

The Effects of Bank Mergers on Interest and Non-Interest Costs

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Sort Summary of the Paper

- Research question:
Do bank mergers lead to lower costs and prices?
- Data: 1,700 US bank mergers between 1987-2001

Methodology

- Sort of an event study.
- Compare the Interest Expenses to peer banks before and after the merger.
- Change in Relative Interest Expenses

$$CRIE = (X_A^i - X_A^{PEER}) - (X_B^i - X_B^{PEER})$$

Findings

1. Mergers reduce non-interest expenses particularly for labor.
2. Interest expenses increase by roughly 20 cents per dollar of non-interest cost reduction.
3. Reduced non-interest expenses led to reduced total deposits, especially reduced transaction and savings deposits.
4. Small and big banks has different responses

Literature Review

- Previous studies typically find that mergers lead to less competitive pricing.

- Focarelli and Panetta AER 2003

Different short run versus long run effect

Zhou (2008), structural model of US bank mergers

Comments

- Selections of peers
- Endogeneity
- Size effects
- Time dummies

Selection of Peers

- How the before merger interest expense was computed?
- Changes in competition effects filtered out but at a different extent
- Look for longer run effects like Focarelli and Panetta?

Endogeneity

- Accounting method is endogenous choice of management.
- It can be correlated with shocks to goodwill or fixed assets.

Size effects

- Control not only for the acquiring firms' size but also for the size of the combined firm.
- Have you tried cross-products of size and interest rates variables?

Time Dummies

- Many changes in regulation between 1987-2001. Time dummies should be included.