Prudential policies and their impact on credit in the United States[*]

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Abstract

We analyze how two types of recently used prudential policies affected the supply of credit in the United States. First, we test whether the U.S. bank stress tests had any impact on the supply of mortgage credit. We find that initiation of the Comprehensive Capital Analysis and Review (CCAR) stress tests in 2011 had a negative effect on the share of jumbo mortgage originations and approval rates at stress-tested banks—banks with worse capital positions were impacted more negatively. Second, we analyze the impact of the 2013 Supervisory Guidance on Leveraged Lending and subsequent 2014 FAQ notice, which clarified expectations on the Guidance. We find that the share of speculative-grade term-loan originations decreased notably at regulated banks after the FAQ notice.

JEL classification codes: G21, G23, G28

Keywords: bank stress tests; jumbo mortgages; leveraged lending; macroprudential policy; syndicated loan market

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This greater responsiveness at foreign banks to the FAQ documentation may be related to the greater sensitivity of peripheral sovereign spreads (proxied by Italian bond spreads over German bond interest rates). Both findings may reflect foreign banks becoming more sensitive to supervisory pressures after the sovereign debt crisis in Europe. In addition, U.S. banks appear to be involved in substitution between bonds and syndicated loans, as their junk bond appetite is negatively related to speculative-grade term-loan share.

The results for the most active lenders in the syndicated term-loan market in Table 15 differ notably from the Table 14 results for the full sample. First, the difference in post-FAQ behavior of U.S. versus non-U.S. banks mostly vanishes. Second, the relationship between foreign banks speculative-grade term-loan origination share and peripheral sovereign spreads are no longer statistically significant. Third, the relationship between speculative-grade term-loan origination share and junk bond appetite at U.S. banks becomes less evident.

6.4 Potential Impact of 2015 CCAR

One potentially confounding factor that may have affected the origination of speculative-grade syndicated loans at around the same time as the FAQ documentation was the introduction in the 2015 CCAR of a scenario involving sharp deterioration in corporate credit quality. In particular, this scenario was characterized by a widening of corporate loan spreads that mostly affected the riskier, leveraged firms.[58]

To verify the robustness of our findings on responsiveness to the FAQ, we divide lender types into CCAR banks, non CCAR banks, and nonbanks and rerun our exercise. Tables 16 and 17 show, consistently across the various specifications, that both CCAR and non-CCAR banks reduced their share of speculative-grade, syndicated term loan originations following the issuance of the FAQ.

In sum, we find evidence consistent with the Leveraged Lending Guidance having an effect on regulated U.S. banks and foreign banks through their U.S. branches and subsidiaries, but only after the FAQ notice which clarified supervisory expectations on the guidance. We find little impact on nonbanks, consistent with the fact that nonbanks typically are specialized in speculative grade lending. The latter finding suggests some segmentation of the syndicated

[58] See page 6 in Board of Governors of the Federal Reserve System (2014).