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 almost twice 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 bring an increase in deal volume of 0.66% across the various product groups. Bankers that close more deals, especially with clients for whom they are the only relationship manager, are more likely to switch.

JEL Classifications: D22, G21, G32.

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To Do meeting Zurich March 6:

1. Regression "switching likelihood"
   - move from banker-bank-year to banker-year structure
   - Identify first year after move as "switched"
   - generate one-period lagged values for no. deals, no. clients etc
   - run reg as: reg switched on no. clients etc
2. Main specs
   - collapse sample into pre-post switch for each banker as in Bertrand manage with style to address issue of censoring etc.
   - create some simple pictures of the data (with 0s and 1s) for the various variables Initiation strict: Define simply as initiation conditional on having seen this borrower before? Does not really make sense bc in order to be inside the "client list" the borrower must have been in the sample. Currently : consider only second loan between a borrower and bank, i.e. repeat business? Should we clal it "initiation relationship"?
   - Can we require the banker to specifically sign the loan or is this stretching the data too much?
   - check deal volume in US or % of assets?
3. Cross section
   - cross section of banks: which banks more pronounced? Big Bnaks? Small Banks? International banks?
   - cross section of firms: large firms? small firms? more opaque firms(junk rated, high intangibles, high r and d)?
   - cross-cross section: small bnak-small firm, small bnak large firm, large bank large firm?

Misc: Show some basic stats under table: mean of dependent variable (to judge coefficient), maybe number of treated years/firms?

1 Comments

1.1 09 Apr 2020 - Brown Bag Zurich

1.1.1 Steven and seminar participants

- Define relationship early on (e.g., in Boot JFI 2000 there is a definition; but also in my review paper with David Smith - https://pure.uvt.nl/ws/portalfiles/portal/320078/ongena.pdfhere we make an attempt, then operationalize
- What is switching, if you have single vs multiple banks? Define switching early on? Tricky. (e.g. what happens when you have a firm that is connected with multiple banks?)
- Legal constraints on switching bank and taking clients (ok, but this works against us finding anything. However, do these constraints really exist?)
- Jon Smith maybe be multiple people (Christoph: You certainly received this comment already, how do you deal with it?) SO: Although in the US they then often also say Jon Smith Jr the IV etc
- Firms that borrow a little will more easily become a relationship firm
- Why not a continuous variable for relationship strength (no. deals with client)? Why non-linear findings? Weired that there is nothing for the 6+ clients. Cutoff seems arbitrary (either use median or other dichotomous differentiation)
- Run #Deals and Seniority concurrently (the more senior you are, the more deals you're likely to close)
- Have statistics on the number of observations, distributions? Lots of zeros concern (collinearity)

- Size of the borrower may matter? When large, more business will be brought over, but firm may be also less opaque (hence lower info rents). Maybe differentiate btw firms with credit ratings? The same holds for banks: When a bank is diversified, probability of cross-selling higher, value of rel acquired larger
- Firms may borrow concurrently from multiple banks?
- Lead banks? Clearly differentiate the effect for the clients where the connection comes from deals where the banker was lead and those where the banker was only participant
- Is the old bank losing the relationship? Would be cool to have a measure of how much business is lost through the banker leaving. Maybe, the "hole" is take care of by new bankers?
- The review slide on the bankers was less clear, but maybe also because I do not these papers so well; show even better the differences?
- Maybe use even more descriptive variable names: the clearer the better, even if the name is a bit longer (no problem in terms of loss of column or text space)
- Maybe make figure with treatment / variable definitions, to the extent possible and to clarify even swifter
- Distributions? Multicollinearity?

1.1.2 Other comments

- Finds it particularly interesting to look at the cultural distance between the borrowers and the banker
- Low trust cultures value relationships more compared to high trust cultures (where banking is more transactional). Maybe these connections are more important and more likely to be brought over. Also, match cultures at the CFO/CEO level with the banker level. You can get information on the country of origin using banker names, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3153900see here. However, is there enough variation in the bankers' data?

- Use bank mergers as exogenous variation - when two banks merge that cover the same clients, one of the bankers is more likely to go.
- Use the no. of M&A deals that a firm closed in the past as proxy for client attractiveness. Requiring volumes might limit the sample size too much.
- Is getting data from Dealogic possible? They are the ones that make bankers' league tables.
- Change estimation method from LPM to (...) and show that findings are consistent when using less FEs (?)
- Reason for switching is in the first place bank profitability. Problem is that you want to isolate bankers' past success while keeping constant the *profitability of the bank*. [Shouldn't this be sort of taken care of by the bank $\times$ yr FEs?]
- Look at the issue of the bankers switching as if it were a tournament. How long you play is related to how much you win. Problem is to find out who your control group is, since you observe only the winners (i.e., those that win the mandates). See e.g. https://www.sciencedirect.com/science/article/pii/S0304405X19301370?dgcid=author (?)
- Possible identification: look at UBS who gets bailed out and can't pay any bonuses. This will make it more likely that bankers leave.
- Ideally, you want to separate value from profit (is it possible?)
- You could use league tables as a way to find out who the peer group for the bankers is
- Ultimately, what is the question of the paper? Do the results make sense and are they interesting? Not surprised that the clients follow the banker. Do you want to make it a labor paper? If yes, how are you going to identify it? Tough sell since you know too little about the bankers.