Discussion of: “Why Did Some Banks Perform Better during the Credit Crisis?”
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Overview

• Was the crisis special or structural?
• Many assertions, little evidence.
  – Bad incentives?
  – Short-term funding?
  – Corporate governance?
  – Bank regulation too lax?
  – Capital too low?
• What explains the cross-section performance of international banks during the crisis?
Sample

• Sample: Panel of international banks with >$10 billion in assets in 2006. (N=1,245)
• Further: loan/assets > 10%; deposit/asset > 20% (e.g., rules out Northern Rock. N=442.
• Banks with assets > $50 billion → N=98.
• Caveats:
  – No U.S. investment banks; no non-bank banks (e.g., GMAC; CIT).
  – Some important data limitations;
  – Governments intervene, distorting returns.
The Experiment

• Regression (pure panel);

\[ \text{Stock returns}_{\text{crisis}} = 2006 \text{ characteristics} + \text{error} \]

• Characteristics include measure of capital; governance characteristics; regulation indices; etc.
Highlights of Results

• Banks that relied more heavily on deposit financing in 2006 fared better.
• Differences in bank regulation do not really matter.
  – Tighter regulation not associated with better performance.
  – Banks in countries with deposit insurance did not perform worse.
• Poor governance not that important.
  – Banks with shareholder-friendly boards performed worse and were not less risky.
  – Blockholder presence not important.
• Banks in countries that were importers of capital did not perform worse.
Some Surprising Results

• Worst performing banks more diversified and had less ex ante risk.

• Banks that performed better in 2006 did worse in the crisis.

• Banks with SIV exposure not worse.
Comment 1: Governance

- There is no theory that says that “bad governance” leads to risk-taking.
- Must be “moral hazard” – but no deposit insurance at investment banks (deposit insurance not significant anyway).
- No support incentives conflicts. But, no measures of compensation.
- Tentative conclusion – hard to find evidence of incentives problems.
Comment 2: Crisis

• What does this tell us about the crisis?
• Not about causes. But, arguments that “the fragility of banks financed with short-term funds raised in the money markets are strongly supported by our empirical work.” Not so clear.
• He, Khang, Krishnamurthy (2010) – U.S. commercial bank balance sheets grew during the crisis. What about this sample?
Comment 3: Real Effects and Bank Failures

• Why not look at loan growth? Which banks made more loans?

• Banks failed during the crisis – tricky to define – these are (presumably) excluded. Look at this group?
Final Thoughts

• Much to do to try to refine these conclusions, but a fantastic start!

• Full speed ahead!