Discussion of “Do Global Banks Spread Global Imbalances?”

Adam B Ashcraft
Credit, Investment, and Payment Risk
Overview of paper

- ABCP conduits ($1.2 trillion in June 2007) were used by global banks to manufacture “riskless debt” by purchasing the medium-term private debt of countries with current account deficits using short-term debt and a bank-sponsored backup line of credit (section 3.1)

- ABCP conduits were sponsored by both current account surplus and deficit countries (section 3.2), but were more prevalent in countries with weaker capital requirements for backup lines of credit (section 3.3)

- Focusing on the largest publicly-traded banks in the US and Europe, banks with more ABCP exposure relative to equity capital had more negative equity returns during August 2007 (section 4)
# Shadow Bank Liabilities

## July 2007, estimated

<table>
<thead>
<tr>
<th>Short Term</th>
<th>Long Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABCP</td>
<td>MTN</td>
</tr>
<tr>
<td>$1200 billion</td>
<td>$2000 billion</td>
</tr>
<tr>
<td>Securities lending</td>
<td>LTD</td>
</tr>
<tr>
<td>$600 billion</td>
<td>$??? billion</td>
</tr>
<tr>
<td>Broker-dealer repo</td>
<td>Equity</td>
</tr>
<tr>
<td>$2500 billion</td>
<td>$??? billion</td>
</tr>
<tr>
<td>Finance company CP</td>
<td></td>
</tr>
<tr>
<td>$400 billion</td>
<td></td>
</tr>
<tr>
<td>Liquidity puts</td>
<td></td>
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<tr>
<td>$700 billion</td>
<td></td>
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</tbody>
</table>

Total ~ $10,000 Billion
M1 is a bad Proxy for Short Term Funding
Bank deposit rates and money market yields
ABS Demand by Investor Type

Billions $

2007

- SIV lites: 18
- Securities arbitrage conduits: 43
- Prime money market: 50
- ABS CDO Mezz: 72
- Enhanced cash accounts: 75
- SIVs: 80
- Securities lenders: 100
- ABS CDO HG: 107

2009 (excluding TALF)

- SIV lites: 20

ABS Demand Collapsed

Source: JP Morgan
ABS Issuance: Growth and Collapse by Asset Class

Source: JP
Shadow Bank Topology

Balance Sheet for ABS (1)

**Good SIVs**
- (Limited Purpose Finance Cos.)
- $100 billion assets
- ABCP ~20%
- AAA-A (no subprime)
- MTN ~50%
- LTD ~20%
- Capital Notes ~15%

- levered ~7x

**Bad SIVs**
- $400 billion assets
- ABCP ~60%
- AAA-A (subprime exposure)
- MTN ~30%
- LTD ~0%
- Capital Notes ~15%

- levered ~7x

**SIV Lites**
- $50 billion assets
- ABCP ~40%
- AAA-A (heavy subprime exposure)
- MTN ~30%
- LTD ~20%
- Capital Notes ~10%

- levered ~10x

Origination of Loan and ABS

**Multiseller Conduits**
- (loan accumulators)
- $525 billion assets
- Loans 100% ABCP
- levered ~7x

**Single-Seller Conduits**
- (maturity transformers)
- $150 billion assets
- Loans 100% ABCP
- levered ~15x

Finance Companies and BHCs
- (loan originators)
- Loans
  - Parent CF
  - CD
  - CP
  - Conduit
  - ABS
  - MTN, LTD
  - Equity

Shadow Bank Funding

**Term ABS**
- (SPV, maturity matched)
- Loans
  - AAA-A
  - BBB-B
  - Equity

- levered 5-10x

**ABS CDOs**
- (resecuritization)
- Loans
  - AAA-A
  - BBB-B
  - BBB-B

- levered 5-10x

**MMFs**
- (funding)
- ABCP MTN, Floaters
- MMF Shares

60 days implicit levered

Balance Sheet for ABS (2)

**Securities Arbitrage Conduits**
- $150 billion assets
- AAA-A 100% ABCP

- levered ~∞

**Securities Lenders**
- $500 billion assets
- AAA-A T-Bonds

- levered ~50x

**MMFs**
- $50 billion assets
- A1 (MMF tranches)

- MMF Shares

implicit leverage

*Hybrid conduits were a mixture of single-seller, multiseller and arb conduits and had $210 in CP outstanding at the peak.*