

Discussion

Monetary Policy Transmission Through Online Banks

by

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Disclaimer

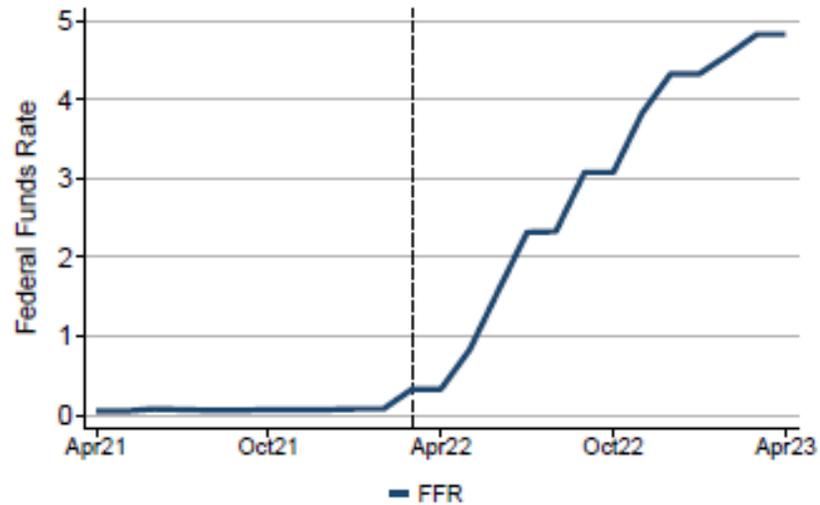
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The paper

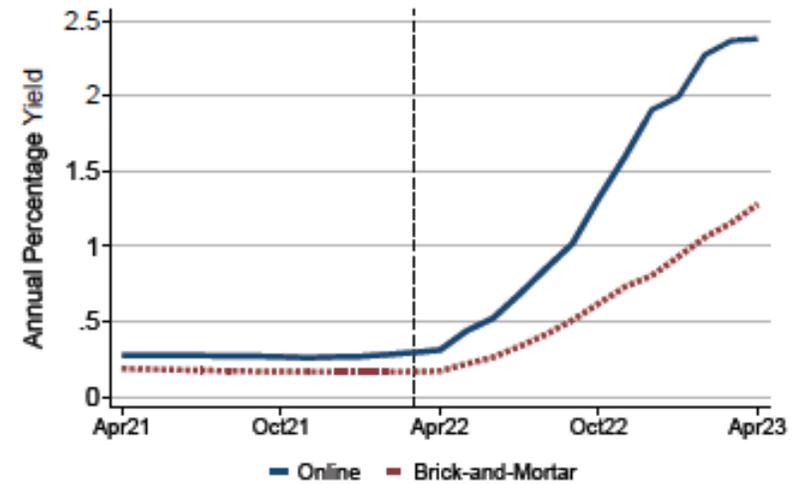
- Classifies online banks and uses data on rates on bank savings products to assess the differential transmission of monetary policy to banks' funding cost.
- In the most recent monetary policy tightening, online banks increased interest rates on savings products across all maturities faster than brick-and-mortar banks.
- Online banks increased deposits while other banks saw a deposit decline.
- Suggestive evidence on pass-through to loan rates.

Key Findings

Federal Funds Rate

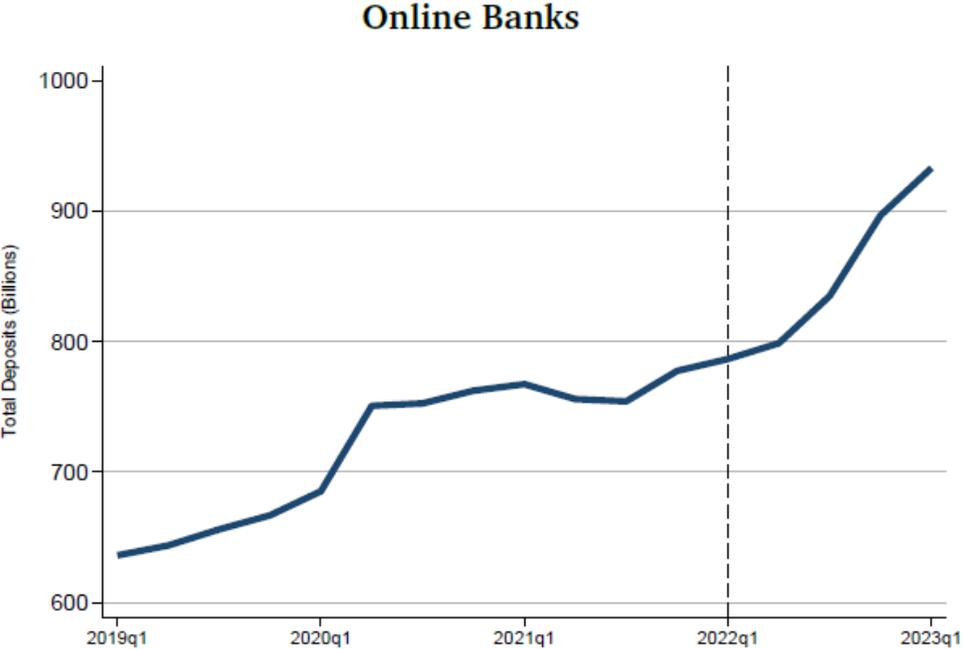
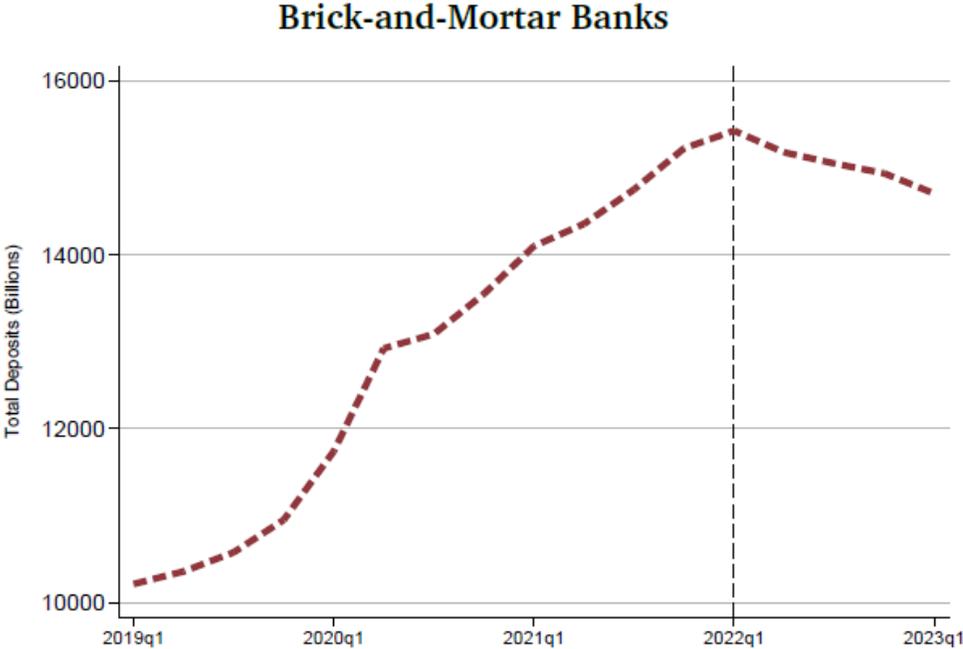


6-Month CD, 10K



Key Findings II

Figure 2: Total Deposit Levels

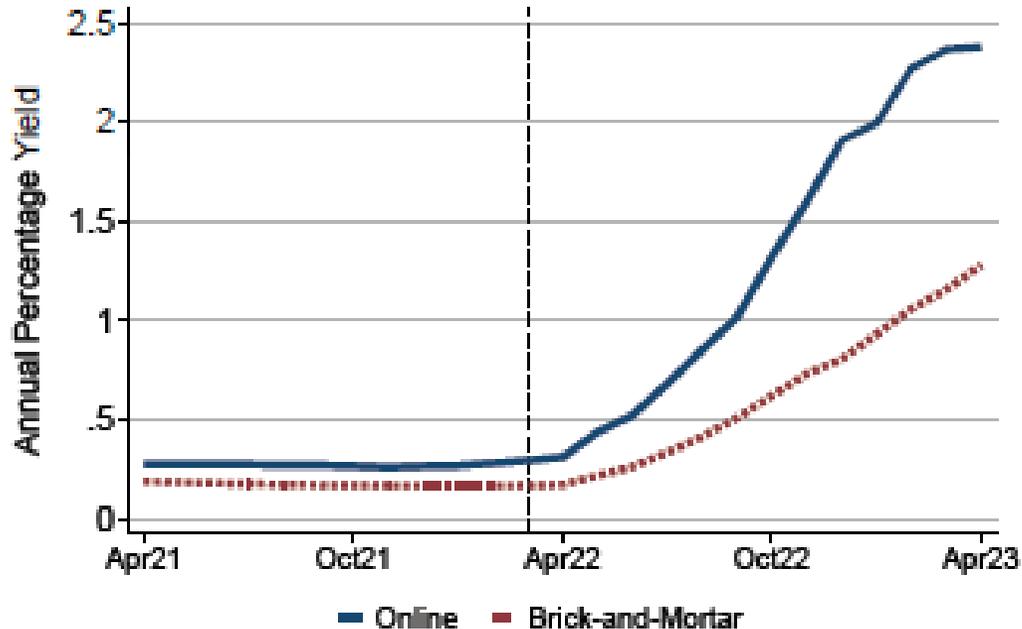


Why we care...

- If online banks are more sensitive to monetary policy changes---that is, they have a higher deposit “beta”, then
 1. monetary policy could become more potent (funding cost, loan rates), and
 2. transmission may be faster with growth in online banking.
- Unclear where there are financial stability implications
 1. Increased competition for funding/deposits could reduce net interest margin.
 2. Online banks could have a different risk-taking channel of monetary policy and offset de-risking of brick-and-mortar banks (comparable to nonbanks in Elliott et al, 2024)

Comment I: why was the pass-through “low” even for online banks (and not anymore)?

6-Month CD, 10K



Note: MMMF move almost 1:1 with FFR and paid almost 5 percent in April 2023.

TAB bank Member FDIC ★★★★☆ 4.6	APY 5.27%	Min. deposit \$1,000	Term 6 mo	Read review Offer details
AMERICA FIRST CREDIT UNION Insured by NCUA ★★★★★ 5.0	APY 5.25%	Min. deposit \$500	Term 3 mo	Read review Offer details
VIO BANK Member FDIC ★★★★☆ 4.6	APY 5.25%	Min. deposit \$500	Term 6 mo	Read review Offer details
FIRST INTERNET BANK First Internet Bank of Indiana CD Member FDIC ★★★★☆ 4.6	APY 5.31%	Min. deposit \$1,000	Term 1 yr	Read review Offer details

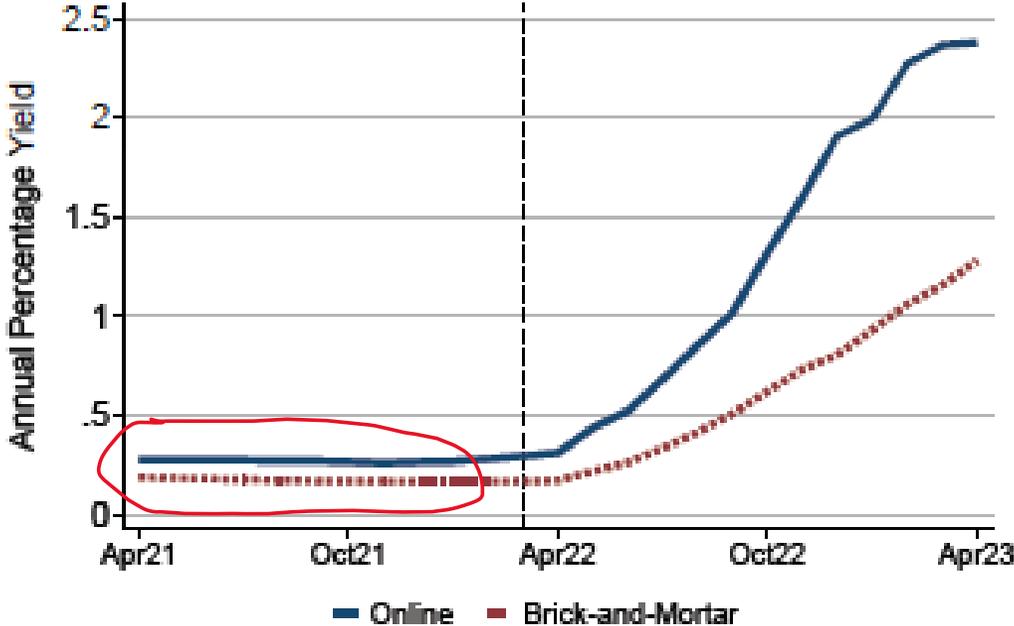


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Comment II: Pre-trends

In the paper, the authors focus on pre-trend in rates --- during the ZLB---and there are none, though online banks paid more already.

6-Month CD, 10K

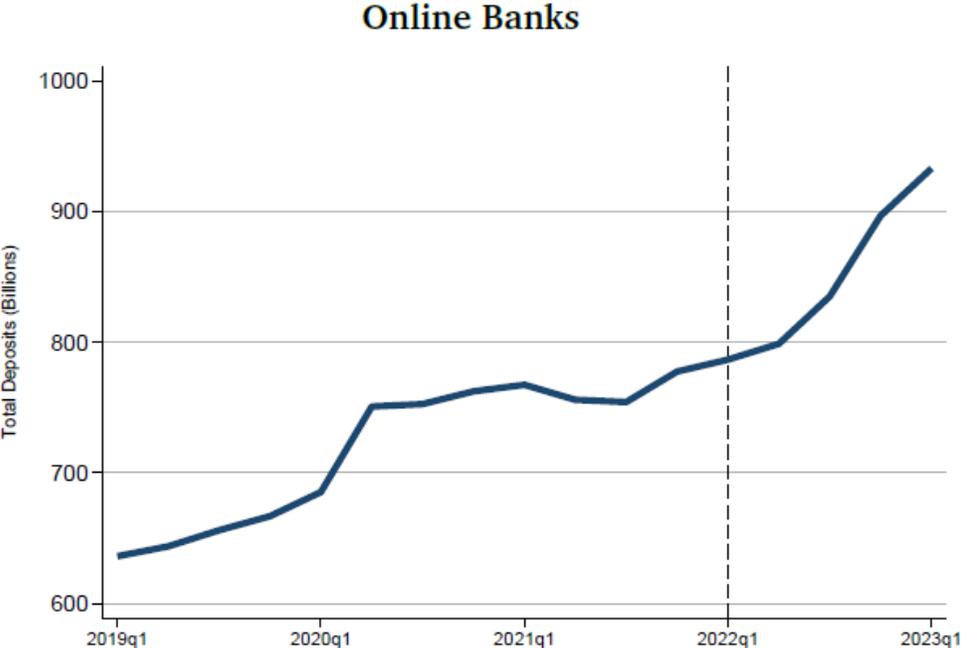
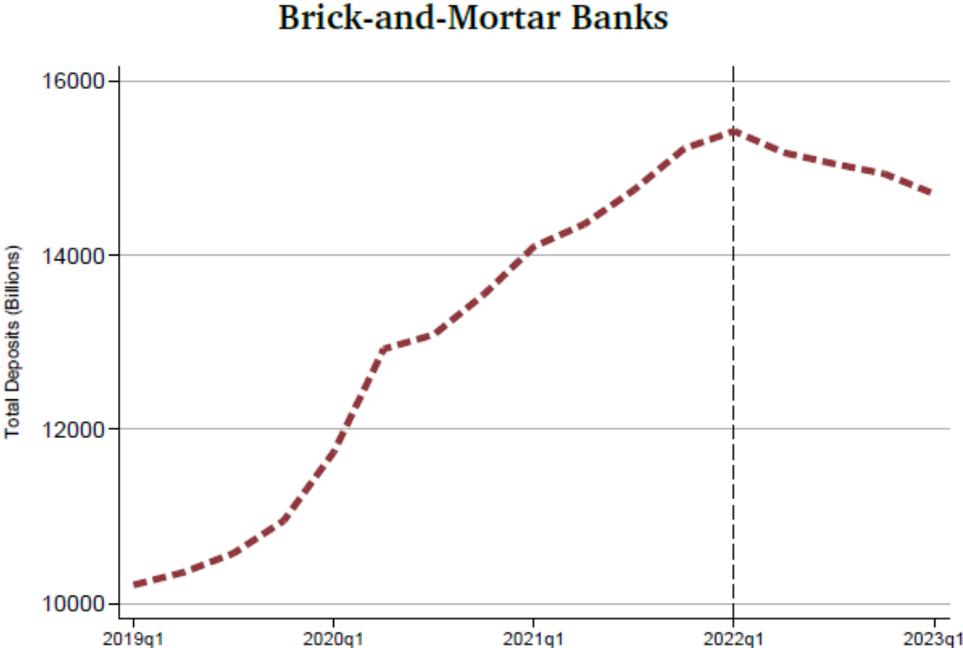


Comment II: Pre-trends cont.

There is a pre-trend in deposits.

Why were online bank deposits flat even though they paid more?

Figure 2: Total Deposit Levels



Comments III – Betas? Dynamic betas?

- Can you drop all GSIBs?
 - GSIBs saw large deposit inflows after SVB etc
 - These banks offer an implicit (explicit?) too big to fail guarantee and hence can pay a lot less for deposits and therefore will have a structurally different deposit betas.
- Greenwald, Schulhofer-Wohl, and Younger (2023) show that (brink-and-mortar) banks' deposit beta depends on the level of interest rates.
 - Authors results suggest that this is not true for online banks, but this could be assessed in more detail to better understand whether maturity transformation of online banks differs more generally.

Comment IV – One alternative explanation

- Online banks target higher risk borrowers
 - Arguably true for Capital One.
- Could explain to raise to deposit rate earlier (see Martin, Puri, and Ufier, 2018).
- Could also explain stronger transmission to consumer loan rates.

Comment V - Data

- More transparency in the data section would help the reader to better understand the paper.
 - Selected sample of online and brick-and-mortar banks
 - Ratewatch coverage
 - Wayback machine coverage
 - Drop online banks with more than 30 branches (page 14) but keep CIT and Capital One which both according to table 1 have more branches. The authors note in the text that these banks have branches but don't justify why they keep the banks (page 15).
 - Why are credit card banks (American Express and Discover) a good comparisons group?
 - Very limited data on auto and mortgage loans (unclear whether this is representative).

Concluding Thoughts

- Very interesting paper.
- Important step in understanding the potential impact of changes in the banking sector on monetary policy transmission.
- It would be great to extend the sample period and also analyze the online bank behavior after the SVB failure when competition for deposits from brick-and-mortar banks intensified.