

Project Title:

A Study of Consolidations between Banks and Non-Banks: Motivations and Consequences

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Project Summary:

This study focuses on the reasons for and the implications of banks' decisions to acquire non-bank financial service firms (non-banks). The choice to acquire non-banks is driven by both external forces such as deregulation and regulatory capital and by internal forces such as a diversification strategy and efforts to enhance revenue and return to equity holders. We find that whereas the impact of acquiring non-banks increases their non-interest income, it also increases their non-interest expense. The net effect of choosing non-bank acquisitions lowers their subsequent return on assets, market value, and stock returns, as well as increasing their risk. However, the non-bank acquisitions do significantly increase the acquiring banks top executives' subsequent compensation. We conclude that non-bank acquisitions are driven by both regulatory and strategic forces within the banking industry. However, such acquisitions manifest into agency problems.

Publications:

N/A

Presentations:

Presented at 2008 Financial Management Association Annual Conference, Dallas, Texas.