Bank Mergers, Credit Supply and Systemic Risk
Evidence from the Spanish Banking Sector Restructuring Program

Discussant: Giacinta Cestone (Cass Business School and ECGI)

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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:
   - Capital injection through a public rescue fund (FROB)
   - Consolidation through either straight mergers (M&A) or “soft mergers” (SIP)

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
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Bank Mergers: Less Lending but Better Lending?

- Bank mergers can affect the bank credit market in different ways:
  1. Market power $\uparrow \implies$ less lending, higher interest rates (Sapienza 2002)
  2. Market power $\uparrow \implies$ better selection of borrowers (Mahoney-Weyl 2014)
  3. Informational efficiencies (Panetta, Schivardi, Schum 2009) $\implies$ NPL and loan defaults $\downarrow$ hence banking stability improves

This paper: M&A and SIP have same effect on 3. but very different effect on market power $\implies$ If we observe lower NPL/defaults after M&As, it must be because of market power

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

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Did SIP Mergers Increase Market Power?

Paper conjectures that SIP member banks have little ability to coordinate lending decisions → smaller increase in market power wrt M&As.

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- This result also suggests SIP banks do not share information or screening technologies ⇒ 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
  - Sure, merger decision is endogenous but so is the choice between M&A and SIP

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- Is it about showing that mergers can improve stability *precisely because they increase market power*?
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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)
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
- Alternative proxy for crony lending: percentage of lending to construction sector
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Other Comments

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- Dig further into institutional details: what are SIPs? What constrains choice between SIP and M&A?