IWH
Leibniz-Institut für
Wirtschaftsforschung Halle

IWH Research Seminar in Economics

Montag, 16. Oktober 2017, 14:15 – 15:45 Uhr, Konferenzsaal im Erdgeschoss

Does Bank Supervision Matter? Evidence from Regulatory Office Closures

Professor Jens Hagendorff, The University of Edinburgh

We use a quasi-natural experiment to identify the effects of supervision on bank behavior. Under the decentralized structure of U.S. bank supervision, banks in the same geographic area may be supervised by different regulatory offices. We show that, following the closure of a regulatory office, banks previously supervised by that office increase their solvency risk and loan book compared with banks in the same counties that are supervised by a different regulatory office. Further, these banks exhibit lower risk-adjusted returns, lower asset quality, and opportunistic provisioning behavior for loan losses. Information asymmetry between banks and supervisors partly explains the results.

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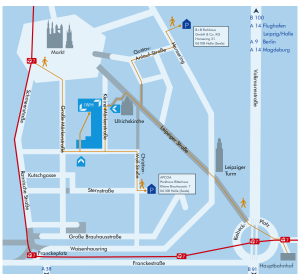

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