Discussion of Darst *et al.*'s

"QE, Bank Liquidity Risk Management, and Non-Bank Funding"

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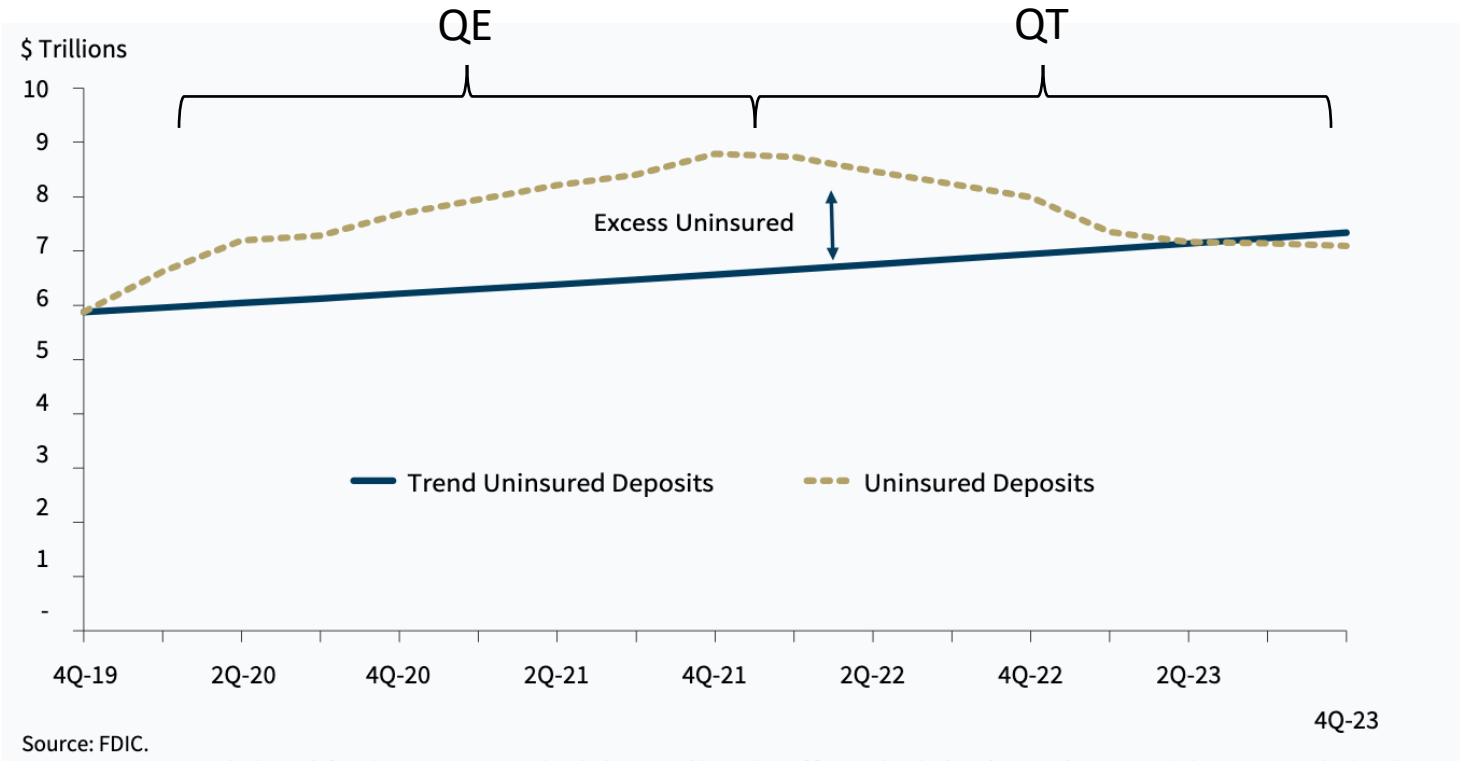
The views expressed here do not reflect official positions of the Federal Reserve.

During the pandemic, uninsured deposits surged.



- Much of this was likely due to QE.
  - Nonbanks, on net, sold securities to the Fed and received bank deposits.
  - Not all of these deposits were backed by reserves.
  - This raises concerns about unintended consequences.

This paper shows…

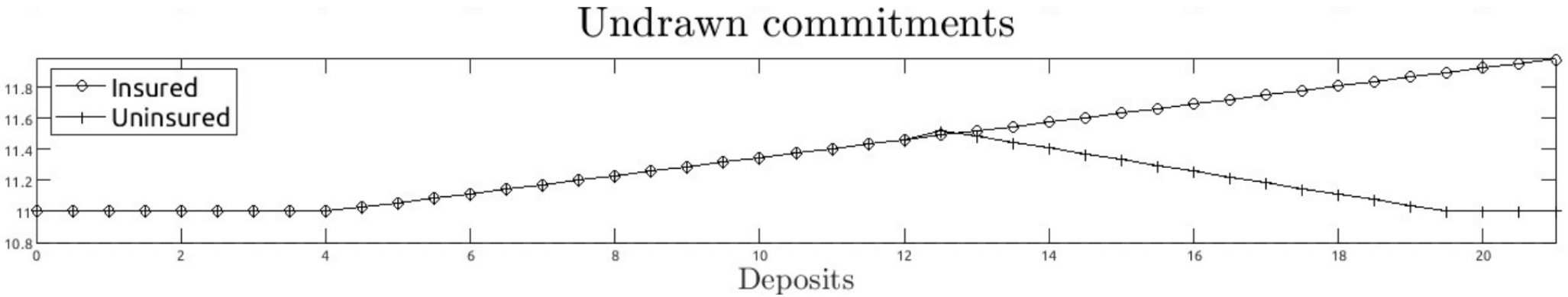
- NBFI deposits worsen the liquidity positions of "exposed" banks, which cut back on credit lines to compensate.
  - Also reduce other uninsured deposits and increase insured deposits.
- Implication is a channel that partially offsets the stimulative economic effects of QE.

	1	2	3	4
Dependent variable:	Log(Utilized credit lines)		Log(Undrawn credit lines)	
QE * Shares	-0.005	-0.058	-0.291***	-0.182***
	(-0.041)	(-0.566)	(-4.855)	(-4.021)

- (Result also holds at the firm level.)

This is mostly a story about how banks work. QE is an identifying device.

- Traditional story (Kashyap et al.): deposit inflows partially *offset* credit-line drawdowns. So deposits and credit lines are *complements*.
- Intuitive story: beyond some point, runnable deposits and contingent assets become *substitutes*.



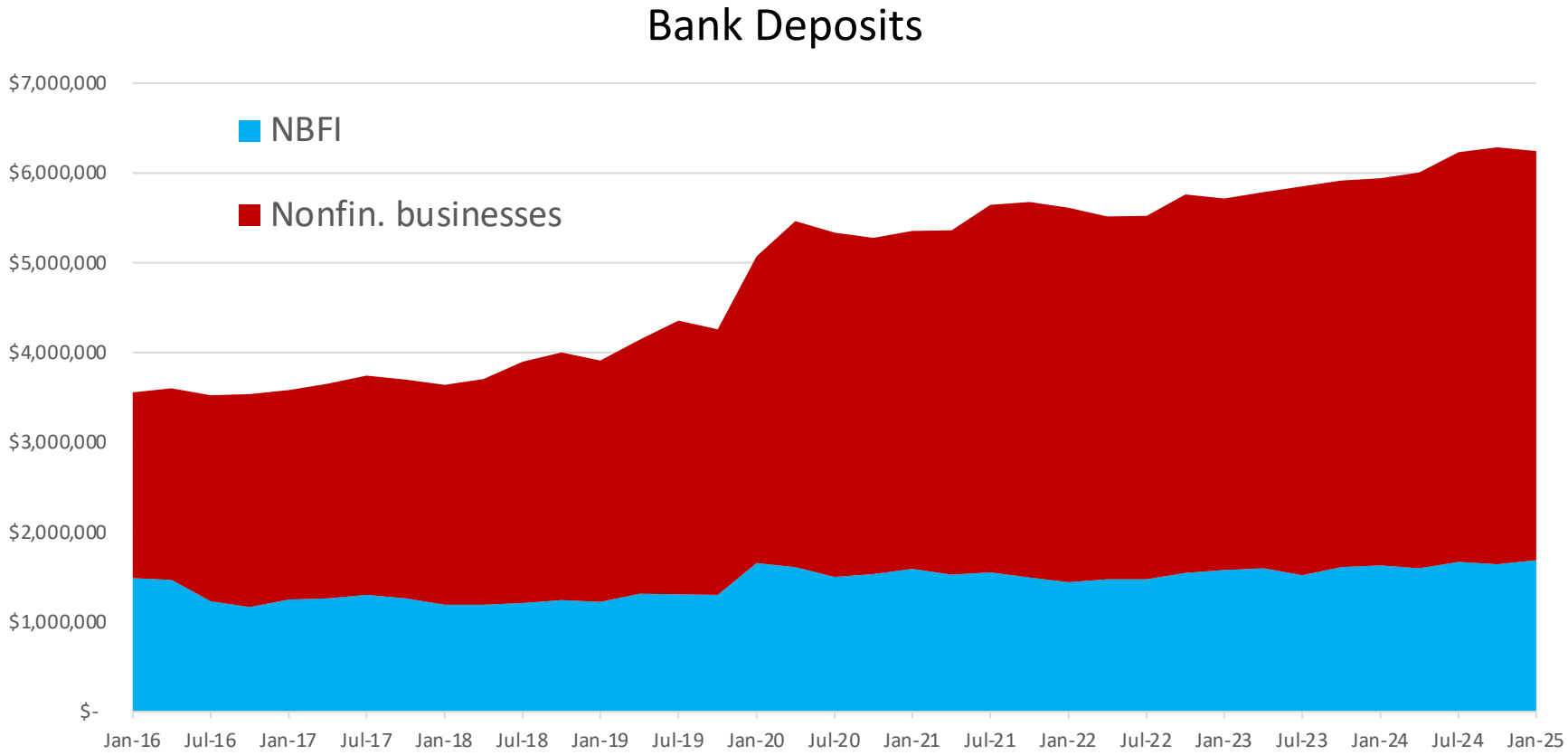
Comments

This story, and the authors' evidence, is mostly convincing.

But it raises several questions:

1. Are NFBI deposits different from other uninsured deposits?
2. Is QE different from QT?
3. In what sense are banks "exposed" to NBFI inflows?

Why focus on NBFI deposits?



Source: Financial Accounts of the U.S.

- These are a small fraction of the total uninsured deposit increase.

Why focus on NBFI deposits?

Panel A: Deposit categories

	Feb-20	Mar-20	Pre QE		QE		QT	
	Mean	Mean	Mean	Std. Dev	Mean	Std. Dev	Mean	Std. Dev
Uninsured NBFI	746.6	953.6	699.7	42.2	978.7	72.6	1051.1	93.2
Insured NBFI	19.3	19.4	23.3	2.3	17.6	4.5	49.3	21.2
Uninsured Retail	1,383.9	1,449.6	1,240.7	56.9	1,750.5	217.5	2,007.1	100.5
Insured Retail	3,573.0	3,738.5	3,281.2	119.5	4,162.5	214.8	4,575.1	159.3
Total Deposits	9,287.5	9,987.6	8,466.6	353.3	11,362.6	771.7	12,480.8	495.5

- It is possible NBFI are more “flighty” than other large deposits.
- But then there are implications for how banks should respond differentially across depositor type.

Why not more attention to QT?

- There are two QT episodes in the authors' data. Does their story work in reverse?
- First episode (2018 -19) is not considered at all.
- Second episode shows some inconsistency:

	1	2	3	4
Dependent variable:	Log(Utilized credit lines)		Log(Undrawn credit lines)	
QE * Shares	-0.005	-0.058	-0.291***	-0.182***
	(-0.041)	(-0.566)	(-4.855)	(-4.021)
QT * Shares	-0.160	-0.072	-0.420***	-0.326***
	(-0.837)	(-0.450)	(-4.987)	(-5.324)

- Why this asymmetry?

It is *ex ante exposure* that matters for the authors' tests, not realized *inflows*.

- What does this *mean*?
- Depositors are "highly rate-sensitive," and balances are determined in equilibrium.
- Idea seems to be: which banks will end up holding more deposits when the supply of deposits increases?
  - I would call this "willingness" to hold, rather than "exposure."
- We cannot measure willingness to hold deposits (or exposure to inflows) directly.
- Authors use *ex ante* NFBI balances as a proxy.
- But this mixes up average vs. marginal willingness.

Interesting paper -- thank you!