

# Interest rate risk regulation and bank lending: A regression discontinuity approach

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Comments welcome.  
Very preliminary - please do not quote.*

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## **Abstract**

We examine how recent innovations in the regulation of banks' interest rate risk affect bank lending. Using a unique dataset and exploiting two plausibly exogenous sources of variation in interest rate risk regulation as sharp discontinuities that assign banks into categories of high or low interest rate risk that mandate intensified supervisory monitoring and capital surcharges for the high interest rate risk banks, we obtain two key results. First, greater supervisory monitoring due to interest rate risk does not affect lending behavior. Second, mandatory capital surcharges for high interest rate risk banks significantly reduce their lending activities. The contraction in lending is most pronounced for corporate loans, mortgage loans, and for loans with longer maturities. Our results point towards potentially unintended effects of the regulation of interest rate risk.

**Keywords:** Basel interest rate shock, bank lending, Pillar 2, regression discontinuity design,

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