

Regulatory Asset Thresholds and Acquisition Activity in the Banking Industry

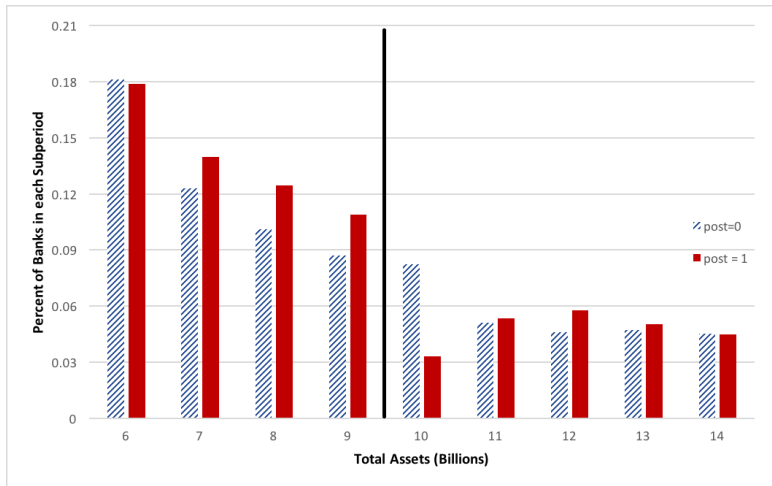
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- ▶ How do regulatory compliance costs associated with the use of bright line asset thresholds in bank regulation affect the demand for acquisitions by banks right around the threshold?
 - ▶ Do banks right around the threshold increase acquisition frequency?
 - ▶ Does the deal premium increase for acquisitions made by banks right around the threshold?

- ▶ Significant requirements at \$10 billion threshold
 - ▶ Company-run stress testing
 - ▶ Consumer Financial Protection Bureau (CFPB) oversight
 - ▶ Durbin Amendment
- ▶ Large increase in regulatory costs for banks just above the threshold may incentivize acquisition activity.
 - ▶ Banks have incentives to maintain different financial statement ratios.
 - ▶ Engaging in an acquisition allows banks to spread the regulatory costs over a larger asset base.

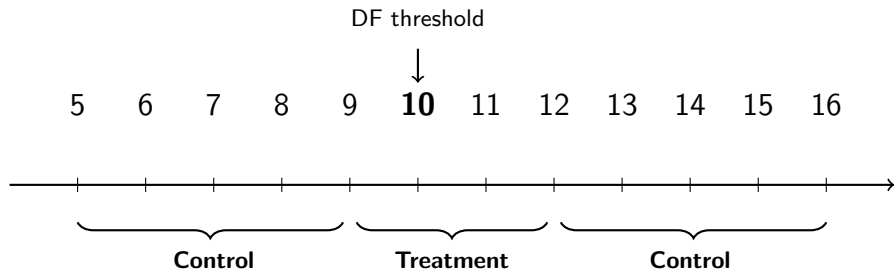


- ▶ Anecdotal evidence suggests banks are engaging in acquisition activity in response to the increased regulatory costs.
 - ▶ “The \$10 billion sweet spot is proving a boon to regional-bank mergers and acquisitions as small institutions say they need to be bigger to swallow costs to comply with the new financial rules.” – Bloomberg
- ▶ Asset thresholds are frequently used in banking regulation.
- ▶ Disappearance of regional and community banks in the United States is an area of interest (e.g., Lux and Greene, 2015).

- ▶ Compare acquisition activity for banks right around the threshold (\$9-12B) in 2011 - 2016 (post-DF period) to the activity in 2003 - 2008 (pre-DF period).

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- ▶ Benchmark this change against banks that are further from the threshold.

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Results: Likelihood of an Acquisition

VARIABLES	(1) <i>Acquire</i>	(2) <i>Acquire</i>
<i>Treat</i>	-0.353 (0.301)	-0.018 (0.019)
<i>Post</i>	0.024 (0.173)	
<i>Treat * Post</i>	0.792** (0.367)	0.056** (0.028)
Controls	Yes	Yes
Year Fixed Effects	No	Yes
Observations	3,415	3,415
R-squared / Psuedo R-Sq	0.058	0.037
Estimation	Logit	OLS

VARIABLES	(1) <i>Goodwill</i>	(2) <i>Goodwill</i>
<i>Treat</i>	-0.053 (0.100)	-0.034 (0.076)
<i>Post</i>	-0.154*** (0.058)	
<i>Treat * Post</i>	0.257* (0.160)	0.238* (0.153)
Controls	Yes	Yes
Year Fixed Effects	No	Yes
Observations	268	268
R-squared / Psuedo R-Sq	0.188	0.241
Estimation	Tobit	OLS

Results: Relative Size of Targets

VARIABLES	(1) <i>Rel_Size</i>	(2) <i>Rel_Size</i>
<i>Treat</i>	-0.044** (0.019)	-0.038** (0.018)
<i>Post</i>	0.044** (0.021)	
<i>Treat * Post</i>	0.063* (0.039)	0.052* (0.039)
Controls	Yes	Yes
Year Fixed Effects	No	Yes
Observations	268	268
R-squared	0.110	0.151

- ▶ Deposits are a significant source of financing and are used to fund assets
- ▶ Possible mechanism to avoid compliance costs is by slowing deposit growth
- ▶ Reduces demand for deposits by banks with total assets just below the threshold

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- ▶ Possible mechanism to avoid compliance costs is by slowing deposit growth
- ▶ Reduces demand for deposits by banks with total assets just below the threshold
 - ▶ The deposit growth rate decreases for banks just below the threshold
 - ▶ The interest rate paid on deposit accounts decreases for banks just below the threshold

Results: Deposits Tests

VARIABLES	(1) <i>Dep_Growth</i>	(2) <i>Dep_Growth</i>	(3) <i>Dep_Interest</i>	(4) <i>Dep_Interest</i>
<i>Treat_D</i>	0.279 (0.237)	0.321 (0.247)	0.068*** (0.022)	0.054** (0.022)
<i>Post</i>	-0.370 (0.347)		-0.130*** (0.018)	
<i>Treat_D * Post</i>	-0.636** (0.336)	-0.753** (0.334)	-0.069*** (0.025)	-0.055** (0.025)
Controls	Yes	Yes	Yes	Yes
Year Fixed Effects	No	Yes	No	Yes
Observations	3,160	3,160	3,160	3,160
R-squared	0.060	0.075	0.827	0.839

- ▶ Document evidence consistent with increased demand for acquisitions by banks surrounding the \$10 billion asset threshold following the announcement of Dodd-Frank.
- ▶ Suggests that the use of thresholds in bank regulation may contribute to consolidation in the banking industry.
- ▶ Furthers our understanding of the effect of regulations on bank economic decisions and the determinants of acquisition activity in the banking industry.