First project from proposal:

Does Bank Scope Improve Monitoring Incentives in Syndicated Lending?
(with Daniel Neuhann, University of Pennsylvania)

Non-technical summary:

Over the past two decades, loan shares retained by lead arrangers in lending syndicates have been on a steep decline in the United States. As smaller lead shares indicate reduced financial incentives to monitor borrowers, this has been interpreted as an alarming fact of declining monitoring efficiency. However, this development needs to be interpreted also against the background of financial deregulation. Starting in the 1990s, the scope of banks has been deregulated through the stepwise repeal of the Glass-Steagall Act. In this paper, we provide a theoretical rationale for why banks of wide scope, because they are exposed to their borrowers not just through the loan but also through other products (such as underwriting services), require smaller lead shares for safeguarding the same degree of monitoring. We confirm these predictions empirically by exploiting the repeal of the Glass-Steagall Act. Our findings suggest that the observed increases in syndicated-loan volumes and simultaneous decreases in lead shares over the last two decades are not associated with losses in monitoring efficiency.

Link to most recent draft:

http://farzadsaidi.com/papers/Scope.pdf

Conference presentations in 2014/15:

Jackson Hole Finance Conference, London Business School Summer Finance Symposium.

Scheduled seminars:

ESMT Berlin, Stockholm School of Economics, University of Zurich.

Second project from proposal:

Banks' Information Production and Corporate Disclosure
(with Alminas Žaldokas, Hong Kong University of Science and Technology)

Non-technical summary:

Banks of wide scope, such as universal banks, have more means of generating information about their borrowers, operationalized through cross-selling. It is often assumed that this leads to a positive shock to the quality of the lender's information about the borrower. In order to empirically estimate this value of information, we relate universal banks' information production in lending relationships to firms' disclosure decisions. An important disclosure decision is the release of patents in conjunction with R&D and innovation. A benefit of patents is, besides competitive reasons, that they are a credible signal of the firm's otherwise hard-to-observe innovation. We show that when banks can gather more information about their borrowers in lending relationships for financing innovation, firms are less likely to patent. In this manner, we establish a substitution relationship between banks' information production and corporate disclosure for the case of innovation.

Comments:

We are currently using the grant money for further data collection to refine our empirical analysis. Among other things, our research assistants (drawn from the JBS students) have been building unique bank identifiers across different databases of bank products (loans, underwriting services, M&A advisory, etc.), enabling us to entirely characterize bank-firm relationships. To the best of our knowledge, this is the most comprehensive effort in the literature to date.

We have preliminary findings. After further data collection, which will be finished by the beginning of the summer term, we will work on producing the first full-fledged draft over the summer, potentially leading to seminar presentations in the fall.