2022 Banking and Financial Stability Meeting

Conference Schedule

Venue
College of Business and Economics, Australian National University
Allan Barton Forum, 1st Floor, Building 26C Kingsley Street
Canberra ACT 2601

Tuesday 20 September

12:30pm-1:15pm	Lunch
1:15pm-1:30pm	Opening Remarks & Welcome to Country
1:30pm-3:00pm	Session 1
3:00pm-3:30pm	Afternoon tea
3:30pm-5:00pm	Session 2
6:00pm	Drinks and dinner @ Monster Kitchen & Bar 25 Edinburgh Ave, Canberra ACT (website)

Wednesday 21 September

9:00am-10:30am	Session 3
10:30am-11:00am	Morning tea
11:00am-12:30pm	Session 4
12:30pm-1:30pm	Lunch and farewell

1:30pm-3:00pm	Early Career Researcher Workshop
3:00pm-4:00pm	Afternoon tea

Register for the event here

Conference Program

<u>Tuesday 20 September</u>

12:30pm-1:15pm	Lunch
1:15pm-1:30pm	Opening Remarks & Welcome to Country
<u>Session 1</u>	**Chair:** Hassan Naqvi, Monash University
1:30pm-2:15pm	**Title:** Informed lending **Presenter:** Kristle Romero Cortés, UNSW **Discussant:** Isaac Pan, University of Sydney
2:15pm-3:00pm	**Title:** Lone (loan) wolf pack risk **Presenter:** Mingze Gao, University of Sydney **Discussant:** Eden Zhang, Monash University
3:00pm-3:30pm	Afternoon tea break
<u>Session 2</u>	**Chair:** Phong Ngo, Australian National University
3:30pm-5:00pm	**Key Note Speaker:** Bo Becker, Stockholm School of Economics **Title:** Development of Corporate Credit Markets
6:00pm	Drinks and dinner @ Monster Kitchen & Bar

<u>Wednesday 21 September</u>

<u>Session 3</u>	**Chair:** Van Vu, RMIT
9:00am-9:45am	**Title:** Bank dividend and earnings management: International evidence **Presenter:** Mamiza Haq, Curtin Business School **Discussant:** Eliza Wu, University of Sydney
9:45am-10:30am	**Title:** The shadow cost of collateral **Presenter:** Terry Pan, Macquarie University **Discussant:** Kentaro Asai, Australian National University
10:30am-11:00am	Morning tea break

<u>**Session 4**</u>	**Chair:** Kelly Liu, Australian National University
11:00am-11:45pm	**Title:** The deposit channel of fiscal policy **Presenter:** Alessio Galluzzi, University of Sydney **Discussant:** Thomas Matthys, University of Technology Sydney
11:45pm-12:30pm	**Title:** Are demographics responsible for the declining interest rates? Evidence from U.S. metropolitan areas **Presenter:** Terry Zhang, Australian National University **Discussant:** Mei Dong, University of Melbourne
12:30pm-1:30pm	Lunch and farewell

<u>**Early Career Researcher Workshop**</u>

1:30pm-3:00pm	**Title:** How to publish and boost your career **Speakers:** Antje Berndt, Bruce Grundy, Kristle Cortés and Phong Ngo
3:00pm-4:00pm	Afternoon tea & networking

Abstracts

Informed lending

Kristle Romero Cortés

This paper shows that mortgage lenders with a physical presence near the property being financed have better information about home-price fundamentals than non-local lenders. Within lender, loan origination and retention decrease when the lender has a branch and the area experiences high home price appreciation. Across markets, local loans decrease from 2002-06 as home prices rise. Where local loans were made, home prices fell less from 2006-09. A standard deviation increase in local loans is associated with 5 fewer foreclosures per one thousand homes. The results for housing prices and foreclosures are even stronger when lenders retain the loans.

Lone (loan) wolf pack risk

Mingze Gao, Iftekhar Hassan, Buhui Qiu and Eliza Wu

We propose an early-warning bank risk measure based on bank syndicate concentration across all newly originated syndicated loans that a bank participates in over the recent period. At the bank level, higher value of bank syndicate concentration predicts, for at least three years ahead, increasing bank risks (i.e., loan loss provisions, idiosyncratic return volatility, default probability, and frequency of lawsuits as a defendant) and lower bank profitability, more so for opaque and complex banks, and is related to lower bank valuation. We also find that banks that fail the Federal Reserve's forward-looking stress tests exhibit a reduction in bank syndicate concentration relative to control banks after the stress-test-failure shocks, further validating bank syndicate concentration as an early-warning risk measure. At the aggregate level, higher syndicate concentrations within the financial system predicts greater financial sector risks and future economic slowdowns measured by both inputs and outputs, such as private-sector investment, business activity, total factor productivity, industrial production, and gross domestic product.

Bank dividend and earnings management: International evidence

Mamiza Haq Juying Pu

We investigate the impact of dividend policy on earnings management in the banking industry in an international setting over 1996 and 2019 period. On an average, our findings show that high dividend payments reduce earnings management to mitigate agency problem, thereby, facilitating external finance. The result indicate that high dividend payouts mitigate earnings management, especially for well-capitalised banks and for non-listed banks. Investor protection and government regulation tend to strengthen the association between earnings management and dividend pay-out. Our results are robust to several specifications.

The shadow cost of collateral

Guangqian Pan, Zheyao Pan and Kairong Xiao

Existing literature has highlighted the benefits of collateral in mitigating external financing frictions. However, we find that firms face a substantial cost to pledge collateral by exploiting a regulatory quirk of the disaster loan program of the Small Business Administration (SBA). A bunching estimation shows that the collateral cost is in the same magnitude as the interest rate differential between secured and unsecured debt. Moreover, the collateral cost varies across collateral types, business sectors, and collateral laws in ways consistent with theories where pledging collateral constrains firms' flexibility. Our finding suggests that a pecking order between secured and unsecured borrowing may not hold. Instead, a trade-off theory may best characterize the secured borrowing decision. The collateral trade-off has important implications for firms' financing decisions, the financial accelerator mechanism, and the design of government lending programs.

The deposit channel of fiscal policy

Alessio Galluzzi, Xin Liu and Guangqian Pan

Using a novel bank-specific state tax rate dataset in the United States, we explore how banks pass through their tax burdens to depositors in a quasi-experimental setting. Specifically, we examine the bank branch's deposit rates near the borders of states that experienced tax changes. We find that a one percentage point increase in the tax rate generates a decrease in bank's deposit rate by four to five basis points, but the change would not affect credit unions. After controlling for competition at the county level, we observe that the bank's pass-through of tax burdens is stronger in counties where banks compete less. Using a simple model, we suggest tax-induced competition environment is the primary driver of the fiscal policy pass-through for banks. While local competition mitigates banks' tax pass-through to depositors, raising tax would also erode local competition.

Are demographics responsible for the declining interest rates? Evidence from U.S. metropolitan areas

Jack Favilukis, Jinfei Sheng and Terry Zhang

Interest rates have declined dramatically over the past 30 years. At the same time the birth rate has decreased, and life expectancy has increased. Demographic changes leading to an older population have been proposed as an explanation for the decline in rates. However, this conjecture is difficult to test because demographics change slowly over time, and are correlated with other country characteristics. We show that in a cross-section of U.S. MSAs, the relationship between interest rates and demographics is only partially consistent with the above conjecture, and with existing models, which predict a negative association between age and interest rates. This association is, indeed, negative for lending rates, but positive for deposit rates. We rationalize this pattern by extending an OLG model where the banking sector is not perfectly competitive.