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

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Brown Bag Lunch Seminar

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Anecdotal evidence

> ❝ Star bankers are routinely subjected to rough treatment when they jump ship to a rival. [...] Credit Suisse took the war-on-talent to a whole new level when it hired private investigators to tail Iqbal Khan, the bank's former wealth management chief, fearing he might be poaching talent and stealing business leads in the days before starting a new job at UBS Group AG, in Zurich. ❞

(Fortune, October 1, 2019)

Preview of findings

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- Having a larger portfolio of clients, especially when
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  (b) they are more likely to come over

- Also, banker's tenure & how bank's client portfolio is divided amongst bankers matters

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- Yes! The bank increases its borrower base by winning over clients known to the banker

- The new business that is brought over extends to syndicated lending and bond underwriting

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Bankers play an important role in relationship lending.
Banks that acquire human capital profit by extending their borrower base.

Literature review I - Relationship lending

Relationship lending plays a key role for both banks and firms

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- The ability of banks to create information about their borrowers is at the core of banking (e.g., Berger and Udell, JofB 1995; Diamond, REStud 1984; Petersen and Rajan, JF 1994)

- The soft information of these relationships is concentrated in individual bankers (Liberti and Petersen, RCFS 2019; Karolyi, JF 2018)

- Banking relationships play a key role also for the firms, influencing loan conditions (Ioannidou and Ongena, JF 2010) and availability (Ongena and Smith, JFE 2001)

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What drives the formation of relationships between firms and banks?
- Schwert, JF 2018; Petersen and Rahan, QJE 1995; JF 2002;... look at the importance of bank characteristics for the formation of borrower relationships

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- Bushman, Gao, Martin, Pacelli, 2019 find that bankers are important in determining loan characteristics, especially covenant design

- Frattaroli, Herpfer, 2020 find that bankers help firms identify partners for strategic alliances

- Gao, Kleiner, Pacelli, RFS 2020 find that bankers that structure poorly performing loans face disciplining consequences

- Herpfer, 2018 finds that strong relationships between a borrower and a banker significantly reduce interest rates

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Our contribution: Look at the role of bankers in relationship lending

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- Scrape all 8-K, 10-K, and 10-Q filings and obtain loan information:
  - Bank Name
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  - Person Title
- Obtain personal relationships between banker and clients and identify bankers that switch their employer.
- ▸ Quality-check

Part I

What makes a banker more likely to switch?

Identifying when a banker switches: Banker Joe

Yr	Bank	Deal	Old-Client-Portfolio	Pre-Switch	Total #Deals	#Clients - Mod
2000	BofA	GE	-	1	1	0
2001	BofA	Siemens	-	1	2	0
2002	BofA	Siemens	-	1	3	1
			...			
2005	JPM	VW	GE, Siemens	0	1	0
2006	JPM	-	GE, Siemens	0	1	0
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2000: Banker Joe closes hist 1st deal with GE
➜ the total #deals is set to 1

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2002: Banker Joe closes the 2nd deal with Siemens
➔ has 1 client with a moderately strong relationship

Identifying when a banker switches: Banker Joe

Yr	Bank	Deal	Old-Client-Portfolio	Pre-Switch	Total #Deals	#Clients - Mod
2000	BofA	GE	-	1	1	0
2001	BofA	Siemens	-	1	2	0
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2005: Banker Joe switches from BofA to JPM

➔ JPM acquires the personal relationships of banker Joe from his time at BofA

Data I - Deal volume and bank information

We complement the SEC information with:

- Syndicated loans from LPC Dealscan
  (loan characteristics and deals for which the algorithm gets no information)

- Bond underwriting and SEOs from CapitalIQ

- Balance sheet information from Compustat

➜ 20,000+ bankers that sign a total of 16,700 deals from 1996 to 2013

➜ Collapse data at the banker $\times$ bank $\times$ year level

Data I - Summary statistics

	N	p25	mean	p50	p75	sd
Ever-Switch (%)	49,998	0.00	24.70	0.00	0.00	43.13
Pre-Switch (%)	49,998	0.00	7.86	0.00	0.00	26.92
Total #Deals	49,998	2.00	7.90	5.00	9.00	11.02
#Clients - Weak Rel	49,998	0.00	1.00	1.00	1.00	1.14
#Clients - Moderate Rel	49,998	0.00	0.68	0.00	1.00	1.13
#Clients - Strong Rel	49,998	0.00	0.06	0.00	0.00	0.38
#Clients - Single Contact	49,998	0.00	0.90	1.00	1.00	1.20
#Clients - Multiple Contact	49,998	0.00	0.83	1.00	1.00	1.25
Tenure Current	49,998	1.00	3.21	2.00	4.00	3.05
Tenure Max	49,998	2.00	5.45	4.00	8.00	4.17

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Indicators for bankers that switch from one bank to the other

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Weak relationship - only 1 deal with client
Moderate relationship - 2-5 deals
Strong relationship - 6 or more deals

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Banker is single contact for clients within bank
Clients have contact with multiple bankers within same bank

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Running and maximum no. of years that a banker spends at a bank

Finding I - What makes a banker more likely to switch?

Dep. variable:	Pre-Switch Indicator (%)	
Total #Deals	0.22***	0.21***
	(4.73)	(4.71)
#Clients - Weak Rel	0.28	0.38*
	(1.39)	(1.86)
#Clients - Moderate Rel	0.90***	0.94***
	(4.56)	(4.68)
#Clients - Strong Rel	0.30	0.44
	(0.42)	(0.60)
Observations	43,233	43,233
R-squared	0.24	0.31
Year and Bank FE	Yes	No
Bank-Year FE	No	Yes

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Bankers that close more deals are more likely to switch

Closing an extra deal increases the probability of switching by 22bps (3% of uncond. mean)

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This is especially true for bankers that have many moderately strong relationships, i.e., that close 2-5 deals with a given client

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Not only quantity of client portfolio, but also the quality matters

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	(5.00)	(4.95)
#Clients - Single Contact	0.93***	1.00***
	(4.08)	(4.12)
#Clients - Multiple Contact	0.25	0.34*
	(1.37)	(1.88)
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Bankers that have more clients for which they are the single contact at the bank are more likely to switch.

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It is important to
have clients
that you are
likely to bring over

▸ Key

▸ Tenure

Part II

Does the new bank profit from the switch?

Identifying relationship initiations: Banker Joe - Take 2

Yr	Bank	Deal	Old-Client-Portfolio	Initiation	Rel_acquired
2000	BofA	GE	-	1	0
2001	BofA	Siemens	-	1	0
2002	BofA	Siemens	-	0	0
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2005	JPM	VW	GE, Siemens	1	0
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2000 and 2001: BofA initiates a new relationship with GE and Siemens

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2005: Banker Joe switches from BofA to JPM

➜ JPM acquires the personal relationships of banker Joe from his time at BofA

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2007	JPM	GE	GE, Siemens	1	1
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			...		

2007: JPM initiates a new relationship with GE,
one of Banker Joe's old clients

Data II - Summary statistics

	N	p25	mean	p50	p75	sd
Initiation_strict (%)	972,090	0.00	4.74	0.00	0.00	21.25
Initiation (%)	972,090	0.00	5.19	0.00	0.00	22.19
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
Volume - All deals	972,090	0.00	75.86	0.00	0.00	806.00
Volume - Bonds	972,090	0.00	25.61	0.00	0.00	376.80
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

Collapse dataset at the bank × firm × year level & add bank-firm deals
(loans, bonds, and SEOs) w/o banker information

➔ Total of 50k loans, 25k bonds, and 13k SEOs

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Initiation_strict identifies 1st time interaction between a bank and a firm

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Initiation also includes deals with stale clients (no deal in more than 5yrs)

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Rel_acq takes the value of 1 for all pairs of new_bank$\times$old_client$\times$yr, for all years after the switch

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Rel_acq^{5yr} and Rel_acq^{abs} take the value of 1,
for 5-yrs and 1-yr after the switch and set to missing afterwards

Data II - Summary statistics

	N	p25	mean	p50	p75	sd
Initiation_strict (%)	972,090	0.00	4.74	0.00	0.00	21.25
Initiation (%)	972,090	0.00	5.19	0.00	0.00	22.19
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
Volume - All deals	972,090	0.00	75.86	0.00	0.00	806.00
Volume - Bonds	972,090	0.00	25.61	0.00	0.00	376.80
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

Volume - All deals is the sum of all deals (loans, bonds, SEOs) that
a bank closes with a borrower within a year (in USDmm)

Data II - Summary statistics

	N	p25	mean	p50	p75	sd
Initiation_strict (%)	972,090	0.00	4.74	0.00	0.00	21.25
Initiation (%)	972,090	0.00	5.19	0.00	0.00	22.19
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Rel_acq^{abs} (%)	946,223	0.00	0.27	0.00	0.00	5.23
Volume - All deals	972,090	0.00	75.86	0.00	0.00	806.00
Volume - Bonds	972,090	0.00	25.61	0.00	0.00	376.80
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

Volume of deals that a bank closes during a year by deal type (UDSmm)

Finding IIa - Does the new bank profit from the switch?

Dep. variable:	Initiation			
	(1)	(2)	(3)	(4)
Rel_acq	0.07**	0.09**	0.13***	0.14***
	(2.37)	(2.38)	(3.58)	(3.80)
Observations	861,444	861,444	861,444	861,444
R-squared	0.03	0.08	0.10	0.42
Year FE	Yes	Yes	Yes	No
Firm FE	Yes	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes
Firm-Bank FE	No	No	No	Yes

Finding IIa - Does the new bank profit from the switch?

Dep. variable:	Initiation			
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Firm FE	Yes	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes
Firm-Bank FE	No	No	No	Yes

Probability of initiating contact with new firm increases after the bank acquires a personal relationship

This corresponds to 1.5x - 3x the average unconditional probability of initiation

Finding IIa - Does the new bank profit from the switch?

Dep. variable:	Initiation			
	(1)	(2)	(3)	(4)
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Firm FE	Yes	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes
Firm-Bank FE	No	No	No	Yes

Finding holds under
tight FE structure:
Bank $\times$ Year (supply),
Firm $\times$ Year (demand), and
Firm $\times$ Bank FEs
(geographic proximity,
compatible strategy etc.)

Finding IIa - Does the new bank profit from the switch?

Dep. variable:	Initiation			
	(1)	(2)	(3)	(4)
Rel_acq	0.07**	0.09**	0.13***	0.14***
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Year FE	Yes	Yes	Yes	No
Firm FE	Yes	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes
Firm-Bank FE	No	No	No	Yes

Findings remain virtually unchanged when we:

- use stricter definition of initiation
  - ▸ Table

- use different treatments (5-yrs & absorptive)
  - ▸ Table

- drop first deal that banker signs at new bank
  - ▸ Table

Finding IIa - Does the new bank profit from the switch?

Dep. variable:	Initiation			
	(1)	(2)	(3)	(4)
Rel_acq	0.07**	0.09**	0.13***	0.14***
	(2.37)	(2.38)	(3.58)	(3.80)
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R-squared	0.03	0.08	0.10	0.42
Year FE	Yes	Yes	Yes	No
Firm FE	Yes	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes
Firm-Bank FE	No	No	No	Yes

The bank increases its borrower base by winning over clients known to the banker

Finding IIb - Does the new bank profit from the switch?

Dep. variable:	Log Deal Volume			
	(1)	(2)	(3)	(4)
Rel_acq	0.65***	0.72***	0.61***	0.30***
	(8.62)	(4.09)	(5.18)	(3.80)
Observations	809,108	809,108	809,108	809,108
R-squared	0.07	0.14	0.16	0.51
Year FE	Yes	Yes	Yes	No
Firm FE	Yes	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes
Firm-Bank FE	No	No	No	Yes

Finding IIb - Does the new bank profit from the switch?

Dep. variable:	Log Deal Volume			
	(1)	(2)	(3)	(4)
Rel_acq	0.65***	0.72***	0.61***	0.30***
	(8.62)	(4.09)	(5.18)	(3.80)
Observations	809,108	809,108	809,108	809,108
R-squared	0.07	0.14	0.16	0.51
Year FE	Yes	Yes	Yes	No
Firm FE	Yes	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes
Firm-Bank FE	No	No	No	Yes

The banks that acquire relationships when bankers switch close more deals with the new clients

For the median deal (USD 300mm, conditional on closing), this corresponds to an increase of USD 2.1mm

Finding IIb - Does the new bank profit from the switch?

Dep. variable:	Log Deal Volume			
	(1)	(2)	(3)	(4)
Rel_acq	0.65***	0.72***	0.61***	0.30***
	(8.62)	(4.09)	(5.18)	(3.80)
Observations	809,108	809,108	809,108	809,108
R-squared	0.07	0.14	0.16	0.51
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Firm FE	Yes	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes
Firm-Bank FE	No	No	No	Yes

This holds under a tight FE structure

Finding IIb - Does the new bank profit from the switch?

Dep. variable:	Log Deal Volume			
	(1)	(2)	(3)	(4)
Rel_acq	0.65***	0.72***	0.61***	0.30***
	(8.62)	(4.09)	(5.18)	(3.80)
Observations	809,108	809,108	809,108	809,108
R-squared	0.07	0.14	0.16	0.51
Year FE	Yes	Yes	Yes	No
Firm FE	Yes	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes
Firm-Bank FE	No	No	No	Yes

Findings remain virtually unchanged when:

- using different treatments (5-yrs & absorptive)
  - ▸ Table

- looking at first deal and repeated interaction clients separately
  - ▸ Table

Finding IIb - Does the new bank profit from the switch?

Dep. variable:	Log Deal Volume			
	(1)	(2)	(3)	(4)
Rel_acq	0.65***	0.72***	0.61***	0.30***
	(8.62)	(4.09)	(5.18)	(3.80)
Observations	809,108	809,108	809,108	809,108
R-squared	0.07	0.14	0.16	0.51
Year FE	Yes	Yes	Yes	No
Firm FE	Yes	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes
Firm-Bank FE	No	No	No	Yes

The bank increases the volume of deals with acquired clients

The increase covers both syndicated lending and bonds

▸ Table

Conclusion

In sum, bankers appear to be an important piece in explaining the creation of lending relationships. They facilitate the matching between firms and banks.

Open questions & next steps:

- Identification - Sources of exogenous variation in the probability of switching, e.g., restrictions in labor mobility or drop in bank performance/executive pay

- Role of bank culture - Are bankers more likely to leave banks with a "toxic culture"?

- Role of demographics - Are female bankers better at forming strong client relationships? Are they more or less likely to switch banks?

Thank you!

Appendix

Data I - Individual bankers: Quality assurance

Randomly sample 100 contracts to check quality of data:

- 65% of contracts feature signatures, other contracts are dropped

- 80% of signatories are extracted successfully

Talk to various bankers in commercial lending

- Authorization of signature only for high ranking bankers

- Bankers that sign are the ones negotiating

- Titles are at the level of junior seniors

- LinkedIn search: Relationship bankers, commercial bankers

▸ Back

Finding Ia - Tenure

	Pre-Switch Indicator (%)					
	(1)	(2)	(3)	(4)	(5)	(6)
Tenure of banker (running)	0.25**	0.30***				
	(2.57)	(3.07)				
Max tenure of banker			0.50***	0.55***		
			(4.90)	(5.66)		
Tenure$^{25\%-50\%}$					1.33***	1.29***
					(3.39)	(3.44)
Tenure$^{50\%-75\%}$					2.37***	2.31***
					(4.02)	(3.66)
Tenure$^{75\%-100\%}$					2.47***	2.92***
					(3.05)	(3.54)
Observations	22,642	22,642	7,871	7,871	22,642	22,642
R-squared	0.23	0.31	0.26	0.38	0.23	0.31
Year FE	Yes	No	Yes	No	Yes	No
Bank FE	Yes	No	Yes	No	Yes	No
Bank-Year FE	Yes	No	Yes	No	Yes	No

Finding Ib - Key bankers

	All bankers		Non-key		Key	
	(1)	(2)	(3)	(4)	(5)	(6)
%Bank deals by banker	0.18***	0.29***	0.39***	0.69***	0.13***	0.17***
	(8.08)	(9.91)	(7.25)	(9.28)	(4.36)	(3.62)
Observations	43,233	43,233	36,730	36,427	6,300	4,954
R-squared	0.24	0.30	0.18	0.22	0.57	0.71
Year FE	Yes	No	Yes	No	Yes	No
Bank FE	Yes	No	Yes	No	Yes	No
Bank-Year FE	No	Yes	No	Yes	No	Yes

Finding IIa - 1. Initiation strict

Dep. variable:	Initiation_strict				
	(1)	(2)	(3)	(4)	(5)
Rel_acq	0.06**	0.07**	0.12***		
	(2.42)	(2.51)	(4.11)		
Rel_acq^{5yr}				0.11***	
				(3.88)	
Rel_acq^{abs}					0.06***
					(3.32)
Observations	861,444	861,444	861,444	847,106	834,470
R-squared	0.03	0.07	0.40	0.39	0.39
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

▸ Back

Finding IIa - 2. Ignoring first deal

Dep. variable:	Initiation				
	(1)	(2)	(3)	(4)	(5)
Rel_acq_nofirst	0.07**	0.09**	0.15***		
	(2.35)	(2.35)	(3.88)		
Rel_acq_nofirst^{5yr}				0.14***	
				(3.61)	
Rel_acq_nofirst^{abs}					0.09***
					(3.63)
Observations	858,844	858,844	858,844	844,504	834,668
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

▸ Back

Finding IIa - 3. Different treatments

Dep. variable:	Initiation				
	(1)	(2)	(3)	(4)	(5)
Rel_acq	0.07**	0.09**	0.14***		
	(2.37)	(2.38)	(3.80)		
Rel_acq^{5yr}				0.12***	
				(3.56)	
Rel_acq^{abs}					0.07***
					(3.36)
Observations	861,444	861,444	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

Finding IIb - 1. Volume - Different treatment

	Log Deal Volume					
	(1)	(2)	(3)	(4)	(5)	(6)
Rel_acq	0.65***	0.72***	0.61***	0.30***		
	(8.62)	(4.09)	(5.18)	(3.80)		
Rel_acq^{5yr}					0.70***	
					(6.07)	
Rel_acq^{abs}						3.47***
						(6.58)
Observations	809,108	809,108	809,108	809,108	807,764	806,292
R-squared	0.07	0.14	0.16	0.51	0.16	0.16
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	No	No	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes	Yes	Yes

Finding IIb - Volume 2. First vs. repeat deals

Dep. variable:	Volume - First deal			Volume - Repeat deals		
	(1)	(2)	(3)	(4)	(5)	(6)
Rel_acq	0.81***			1.29***		
	(14.71)			(14.02)		
Rel_acq^{5yr}		0.96***			1.16***	
		(13.83)			(10.65)	
Rel_acq^{abs}			4.74***			1.65***
			(11.62)			(6.43)
Observations	930,913	929,477	927,926	930,913	929,477	927,926
R-squared	0.18	0.22	0.83	0.38	0.35	0.37
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
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

▸ Back

Finding IIb - Volume 3. Deal category

Dep. variable:	Log Deal Volume - Syndicated Loans				
	(1)	(2)	(3)	(4)	(5)
Rel_acq	0.33***	0.18	0.20**		
	(4.62)	(1.40)	(2.04)		
Rel_acq^{5yr}				0.37***	
				(3.06)	
Rel_acq^{abs}					1.84***
					(5.09)
Observations	574,769	574,769	574,769	574,032	573,293
R-squared	0.08	0.15	0.17	0.17	0.17
Year FE	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	No	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes	Yes

Finding IIb - Volume 3. Deal category

Dep. variable:	Log Deal Volume - Bonds				
	(1)	(2)	(3)	(4)	(5)
Rel_acq	0.45***	0.51***	0.43***		
	(5.31)	(5.02)	(6.66)		
Rel_acq^{5yr}				0.45***	
				(6.79)	
Rel_acq^{abs}					2.52***
					(4.75)
Observations	288,896	288,896	288,896	287,820	286,598
R-squared	0.14	0.19	0.21	0.21	0.20
Year FE	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	No	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes	Yes

Finding IIb - Volume 3. Deal category

Dep. variable:	Log Deal Volume - SEOs				
	(1)	(2)	(3)	(4)	(5)
Rel_acq	0.12	0.09	0.02		
	(0.94)	(0.30)	(0.06)		
Rel_acq^{5yr}				0.11	
				(0.46)	
Rel_acq^{abs}					0.61
					(1.43)
Observations	201,741	201,741	201,741	201,330	200,873
R-squared	0.06	0.09	0.10	0.10	0.10
Year FE	Yes	Yes	No	Yes	Yes
Firm FE	Yes	No	No	No	No
Firm-Bank FE	No	Yes	Yes	Yes	Yes
Bank-Year FE	No	No	Yes	Yes	Yes

▸ Back