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## Are Bank Holding Companies a Source of Strength to Their Banking Subsidiaries?

32 Pages

Posted: 23 Sep 2004

Adam B. Ashcraft ([https://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=282089](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=282089))

Federal Reserve Bank of New York

Date Written: June 2004

### Abstract

I present evidence that the cross-guarantee authority granted to the FDIC by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 has unexpectedly strengthened the Federal Reserve's source-of-strength doctrine. In particular, I find that a bank affiliated with a multi-bank holding company is significantly safer than either a stand-alone bank or a bank affiliated with a one-bank holding company. Not only does affiliation reduce the probability of future financial distress, but distressed affiliated banks are more likely to receive capital injections and recover more quickly than other banks. Moreover, the effects of affiliation are strengthened for an expanding bank holding company. However, the effects of affiliation are weakened when the parent has less than full ownership of the subsidiary. Most interestingly, my results show that these differences in behavior across affiliation did not exist before 1989, when the cross-guarantee authority was introduced.

**Keywords:** cross-guarantee provision, source-of-strength doctrine, bank capital regulation**JEL Classification:** G21, G28, G32[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN\\_ID594882\\_code387943.pdf?abstractid=594882&mirid=1\)](#)[Open PDF in Browser \(Delivery.cfm/SSRN\\_ID594882\\_code387943.pdf?abstractid=594882&mirid=1&type=2\)](#)

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