in the lending syndicate in the last five years (column (5)) and those with no previous relationship (column (6)). We find similarly large effects for this subset of borrowers, but not differentially so from the standpoint of statistical significance.

We would also expect to see stronger effects for bank-dependent borrowers. We split the sample between banks with and without public equity (specifications (7) and (8)). We find the largest marginal effect for exposed foreign banks on borrowers that do not have public equity. We investigated this further to see if borrower characteristics mattered, but did not find many results of statistical significance, perhaps because we observe detailed borrower characteristics only for the sample of banks with public equity.

A liquidity shock might be expected to have the strongest effects on the terms of the liquidity that banks provide to their customers through revolving lines of credit. Looking at only US banks lending to US borrowers in the same period, Bord and Santos (2011) find that banks that accessed the liquidity facilities of the Federal Reserve raised prices on the undrawn fees for revolving credit lines to their customers. Surprisingly, in our analysis, the effect is relatively limited when we restrict the sample to revolvers (not shown). However, we are estimating our results on all-in spread, rather than on undrawn spread, because we have very few observations with information on undrawn spreads for non-USD revolvers.

Finally, since loan facilities are typically part of a larger loan package, we want to make sure that the pricing differences we find are present in aggregate loan packages. Therefore, we aggregate

facilities of a single borrower into a loan package and calculate a weighted average spread on all facilities. The results are of similar magnitude and economic significance.

4.4. Other Loan Terms

We now turn in Table 9 to an analysis of other important loan terms such as facility amount, maturity, and rating. Since loan terms may be jointly determined, we include controls for other loan terms such as spread, amount, or maturity. Beginning with loan amounts, we do not find statistically significant differences in the post-shock period. USD-denominated loan amounts decline slightly relative to other loans, but the effect is not statically significant.

Turning to facility maturity (specifications (3) and (4)), we find that foreign exposed banks seem to be shortening maturities on loans after the shock: we estimate a negative coefficient on $Post * ABCP * Foreign$ after including controls for bank fixed effects and loan ratings. In contrast to our expectations, foreign exposed banks actually seem to be extending maturities on their USD loans relative to their loans in other currencies (positive coefficient on $Post * USD * ABCP * Foreign$). However, when adding up all the marginal effects, we see that, relative to the pre-shock period, both exposed US and foreign banks are shortening maturities on their US loans and extending maturities on their euro loans (Foreign banks: -1.0 USD vs. 4.0 Euro). This result is different from that presented in Table 7, suggesting that the extension of the maturities found in the cross section (without controlling for bank fixed effects) is consistent with unobservable differences in the types of borrowers that have foreign banks in their lending syndicate.

Finally, we look at the riskiness of loans as measured by loan ratings. In specifications (5) and (6) in Panel A of Table 9, we are simply trying to understand if the average rating of loans done in the post-shock period has changed. Therefore, we do not include controls for loan characteristics such as sales, or other loan terms. Generally, all banks seem to be making less

risky loans in the post-shock period. Overall, after the ABCP shock, foreign banks are making less risky USD loans (negative, but not statistically significant, coefficient on $Post * USD * Foreign$ in specification (6)). Similarly, exposed banks are also making less risky USD loans (negative, but not statistically significant, coefficient on $Post * USD * ABCP$), although exposed foreign banks seem to be increasing slightly the riskiness of their loans (insignificant positive coefficient on $Post * USD * ABCP * Foreign$).

In summary, the impact of differential funding access of domestic and foreign banks to USD funding seems predominantly on the cost (spreads) of syndicated loans, rather than on their maturity, size, or risk.

4.5. Extensive margin

It is plausible that the real effect of a liquidity shock is in the loans that do not get made at all. While we cannot identify all borrowers that would have liked to borrow in the syndicated loan market (the full extensive margin), we can examine borrowers that previously accessed this market to see if they are able to refinance their existing loans. For this purpose, we use the set of syndicated loans outstanding at the time of the ABCP shock, and test if US dollar borrowers with foreign exposed banks in their syndicate are less likely to refinance their loans.

In Table 10, we present a Cox proportional hazard analysis of refinancing. We regress a dummy variable indicating if the borrower received a new syndicated loan package between August 9 and December 11, 2007, on our set of lender characteristics, controlling for features of the loan being refinanced that we expect to be associated with the probability of refinancing. As before, our main variables of interest are *ABCP*, *Foreign*, and the interaction of the two variables. Since we only look at loan refinancing after August 9, we no longer need a dummy variable for the post-ABCP shock period.

While the previous analysis considered only loans issued in 2007, for this analysis, we want to begin with a sample of loans that were outstanding at the time of the ABCP shock. For this reason, we look backward for a period of five years and begin with the 8,768 loan packages outstanding as of August 9, 2007 that were underwritten by sample banks (65,662 loan package-lender observations). In this analysis, we focus on the loan package as our unit of observation, because we are interested in understanding how the crisis affects borrowers' access to loans, not the refinancing of any particular facility. Since bank liquidity shocks might disproportionately affect revolving credit lines, we also look at the subsample of 47,537 revolver-lender observations that were arranged in the five years prior to the shock and are outstanding as of August 9, 2007.

In order to isolate the effect of the loan underwriter on refinancing, we include controls for characteristics of the initial loan that might affect the probability of refinancing: the time to maturity of the original loan as of August 9, 2007, the price of risk at the time of the original loan, loan rating, loan purpose, and the industry of the borrower. Detailed definitions of the control variables are provided in Appendix A. The controls generally have the expected sign, with loans of longer time to maturity being less likely to be refinanced.

We find that foreign exposed banks are less likely to refinance USD revolving loans in the months following the ABCP shock. The effect is economically large, although the estimated coefficient (-0.182) in specification (3) is not statistically significant. However, when we turn to risky loans (when the loan being refinanced was issued at a spread greater than 150 basis points), we see a negative, statistically significant coefficient. Exposed foreign banks are less likely to refinance risky loans after the funding shock. This also highlights the importance of controlling for risk in the spread regressions of the previous sections, since it is likely that the risk of loans

extended by foreign exposed banks in USD is falling at this time relative to their other currency loans.

Another type of extensive margin are borrowers that switch away from foreign exposed banks, but still are able to borrow. We examine this dimension in two ways: First, we look at the share of foreign exposed banks after the ABCP shock. On a univariate basis, the share of foreign exposed banks underwriting USD loans falls at this time (see Table 6, Panel A). However, after including controls for observable loan and borrower characteristics, the difference in the underwriting share of foreign exposed banks in USD is not statistically significant.

Second, while we cannot identify all borrowers that considered foreign exposed banks as syndicate members, we look to see if borrowers with previous relationships with foreign banks are disproportionately affected.²¹ We are limited in the power of this analysis by the fact that the penetration of non-exposed US banks in non-USD loans and non-exposed foreign banks in USD loans is relatively lower in the sample of pre-2007 loans. We find that having foreign exposed banks in the original syndicate is associated with lower amounts (significant at the 10% level), but has no statistically significant effect on pricing. This is consistent with some borrowers choosing to borrow less and drop foreign banks from their syndicate, while other borrowers choose to pay higher prices and refinance with foreign exposed banks. However, we must be cautious in interpreting the results due to the low power of our analysis.

5. Concluding Remarks

Our primary finding in this paper is that foreign banks borrowing in the ABCP market and operating in the United States, in particular, had to scramble for liquidity when the ABCP market

²¹ We are grateful to Phil Strahan for this suggestion. Full analysis is available in the internet appendix.

froze. Their limited access to deposit and government funding sources suggests that they relied mainly on the relatively more fragile wholesale markets for funding. In turn, they passed on the cost of this fragility to their USD borrowers in the form of higher costs for the provision of syndicated loan packages.

It is interesting to consider a few issues concerning other sources of funding for the foreign banks. Clearly, as the US banks relied on their own deposit markets and government funding, foreign banks may have also had access to such funding in their home countries. However, what these banks were scrambling for were primarily US dollars. Eventually, US dollars were made available through swap lines set up by the Federal Reserve with other central banks. However, this did not happen until December 11th 2007 (see McGuire and Goetz (2009), for example), giving us at least a quarter of data (starting with the ABCP funding shock in August 2007) from which we can identify the lending channel operating through foreign bank dollar shortages. That the TAF auctions conducted by the Federal Reserve starting in December 2007 had significant take-up by foreign banks, and that the dollar swap lines provided to foreign central banks were heavily used appear to suggest that foreign banks' US dollar needs were not fully met at least until December 2007.

Another source of US dollar funding for foreign banks, considered in the work of Cetorelli and Goldberg (2011), is that of management of liquidity across an entire banking organization, with funds flowing across international affiliates and within geographically diverse banks. They find that, faced with a shock to the parent in the ABCP market, global banks activated internal capital markets shuffling funds in and out of specific locations based on the relative importance of such locations as local funding pools. While we do not analyze how such management of liquidity contributes to – or affects – our results, if such liquidity management were relatively costless,

then it should have only made it harder for us to find a differential effect between foreign and domestic banks operating in the US.

Finally, two policy issues are relevant for discussion in the context of our results. First, we find evidence that suggests that dollar-funding shortages can affect not only the stability of foreign banks, but also induce spillover into the US real economy, especially to corporations borrowing from foreign banks. For instance, the 10% contraction in short-term paper extended by money market funds to European banks during 2011 may also potentially be associated with such a spillover and may be fruitful ground for further inquiry.²² A robust conclusion is that ensuring prudential regulation of domestic banks in a country may not be sufficient for guarding against financial fragility if the economy is a large center of global banking activities.

Second, while we can draw conclusions about the changes in loan pricing after August 2007 we cannot say whether spreads on syndicated loans made by foreign banks were too low prior to August 2007, or whether the spreads rose excessively so post-August 2007 (or both). Our empirical analysis, which is based on a difference in differences approach, cannot rule in favor of one thesis or the other. Acharya and Richardson (2009) argue that bank risk-taking in the pre-crisis period was driven by regulatory arbitrage motive. Acharya, Schnabl and Suarez (2009) show convincingly that the reliance on ABCP by commercial banks was primarily the result of advantageous capital treatment accorded to issuance of such paper (and guarantees to it) by most national regulators. Shin (2011) calls the resulting provision of intermediation a “global banking glut”, arguing that it led to the underpricing of dollar-denominated maturity mismatch, and in particular to compressed loan premiums. Our results are supportive of these conclusions, but also potentially consistent with an ex-post credit crunch (excessively high spreads relative to efficient

²² The foreign bank presence in borrowing from money-market funds dates back to pre-crisis periods, as documented by Baba, McCauley and Ramaswamy (2009).

ones) due to transmission by foreign banks of their adverse funding conditions to corporations.

Investigating this issue further presents a significant but worthy challenge.

References

- Acharya, Viral, Heitor Almeida and Murillo Campello. 2013. "Aggregate Risk and the Choice Between Cash and Lines of Credit," *Journal of Finance*, forthcoming.
- Acharya, Viral and Nada Mora. 2011. "Banks as Passive Liquidity Backstops? Deposit Rates and Flows During the 2007-09 Crisis," Working Paper, New York University Stern School of Business.
- Acharya, Viral and Matthew Richardson. 2009. "Causes of the Financial Crisis," *Critical Review*, 21(2-3): 195-210.
- Acharya, Viral and Philipp Schnabl. 2010. "Do Global Banks Spread Global Imbalances? Asset-Backed Commercial Paper during the Financial Crisis of 2007-09," *IMF Economic Review*, 58, 37-73.
- Acharya, Viral, Philipp Schnabl, and Gustavo Suarez. 2013. "Securitization without Risk Transfer," *Journal of Financial Economics*, 107 (3), 515-536.
- Adrian, Tobias, Paolo Colla and Hyun Song Shin. 2012. "Which Financial Frictions? Parsing the Evidence from the Financial Crisis of 2007-09," *NBER Macroeconomics Annual*, Vol 27.
- Afonso, Gara, Anna Kovner and Antoinette Schoar. 2011. "Stressed, Not Frozen: The Federal Funds Market in the Financial Crisis," *Journal of Finance*, 66 (4), 1109-1139.
- Armantier, Olivier, Sandra Krieger, and James McAndrews. 2008. "The Federal Reserve's Term Auction Facility. Current Issues in Economics and Finance," *July*, 14 (5), 1-11.
- Armantier, Olivier, Eric Ghysels, Asani Sarkar, and Jeffrey Shrader. 2010. "Stigma in Financial Markets: Evidence from Liquidity Auctions and Discount Window Borrowing During the Crisis," Working paper, Federal Reserve Bank of New York.
- Ashcraft, Adam, Morten Bech, and Scott Frame. 2010. "The Federal Home Loan Bank System: the Lender of Next-to-Last Resort?" *Journal of Money, Credit and Banking*, June, 42(4), 551-83.
- Baba, Naohiko, Robert N. McCauley and Srichander Ramaswamy. 2009. "US Dollar Money Market Funds and Non-US Banks," *BIS Quarterly Review*, March 2009, 65-81.
- Bord, Vitaly and Joao Santos. 2011. "Banks' Liquidity and Cost of Liquidity for Corporations," Working Paper, Federal Reserve Bank of New York.
- Bottazzi, Jean-Marc, Jaime Luque, Mario Pascoa and Suresh Sundaresan. 2012. "Dollar Shortage, Central Bank Actions, and the Cross Currency Basis," Working Paper, Columbia University.
- Brunnermeier, Markus. 2009. "Deciphering the Liquidity and Credit Crunch 2007-2008," *Journal of Economic Perspectives*, Winter.

- Carey, Mark and Gregory Nini. 2007. "Is the Corporate Loan Market Globally Integrated? A Pricing Puzzle," *Journal of Finance*, 62(6), 2969-3001.
- Carvalho, Daniel, Miguel Ferreira and Pedro Matos. 2011. "Lending Relationships and the Effect of Bank Distress: Evidence from the 2007-2008 Financial Crisis," working paper.
- Cetorelli, Nicola and Linda S. Goldberg. 2011. "Global Banks and International Shock Transmission: Evidence from the Crisis," *International Monetary Fund Economic Review*, April 2011.
- Cetorelli, Nicola and Linda S. Goldberg. 2011. "Liquidity Management of U.S. Global Banks: Internal Capital Markets in the Great Recession," *Federal Reserve Bank of New York Staff Reports* #511.
- Cornett, Marcia, Jamie McNutt, Philip Strahan, and Hassan Tehranian. 2011. "Liquidity Risk Management and Credit Supply in the Financial Crisis," *Journal of Financial Economics*, 101(2) 297-312.
- Diamond, Douglas, and Raghuram Rajan. 2009. "The Credit Crisis: Conjectures about Causes and Remedies," *American Economic Review: Papers & Proceedings*, May.
- Duchin, Ran, Oguzhan Ozbas, and Berk Sensoy. 2010. "Costly External Finance, Corporate Investment, and the Subprime Mortgage Credit Crisis," *Journal of Financial Economics*, September, 97(3), 418-35.
- Furfine, C. 1999. "The Microstructure of the Federal Funds Market," *Financial Markets, Institutions and Instruments*, 8(5), 24-44.
- Gao, Pengjie, and Hayong Yun. 2009. "Commercial Paper, Lines of Credit, and the Real Effects of the Financial Crisis of 2008: Firm-level Evidence from the Manufacturing Industry," manuscript, Notre Dame University.
- Gatev, Evan, and Philip Strahan. 2006. "Banks' Advantage in Hedging Liquidity Risk: Theory and Evidence from the Commercial Paper Market," *Journal of Finance*, 61(2), 867-92.
- Gatev, Evan, Til Schuermann and Philip Strahan. 2009. "Managing Bank Liquidity Risk: How Deposit-Loan Synergies Vary with Market Conditions," *Review of Financial Studies*, 22(3), 995-1020.
- Gorton, Gary. 2008. "The Panic of 2007," in *Maintaining Stability in a Changing Financial System*, a symposium sponsored by the Federal Reserve Bank of Kansas City, August 21-23.
- Gozzi, Juan Carlos and Martin Goetz. 2010. "Liquidity Shocks, Local Banks, and Economic Activity: Evidence from the 2007-2009 Crisis," Working Paper, Brown University.
- Greenlaw, David, Jan Hatzius, Anil Kashyap and Hyun S. Shin. 2008. "Leveraged Losses: Lessons from the Mortgage Market Meltdown," *US Monetary Policy Forum Report No. 2*, February 2008.

He, Zhiguo, In Gu Khang and Arvind Krishnamurthy (2010), “Balance Sheet Adjustment in the 2008 Crisis,” IMF Economic Review 1, 118-156.

Hrung, Warren, and Asani Sarkar. 2012. “The US Dollar Funding Premium of Global Banks,” Working Paper, the Federal Reserve Bank of New York.

Irani, Rustom, 2011. “Banking Crises and the Provision of Liquidity Insurance,” Working Paper, New York University Stern School of Business.

Ivashina, Victoria. 2009. Asymmetric Information Effects on Loan Spreads. *Journal of Financial Economics* 92: 300-19.

Ivashina, Victoria, and David Scharfstein. 2010. “Bank Lending during the Financial Crisis of 2008,” *Journal of Financial Economics*, 97, 319-38.

Ivashina, Victoria, David Scharfstein and Jeremy Stein. 2012. “Dollar Funding and the Lending Behavior of Global Banks,” NBER working paper 18528.

Kacperczyk, Marcin, and Philipp Schnabl. 2010. “When Safe Proved Risky: Commercial Paper during the Financial Crisis of 2007-2009,” *Journal of Economic Perspectives*, Winter.

Kashyap, Anil, Raghuram Rajan and Jeremy Stein. 2002. “Banks as Liquidity Providers: An Explanation for the Coexistence of Lending and Deposit-Taking,” *Journal of Finance*, 57(1), 33-74.

Krishnamurthy, Arvind. 2010. “How Debt Markets Have Malfunctioned in the Crisis,” *Journal of Economic Perspectives*, 24(1): 3-28.

Liu, Yian. 2011. “International Liquidity Sharing: Evidence from Financial Crises,” University of Chicago Working Paper.

McGuire, Patrick and Goetz von Peter. 2009. “The US Dollar Shortage in Global Banking,” BIS Quarterly Review, March 2009, Bank for International Settlements.

Mian, A, and Santos, J. 2011. Liquidity Risk and Maturity Management over the Credit Cycle, Working paper, University of California at Berkeley.

Montoriol-Garriga, Judit, and Evan Sekeris. 2009. “A Question of Liquidity: The Great Banking Run of 2008?” Federal Reserve Bank of Boston Working Paper No QAU09-4.

Pennacchi, George. 2006. “Deposit Insurance, Bank Regulation, and Financial System Risks,” *Journal of Monetary Economics*, 53 (1), 1-30.

Shin, Hyun (2012), “Global Banking Glut and Loan Risk Premium,” Mundell-Fleming Lecture, IMF Economic Review, 60: 155-192, July 2012.

Appendix A: Variable Definitions

Variable	Definition
<i>Changes in Funding (2007Q2 and 2007Q3)</i>	
<i>US Deposits</i>	Total noninterest-bearing (including total demand deposits and noninterest-bearing time and savings deposits) and interest-bearing deposits (FR Y-9C: bhdm6631, bhdm6636, bhfn6631, bhfn6636; FFIEC 031: rcon6631, rcon6636, rcfn6631, rcfn6636; FFIEC 002: rcfd2205)
<i>Repo Net</i>	The amount of securities sold under agreements to repurchase less securities bought under agreements to repurchase (FR Y-9C: bhckb995, -bhckb989; FFIC 031: rcfdb995, -rcfdb989; FFIEC 002: rcfdc422, rcfdc423, -rcfdc414, -rcfdc415)
<i>Fed Funds Net</i>	Net fed funds from regulatory filings (FR Y-9C: bhdmb993, -bhdmb987; FFIEC 031: rconb993, -rconb987; FFIEC 002: rcfdc420, rcfdc421, -rcfdc412, -rcfd856, -rcfdc413)
<i>Fed Funds Sold</i>	Amount of fed funds purchased (FR Y-9C: bhdmb987, FFIEC 031: rconb987, FFIEC 002: rcfdc412, rcfd856, rcfdc413)
<i>Other Borrowed Money (less FHLB Advances)</i>	Borrowed money from nonrelated commercial banks and others less FHLB advances (<i>Other Borrowed Money</i> defined as FFIEC031: rcfdf055, rcfdf056, rcfdf057, rcfdf058)
<i>Cash and Balances</i>	Cash and balances due from depository institutions (FR Y-9C: bhck0081, bhck0395, bhck0397; FFIEC 031/FFIEC 002: rcfd0010)
<i>Available for Sale Securities</i>	Securities that are available for sale (FR Y-9C: bhck1773; FFIEC 031/ FFIEC 002: rcfd1773)
<i>Demand Deposits</i>	Demand deposits (FR Y-9C: bhcb2210; FFIEC 031/FFIEC 002: rcon2210)
<i>Core Deposits</i>	The sum of deposits under \$100,000 plus all transaction deposits
<i>Time Deposits (<\$100K)</i>	Total time deposits of less than \$100,000 (FR Y-9C: bhcb6648, bhod6648; FFIEC 031/ FFIEC 002: rcon6648)
<i>Time Deposits (>\$100K)</i>	Total time deposits of more than \$100,000 (FR Y-9C: bhcb2604, bhod2604; FFIEC 031/ FFIEC 002: rcon2604)
<i>Other Deposits</i>	NOW, ATS, and other transaction accounts; money market deposit accounts and other savings accounts not classified as demand deposits or time deposits
<i>Total Private Funding</i>	Sum of changes in <i>Fed Funds Net</i> , <i>Total US Deposits</i> , <i>Repo Net</i> , <i>Cash and Balances</i> , <i>Available for Sale Securities</i> , and <i>Other Borrowed Money (less FHLB Advances)</i>
<i>Changes in Funding (Jun 27, Aug 1, Aug 15, and Sep 26 of 2007)</i>	
<i>Net Due From (To) Related Institutions</i>	The amount that is sent to (received from) related institutions that are not US banks (FR 2644: walb2154, -walb2944; FR 2069: wrss2163, -wrss2941)
<i>Borrowing from US Commercial Banks</i>	The change in the amount borrowed in aggregate from other US banks (FR 2644: walba286; FR 2069: wrssa286)

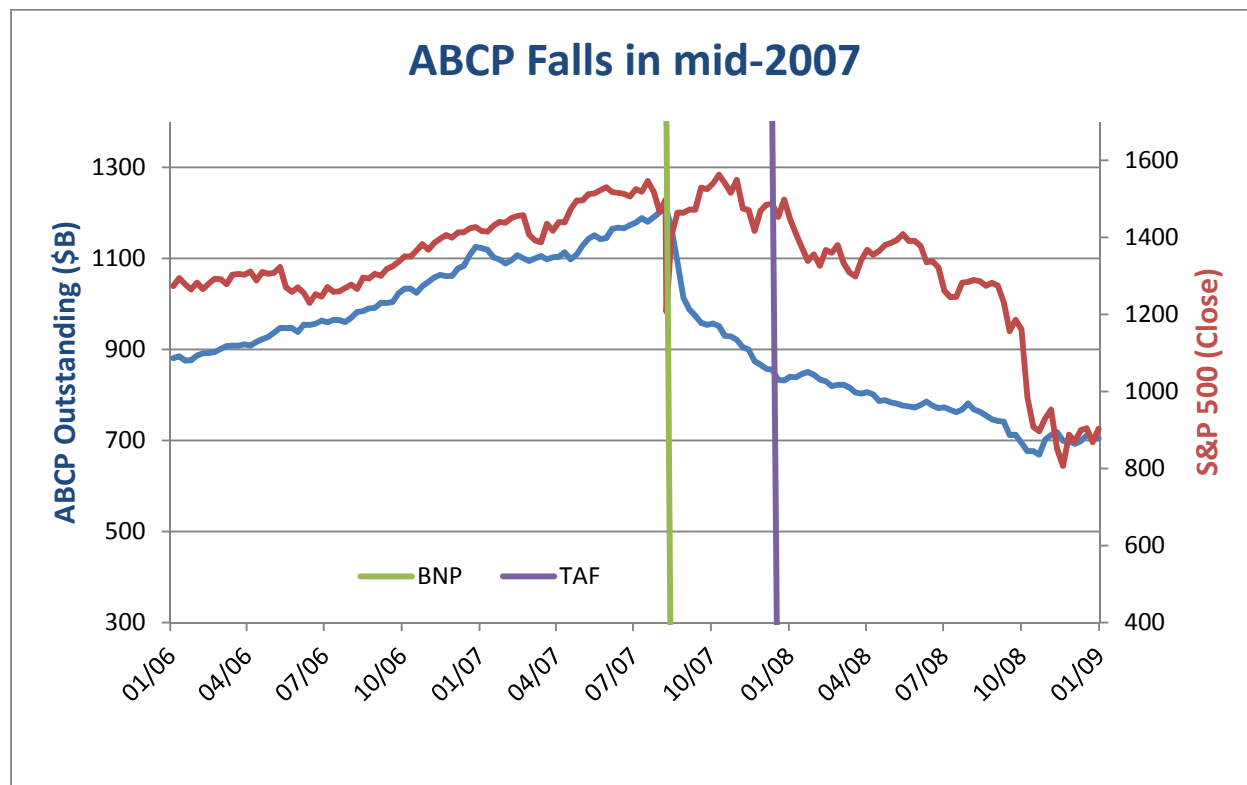
Appendix A: Variable Definitions (cont.)

Variable	Definition
<i>DealScan</i>	
<i>Spread</i>	All-in-drawn spread (in basis points) corresponding to the total cost (interest rate and fees) paid over LIBOR for each dollar drawn down under the loan facility
<i>Amount</i>	Logarithm of the total loan facility
<i>Maturity</i>	Maturity of the facility in months
<i>Unsecured</i>	Dummy variable equal to 1 if the loan is either not secured or missing data
<i>Number of Lenders</i>	Number of lenders in the syndicate
<i>Borrower Industry</i>	Dummy variables for the 1-digit SIC industry code of the borrower
<i>Deal Purpose</i>	Dummy variables for the loan purpose, aggregated to business purposes, project financing, deal, or other (CP backup, IPO related finance, pre-export, securities purchase, undisclosed, guarantee, lease finance, or other)
<i>Leverage</i>	Sales divided by package amount
<i>Rating</i>	Dummy variables for Moody's Bank Loan Rating (20 dummies). If the Moody's Bank Loan Rating is not available, we use the first available of the following ratings: S&P Loan Rating equivalent, Moody's Senior Debt, S&P Senior Debt, Fitch Senior Debt, Fitch Long-term Borrower Rating, and S&P Long-term Borrower Rating
<i>No Loan Rating</i>	Dummy variable equal to 1 if the loan and borrower are not rated
<i>Refinancing Variables</i>	
<i>Time to Maturity</i>	The distance between August 9, 2007, and the maturity of the original loan
<i>Risk Price</i>	Spread of Moody's seasoned Baa corporate bond yield less the Moody's seasoned Aaa corporate bond yield at the issuance date of the original loan

Appendix B: Availability of Information on Sources of Funding Liquidity

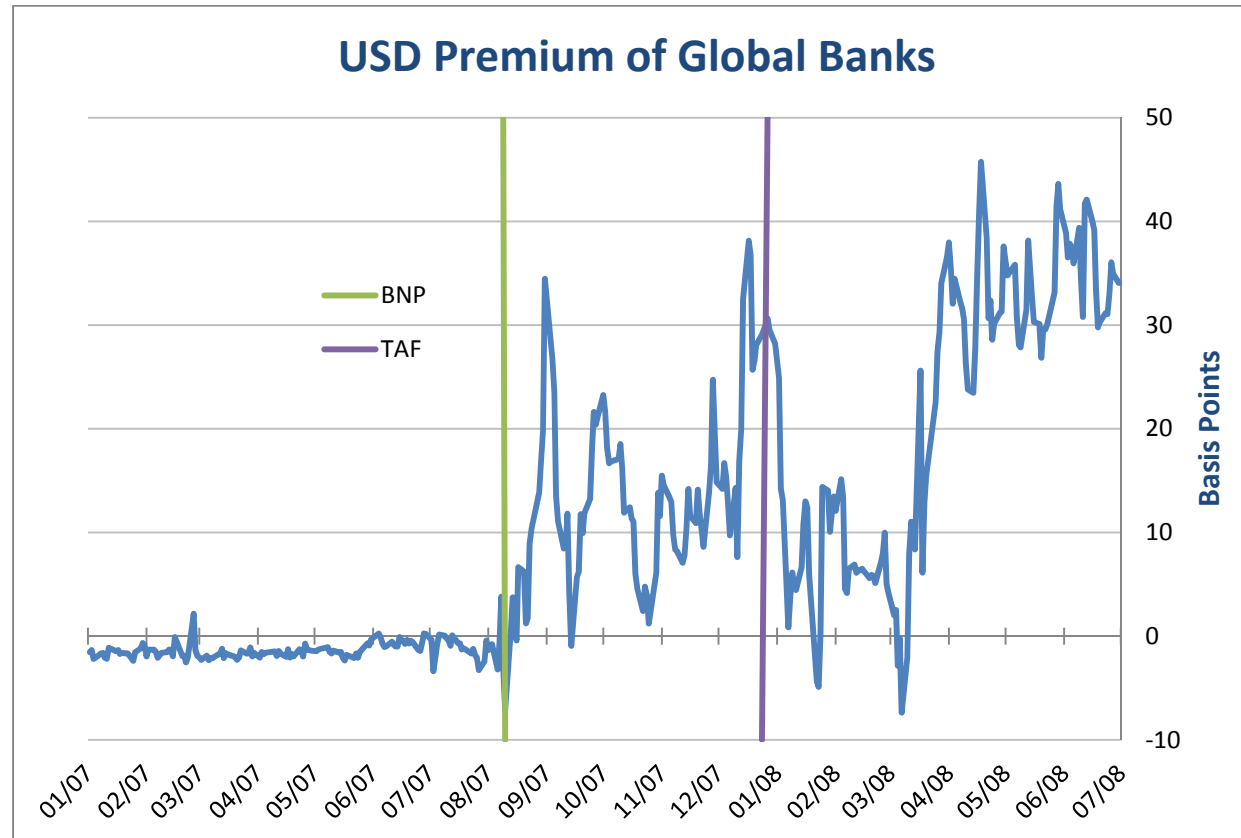
Source of ST liquidity	Data	Not Captured
Private		
Cash	Quarterly (includes non-dollar denominated currency and coin, and cash in interest-bearing balances offshore)	USD held outside of US (at FBO headquarters, etc.)
AFS Securities	Quarterly	AFS securities at FBO headquarters, disaggregated AFS holdings at the domestic branch and offices of foreign banks (002 filers)
Fed Funds Net / Eurodollar	Daily estimates (extracted from payments data), Quarterly at US regulated subsidiary only	May include correspondent banking, term fed funds, Eurodollar loans and tri-party repo. May miss activity not settled in Fedwire and loans with unusually high or low rates compared to the daily effective fed funds rate
Repo	Quarterly	Repo of assets at foreign headquarters
US Deposits (including Demand Deposits, Time Deposits, and Other Deposits)	Quarterly	USD deposits held at FBO level (the Y-7Q reports figures at the FBO level but does not detail deposit figures)
Local currency funding swapped into USD	Weekly information on transfers from headquarters for subset of banks	Banks which are not included in H.8 (voluntary) panel, USD funding not sent through regulated subsidiary
Commercial Paper	Quarterly for BHCs (Data tracked in Y-9C but not CALL or 002)	Commercial banks not part of a BHC and 002 filers (available CP data from DTCC begins August 29, 2008; CP facility data from Bloomberg not populated)
Government		
Discount Window	Daily (access only for US branches and agencies of foreign banks that hold reserves)	None
TAF	Daily (access for US depository institutions and US branches and agencies of foreign institutions in good standing and maintaining deposits subject to reserve requirements)	None
FHLB Advances	Quarterly (access only for member US commercial banks and BHCs)	None

Figure 1



Adapted from Acharya, Schnabl, and Suarez (2009). The red line is the level of the S&P 500 at close; the blue line is the total amount of ABCP outstanding in billions USD; the green line indicates August 9, 2007, when BNP Paribas suspended withdrawals from 3 subprime mortgage backed funds; the purple line indicates December 12, 2007, when the Federal Reserve announced the TAF to alleviate pressure in short-term funding markets.

Figure 2



Adapted from Hrungr and Sarkar (2012). Data are daily from January 1, 2007 to June 30, 2008. The blue line measures CIP deviations for USD loans; the green line indicates August 9, 2007, when BNP Paribas suspended withdrawals from 3 subprime mortgage backed funds; the purple line indicates December 12, 2007, when the Federal Reserve announced the TAF to alleviate pressure in short-term funding markets.

Table 1: Summary Statistics

	Full Sample	ABCP Exposed				Foreign			
		All	Foreign	Domestic	Difference	All	ABCP	No ABCP	Difference
ABCP Outstanding (\$M)	1237.30 (6208.04)	13236.73 (16050.01)	10919.26 (10562.29)	20367.38 (26090.54)	-9448.12	3439.14 (7775.63)	10919.26 (10562.29)		
ABCP Exposure (%)	4.92 (27.76)	52.63 (76.35)	53.33 (84.64)	50.49 (44.36)	2.84	16.80 (53.25)	53.33 (84.64)		
Total Assets (\$B)	103.91 (299.33)	739.24 (563.33)	783.84 (554.66)	602.01 (590.12)	181.83	367.27 (482.46)	783.84 (554.66)	175.74 (289.30)	608.10
US Assets (\$B)	22.92 (129.53)	166.80 (383.29)	72.49 (143.95)	457.01 (669.62)	-384.52	27.14 (86.44)	72.49 (143.95)	6.30 (12.42)	66.19
Tier 1 Capital Ratio (%)	9.44 (9.54)	7.63 (24.82)	7.79 (27.67)	6.96 (1.40)	0.83	7.36 (17.76)	7.79 (27.67)	7.13 (8.46)	0.66
N	567	53	40	13		127	40	87	

Table 1 displays summary statistics of bank characteristics. Summary statistics are reported separately for exposed banks and foreign banks. Characteristics are *ABCP Outstanding*, the amount of US ABCP outstanding in millions; *ABCP Exposure*, the percentage of US ABCP relative to bank equity as of 1/1/2007 (from Moody's Investor Service and BankScope as detailed in Acharya and Schnabl (2011)); *Total Assets*, the total 2006Q4 assets of the consolidated bank (from BankScope); *US Assets*, the 2006Q4 US assets of the bank (from regulatory reports); and *Tier 1 Capital Ratio*, the bank's Tier 1 regulatory capital over risk-weighted assets for 2006Q4. Standard deviations are in parentheses.

Table 2, Panel A: Changes in Funding (2007Q3 - 2007Q2, \$M)

	Full Sample	ABCP Exposed				Foreign			
		All	Foreign	Domestic	Difference	All	ABCP	No ABCP	Difference
US Assets	980.28 (8050.97)	7611.41 (24788.80)	3955.08 (17279.25)	18861.66 (38868.08)	-14906.58	1534.12 (10112.66)	3955.08 (17279.25)	421.03 (3233.07)	3534.05
<u>Private Funding</u>									
Cash and Balances	-17.10 (880.18)	-202.53 (2825.46)	271.32 (1923.87)	-1660.53 (4417.40)	1931.85	63.78 (1113.61)	271.32 (1923.87)	-31.64 (330.46)	302.96
AFS Securities	36.58 (1374.43)	14.31 (3114.49)	183.09 (1850.47)	-505.01 (5524.28)	688.10	274.95 (1755.90)	183.09 (1850.47)	317.19 (1720.08)	-134.10
Fed Funds Net	-40.39 (923.03)	-213.72 (2556.41)	-356.80 (2614.40)	226.55 (2413.96)	-583.35	-225.18 (1676.40)	-356.80 (2614.40)	-164.67 (1003.02)	-192.13
Fed Funds Sold	-8.79 (381.14)	-133.67 (762.76)	-31.81 (584.67)	-447.08 (1126.59)	415.27	-13.08 (594.64)	-31.81 (584.67)	-4.48 (602.33)	-27.33
Repo Net (Sold - Purchased)	-50.63 (2253.64)	-500.46 (7282.16)	520.80 (4286.29)	-3642.78 (12486.49)	4163.58	92.66 (2504.70)	520.80 (4286.29)	-104.19 (857.52)	624.99
Total US Deposits	434.77 (3370.40)	2571.77 (9166.37)	1649.79 (7260.06)	5408.61 (13462.63)	-3758.82	1087.29 (5140.99)	1649.79 (7260.06)	828.66 (3821.66)	821.13
Demand Deposits	-58.42 (326.65)	-231.84 (619.88)	-112.71 (387.00)	-598.39 (992.72)	485.68	-49.21 (233.21)	-112.71 (387.00)	-20.01 (95.00)	-92.70
Core Deposits	-25.42 (340.72)	-189.07 (489.52)	-141.16 (454.66)	-336.50 (579.13)	195.34	-59.31 (272.30)	-141.16 (454.66)	-21.68 (101.72)	-119.48
Time Deposits (<\$100K)	36.11 (324.52)	97.13 (497.30)	-4.68 (59.39)	410.36 (958.83)	-415.04	-2.31 (34.21)	-4.68 (59.39)	-1.22 (10.57)	-3.46
Time Deposits (>\$100K)	275.53 (2383.57)	1850.07 (6715.04)	1612.11 (7291.50)	2582.23 (4673.22)	-970.12	960.41 (4677.33)	1612.11 (7291.50)	660.78 (2766.66)	951.33
Other Deposits	184.65 (2001.79)	910.77 (5649.31)	178.84 (1418.63)	3162.87 (11156.89)	-2984.03	186.19 (1648.39)	178.84 (1418.63)	189.57 (1751.66)	-10.73
Other Borrowed Money	154.93 (2874.80)	1646.27 (9250.29)	-812.61 (4367.51)	9212.07 (15054.40)	-10024.68	-247.86 (2502.57)	-812.61 (4367.51)	11.79 (555.78)	-824.40

Table 2, Panel A: Changes in Funding (2007Q3 - 2007Q2, \$M) (cont.)

	Full Sample	ABCP Exposed				Foreign			
		All	Foreign	Domestic	Difference	All	ABCP	No ABCP	Difference
<i>Government Funding</i>									
Discount Window	22.65 (246.07)	124.31 (467.09)	51.41 (341.94)	348.62 (702.28)	-297.21	25.71 (210.72)	51.41 (341.94)	13.89 (107.63)	37.52
FHLB Advances	137.39 (1037.29)	750.82 (2859.43)	27.89 (255.27)	2975.23 (5302.50)	-2947.34	42.28 (269.47)	27.89 (255.27)	48.90 (276.94)	-21.01
Term Auction Facility (TAF)	39.82 (236.60)	181.93 (466.73)	240.18 (525.60)	2.69 (7.25)	237.49	166.80 (471.34)	240.18 (525.60)	133.06 (443.36)	107.12
<u>Totals</u>									
Total Funding	678.20 (5600.09)	4190.77 (16454.35)	1534.88 (11425.55)	12362.76 (25555.94)	-10827.88	1113.62 (7532.45)	1534.88 (11425.55)	919.94 (4879.24)	614.94
Total Government Funding	160.03 (1156.07)	875.13 (3097.13)	79.30 (402.57)	3323.85 (5694.95)	-3244.55	67.99 (372.20)	79.30 (402.57)	62.79 (359.70)	16.51
Total Private Funding	518.17 (5076.71)	3315.64 (14824.43)	1455.58 (11355.05)	9038.91 (22050.98)	-7583.33	1045.63 (7494.50)	1455.58 (11355.05)	857.14 (4868.91)	598.44
N	567	53	40	13		127	40	87	

Table 2, Panel B: Changes in Funding, H.8 FR 2644 Subsample (\$M)

	Full Sample	ABCP Exposed				Foreign			
		All	Foreign	Domestic	Difference	All	ABCP	No ABCP	Difference
<i>Change from Jun 27, 2007 to Sep 26, 2007</i>									
Net Due From Related Institutions	56.33 (3582.17)	-2032.61 (7285.93)	-2640.05 (8201.11)	93.42 (187.07)	-2733.47	293.76 (8569.37)	-2640.05 (8201.11)	2494.11 (8307.43)	-5134.16
Net Due To Related Institutions	96.21 (1281.23)	950.19 (3686.91)	1535.98 (3873.99)	-1100.06 (2041.67)	2636.04	741.10 (2850.25)	1535.98 (3873.99)	144.94 (1570.22)	1391.04
Net Due To Less From	39.88 (3667.85)	2982.80 (8097.96)	4176.02 (8804.48)	-1193.48 (2003.67)	5369.50	447.35 (8722.86)	4176.02 (8804.48)	-2349.16 (7676.14)	6525.18
Borrowing from US Commercial Banks	106.67 (1727.97)	496.94 (4583.76)	-295.85 (1623.20)	3271.70 (9318.72)	-3567.55	2.79 (1288.85)	-295.85 (1623.20)	226.77 (938.10)	-522.62
N	276	27	21	6		49	21	28	
<i>Change from Aug 1, 2007 to Aug 15, 2007</i>									
Net Due From Related Institutions	25.31 (2499.95)	-800.45 (5192.77)	-1012.74 (5838.74)	13.34 (34.53)	-1026.08	129.98 (5744.87)	-1012.74 (5838.74)	977.81 (5618.04)	-1990.55
Net Due To Related Institutions	85.59 (1110.12)	680.04 (2986.92)	926.37 (3308.69)	-264.23 (666.09)	1190.60	478.70 (2501.59)	926.37 (3308.69)	146.56 (1661.32)	779.81
Net Due To Less From	60.28 (2760.48)	1480.48 (6214.34)	1939.11 (6926.46)	-277.58 (700.45)	2216.69	348.72 (6331.68)	1939.11 (6926.46)	-831.25 (5680.30)	2770.36
Borrowing from US Commercial Banks	137.90 (1475.97)	517.45 (3761.38)	-125.94 (1131.86)	2983.75 (8024.25)	-3109.69	8.58 (1121.16)	-125.94 (1131.86)	108.38 (1121.19)	-234.32
N	281	29	23	6		54	23	31	

Table 2, Panel A displays summary statistics of changes in funding for the entire sample (567 banks, 53 ABCP Exposed banks). Table 2, Panel B displays summary statistics of changes in funding for the H.8 FR 2644 subsamples (276 and 281 banks with 27 and 29 ABCP Exposed banks, respectively). Summary statistics are reported separately for exposed banks and foreign banks. Detailed definitions of variables are in Appendix A. All values are in millions USD. Standard deviations are in parentheses.

Table 3: Determinants of Changes in Funding

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	FF/Euro Net (Borrow-Lend)	FF/Euro Lending	Repo Net (Sold- Purchased)	Total US Deposits	Cash and Balances	AFS Securities	Deposits Detail		
							Time (<\$100K)	Core Deposits	Total Deposits - Core Deposits
ABCP	183.4 (744.5)	-583.3* (333.3)	-3716.9 (3605.8)	4920.9 (3729.4)	-1714.8 (1270.9)	-338.7 (1643.5)	283.7 (280.8)	-361.5** (179.4)	5282.4 (3738.3)
Foreign	-224.3 (172.3)	-103.7 (75.5)	-195.4 (365.1)	754.2 (525.3)	-91.4 (155.7)	433.2 (315.0)	-79.6 (61.9)	-55.1 (61.1)	809.3 (527.4)
ABCP * Foreign	-397.7 (772.9)	492.5 (323.4)	4308.3 (3500.1)	-4245.7 (3710.1)	1992.7 (1237.0)	275.5 (1577.0)	-327.6 (260.3)	224.2 (168.0)	-4470.0 (3727.1)
US Assets (\$B)	-41.1 (47.1)	-19.7 (12.9)	-53.1 (137.8)	337.3** (138.8)	-31.2 (51.4)	11.5 (59.9)	16.3* (8.8)	-27.5*** (7.8)	364.8** (141.5)
Total Assets (\$B)	10.6 (40.4)	25.9 (17.1)	15.6 (92.4)	42.7 (116.9)	11.3 (40.2)	-28.5 (69.4)	15.2 (14.5)	8.2 (13.9)	34.4 (118.6)
Constant	233.5 (205.5)	-40.9 (104.1)	295.4 (452.4)	-2741.5*** (753.6)	157.3 (147.9)	109.5 (498.7)	-199.1** (92.6)	137.4 (89.2)	-2878.9*** (765.6)
N	567	567	567	567	567	567	567	567	567
Adjusted R ²	0.01	0.03	0.06	0.12	0.09	0.00	0.06	0.05	0.14

Table 3 displays univariate regression results on changes in private funding. The dependent variables are quarterly changes from 2007Q2 to 2007Q3 in millions USD of (1) *Net FF/Euro*, the amount of Fed funds borrowed less the amount lent; (2) *FF/Euro Lending*, the amount of Fed Funds lent; (3) *Repo Net*, the amount of securities sold under agreements to repurchase less the securities bought under agreements to repurchase; (4) *Total US Deposits*, total US Deposits; (5) *Cash and Balances*, the cash and balances due from depository institutions; (6) *AFS Securities*, the amount of available-for-sale securities; (7) *Time Deposits (<\$100K)*, the total time deposits of less than \$100,000; (8) *Core Deposits*, the amount of transaction deposits and insured time deposits; and (9) *Total Deposits - Core Deposits*, the amount of total deposits less core deposits. The independent variables are *ABCP*, a dummy variable equal to 1 if the highholder bank has US ABCP; *Foreign*, a dummy variable equal to 1 if the highholder bank is foreign; *ABCP * Foreign*, the interaction between ABCP and Foreign; *US Assets*, the 2006Q4 US assets of the bank (from regulatory reports); and *Total Assets*, the total 2006Q4 assets of the consolidated bank (from BankScope). Detailed definitions of variables are in Appendix A. Robust standard errors are in parentheses; *, **, and *** indicate significance at the 10%, 5%, and 1% level.

Table 4, Panel A: Changes in Government Funding (\$M)

	ABCP Exposed			Foreign		
	Foreign	Domestic	Difference	ABCP	No ABCP	Difference
Discount Window	51.41 (341.94)	348.62 (702.28)	-297.20	51.41 (341.94)	13.89 (107.63)	37.52
FHLB Advance	27.89 (255.27)	2975.23 (5302.50)	-2947.34	27.89 (255.27)	48.90 (276.94)	-21.01
Total pre-TAF Gov. Funding	79.30 402.57	3323.85 5694.95	-3244.55	79.30 402.57	62.79 359.70	16.51
TAF	240.18 (525.60)	2.69 (7.25)	237.48	240.18 (525.60)	133.06 (443.36)	107.11
Total pre-TAF Funding	1534.88 (11425.55)	12362.76 (25555.94)	-10827.88	1534.88 (11425.55)	919.94 (4879.24)	614.94

Table 4, Panel A displays summary statistics of changes in government funding for the entire sample (567 banks, 53 ABCP Exposed banks). Summary statistics are reported separately for exposed banks and foreign banks. Detailed definitions of variables are in Appendix A. All values are in millions USD. Standard deviations are in parentheses.

Table 4, Panel B: Change in Government Funding

	(1)	(2)	(3)	(4)
	FHLB Advances	Discount Window	TAF	TAF + FHLB Advances
Foreign	-89.2 (228.2)	-1.8 (59.2)	115.1*** (36.5)	25.9 (225.9)
ABCP	2665.9* (1449.3)	304.5 (205.7)	-49.3 (52.0)	2616.6* (1437.1)
ABCP * Foreign	-2781.9** (1385.3)	-279.6 (191.9)	135.9 (84.5)	-2646.0* (1372.5)
US Assets (\$B)	105.6** (50.7)	20.7** (8.5)	19.4*** (6.7)	125.0** (49.9)
Total Assets (\$B)	32.8 (58.7)	4.1 (14.6)	7.2 (7.9)	40.1 (58.0)
N	567	567	567	567
Adjusted R ²	0.24	0.08	0.14	0.26

Table 4, Panel B displays univariate regression results on changes in government funding. The dependent variables are (1) *FHLB Advances*, the sum of all FHLB advances; (2) *Discount Window*, the borrowing amount of primary credit at the discount window excluding all borrowing done through secondary credit and seasonal credit lending programs; (3) *TAF*, the amount borrowed from the Term Auction Facility auctions held on December 17th and 20th of 2007; and (4) *TAF+FHLB Advances*, the sum of *TAF* borrowing and the change in *FHLB Advances*. The independent variables are *ABCP*, a dummy variable equal to 1 if the highholder bank has US ABCP; *Foreign*, a dummy variable equal to 1 if the highholder bank is foreign; *ABCP * Foreign*, the interaction between ABCP and Foreign; *US Assets*, the 2006Q4 US assets of the bank (from regulatory reports); and *Total Assets*, the total 2006Q4 assets of the consolidated bank (from BankScope). Detailed definitions of variables are in Appendix A. Robust standard errors are in parentheses; *, **, and *** indicate significance at the 10%, 5%, and 1% level.

Table 5: Mismatch between USD Underwriting and US Assets

	Sum	Means	
	Amount/N	% of Total Assets	% of US Assets
Domestic, ABCP	3085.14	33.32	44.43
Domestic, No ABCP	1007.26	44.02	44.02
Foreign, ABCP	3474.09	26.54	459.48
Foreign, No ABCP	725.57	8.43	363.75
<i>Revolvers</i>			
Domestic, ABCP	1591.56	18.71	27.75
Domestic, No ABCP	491.16	20.49	20.49
Foreign, ABCP	1593.80	12.49	178.23
Foreign, No ABCP	325.73	2.35	88.43
<i>25% * Revolvers + 5% * Term Loans</i>			
Domestic, ABCP	472.57	5.41	7.77
Domestic, No ABCP	148.60	6.30	6.30
Foreign, ABCP	492.46	3.82	58.62
Foreign, No ABCP	101.42	0.89	35.87

Table 5 displays summary statistics on the mismatch between USD underwriting and US regulated assets. The sample includes all outstanding USD currency denominated loans in DealScan made by the 567 banks in our panel, defined as any facility with a start date before August 9, 2007 and an end date after August 9, 2007 (N=162,555 facility-lenders). The columns display sums of outstanding amounts, as well as mean outstanding amounts as a percentage of total bank assets and US bank assets. Revolvers with maturities of less and greater than one year are grouped as *Revolvers*; all other facilities loan types are grouped as *Term Loans*. *Domestic, ABCP* are domestic headquartered banks with exposure to US ABCP; *Domestic, No ABCP* are domestic headquartered banks with no exposure to US ABCP; *Foreign, ABCP* are foreign headquartered banks with exposure to US ABCP; *Foreign, No ABCP* are foreign-headquartered banks with no exposure to US ABCP.

Table 6, Panel A: Summary Statistics of Syndicate Lending Terms by Currency

	USD Loans				Euro Loans			
	N	Mean	Std. Dev.	Change in Mean	N	Mean	Std. Dev.	Change in Mean
<u>Pre-Paribas</u>								
Amount (\$M)	2021	400.86	999.38		118	538.54	1170.62	
Spread (bps)	2021	222.53	148.54		118	237.29	129.90	
Maturity (yrs.)	2021	5.11	1.58		118	6.80	1.95	
<i>Lender Underwriting</i>								
% Foreign	2021	34.23	31.09		118	78.15	29.79	
% ABCP * Foreign	2021	26.73	27.84		118	53.59	28.39	
% ABCP	2021	69.71	29.96		118	67.17	27.68	
<u>Post-Paribas</u>								
Amount (\$M)	664	536.68	1183.20	135.82	34	1099.66	1539.41	561.12
Spread (bps)	664	196.24	154.83	-26.29	34	218.16	187.93	-19.13
Maturity (yrs.)	664	4.70	1.61	-0.41	34	6.70	1.96	-0.10
<i>Lender Underwriting</i>								
% Foreign	664	32.26	30.78	-1.97	34	83.16	19.05	5.01
% ABCP * Foreign	664	25.26	25.94	-1.48	34	44.45	28.18	-9.14
% ABCP	664	69.03	28.47	-0.68	34	56.43	27.68	-10.74

Table 6, Panel B: Summary Statistics of Syndicate Lending Terms by Currency-Headquarters

	Foreign				Domestic			
	N	Mean	Std. Dev.	Change in Mean	N	Mean	Std. Dev.	Change in Mean
USD Loans								
<u>Pre-Paribas</u>								
Amount (\$M)	4387	862.2	1297.1		6206	605.6	1094	
Spread (bps)	4387	155.7	125.4		6206	169.9	125	
Maturity (yrs.)	4387	5.12	1.45		6206	5.10	1.41	
<u>Post-Paribas</u>								
Amount (\$M)	1820	832.4	1157.8	-29.8	2348	718.8	1231.1	113.2
Spread (bps)	1820	132.4	114.2	-23.3	2348	155.1	131.9	-14.8
Maturity (yrs.)	1820	4.81	1.507	-0.31	2348	4.75	1.43	-0.35
Euro Loans								
<u>Pre-Paribas</u>								
Amount (\$M)	499	971.5	1365.4		118	915.6	1789.2	
Spread (bps)	499	183.3	138.0		118	224.3	125.9	
Maturity (yrs.)	499	5.88	2.59		118	5.80	2.16	
<u>Post-Paribas</u>								
Amount (\$M)	234	954.6	979.2	-16.90	42	1623.7	1658.6	708.10
Spread (bps)	234	150.8	121.0	-32.50	42	170.7	185.4	-53.60
Maturity (yrs.)	234	6.15	1.53	0.27	42	5.637	2.082	-0.16

Table 6, Panel A shows lending summary statistics by currency and Table 6, Panel B shows similar statistics further split by bank headquarters. The sample is the 15,654 facilities underwritten by the 567 banks in our panel between January 1 and December 12, 2007, and denominated in USD, Euros, or British pounds. Statistics are presented for loans made by foreign and domestic banks, as well as for all loans in the rightmost columns. Loan amount is the amount of the loan facility in millions USD. Euro/GBP loans are converted by LPC using the currency conversion rate at the facility start date. *Spread* is the all-in-drawn spread from DealScan in basis points. Maturity is the maturity of the loan in years.

Table 7: Loan Terms Pre and Post ABCP Shock (Facility Level)

	(1)	(2)	(3)	(4)	(5)	(6)
	Spread		Amount		Maturity	
Post	-48.40 (29.98)	-617.5*** (156.4)	0.456 (0.840)	7.257*** (2.204)	-2.994 (14.07)	-197.3*** (26.88)
Post * USD	51.47 (32.66)	620.5*** (156.9)	-0.488 (0.853)	-7.297*** (2.206)	-0.758 (14.26)	191.9*** (26.93)
Post * ABCP (%)	118.6** (60.40)	1288.2*** (232.6)	0.206 (1.167)	-6.779** (2.979)	1.232 (20.57)	234.3*** (43.05)
Post * USD * ABCP (%)	-108.0* (63.41)	-1271.8*** (233.3)	0.172 (1.180)	7.219** (2.983)	1.407 (20.74)	-232.2*** (43.13)
Post * Foreign (%)		615.2*** (165.5)		-6.776*** (2.305)		202.8*** (28.84)
Post * ABCP (%) * Foreign (%)		-1338.6*** (264.7)		6.520* (3.390)		-241.4*** (47.26)
Post * USD * Foreign (%)		-620.0*** (173.5)		6.745*** (2.325)		-194.0*** (28.87)
Post * USD * ABCP (%) * Foreign (%)		1329.1*** (273.2)		-6.608* (3.421)		238.2*** (47.52)
USD * Foreign (%)		97.66** (40.71)		0.631 (0.693)		-9.054 (11.96)
USD * ABCP (%)		67.02* (36.74)		0.237 (0.792)		8.988 (18.36)
USD * Foreign (%) * ABCP (%)		-126.3** (55.59)		-1.339 (1.093)		2.088 (19.91)
Loan Level Controls	Yes	Yes	Yes	Yes	Yes	Yes
Borrower Controls	Yes	Yes	Yes	Yes	Yes	Yes
N	2837	2837	2837	2837	2837	2837
Adjusted R ²	0.473	0.475	0.489	0.490	0.322	0.330

Table 7 shows the results of regressions for 2,837 syndicated loan facilities underwritten by the 567 banks in our panel between January 1 and December 12, 2007. The dependent variables are *Spread*, the all-in-drawn spread in basis points; *Amount*, the log of facility amount; and *Maturity*, the maturity of the facility in months. Each specification includes the following loan level controls: a dummy variable equal to 1 if the loan is denominated in USD, the spread (if the dependent variable is not *Spread*), log of loan amount (if not *Amount*), maturity (if not *Maturity*), sales divided by loan amount, an unsecured dummy, the number of lenders in the facility, the number of facilities in the loan package, and fixed effects for the 1-digit SIC code of the borrower, deal purpose and loan type. In addition, controls for *loan rating* (categorical variable) are included in all specifications. Detailed definitions of variables are provided in Appendix A. *Post* is equal to 1 if the loan start date occurs after August 9, 2007. *USD* is a dummy variable equal to 1 if the loan is denominated in USD. *Foreign (%)* is the percentage of banks in the syndicate that are foreign. *ABCP (%)* is the percentage of banks that have any US ABCP exposure. Robust standard errors clustered on package are in parentheses; *, **, and *** indicate significance at the 10%, 5%, and 1% level.

Table 8: Spread Pre and Post ABCP Shock

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
					Relationship	No Relationship	Public	Private
Post	-22.50 (30.24)	-40.43 (32.14)	-18.04 (19.91)	-38.48 (27.39)	-66.57* (36.46)	-24.06 (37.24)	-43.48 (39.77)	-45.10 (49.11)
Post * USD	25.31 (30.43)	46.44 (32.04)	26.41 (20.25)	47.80* (27.70)	67.71* (36.83)	36.33 (37.97)	48.21 (39.58)	71.24 (50.20)
Post * ABCP	15.34 (10.70)	91.54** (43.54)	14.29 (13.26)	82.47** (33.47)	68.28** (32.99)	117.8** (48.40)	65.53*** (24.59)	100.3* (57.82)
Post * USD * ABCP	-10.37 (11.34)	-85.74** (43.63)	-13.65 (13.26)	-79.08** (33.77)	-57.28* (33.31)	-117.9** (49.42)	-56.06** (24.94)	-111.8* (58.98)
Post * Foreign		18.13 (31.82)		23.69 (33.87)	88.58* (52.91)	12.61 (43.28)	80.60** (34.76)	33.65 (53.30)
Post * ABCP * Foreign		-84.10* (49.67)		-79.05** (36.99)	-105.0** (44.87)	-110.5** (54.95)	-29.42 (32.92)	-129.8** (61.22)
Post * USD * Foreign		-27.76 (33.85)		-26.67 (35.13)	-76.53 (53.51)	-22.65 (45.66)	-76.09** (35.55)	-30.15 (56.48)
Post * USD * ABCP * Foreign		85.03* (50.47)		74.09** (37.32)	84.58* (45.35)	113.9** (55.60)	20.79 (33.67)	122.3** (62.17)
USD * Foreign		30.72 (24.85)		15.50 (23.75)	66.41 (41.64)	12.23 (26.82)	40.69 (31.63)	5.842 (34.92)
USD * ABCP		19.51 (14.24)		8.289 (14.97)	41.89 (27.07)	0.959 (22.44)	19.65 (21.31)	-8.571 (19.19)
USD * ABCP * Foreign		-18.34 (16.44)		-8.263 (16.40)	-50.39* (29.30)	-12.25 (24.11)	-7.802 (21.27)	-14.03 (23.83)
USD	20.06 (12.96)	-6.200 (23.64)	20.98* (12.36)	8.700 (22.47)	-28.40 (32.95)	31.43 (24.71)	-8.678 (31.48)	37.68 (30.76)
Foreign	-7.460* (4.343)	-34.65 (24.71)						
ABCP	-3.771 (2.674)	-23.48* (13.72)						
ABCP * Foreign	5.034 (3.474)	23.26 (16.15)						
Loan Level Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Lender Fixed Effects	No	No	Yes	Yes	Yes	Yes	Yes	Yes
N	15654	15654	15654	15654	8946	6708	10314	5340
Adjusted R ²	0.529	0.530	0.547	0.547	0.570	0.513	0.589	0.437

Table 8: Spread Pre and Post ABCP Shock (cont.)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
					Relationship	No Relationship	Public	Private
<i>Marginal Effects</i>								
<i>ABCP Exposed</i>								
Domestic Lender, USD Loan	7.78	11.81	9.01	12.71	12.14	12.17	14.20	14.64
Domestic Lender, Euro Loan	-7.16	51.11	-3.75	43.99	1.71	93.74	22.05	55.20
Foreign Lender, USD Loan	7.78	3.11	9.01	4.77	3.77	5.53	10.08	10.64
Foreign Lender, Euro Loan	-7.16	-14.86	-3.75	-11.37	-14.71	-4.15	73.23	-40.95
<i>Not ABCP Exposed</i>								
Domestic Lender, USD Loan	2.81	6.01	8.37	9.32	1.14	12.27	4.73	26.14
Domestic Lender, Euro Loan	-22.50	-40.43	-18.04	-38.48	-66.57	-24.06	-43.48	-45.10
Foreign Lender, USD Loan	2.81	-3.62	8.37	6.34	13.19	2.23	9.24	29.64
Foreign Lender, Euro Loan	-22.5	-22.30	-18.04	-14.79	22.01	-11.45	37.12	-11.45

Table 8 shows the results of regressions for 15,654 syndicated loan facilities underwritten by the 567 banks in our panel between January 1 and December 12, 2007. The dependent variable is *Spread*, the all-in-drawn spread in basis points. Each specification includes the following loan level controls: the log of loan amount, maturity, sales divided by loan amount, an unsecured dummy, the number of lenders in the facility, the number of facilities in the loan package, and fixed effects for the 1-digit SIC code of the borrower, deal purpose and loan type. In addition, controls for *loan rating* (categorical variable) are included in all specifications. Controls for lender fixed effects are included in specifications (3) through (8). Specifications (5) and (6) split the sample between borrowers for which the lender has previously participated in the lending syndicate in the last five years and those with no previous relationship. Specifications (7) and (8) split the sample between borrowers with and without publicly traded equity. *Post* is equal to 1 if the loan start date occurs after August 9, 2007. *USD* is a dummy variable equal to 1 if the loan is denominated in USD. *Foreign* is equal to 1 if the highholder bank is foreign. *ABCP* is a dummy variable equal to 1 if the highholder bank has US ABCP. Detailed definitions of variables are provided in Appendix A. Robust standard errors clustered on package are in parentheses; *, **, and *** indicate significance at the 10%, 5%, and 1% level.

Table 9, Panel A: Amount, Maturity, and Rating

	(1)	(2)	(3)	(4)	(5)	(6)
	Amount		Maturity		Rating	
Post	0.248 (0.27)	0.745* (0.39)	1.308 (8.95)	-13.84* (7.26)	-1.726 (2.49)	-5.441 (3.63)
Post * USD	-0.134 (0.27)	-0.591 (0.39)	-3.647 (9.00)	11.1 (7.27)	1.197 (2.53)	4.823 (3.65)
Post * ABCP	-0.117 (0.18)	-0.36 (0.28)	1.832 (4.35)	16.57* (8.62)	1.368 (1.68)	1.177 (2.80)
Post * USD * ABCP	0.144 (0.18)	0.412 (0.28)	-1.108 (4.36)	-16.08* (8.65)	-0.987 (1.69)	-0.701 (2.82)
Post * Foreign		-0.606 (0.40)		15.83 (10.43)		5.261* (3.01)
Post * ABCP * Foreign		0.287 (0.28)		-14.61* (8.28)		-1.275 (2.87)
Post * USD * Foreign		0.468 (0.41)		-14.03 (10.35)		-5.111 (3.14)
Post * USD * ABCP * Foreign		-0.285 (0.30)		14.04* (8.32)		1.164 (2.94)
USD * Foreign		-0.551** (0.28)		-0.754 (7.54)		-2.843* (1.73)
USD * ABCP		-0.341 (0.21)		6.7 (6.08)		-1.193 (1.71)
USD * ABCP * Foreign		0.434* (0.24)		-3.2 (5.82)		-0.178 (1.77)
USD	-0.653*** (0.22)	-0.217 (0.23)	-4.625 (6.28)	-7.481* (4.48)	-4.641*** (1.14)	-1.512 (1.55)
Loan Level Controls	Yes	Yes	Yes	Yes	Yes	Yes
Lender Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
N	15654	15654	15654	15654	15654	15654
Adjusted R ²	0.474	0.474	0.339	0.34	0.248	0.253

Table 9, Panel A: Amount, Maturity, and Rating (cont.)

	(1)	(2)	(3)	(4)	(5)	(6)
	Amount		Maturity		Rating	
<i>Marginal Effects</i>						
<i>ABCP Exposed</i>						
Domestic Lender, USD Loan	0.14	0.21	-1.62	-2.25	-0.15	-0.14
Domestic Lender, Euro Loan	0.13	0.39	3.14	2.73	-0.36	-4.26
Foreign Lender, USD Loan	0.14	0.07	-1.62	-1.02	-0.15	-0.10
Foreign Lender, Euro Loan	0.13	0.07	3.14	3.95	-0.36	-0.28
<i>Not ABCP Exposed</i>						
Domestic Lender, USD Loan	0.11	0.15	-2.34	-2.74	-0.53	-0.62
Domestic Lender, Euro Loan	0.25	0.75	1.31	-13.84	-1.73	-5.44
Foreign Lender, USD Loan	0.11	0.02	-2.34	-0.94	-0.53	-0.47
Foreign Lender, Euro Loan	0.25	0.14	1.31	1.99	-1.73	-0.18

Table 9, Panel A shows the results of regressions for 15,654 syndicated loan facilities underwritten by the 567 banks in our panel between January 1 and December 12, 2007. The dependent variables are *Amount*, the log of facility amount, *Maturity*, the maturity of the facility in months, and *Rating*, the loan rating. Each specification includes the following loan level controls: sales divided by loan amount, an unsecured dummy, number of lenders in the facility, number of facilities in the loan package, and fixed effects for the 1-digit SIC code of the borrower, deal purpose, and loan type. In addition, controls for loan rating (categorical variable) and spread are included in specifications (1) through (4), log of loan amount in (3) and (4), and maturity in (1) and (2). Lender fixed effects are included in all specifications. Detailed definitions of variables are provided in Appendix A. *Post* is equal to 1 if the loan start date occurs after August 9, 2007. *Foreign* is equal to 1 if the bank is foreign. *USD* is a dummy variable equal to 1 if the loan is denominated in USD. *ABCP* is a dummy variable equal to 1 if the lender has any US ABCP exposure. Robust standard errors clustered on package are in parentheses; *, **, and *** indicate significance at the 10%, 5%, and 1% level.

Table 9, Panel B: Amount and Maturity Subsamples

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Amount				Maturity			
	Relationship	No Relationship	Public	Private	Relationship	No Relationship	Public	Private
Post	1.457*** (0.419)	0.166 (0.314)	0.568 (0.489)	0.631 (0.469)	-29.07*** (8.512)	-0.421 (6.467)	-11.11 (8.014)	-5.668 (4.569)
Post * USD	-1.389*** (0.420)	0.0861 (0.324)	-0.585 (0.488)	-0.264 (0.497)	25.07*** (8.581)	-0.621 (6.439)	7.564 (8.032)	4.474 (5.026)
Post * ABCP	-1.383*** (0.510)	0.314 (0.290)	-0.436 (0.331)	-0.122 (0.369)	21.45* (12.12)	11.23 (9.424)	11.22 (8.658)	7.199 (8.309)
Post * USD * ABCP	1.437*** (0.516)	-0.188 (0.307)	0.514 (0.333)	0.141 (0.372)	-19.94 (12.22)	-12.34 (9.449)	-10.38 (8.716)	-6.897 (8.502)
Post * Foreign	-1.883*** (0.643)	0.0794 (0.371)	-0.221 (0.430)	-0.00785 (0.485)	37.94*** (13.88)	1.276 (7.991)	18.31** (8.234)	-3.274 (6.153)
Post * ABCP * Foreign	1.040 (0.725)	-0.177 (0.379)	-0.584 (0.429)	0.218 (0.443)	-28.05** (13.16)	-15.20 (9.953)	-11.03 (8.660)	-9.677 (8.295)
Post * USD * Foreign	1.819*** (0.645)	-0.300 (0.392)	0.185 (0.439)	-0.190 (0.551)	-36.64*** (14.00)	0.211 (8.005)	-18.99** (8.250)	11.03* (6.618)
Post * USD * ABCP * Foreign	-1.104 (0.725)	0.207 (0.396)	0.516 (0.434)	-0.165 (0.514)	27.50** (13.26)	15.37 (9.986)	11.87 (8.765)	4.794 (8.696)
USD * Foreign	-1.596*** (0.453)	-0.0489 (0.288)	-1.019*** (0.275)	0.354 (0.337)	24.30* (12.85)	-7.404 (5.441)	15.84* (8.279)	-13.60*** (4.978)
USD * ABCP	-0.720* (0.372)	-0.203 (0.230)	-0.380 (0.267)	0.0317 (0.243)	12.52 (10.95)	-0.975 (5.920)	8.584 (7.775)	0.403 (4.886)
USD * ABCP * Foreign	1.277*** (0.359)	0.165 (0.326)	0.641** (0.256)	-0.149 (0.293)	-15.06 (11.17)	0.501 (6.341)	-10.88 (6.642)	2.574 (4.967)
USD	0.133 (0.366)	-0.367 (0.248)	-0.382 (0.287)	-0.250 (0.293)	-10.33 (7.715)	-4.851 (4.785)	-3.091 (6.179)	-13.26*** (3.918)
Loan Level Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Lender Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Table 9, Panel B: Amount and Maturity Subsamples (cont.)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Amount				Maturity			
	Relationship	No Relationship	Public	Private	Relationship	No Relationship	Public	Private
<i>Marginal Effects</i>								
<i>ABCP Exposed</i>								
Domestic Lender, USD Loan	0.12	0.38	0.06	0.39	-2.49	-2.15	-2.71	-0.89
Domestic Lender, Euro Loan	0.07	0.48	0.13	0.51	-7.62	10.81	0.11	1.53
Foreign Lender, USD Loan	-0.01	0.19	-0.04	0.24	-1.74	-0.49	-2.55	1.98
Foreign Lender, Euro Loan	-0.77	0.38	-0.67	0.72	2.27	-3.12	7.39	-11.42
<i>Not ABCP Exposed</i>								
Domestic Lender, USD Loan	0.07	0.25	-0.02	0.37	-4.00	-1.04	-3.55	-1.19
Domestic Lender, Euro Loan	1.46	0.17	0.57	0.63	-29.07	-0.42	-11.11	-5.67
Foreign Lender, USD Loan	0.00	0.03	-0.05	0.17	-2.70	0.45	-4.23	6.56
Foreign Lender, Euro Loan	-0.43	0.25	0.35	0.62	8.87	0.86	7.20	-8.94
N	8946	6708	10314	5340	8946	6708	10314	5340
Adjusted R ²	0.452	0.509	0.465	0.473	0.363	0.401	0.330	0.484

Table 9, Panel B shows the results of regressions for 15,654 syndicated loan facilities underwritten by the 567 banks in our panel between January 1 and December 12, 2007. Specifications (1), (2), (5), and (6) split the sample between borrowers for which the lender has previously participated in the lending syndicate in the last five years (*Relationship*) and those with no previous relationship (*No Relationship*). Specifications (3), (4), (7), and (8) split the sample between borrowers with (*Public*) and without (*Private*) publicly traded equity. The dependent variables are *Amount*, the log of facility amount, and *Maturity*, the maturity of the facility in months. Each specification includes the following loan level controls: sales divided by loan amount, an unsecured dummy, number of lenders in the facility, number of facilities in the loan package, and fixed effects for the 1-digit SIC code of the borrower, deal purpose, and loan type. In addition, controls for loan rating (categorical variable) and lender fixed effects are included in all specifications. *Post* is equal to 1 if the loan start date occurs after August 9, 2007. *Foreign* is equal to 1 if the bank is foreign. *USD* is a dummy variable equal to 1 if the loan is denominated in USD. *ABCP* is a dummy variable equal to 1 if the highholder bank has US ABCP. Detailed definitions of variables are provided in Appendix A. Robust standard errors clustered on package are in parentheses; *, **, and *** indicate significance at the 10%, 5%, and 1% level.

Table 10: Extensive Margin

	(1)	(2)	(3)	(4)
	Package-Lender		Facility-Lender	
	All	Risky	All	Risky
USD * ABCP	0.106 (0.938)	2.711** (1.339)	0.199 (0.545)	1.070*** (0.408)
USD * Foreign	1.073 (1.000)	5.419** (2.245)	1.200 (0.819)	3.091*** (1.150)
USD * ABCP * Foreign	0.252 (0.947)	-3.352** (1.559)	-0.182 (0.658)	-1.742** (0.727)
ABCP	-0.071 (0.934)	-2.637** (1.331)	-0.168 (0.544)	-0.953** (0.404)
Foreign	-0.992 (0.999)	-5.341** (2.243)	-1.081 (0.822)	-2.982** (1.159)
ABCP * Foreign	-0.269 (0.946)	3.352** (1.545)	0.109 (0.659)	1.647** (0.720)
Maturity	-0.004 (0.003)	-0.006 (0.005)	-0.003 (0.003)	-0.004 (0.005)
BAA-AAA Spread	-0.116 (0.262)	-0.370 (0.428)	0.180 (0.283)	-0.191 (0.519)
USD	0.132 (1.028)	-1.250 (1.076)	0.123 (0.574)	-0.463 (0.629)
Loan Level Controls	Yes	Yes	Yes	Yes
Lender Fixed Effects	No	No	No	No
N	59512	22611	90888	40373

Table 10 shows results from estimating a Cox proportional hazard regression on a binary dependent variable, *Refinancing*, equal to 1 if a loan is refinanced between August 9 and December 11, 2007. The sample is 90,888 loan facility-lender observations (52,489 revolvers) and 59,512 package-lender observations underwritten in the five years preceding the ABCP shock that were outstanding as of August 9, 2007. Specifications (2) and (4) subset on only risky loans, defined as loans with all-in-drawn spreads greater than 150 basis points. All specifications include fixed effects for 1-digit SIC code of borrower, deal purpose and loan type. *USD* is equal to 1 if the facility (package) is denominated in USD. *Foreign* is equal to 1 if the bank is foreign. *ABCP* is a dummy variable equal to 1 if the lender has any US ABCP exposure. Robust standard errors clustered by borrower are in parentheses; *, **, and *** indicate significance at the 10%, 5%, and 1% level.