How do borrowers find their banks? The value of individuals in bank relationship formation*

Marco Ceccarelli† Christoph Herpfer‡ Steven Ongena§

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Abstract

We investigate the role of individual commercial bankers in facilitating bank-borrower relationships. We find that after a relationship banker switches to a new bank, her former borrowers are 4 times as likely to initatie a new lending relationship with that lender, compared to the unconditional mean. These newly formed relationships extend beyond lending and include cross selling of bonds and other financial services unrelated to lending itself. The newly acquired borrowers brings an increase in deal volume of 5%, or 1.6 USD million for the average deal, across the various product groups. We plan to investigate (a) whether the likelyhood of a banker getting poached increases with the value of their client portfolio, (b) which clients the banker brings over to her new employer, and (c) whether the borrowing terms improve or decline after the switch.

JEL Classifications: XXX.

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†University of Zurich and Swiss Finance Institute, Plattenstrasse 14, Zurich 8032, Switzerland; marco.ceccarelli@bf.uzh.ch.

‡Emory University, Goizueta Business School, 1300 Clifton Road, 30322 Atlanta, Georgia; christoph.herpfer@emory.edu.

§University of Zurich, Swiss Finance Institute, KU Leuven, and CEPR, Plattenstrasse 14, Zurich 8032, Switzerland; steven.ongena@uzh.ch.

1 Introduction

Lending relationships are key drivers for both the availability and pricing of credit (Bharath, Dahiya, Saunders, and Srinivasan, 2007; Ioannidou and Ongena, 2010). While lending relationships generally benefit borrowers, they also expose them to adverse shocks on the lender level, providing a transmission mechanism between the financial and real sector (Ivashina and Scharfstein, 2010; Chodorow-Reich, 2014).

While it is well understood that lending relationships have a large impact on lending, how these relationships are formed, and how banks and borrowers actually match up is a much less studied topic. In this paper, we take a step towards answering this important question by studying the role of commercial bankers in matching banks and borrowers.

We find that personal relationships between bankers and firms are a key factor in matching lenders to borrowers. After a commercial banker switches from one bank to another, the likelihood of a relationship initiation by this new employing lender to the firmer borrower increases by a factor of 4 compared to the unconditional sample average.

These results hold under tight controls including borrower-bank fixed effects, meaning that our results are driven by with-borrower-bank changes in having a personal relationship through a banker. Bank-year and borrower-year fixed effects control for lender and borrower time specific trends in initiation new relationships, ruling out a wide range of alternative explanations for our findings, such as a lender expanding and both hiring additional employees and initiating new lending relationships.

Importantly, these initiations go beyond straight loan contracts. We find that after a banker with a personal tie to a borrower moves, the former borrower also issues new bonds and seasoned equity offerings with the new lender.

While a large amount of business comes in the initial year of transition of the banker, borrowers continue issuing new bonds and loans in the following years.

Paper schwert bank borrower mtaching JF 2019: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2690490

Gao et al punishment after client bankrupt (RFS conditional accept): https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2865194

Kleiner Paper on manager connections heling them find employment: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2954837

wsj story, includes tangential reference of bank poaching a wells fargo banker and subsequently manage to move clients over. https://www.wsj.com/articles/losing-450-000-in-three-days-mod=hp_lead_pos5

2 Data

2.1 Description other variables abd sanple construction

Description explanation etc

[Table 1 here]

2.2 Bankers

3 Results

3.1 Initiation/Dealsize

Some additional data description (fr rest see Table 4)

- deals are defined as any occurrence of (syndicated) loans, SEOs, Bond offerings
- initiation is defined as the first occurrence of any type of deal between a bank and a borrower (5 year rolling window to define "first")
- strict initiation is initiation but only for borrowers that appear at least once in the data before the first deal

- personal relationship acquired is defined as: borrower i took out at least one loan with bankers b working for a lead bank in the past. Banker b then appears on (any) loan contract for bank c, but excluding loans to borrower i to avoid mechanical effects.

$$initiation = personal_relationship_acquired \tag{1}$$

[Table **??** here]

3.2 Discussion and alternative explanations

Potential issue:

- Banks expand in an industry and both hire people and extend lending there

4 Conclusion

We investigate

References

Bharath, S., Dahiya, S., Saunders, A., Srinivasan, A., 2007. So what do I get? The bank's view of lending relationships. Journal of Financial Economics 85, 368–419.

Chodorow-Reich, G., 2014. The employment effects of credit market disruptions: Firm-level evidence from the 2008–9 financial crisis. The Quarterly Journal of Economics 129, 1–59.

Ioannidou, V., Ongena, S., 2010. "time for a change": loan conditions and bank behavior when firms switch banks. The Journal of Finance 65, 1847–1877.

Ivashina, V., Scharfstein, D., 2010. Bank lending during the financial crisis of 2008. Journal of Financial economics 97, 319–338.

Figures

Figure 1: Treatment dynamics (all deals)
The figure presents the dynamics of treatment over time. Outcome variable is the log of dealsize across all three categories (loans, bonds, SEOs). Vertical bars represent 90% confidence intervals for standard errors clustered at firm and lender. The year of treatment is the first year in which a banker appears on a loan for a new bank.

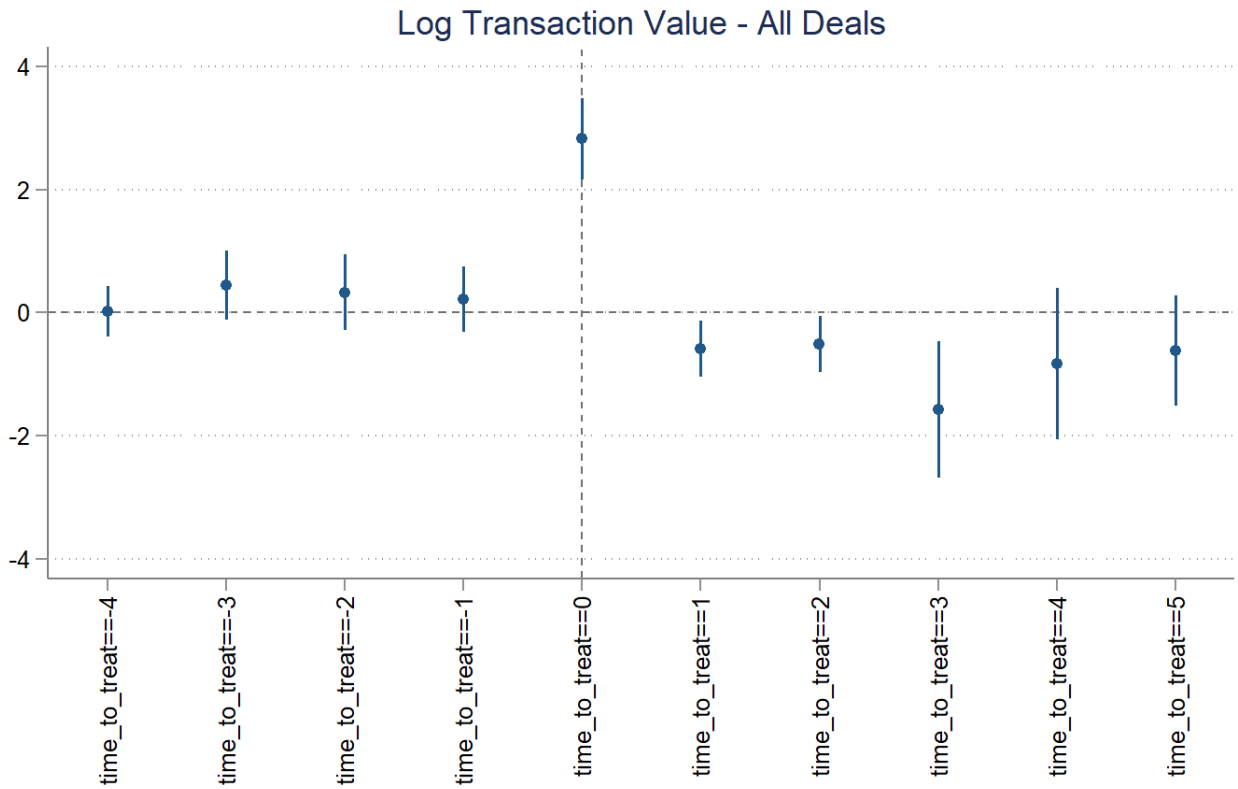


Figure 2: Treatment dynamics (bonds only)
The figure presents the dynamics of treatment over time. Outcome variable is the log of dealsize of new bonds issued. Vertical bars represent 90% confidence intervals for standard errors clustered at firm and lender. The year of treatment is the first year in which a banker appears on a loan for a new bank.

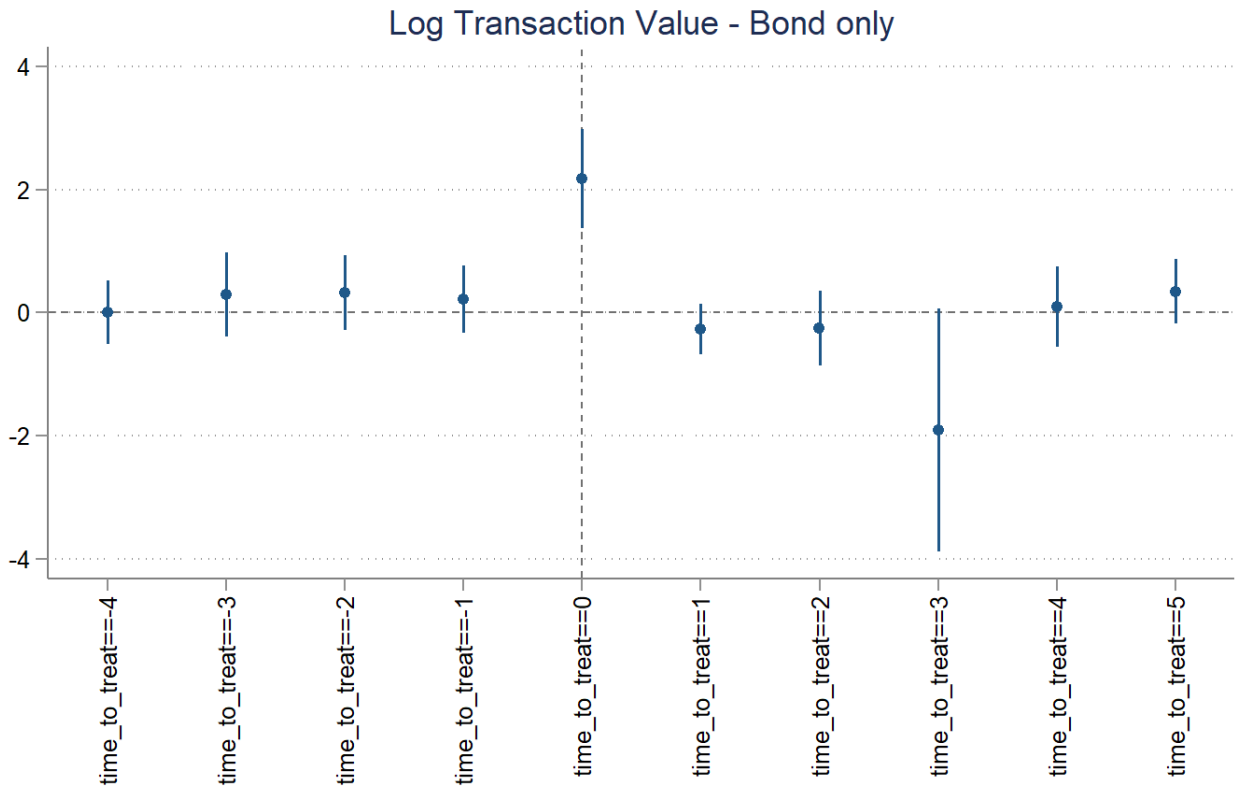


Figure 3: Treatment dynamics (SEO only)
The figure presents the dynamics of treatment over time. Outcome variable is the log of dealsize of seasoned equity offerings. Vertical bars represent 90% confidence intervals for standard errors clustered at firm and lender. The year of treatment is the first year in which a banker appears on a loan for a new bank.

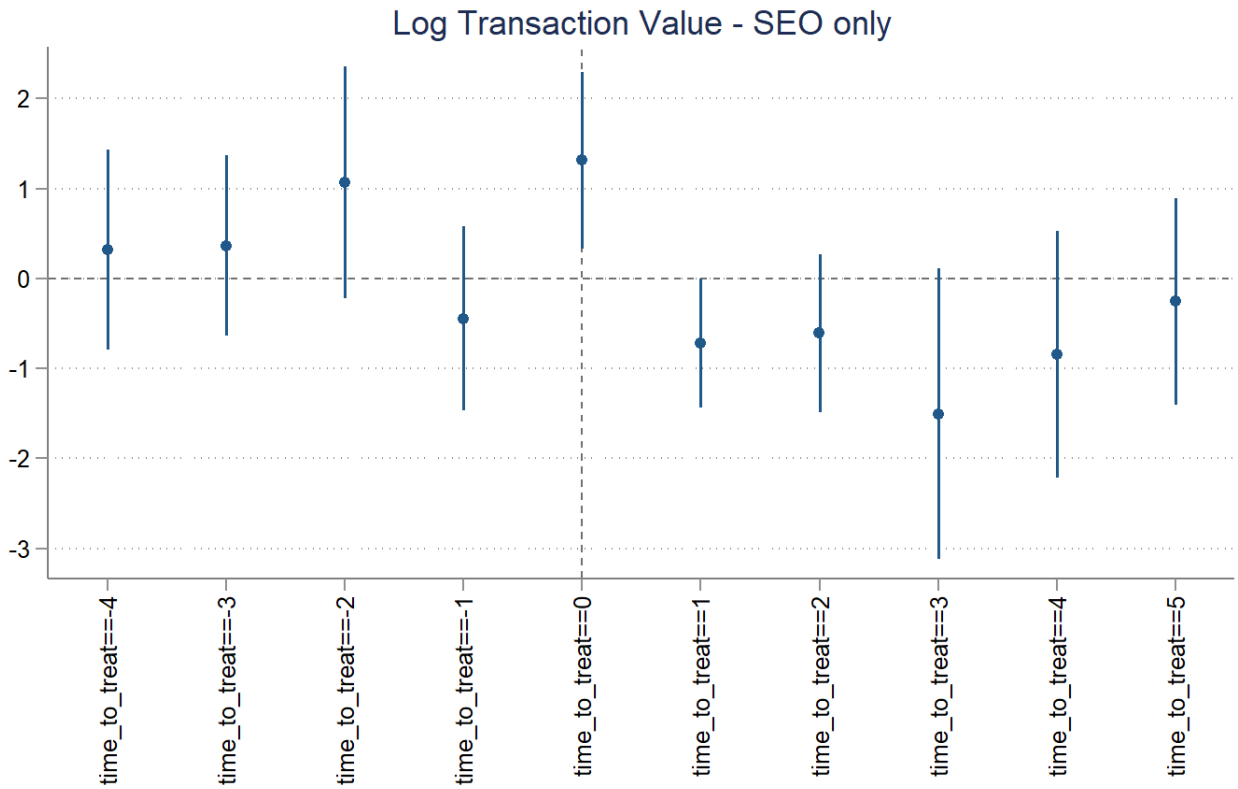
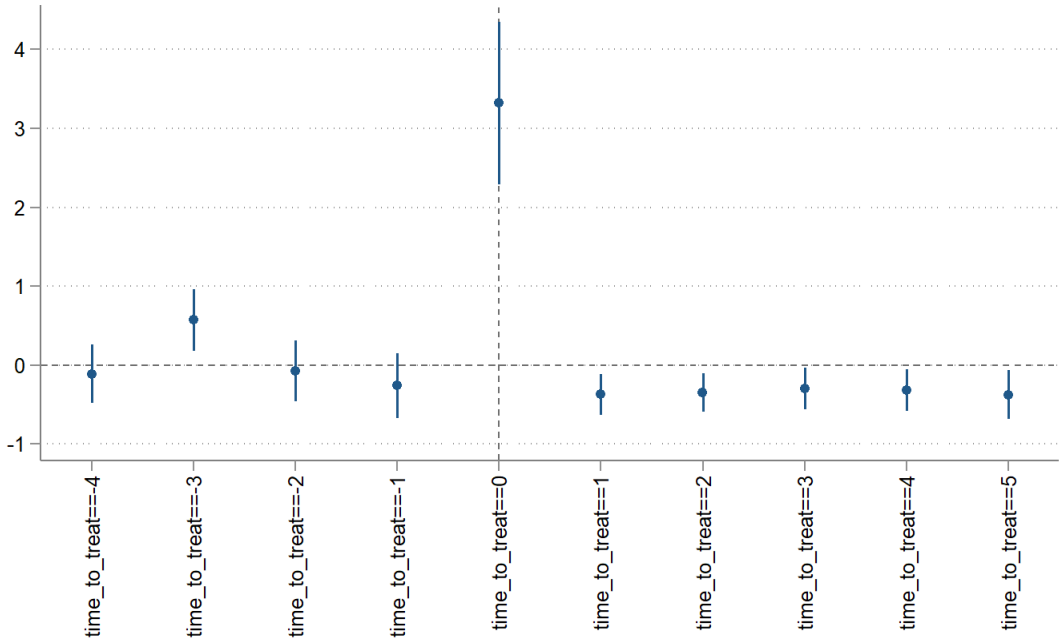


Figure 4: Treatment dynamics - First deal and repeat business
The figure presents the dynamics of treatment over time. Outcome variable in Panel A is the log of dealsize of the first deal (either syndicated loan, bond underwriting, or seasoned equity offering) in which a banker appears on a loan for a new bank. Panel B shows the total transaction value of repeated business done with a client (except for the first deal). Vertical bars represent 90% confidence intervals for standard errors clustered at firm and lender. The year of treatment is the first year in which a banker appears on a loan for a new bank.

Panel A: Log Transaction Value - First deal of old clients at new bank



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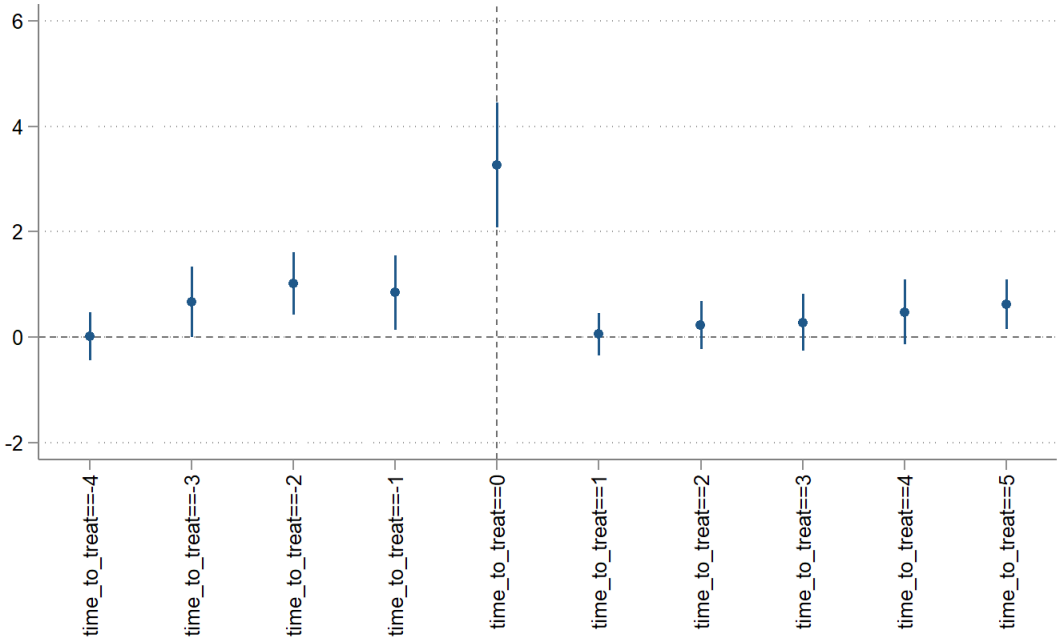
Panel B: Log Transaction Value - Repeat business with old clients at new bank



Tables

Table 1: Summary statistics
Shows summary statistics of the sample variables. The sample in Panel A is at the bank-borrower-year level, in Panel B it is at the firm-year level, and in Panel C it is at the bank-year level. All Panels cover the years from 1996 to 2013. Bond ans SEO underwriting as well as M&A advisory deals are retrieved from CapitalIQ. Syndicated loans are from Dealscan. Variables are defined as in Appendix Table A1.

Panel A: Bankers and deals

	N	p25	mean	p50	p75	sd
Rel_acq (%)	972,090	0.00	2.93	0.00	0.00	16.86
Rel_acq^{5yr} (%)	958,303	0.00	1.53	0.00	0.00	12.28
Rel_acq^{abs} (%)	946,223	0.00	0.27	0.00	0.00	5.23
Initiation	972,090	0.00	0.05	0.00	0.00	0.22
Initiation_strict	972,090	0.00	0.00	0.00	0.00	0.07
#Bankers switched	972,090	0.00	0.01	0.00	0.00	0.17
Volume - All deals	962,638	0.00	29.94	0.00	0.00	146.44
Volume - First deal	972,090	0.00	0.37	0.00	0.00	61.69
Volume - Repeat deals	972,090	0.00	0.60	0.00	0.00	41.71
Volume - Bonds	972,090	0.00	25.61	0.00	0.00	376.80
Volume - M&As	972,090	0.00	6.85	0.00	0.00	388.49
Volume - SEOs	972,090	0.00	5.15	0.00	0.00	139.88
Volume - Synd. Loans	972,090	0.00	38.25	0.00	0.00	490.65

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Panel B: Firm-level variables

	N	p25	mean	p50	p75	sd
Log Assets	78,401	5.19	6.70	6.60	8.04	2.02
Leverage	77,547	0.38	0.57	0.56	0.73	0.29
EBITDA	74,450	5.20	226.95	32.97	133.74	771.83
Profitability	72,453	0.02	0.05	0.04	0.11	0.15
Intangibles to Assets	64,579	0.00	0.14	0.05	0.22	0.19

Panel C: Bank-level variables

	N	p25	mean	p50	p75	sd
Log Assets	1,106	10.45	11.81	11.89	13.16	1.64
Leverage	1,102	0.90	0.92	0.92	0.94	0.03
EBITDA	1,069	218.48	2,961.03	753.83	3,423.00	4,945.20
Profitability	1,008	0.01	0.01	0.01	0.01	0.01
Intangibles to Assets	967	0.01	0.02	0.01	0.03	0.02

Table 2: Initiation

This table shows regressions of an indicator for a new bank-borrower relationships on a dummy for personal relationship acquired, which identifies deals with the old clients of bankers that switch employers. The dependent variable in Panel A includes new bank-borrower relationship as well as clients with whom the bank had no interaction in the past 5 years. The dependent variable in Panel B does not include first-time clients. The sample is at the bank-borrower-year level and spans from 1996 to 2013. Bond ans SEO underwriting as well as M&A advisory deals are retrieved from CapitalIQ. Syndicated loans are from Dealscan. Variables are defined as in Appendix Table A1. t-statistics, based on robust standard errors clustered at firm and lender level, are reported in parentheses. ***, **, and * indicate that the parameter estimate is significantly different from zero at the 1%, 5%, and 10% level, respectively.

Panel A: Initiation

Dep. variable:	Initiation				
	(1)	(2)	(3)	(4)	(5)
Rel_acq	0.07**	0.09**	0.14***		
	(2.42)	(2.47)	(3.80)		
Rel_acq^{5yr}				0.12***	
				(3.56)	
Rel_acq^{abs}					0.07***
					(3.36)
Observations	972,090	972,090	861,444	847,106	834,470
R-squared	0.03	0.08	0.42	0.41	0.41
Year FE	Yes	Yes	No	No	No
Firm FE	Yes	No	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes	Yes
Firm-Year FE	No	No	Yes	Yes	Yes

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Panel B: Initiation strict

Dep. variable:	Initiation_strict				
	(1)	(2)	(3)	(4)	(5)
Rel_acq	0.01*	0.01*	0.02**		
	(1.97)	(1.81)	(2.40)		
Rel_acq^{5yr}				0.02**	
				(2.07)	
Rel_acq^{abs}					0.01***
					(2.65)
Observations	972,090	972,090	861,444	847,106	834,470
R-squared	0.03	0.10	0.27	0.26	0.26
Year FE	Yes	Yes	No	No	No
Firm FE	Yes	No	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes	Yes
Firm-Year FE	No	No	Yes	Yes	Yes

Table 3: Total deal volume

This table shows regressions of the logarithm of total deal volume on an indicator for personal relationship acquired, which identifies deals with the old clients of bankers that switch employers. The sample is at the bank-borrower-year level and spans from 1996 to 2013. Bond ans SEO underwriting as well as M&A advisory deals are retrieved from CapitalIQ. Syndicated loans are from Dealscan. Variables are defined as in Appendix Table A1. t-statistics, based on robust standard errors clustered at firm and lender level, are reported in parentheses. ***, **, and * indicate that the parameter estimate is significantly different from zero at the 1%, 5%, and 10% level, respectively.

Dep. variable:	Log Deal Volume				
	(1)	(2)	(3)	(4)	(5)
Rel_acq	0.73***	0.72***	0.30***		
	(8.91)	(4.05)	(3.80)		
Rel_acq^{5yr}				0.37***	
				(4.32)	
Rel_acq^{abs}					2.42***
					(7.43)
Observations	921,617	921,553	809,108	807,730	806,231
R-squared	0.08	0.14	0.51	0.51	0.51
Year FE	Yes	Yes	No	No	No
Firm FE	Yes	No	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes	Yes
Firm-Year FE	No	No	Yes	Yes	Yes

Table 4: Total deal volume by category

This table shows regressions of the logarithm of total deal volume by category on an indicator for personal relationship acquired, which identifies deals with the old clients of bankers that switch employers. The dependent variable in Panel A is syndicated loans volume, in Panel B bond underwriting, and in Panel C seasoned equity offerings (SEOs). The sample covers respectively all bank-borrower-year observations where there is at least one syndicated loan, bond, or SEO per bank-borrower-year. The sample spans from 1996 to 2013. Bond ans SEO underwriting as well as M&A advisory deals are retrieved from CapitalIQ. Syndicated loans are from Dealscan. Variables are defined as in Appendix Table A1. t-statistics, based on robust standard errors clustered at firm and lender level, are reported in parentheses. ***, **, and * indicate that the parameter estimate is significantly different from zero at the 1%, 5%, and 10% level, respectively.

Panel A: Syndicated loans

Dep. variable:	Log Deal Volume - Syndicated Loans				
	(1)	(2)	(3)	(4)	(5)
Rel_acq	0.38***	0.18	0.41***		
	(5.66)	(1.40)	(2.93)		
Rel_acq^{5yr}				0.52***	
				(3.07)	
Rel_acq^{abs}					1.55***
					(4.57)
Observations	574,882	574,859	455,964	455,177	454,407
R-squared	0.08	0.15	0.52	0.52	0.52
Year FE	Yes	Yes	No	No	No
Firm FE	Yes	No	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes	Yes
Firm-Year FE	No	No	Yes	Yes	Yes

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Panel B: Bond underwriting

Dep. variable:	Log Deal Volume - Bonds				
	(1)	(2)	(3)	(4)	(5)
Rel_acq	0.50***	0.51***	0.19**		
	(5.76)	(5.02)	(2.55)		
Rel_acq^{5yr}				0.20**	
				(2.34)	
Rel_acq^{abs}					1.52***
					(3.61)
Observations	288,932	288,896	282,108	281,028	279,793
R-squared	0.14	0.19	0.62	0.62	0.62
Year FE	Yes	Yes	No	No	No
Firm FE	Yes	No	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes	Yes
Firm-Year FE	No	No	Yes	Yes	Yes

Panel C: SEO underwriting

Dep. variable:	Log Deal Volume - SEOs				
	(1)	(2)	(3)	(4)	(5)
Rel_acq	0.18	0.09	0.06		
	(1.40)	(0.30)	(0.45)		
Rel_acq^{5yr}				0.09	
				(0.80)	
Rel_acq^{abs}					0.04
					(0.18)
Observations	201,791	201,777	188,701	188,246	187,744
R-squared	0.06	0.09	0.73	0.73	0.73
Year FE	Yes	Yes	No	No	No
Firm FE	Yes	No	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes	Yes
Firm-Year FE	No	No	Yes	Yes	Yes

Table 5: Deal volume - First deal vs. Repeat deals

This table shows regressions of the logarithm of total deal volume on an indicator for personal relationship acquired, which identifies deals with the old clients of bankers that switch employers. The dependent variable in the first three columns is the volume of the first deal that a banker does with one of her old clients after switching to the new bank. The dependent variable in the last three columns is the volume of deals that come from repeated interactions with old clients (excluding the first one). The sample covers respectively all bank-borrower-year observations where there is at least one syndicated loan, bond, or SEO per bank-borrower-year. The sample spans from 1996 to 2013. Bond ans SEO underwriting as well as M&A advisory deals are retrieved from CapitalIQ. Syndicated loans are from Dealscan. Variables are defined as in Appendix Table A1. t-statistics, based on robust standard errors clustered at firm and lender level, are reported in parentheses. ***, **, and * indicate that the parameter estimate is significantly different from zero at the 1%, 5%, and 10% level, respectively.

Dep. variable:	Volume - First deal			Volume - Repeat deals		
	(1)	(2)	(3)	(4)	(5)	(6)
Rel_acq	0.84***			1.35***		
	(14.13)			(13.11)		
Rel_acq^{5yr}		0.98***			1.21***	
		(13.17)			(9.93)	
Rel_acq^{abs}			4.72***			1.69***
			(11.76)			(6.18)
Observations	818,657	817,215	815,666	818,657	817,215	815,666
R-squared	0.26	0.30	0.84	0.44	0.41	0.42
Year FE	No	No	No	No	No	No
Firm FE	No	No	No	No	No	No
Firm-Bank FE	Yes	Yes	Yes	Yes	Yes	Yes
Bank-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm-Year FE	Yes	Yes	Yes	Yes	Yes	Yes

Table 6: Switching bankers and size of client portfolio

This table shows regressions of an indicator value (in %) for the pre-switch period on the number of deals that the banker signs with her client portfolio at the bank. Columns 3 and 4 treat clients with whom the banker signs only one deal, between two and five deals, and six or more deals separately. The sample covers all banker-years pairs between 1996 and 2013. Variables are defined as in Appendix Table A1. t-statistics, based on robust standard errors clustered at lender level, are reported in parentheses. ***, **, and * indicate that the parameter estimate is significantly different from zero at the 1%, 5%, and 10% level, respectively.

Dep. variable:	Pre-Switch Indicator (%)			
	(1)	(2)	(3)	(4)
Total #Deals by Banker	0.28***	0.27***		
	(5.71)	(5.72)		
#Clients - 1 deal			0.85***	0.86***
			(3.55)	(3.43)
#Clients - 2-5 deals			1.84***	1.83***
			(7.48)	(7.15)
#Clients - 6+ deals			1.48**	1.84***
			(2.48)	(2.58)
Observations	49,975	43,233	49,975	43,233
R-squared	0.31	0.31	0.31	0.30
Year FE	Yes	No	Yes	No
Bank FE	Yes	No	Yes	No
Bank-Year FE	No	Yes	No	Yes

Table 7: Switching bankers and tenure at old bank

This table shows regressions of an indicator value (in %) for the pre-switch period on the number of years that the banker spends at the bank. Columns 3 and 4 use only the last observation . The sample covers all banker-years pairs between 1996 and 2013. Variables are defined as in Appendix Table A1. t-statistics, based on robust standard errors clustered at lender level, are reported in parentheses. ***, **, and * indicate that the parameter estimate is significantly different from zero at the 1%, 5%, and 10% level, respectively.

Dep. variable:	Pre-Switch Indicator (%)			
	(1)	(2)	(3)	(4)
Tenure Current	0.49***	0.63***		
	(5.95)	(6.25)		
Tenure Max			0.72***	0.87***
			(9.41)	(9.24)
Observations	49,975	43,233	21,549	17,891
R-squared	0.30	0.30	0.31	0.35
Year FE	Yes	No	Yes	No
Bank FE	Yes	No	Yes	No
Bank-Year FE	No	Yes	No	Yes

Table 8: Switching bankers and deal volume at old bank

This table shows regressions of an indicator value (in %) for the pre-switch period on the total volume of deals that the banker's portfolio clients had with a bank during a year. Columns 3, 4, and 5 show the volume separately by deal types. The sample covers all banker-years pairs between 1996 and 2013 for the banks that could be matched with Compustat. Variables are defined as in Appendix Table A1. t-statistics, based on robust standard errors clustered at lender level, are reported in parentheses. ***, **, and * indicate that the parameter estimate is significantly different from zero at the 1%, 5%, and 10% level, respectively.

	Pre-Switch Indicator (%)				
	(1)	(2)	(3)	(4)	(5)
Log Deal Volume	0.58***	0.63***			
	(2.98)	(3.66)			
Log Syndicated Loans			0.40		
			(1.57)		
Log Bonds				0.32*	
				(1.83)	
Log SEOs					0.81
					(1.48)
Observations	14,126	13,897	13,897	13,897	13,897
R-squared	0.07	0.14	0.14	0.14	0.14
Year FE	Yes	No	No	No	No
Bank FE	Yes	No	No	No	No
Bank-Year FE	No	Yes	Yes	Yes	Yes

Appendix for

"How do borrowers find their banks?
The value of individuals in bank relationship formation"

A Anecdotal Evidence

B Data appendix

1. Data description
2. choice of data

Appendix Tables

Table A1: Variable definitions

Panel A: Bankers and deals

$\text{Initiation}_{i,j,t}$	Indicator for the year t when bank j makes a deal (syndicated loan, bond underwriting, SEOs, or M&A advisory) with firm i for the first time ever or for the first time in more than five years.
$\text{Initiation\_strict}_{i,j,t}$	Indicator for the year t when bank j makes a deal (syndicated loan, bond underwriting, SEOs, or M&A advisory) with firm i for the first time in more than five years.
$\text{Rel\_acq}_{i,j,t}$	Indicator variable for the year t when a bank j makes a deal with firm i for the first time ever or for the first time in five years *and* firm i was in the clinet portfolio of a banker that switched to bank j before time t.
$\text{Rel\_acq}^{5yr}_{i,j,t}$	Same as $\text{Rel\_acq}_{i,j,t}$, but takes the value of 1 also for the years $t+1$ to $t+4$.
$\text{Rel\_acq}^{abs}_{i,j,t}$	Same as $\text{Rel\_acq}_{i,j,t}$, but is set to missing for all years after t.
#Bankers switched	Numbers of bankers that switched to bank j during year t.
Log Deal Value	Logarithm of the total value of deals (in USDmm) that bank j underwrites for firm i in year t, including syndicated loans, bonds, and SEOs.
Log Bonds	Logarithm of the total value of bonds (in USDmm) that bank j underwrites for firm i in year t.
Log M&As	Logarithm of the total value of M&A transactions (in USDmm) for which bank j acts as adviser for firm i in year t.
Log SEOs	Logarithm of the total value of seasoned equity (in USDmm) that bank j underwrites for firm i in year t.
Log Syndicated loans	Logarithm of the total value of syndicated loans (in USDmm) taken out by firm i in year t for which bank j acts as lead arranger.

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Panel B: Bank- and firm-level variables

Log Assets	Logarithm of total assets
Leverage	Total liabilities over total assets
EBITDA	Earnings before Interest, Taxes, Depreciation, and Amortization
Profitability	EBITDA over total assets
Intangibles to assets	Intangible assets over total assets