

Finance Research Seminar

“Lobbying and the Resolution of Failed Banks”

Thomas Lambert (Erasmus University Rotterdam)

Tuesday, March 21st, 2017 // 14:00 – 16:00

Abstract:

This paper studies how bank lobbying activities affect the allocation of failed banks during the Great Recession. From failed bank auctions, we find that lobbying increases a bidder's probability of winning by 22.7 percent. This result is robust across measures of lobbying, and holds after controlling for endogeneity. The cost of the misallocation due to lobbying is substantial and is estimated at \$8.3 billion for the Deposit Insurance Fund, which is equal to 18.6 percent of the total resolution losses. We also show that the post-merger operating performance is lower for lobbying banks than for other banks, suggesting that lobbying results in a less efficient allocation of failed banks. Our results provide new insights into the bank resolution process and its political economy.

- **Lille: Room B252**, B-building, 3 rue de la Digue, 59000 Lille
- **Paris: Visio Room H409**, 40 passage de l'Arche, Paris La Défense