The valuation effects of the geographic diversificaiton of U.S. Banks
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Goals of the paper

- Two goals:
  - Provide an exogenous instruments to evaluate impact of geographical diversification on value (q measure)
  - Provide a possible suggestion for the negative impact on value

First Goal

- Exogenous instruments on geographical diversification:
  - Time evolution of lifting restrictions in cross-State banking activity (ownership)
- Nice measure
  - in principle exogenous
    - ¿is it exogenous to cross-State banking activity?
  - Extent of time variation is not so clear

Result on Goal 1:

- Larger banks, with higher q, more likely to have cross-border activity
- Negative correlation between cross-State subsidiary activity and firm value (q) once instrumented.
- This correlation is robust to instrument choice, and more quantitatively important with the gravity model.

Some Limitations

- Data Variation: 1986 to 2007
- Instrument variation: from 87-94
- In 1994 (Riegle-Neal Act) all restrictions eliminated at the federal level
- Figure 2: Massachussetts– most liberalization prior to 1993.
- Most time variability comes from "years since deregulation"
- Non linearity in other controls: Size and growth may have similar effects

Additional limitations:

- State willingness to deregulate dependent on the performance of banks from the State
- How important is the de-regulation? Was there cross-border business prior to establishing a subsidiary? How important is the additional business?
- Gravity model based on population? Why not on intensity of interstate commercial flows?

Second Goal

- Test for underlying causes of fall in q:
  - Agency Problems:
    - Loans to officers of the bank Subsidiary
    - Share of non Performing Loans

- Resutls apparently consistent:
  - Subsidiaries have higher likelihood of providing loans to officers.
  - Higher share of non-performing loans.

Some Limitations

- Many models can provide value generating arguments consistent with these results that are not linked to agency problems
  - Loans to officers – growth and larger firms in a more diversified environment (different from within state growth?)
  - Non-Performing Loans: “liability of foreigners”, search for new customers, barriers to entry

What should be the interpretation:

- Pro competitive: "the results suggest that if NJ were to obtain free access from all other US states, average q will drop by 5%"
- Value enhancing: counterfactual of not cross-border expansion may imply even lower q (what happens to banks that fail?)
- Rent-seeking/efficiency loss:

Result on Goal 2 a bit further:

- **Why is this different across states?**
  - Should this not happen within state as well (large vs. Small banks), multibusiness-monoliners
  - What is the value of state diversification

- **Could there also be value enhancing effects:**
  - Banks with higher q more likely to diversify
  - Acquisitions may enhance q-value of bank acquired

Pushing for further work:

- Lots of literature on cross-border effects of multinational banks:
  - Ability to move liquidity
  - Transmission of best practices
  - Contagion from country specific shocks and global transmission of shocks
- Any evidence along these lines from U.S. banking integration/deregulation will be useful!