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

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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: D22, G21, G32.

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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.[1]

In Table 1, 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 almost four compared to the unconditional sample average of 5%.

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 the initiation of new relationships. Thus, we can rule 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. Table 2 shows that, after scooping a banker, the deal volume at the given bank increases on average by 5%.

Taken together, these results stress the importance of bankers in the formation of re-

[1]There is a small but growing literature that examines the bankers directly, e.g., Gao, Kleiner, and Pacelli (2020) looks at the career impact of mediating a loan that later defaulted and Herpfer (2018) examines the impact of relationships on loan terms.

lationships between banks and their clients. We are currently undertaking analyses that seek to understand if the bankers that are poached are also those with the most attractive portfolio of relationships. Moreover, we plan to ask whether the clients that switch are those that rely most on the relationship with the banker, e.g., because they are opaque or would otherwise face difficulties in raising new loans. Finally, we take the perspective of the firms and ask if the borrowing terms improve or decline after a switch.

Table 1: 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 identifies new bank-borrower relationship as well as clients with whom the bank had no interaction in the past 5 years. The sample is at the bank-borrower-year level and spans from 1996 to 2013. Deals include bond and SEO underwriting as well as M&A advisory deals as well as syndicated loans retrieved from Dealscan. The former deals are retrieved from CapitalIQ. 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:	Initiation		
	(1)	(2)	(3)
Rel_acq	0.27***	0.28***	0.17***
	(11.43)	(8.95)	(6.00)
Observations	933,366	933,326	821,266
R-squared	0.02	0.04	0.39
Year FE	Yes	Yes	No
Firm FE	Yes	No	No
Firm-Bank FE	No	Yes	Yes
Bank-Year FE	No	No	Yes
Firm-Year FE	No	No	Yes

Table 2: 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 dependent variable identifies new bank-borrower relationship as well as clients with whom the bank had no interaction in the past 5 years. The sample is the same as in Table 1. 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)
Rel_acq	4.98***	5.20***	2.98***
	(44.00)	(20.99)	(10.90)
Observations	924,238	924,197	812,051
R-squared	0.08	0.14	0.51
Year FE	Yes	Yes	No
Firm FE	Yes	No	No
Firm-Bank FE	No	Yes	Yes
Bank-Year FE	No	No	Yes
Firm-Year FE	No	No	Yes

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