Bank Mergers, Credit Supply and Systemic Risk

Evidence from the Spanish Banking Sector Restructuring Program

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Spanish Savings Banks Restructuring (2009-2012)

The paper in a nutshell:

1. Analyze effect on lending (quantities, prices) and banks stability (NPL, defaults) of the *cajas* restructuring program that combined:
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2. DiD, contrasting change in credit balance, interest rate, NPLs, creditor defaults – in M&A banks versus SIP banks
3. Finding: M&As reduce credit supply and increase interest rates; but also ↓ NPL and borrower defaults – when compared to SIPs

Bank Mergers: Less Lending but Better Lending?

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  1. Market power $\uparrow \implies$ less lending, higher interest rates (Sapienza 2002)
  2. Market power $\uparrow \implies$ better selection of borrowers (Mahoney-Weyl 2014)
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- My concerns:
  - If SIP members are less able to coordinate lending than M&A, not obvious how SIP can achieve same informational efficiencies as an M&A
  - Larger drop in NPL and defaults observed for M&As could well be due to information efficiencies rather than "selection effect".

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- This result also suggests SIP banks do not share information or screening technologies $\implies$ SIPs also less conducive to informational efficiencies?
- More evident fact: SIPs are mostly out-of-market mergers:
  - Little overlap between local credit markets of SIP member banks (SIP are geographically diversified, M&As are not!)
  - Table 6: only 1,000 cases where same firm applied for credit at more than one bank within the same SIP (compare this with pre 2009 figure for M&As)

What Is the Paper About?

- Is it about comparing competition/stability in *different types of mergers*, i.e. merging into one firm vs forming a "business group"?
  - Alternative approach: DiD using non-merging banks as control, with M&A and SIP as different treated groups
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  - Sure, merger decision is endogenous but so is the choice between M&A and SIP
- Is it about showing that mergers can improve stability *precisely because they increase market power*?
  - As I said, larger information efficiencies may well explain $\downarrow$ in NPL/defaults
  - Also, to make a statement about financial stability, you also need to ask what happens to non merging rival banks.

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- Advantage: no endogeneity issues $\implies$ can exploit the staggered timing of the mergers (instead of just having a common event date)

Other Comments

- Are SIPs Less Prone to Cut Crony Lending than M&As?
  - Proxy for crony lending: pre-event credit to firms in municipalities ruled by 2007 regional election winner. However: many 2007 elections gave rise to coalition; Catalunya had elections in 2006
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- How to exploit/account for fact that Catalan banks all went for M&As (except for Caixa Laietana)?
- Dig further into institutional details: what are SIPs? What constrains choice between SIP and M&A?