Corporate Dash for Cash in the Midst of COVID and Implications for Banks

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Firms increased cash-asset ratios and decrease undrawn credit in Q1 2020

\[
\text{Liquidity} = \frac{\text{Unused credit lines} + \text{cash and short term investments} - \text{short term debt}}{\text{Total assets}}
\]

Cash is King!
Unprecedented drawdown rate on bank credit lines since early March

Federal Reserve announced the corporate bond buying program
Liquidity Risk of a Bank = \frac{Credit Lines + Wholesale Funding - Liquidity}{Total Assets}

- Bank balance-sheet liquidity risk not as high as pre-2007 but was rising (particularly because of unused commitments)
IG-rated firms benefited most from Fed; LCs being repaid with bonds

"Cliff" risk of becoming a "fallen angel"