Discussion of:

Bank Runs and Interest Rates: A Revolving Lines Perspective

by Bräuning and Ivashina

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MIT & NBER

ECB-Hoover Annual Research Conference: "The Next Financial Crisis?"

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The Paper in One Slide

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- Key findings: Revolving line usage is interest sensitive
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- Key findings: Revolving line usage is interest sensitive
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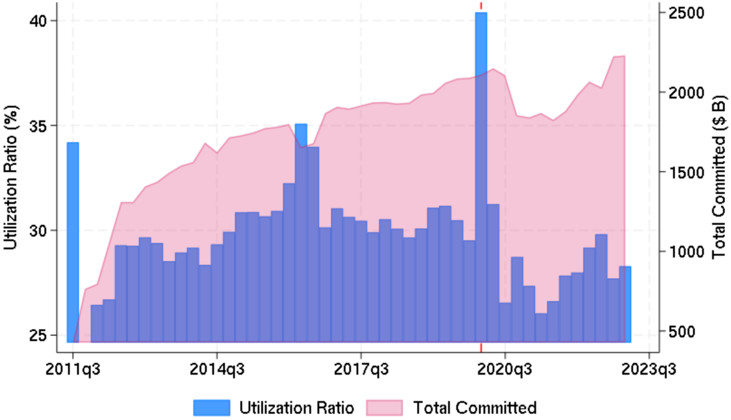
- Broader implications: Runs on credit lines (as opposed to deposits) less likely when interest rates are high

Substantial Bank Exposure to Undrawn Credit Lines

Figure 5: Utilization Rates and Total Line Commitments over Time



Source: Bräuning Ivashina (2025).

My Discussion

- Nicely executed paper
- Basic empirical finding convincing
- My discussion:
  1. Understanding the drivers of credit line drawdowns
  2. Why no drawdowns in March 2023? Interest rates vs other factors
  3. Future financial stability considerations

Theory: Drivers of Credit Line Drawdowns

1. Negative firm liquidity shock (Hölmstrom Tirole 1998)
   - Financial: Freeze in securities market (e.g., commercial paper)
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- This paper: Drawdowns quantitatively dampened when interest rate spread is high

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Bank exposure to drawdown in a crisis depends on $Cov(\text{drawdown}, \text{funding conditions})$

Funding conditions: cost of deposits and wholesale funding

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2. Deposit outflow:
   - Example: Solvency concerns lead to funding pressure from both sides
   - Banks need to fund drawdowns: marginal sources of funding more expensive (interbank, FHLB advances, discount window)
   - Exacerbates losses

Major Drawdown Episodes

Episode	*Driver of Drawdown*	*Deposit inflows?**
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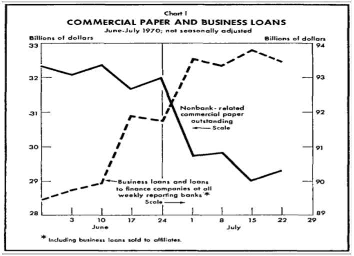
COVID-19, 2020	Precautionary drawdowns	> 0

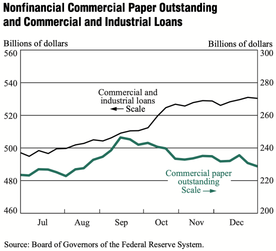
*Deposit inflows at banks exposed to drawdowns.

Source: Papers + introspection.

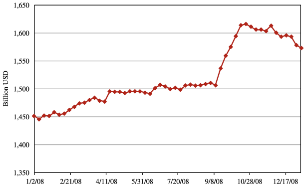
Major Drawdown Episodes



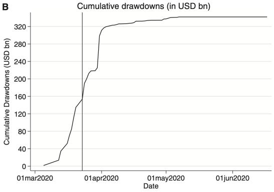
(a) Penn Central, 1970



(b) Russian default/LTCM, 1998



(c) 2008 GFC



(d) COVID-19

Sources: Nygaard (2020), Saidenberg Strahan (1999) Ivashina Scharfstein (2010), Acharya et al (2024).

Lessons

- Origins of drawdown matters
  - Firm demand: credit lines stabilizer
  - Bank health: credit lines amplify bank funding stress, as uninsured deposits likely to simultaneously flow out and marginal funding is more expensive
- Government backstop often plays a key role: FHLB advances, discount window...
  - Likely explains why banks still dominate this market

Why No Drawdowns in 2023?

Interest Spread

- Paper: High interest rates
- Key consideration

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Carry &= DepositSpread - CreditSpread \\
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- Corporate deposits in the US pay close to the safe rate (Cooperman et al 2025, FR2420)
- $\frac{\partial Carry}{\partial i}$ may not always be that far from 0

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- $\frac{\partial Carry}{\partial i}$ may not always be that far from 0
- Other stories? After all, there have been drawdowns during times of high rates
  - FFR$>$ 5% in LTCM crisis

Why No Drawdowns in 2023?

Other Factors

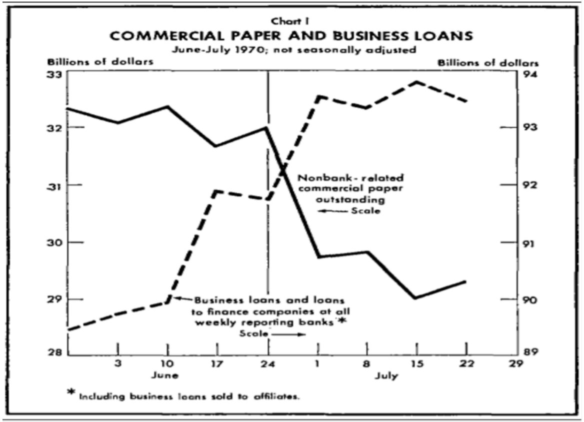
- Limited liquidity demand shock
  - Capital markets not frozen in 2023
  - Limited firm cash flow shocks (firms cash rich, no recession...)
- Limited concern about health of major banks providing credit lines
  - Runs concentrated in regional banks
  - Strong policy response
- Suggestions:
  - Provide more evidence on deposit rates received by corporate borrowers using credit lines
  - Look at credit lines of regional banks subject to funding stress
  - Mini calibration: Apply your estimated elasticity in a "stress scenario" to explain how much interest spread effect could offset

Financial Stability Implications Going Forward

- Two perspectives:
  - Credit lines as valuable stabilizer
  - Credit lines as amplifier of risk
- My take from past experience: Credit line drawdowns of most concern during bank solvency crises, when deposits simultaneously flow out and funding costs rise
  - View credit line exposures as amplifier of bank solvency risks, which accounts for most bank failures (Correia et al 2025)
- Transition from LIBOR (credit-sensitive) $\rightarrow$ SOFR (risk-free) (Cooperman et al 2025)
  - This paper implies more drawdowns in a crisis when risk-free rates fall
  - Could make things worse in next bank solvency crisis in the US

Thank you!

Penn Central: 1970



Source: Nygaard (2020).

Russian Default/LTCM: 1998

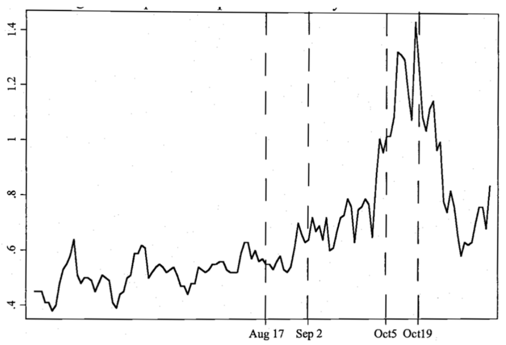
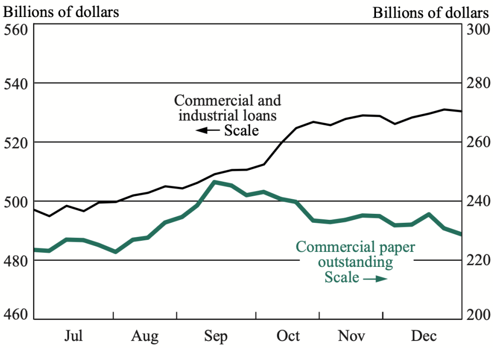


Fig. 3.2 Paper-bill spread in BPS May 14–November 17 1998

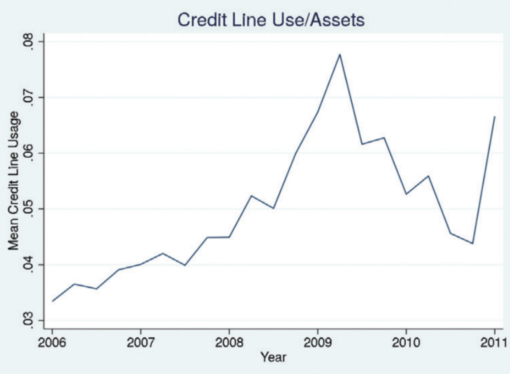
Nonfinancial Commercial Paper Outstanding and Commercial and Industrial Loans

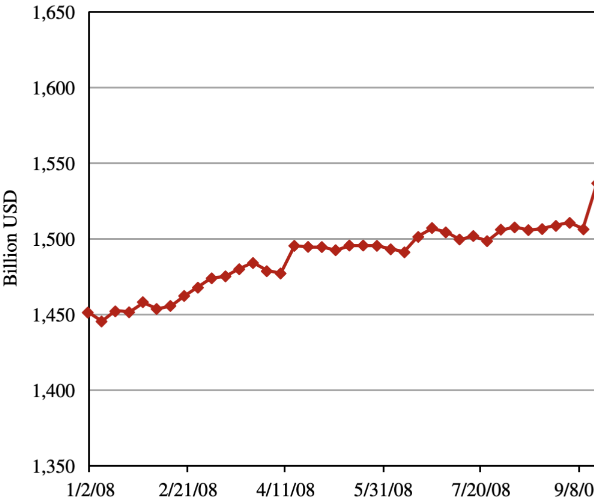


Source: Board of Governors of the Federal Reserve System.

Source: Saidenberg Strahan (1999).

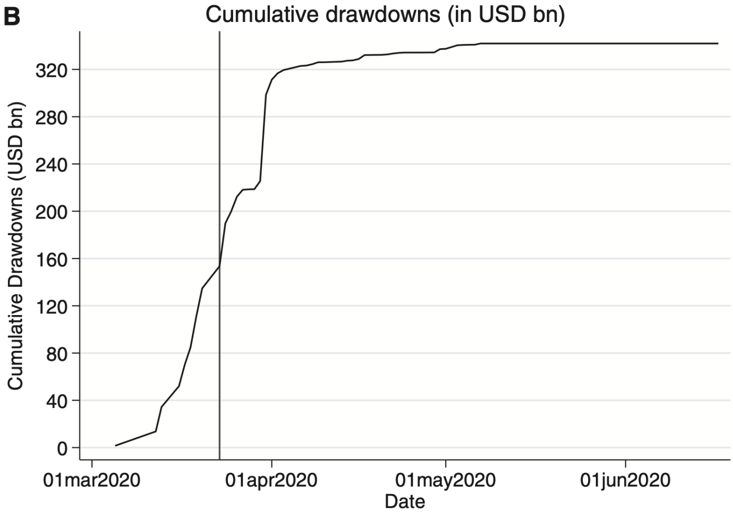
2008 Global Financial Crisis





Source: Berrospide Meisenzahl (2022). Sample: 470 public firms with credit lines. Ivashina Scharfstein (2010).

COVID-19, March 2020



Source: Acharya Engle Jager Steffen (2024).