

Bank ownership, proximity to borrowers and lending behavior-Evidence from Syndicated Loans

(by Agca S., Bogaard H., Celasun O.)

Discussion by:

Fotios Pasiouras

Technical University of Crete, Greece &
University of Bath School of Management, UK

11th Annual Bank of Finland/CEPR Conference

BANKING IN EMERGING ECONOMIES

Helsinki, 7-8 October 2010

Co-organized by Rensselaer Polytechnic Institute

Setting the Scene

Syndicated Loans & Foreign banking in CEE countries...

Syndicated loan flows to private sector borrowers (loan volumes per half-year)

US\$ billion

1,800

1,600

1,400

1,200

1,000

800

600

400

200

0

US\$ billion

250

200

150

100

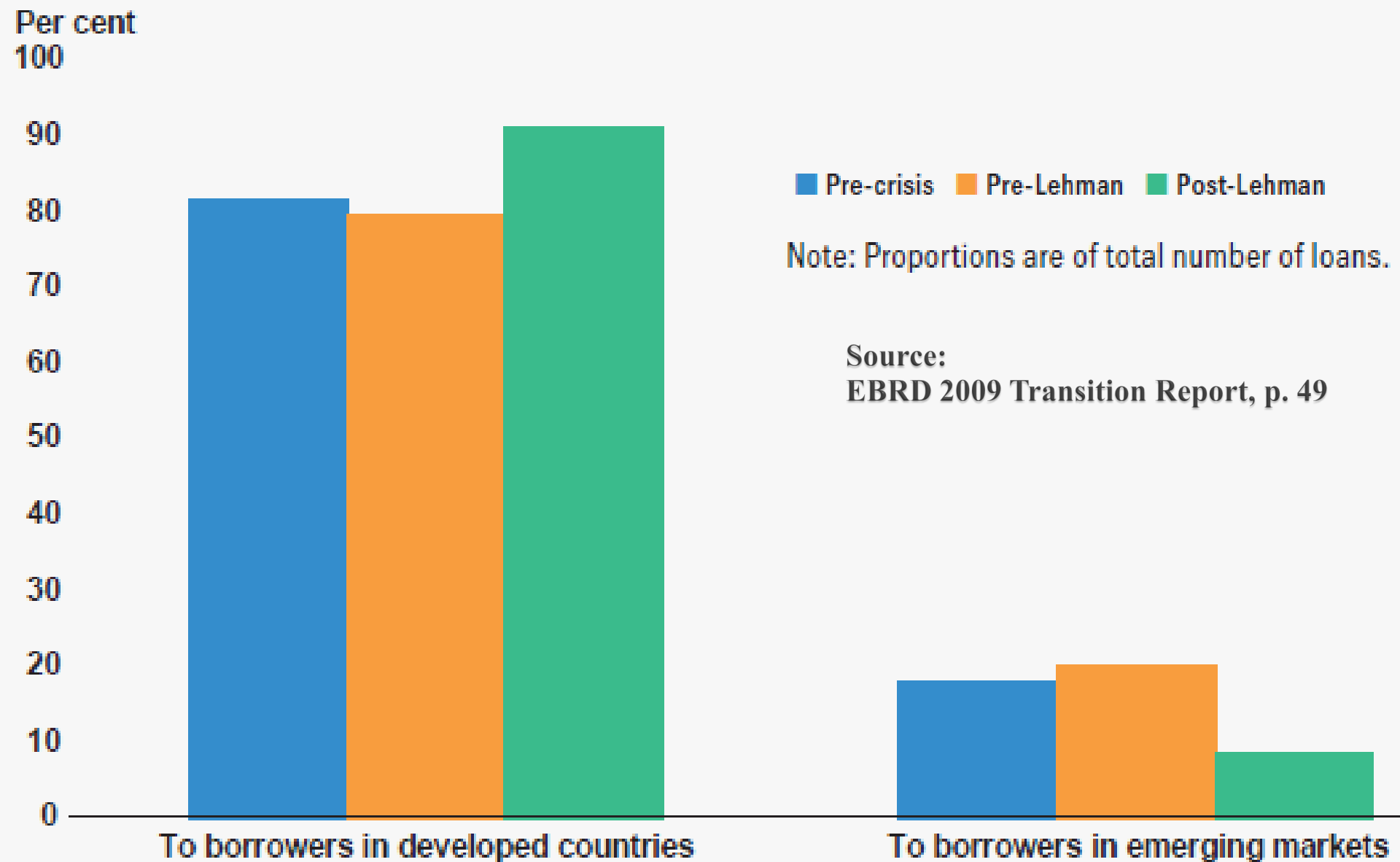
50

0

- To borrowers in developed countries (left axis)
- To borrowers in emerging market countries (right axis)
- To borrowers in EBRD transition countries (right axis)

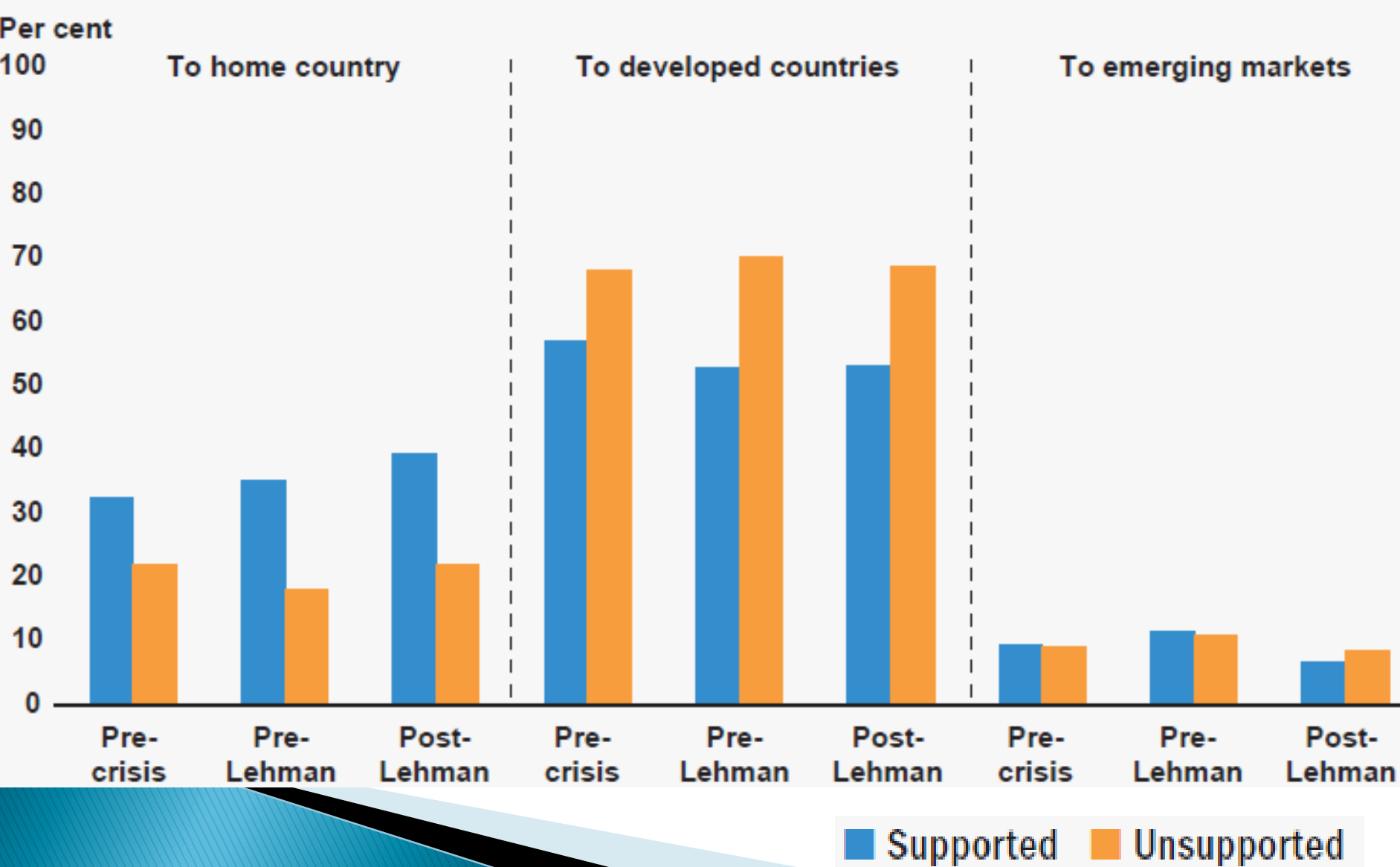
2001 H1 2001 H2 2002 H1 2002 H2 2003 H1 2003 H2 2004 H1 2004 H2 2005 H1 2005 H2 2006 H1 2006 H2 2007 H1 2007 H2 2008 H1 2008 H2 2009 H1

Distribution of syndicated bank loan flows from advanced countries



Comparative shifts in distribution of syndicated loan flows by supported and unsupported European and US banks - Proportion of Loan volumes

(Source: EBRD 2009 Transition Report, p.49)



Asset share of foreign-owned banks (%)

Source: EBRD

	1995	2000	2008
Bulgaria	32.5 ***	75.3	83.9
Croatia	0.2	84.1	90.8
Czech	15.5	65.4	84.7
Estonia	1.8	97.4	98.2
Hungary	36.8	67.4	84.0
Latvia	34.6	74.4	65.7
Lithuania	0.0	54.7	92.1
FYROM	9.4*	53.4	93.1
Poland	4.4	72.6	76.5
Romania	11.5 **	46.7	87.7
Slovakia	12.7 *	42.7	99.2
Slovenia	4.8	15.3	31.1
Ukraine	8.2 **	11.1	51.1

*1996 data; ** 1997 data, ***1998 data

This Paper in a Nutshell

Objective: To contribute to the debate about proximity, ownership and lending

How? By analyzing bank lending behaviour in the market for syndicated loans in emerging markets

Data: 13 CEE countries, 1993-2008

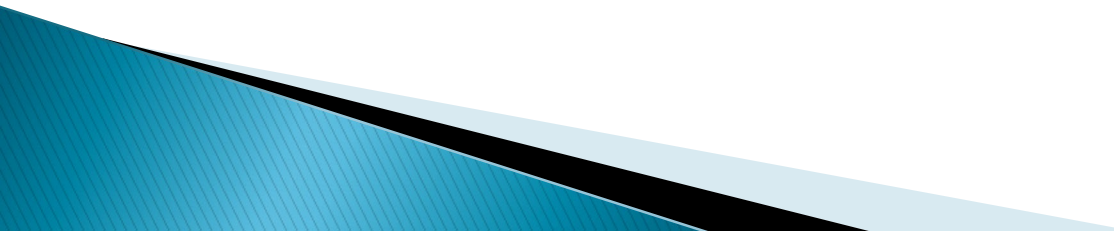
Contribution: Distinguishes not only between foreign and domestic banks, but also between foreign banks with a subsidiary in the country of the borrower and foreign banks without such a subsidiary in a cross-country setting.

Findings:

Both domestic banks and foreign banks with a local subsidiary in the country of the borrower lend to borrowers that are riskier and more opaque than foreign banks without a subsidiary.

Domestic banks and especially foreign banks with subsidiaries charge higher interest rates and lend at shorter maturities than foreign banks without local presence.

On the Plus Side...

- ▶ The authors appear to be familiar with various strands of the syndicated loans & bank lending literature
 - ▶ The countries on which they focus are interesting and their examination adds to the literature
 - ▶ In relation to the above, the authors assemble a good dataset using information from various sources
 - ▶ Adequate econometric analysis
 - ▶ Robustness tests
- 

Comment 1: Additional cross-country controls

A cross-country study: controls for some country-characteristics in basic regressions as well as in robustness tests, plus country- fixed effects – however; important variables may have been omitted.

The country fixed-effects do not entirely solve the problem as they assume homogeneity across firms in a country.

However, certain country characteristics may not have the same impact on all banks.

Comment 1: Additional cross-country controls (cont.)

Godlewski and Weill (EMR, 2008) document that financial development, banking regulation, and legal institutions, influence the decision to syndicate a loan in emerging markets.

Is the impact of regulations and the legal/institutional environment uniform across all types of banks in a given country?

A problem facing supervisors in emerging markets is the issue of how to monitor the local establishments of large international banks” (Song, IMF WP 04/82)

Same regulations have different effects of bank behaviour (risk-taking) depending on bank’s corporate governance (Laeven & Levine, JFE, 2009)

If this is the case, could it had an impact on the obtained results? Try interactions of bank type and such country-specific attributes?

Comment 1: Additional cross-country controls (cont.)

Also a lot is said about information. I would suggest to control for country-characteristics such as:

- aspects of corporate reporting (financial disclosure intensity, governance disclosure intensity, accounting principles used to measure financial disclosures, timeliness of financial disclosures, and audit quality of financial disclosures)
- private information acquisition & communication (financial analysts, institutional investors, inside trading)
- Information dissemination (media channels)

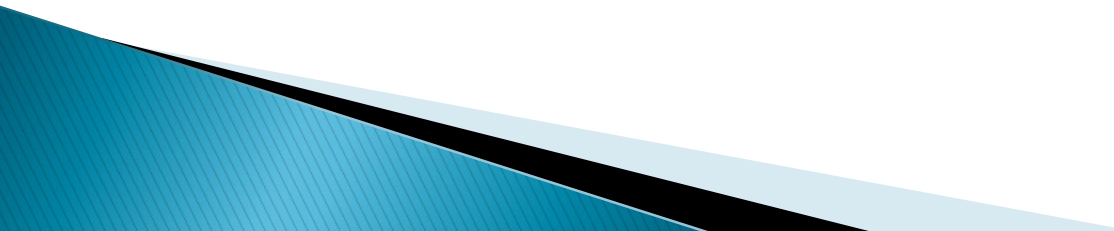
(see Bushman et al., JAR, 2004)

Comment 2: Characteristics of lenders (lead bank)

- ▶ Borrowers is only one part of the coin. What about the characteristics of the lender (lead bank)?
 - Undercapitalized banks charge higher loan spreads for loans to opaque borrowers in a sample of UK syndicated loans (Steffen & Wahrenburg, 2008, mimeo)
 - Banks with superior monitoring ability lend for longer maturities and at higher yield spreads. Furthermore, banks with more risky loan portfolios lend for shorter maturities (Coleman et al., JFSR, 2006)
 - Liquidity position of the lead bank? (Dennis & Mullineaux, JFI, 2000; Ivashina & Scharfstein, JFE, 2010)

In relation to the above, there may be important differences in the profile of foreign banks (risk, liquidity, capitalization) that operate through subsidiaries and those that are not (or between foreign and domestic banks). Is there any chance that these differences, rather than proximity, drive the results?

Comment 2: Characteristics of lenders (lead bank)

- ▶ What about banks that received support? Do they differentiate from the rest?
 - ▶ One may claim that the authors touch upon such issues by running regressions for the five more active banks. But is this enough? Why not go further?
- 

Comment 3: Differences between home & host country?

The multinational banking literature suggests that differences between the most and host country matter in banking decisions.

The authors mention the impact of distance and culture; however, these issues are not considered in the empirical analysis.

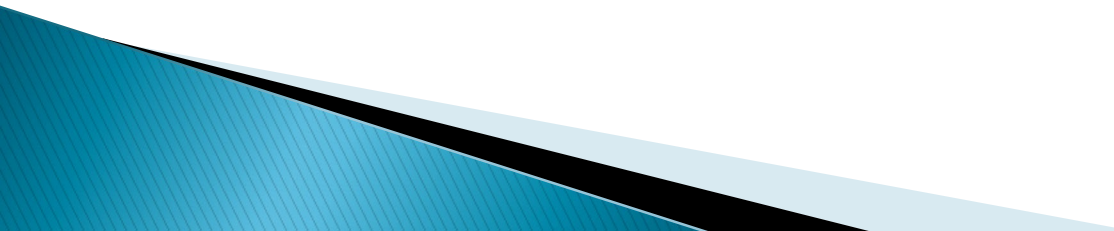
- ▶ Recent efforts to include them in the syndicated loans literature:
 - Boyle and Stover (2010, mimeo) look at differences in familiarity characteristics (i.e. legal systems, culture, banking presence and distance from Australia) and find that the decision to participate in a syndicate loan depends on such differences.
 - Giannetti and Yafeh (2010, mimeo) examine how cultural differences between countries influence syndicated loans. They find that lead banks offer smaller loans at a higher interest rate to more culturally distant borrowers.

Comment 3: Differences between home & host country? (cont.)

Try Hofstede's cultural dimensions (e.g. power distance, uncertainty avoidance, long term orientation) or GLOBE project indicators.

At the very least, consider the origin of foreign banks (or lead bank). Does it make any difference whether they are from the US or Europe? (Houston et al., 2007, mimeo)

Or consider very basic characteristics such as religion (Giannetti and Yafeh (2010))



Comment 4: Alternative modeling techniques?

Quantile Regressions?

OLS provide only one set of coefficient estimates that capture the mean relation between the dependent variable and the explanatory variables.

However, if there is heterogeneity between the loan spread (or maturity) and its determinants, quantile regression can provide estimates at various points in the conditional distribution of the dependent variable.

For example, Besley et al. (BoE, 2010) find that OLS understates the effect of loan size on loan interest at higher quantiles and overstates it at lower quantiles.

Other Recent applications in loan pricing: (Smith & Daniels, 2010; Chi et al., 2008; Cerqueiro et al., 2010)

Comment 4: Alternative modeling techniques? (cont.)

Clustering by lead bank?

Coleman et al. (2006) argue that with a sample typically drawn from the syndicated loan market where there is a high degree of concentration of lead banks, there is a need for clustering of observations by lead bank. Otherwise, loans with the same lead bank are unlikely to satisfy the OLS assumption.

Other Comments – Further analysis

5. Bank-borrower relationships?

(e.g. Sufi, JoF, 2007)

6. Listed versus unlisted borrowers?

Is the sample restricted to either listed or unlisted borrowers? If not, the authors could consider a dummy or running separate regressions (e.g. Sufi, JoF, 2007)

7. Say more about the financial crisis?

Recent papers on banking, and especially those focusing on lending behaviour, should place particular emphasis on the financial crisis.

Regressions for crisis versus pre-crisis? (Ivashina & DavidScharfstein, 2010)

Haas and Horen (DNB WP 255, 2010) find that the crisis influences the retention rates among syndicate arrangers, and information asymmetries do play an important role. But they do not consider ownership. An interaction of crisis with ownership could extend the analysis of the second part.

To conclude

- ▶ I enjoyed reading the paper
 - ▶ While this is an investigation of loan syndicates it empirically addresses a question of wider relevance: how does proximity and ownership influence lending?
 - ▶ The authors could extend their work in terms of additional controls and alternative estimations
- 