

# Earnings Information Spillovers and Depositor Contagion

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## Great paper contributing to an important strand of literature

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### Many seminal papers point to different mechanisms of bank runs:

- ▶ Coordination (Diamond–Dybvig): depositors run as they fear others will run.
- ▶ Fundamental (Allen-Gale): depositors withdraw because they expect asset values or bank solvency to deteriorate.
- ▶ Both (Morris-Shin, Goldstein-Pauzner): coordination failures are more likely when fundamentals deteriorate.
- ▶ Systemic amplification (Liu 2023, Goldstein-Kopytov-Shen-Xiang 2024): depositors are more likely to run on their own bank when they expect runs elsewhere to create fire-sale discounts.

This paper empirically dissects the mechanisms via responses of uninsured deposits to peer banks.

## The paper in one slide

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- ▶ How to understand the interconnections between banks in bank run?

*“First large-sample evidence on depositor contagion triggered by peer banks’ earnings”*

- ▶ Design: check if uninsured deposit flows at a focal bank respond to the earnings of size- and geography-matched peer banks and dissect the mechanisms.
- ▶ Finding: asymmetric spillover - only when PeerROA is below median. 1 SD ↓ PeerROA → 39% drop in flows → interpretation: fundamental, coordination, interactions.
- ▶ Policy implications: deposit insurance, disclosure design, liquidity injections, etc.

# Comments

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## I. Role of common local shocks

What variation in PeerROA remains after accounting for focal-bank performance and aggregate time effects?

## II. Deposit-rate simultaneity

If rates and flows both respond to peer news, contemporaneous rate controls may absorb part of the mechanism. A leave-one-out rate instrument can sharpen the interpretation.

## III. Separating the contagion mechanisms

Policy shifts, depositor attention, interbank substitutability, and threshold tests may sharpen the distinction between panic and common fundamentals.

## Role of common local shocks

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$$\Delta Dep_{i,t}^u = \alpha_i + \beta_0 PeerROA_{i,t-1} + \beta_1 ROA_{i,t-1} + Controls_{i,t-1} + \varepsilon_{i,t}.$$

- ▶ PeerROA: constructed at the county level. Ideally, it captures interconnections between competing peer banks in a local deposit market.
- ▶ Potential confounders: macro shocks, focal bank performance, etc. → Authors control for bank FEs, macro variables, and focal bank ROA.
  - ▶ What does focal bank ROA do? Yes, a useful benchmark to help us understand the importance of peer bank ROA, but also itself a noisy/delayed proxy for the local conditions (e.g., borrower distress, real estate shocks) that directly impact deposit flows.
  - ▶ How much of the PeerROA is about unobserved time-varying common shocks?

## Role of common local shocks

	Dep. var.: $\Delta_{2q}$ Uninsured Deposits					
	(1)	(2)	(3)	(4)	(5)	(6)
<i>PeerROA</i>	1.09*** (0.37)			1.55*** (0.43)	0.33*** (0.08)	1.44*** (0.38)
<i>PeerROA1</i> (<Med)		1.46** (0.64)	1.35** (0.62)			
<i>PeerROA2</i> (≥Med)		0.214 (0.156)	0.346** (0.148)			
<i>PeerROA</i> × <i>PeerROA_Inform</i>						0.651** (0.271)
<i>ROA</i>	1.10*** (0.11)	1.10*** (0.11)	0.17* (0.09)	1.09*** (0.15)	0.78*** (0.05)	1.02*** (0.13)
Bank FE	No	No	No	Yes	Yes	Yes
Year-Quarter FE	No	No	No	No	Yes	No
Macro controls	Yes	Yes	Yes	Yes	No	Yes
Bank controls	Yes	Yes	Yes	Yes	Yes	Yes
<i>PeerROA</i> × controls	No	No	No	No	No	Yes
Observations	363,595	363,595	363,595	363,595	363,595	327,316
Adjusted $R^2$	0.082	0.082	0.084	0.122	0.278	0.133

- ▶ Sharp decline in coef. for *PeerROA* in 5: time-varying common shocks are highly relevant!
  - ▶ Authors partially address in Tab 3 with *PeerROA\_Inform* — but the 12Q adjusted measure itself may capture persistent local distress.

## Simultaneity from deposit rate controls

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$$\Delta Dep_{i,t}^u = \alpha_i + \beta_0 PeerROA_{i,t-1} + \beta_1 ROA_{i,t-1} + Controls_{i,t-1} + \varepsilon_{i,t} \quad (3)$$

- ▶ The key specification to examine the effect of PeerROA on deposit flows.
  - ▶ It evaluates uninsured deposit flows over the 2 quarters following the peer earnings quarter controlling for contemporaneous deposit rates.
  - ▶ The authors treat these rates as endogenous bank responses to peer performance.
  - ▶ How do we evaluate the disclosure-based interpretations with contemporaneous rate controls if both rates and outflows react to peer news?
- ▶ Two fixes: 1) exclude rates completely or incorporate lead-lag tests to verify uninsured outflows strictly follow the peer news. 2) construct an instrument!

## Instrumenting rate responses with PeerROA

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- ▶ If peerROA affects rate setting (Section 6) and uninsured deposit flows respond to PeerROA-instrumented rates, it also provides support to the idea that PeerROA affects deposit flows.
- ▶ Deposit flow sensitivity is an object of broad interest in bank literature. How to estimate deposit flow sensitivity on rates without simultaneity problem?
  - ▶ Previously: bank-specific monetary policy pass-through (Egan-Hortaçsu-Matvos 2017), BLP instruments (Egan-Lewellen-Sunderam 2022), and supply-side shifters (Wang-Whited-Wu-Xiao 2022, Xiao 2024, Blickle-Li-Lu-Ma 2026).
  - ▶ **New leave-one-out instrument based on theory-guided rate-setting rule:** Lu-Wu 2026.

# Leave-one-out rate instrument

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## Banking on Inattention, Lu-Wu 2026

- ▶ Banks set deposit rates  $r_b$  based on bank-level depositor inattention:

$$\sum_{c \in \mathcal{C}_b} \text{Dep}_{bc} \text{Inattention}_c \xrightarrow{\text{deposit weighted}} \text{Inattention}_b.$$

- ▶ Leaving out a small periphery county  $c'$  barely changes the bank-level inattention aggregate.

- ▶ Use

$$\sum_{c \in \mathcal{C}_b} \text{Dep}_{bc} \text{Inattention}_c - \text{Dep}_{bc'} \text{Inattention}_{c'}$$

to instrument  $\text{Inattention}_b$ , and hence  $r_b$ .

# Leave-one-out rate instrument

## Application to PeerROA

- ▶ If banks set rates based on county-level PeerROA exposure, apply the same leave-one-out logic:

$$\sum_{c \in \mathcal{C}_b} \text{Dep}_{bc} \text{PeerROA}_c \xrightarrow{\text{deposit weighted}} \text{PeerROA}_b.$$

- ▶ Leaving out a small periphery county  $c'$  barely changes the bank-level PeerROA aggregate.
- ▶ Use

$$\sum_{c \in \mathcal{C}_b} \text{Dep}_{bc} \text{PeerROA}_c - \text{Dep}_{bc'} \text{PeerROA}_{c'}$$

to instrument  $\text{PeerROA}_b$ , and hence  $r_b$ .

- ▶ *Exclusion restriction*: use other-county PeerROA, which should affect deposit rates through uniform rate-setting, but less likely to directly affect outflows in the focal county  $c$  for a periphery county.

## Separating the contagion mechanisms

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- ▶ The three mechanisms (asset commonality, panic, fire-sale externality) predict the same sign for  $\partial\Delta Dep_u / PeerROA$ ;
  - ▶ Empirical proxies in the paper are collinear with local conditions or with each other (the focal and peer banks' ROA correlation is 36%, %uninsured is 0.57, Illiquidity is 0.48) → leading to concerns the results are about local banks' correlated distress.
- Ideally find shifters that change banks' fundamentals' correlations, panic, or banks' interconnections, or test unique theory predictions.

## Potential shifters & tests

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- ▶ **Panic:** 2008 increase in FDIC insurance limits? Varying bank-level depositor inattention that changes the risk of coordination failure?
  - ▶ A related comment: the change in insurance limit coincides with periods of poor peer performance (crisis). Worth-checking if the uninsured-versus-insured contrast in Fig. 2 is not artifact of insured/uninsured classification change due to regulation.
- ▶ **Interconnection:** increase in substitutability across banks, e.g., payment tech (Lu-Song-Zeng 2025)?
- ▶ **Theory-implied threshold test:** under panic,  $\partial\Delta Dep_u/\partial PeerROA$  should be much larger when peer fundamentals approach distress.
  - ▶ The paper has above/below-median differences; a non-parametric local-linear estimate around an estimated distress threshold (maybe interacted with focal/peer liquidity mismatch?) may sharpen the panic interpretation.

## Great paper and I learned a lot from reading it!

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- ▶ Interesting angle adding on an important literature: what can we learn about depositor contagion from peer-bank news?
- ▶ Compelling large-sample evidence on uninsured-deposit spillovers.
- ▶ Rich mechanism tests linking asset commonality, panic, and fire-sale amplification.
- ▶ My comments are aimed at further sharpening identification and mechanism separation.