Bank structure and failure during the financial crisis

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Abstract

Purpose

This paper aims to examine the impact of charter type (national vs state), holding company structure, and measures of bank fragility on the likelihood of bank failure during the late 2000s financial crisis.

Design/methodology/approach

The study estimates a series of logit regressions in an effort to identify the causes of failure and assess the role of the bank-level characteristics while controlling for the economic and regulatory environment.

Findings

The empirical results indicate that established institutions were more likely to fail, dependent upon whether a bank received bailout funds or not, if they were relatively large, had relatively low capital ratios, had relatively low liquidity, relied more heavily on brokered deposits, held a relatively large portfolio of real estate loans, had a relatively large proportion of non performing loans, and had less income diversity. Consistent with being financially fragile, de novo banks and those banks that grew substantially prior to the crisis faced an increased likelihood of failure relative to established banks. However, capital levels were not significantly related to the likelihood of failure in de novo institutions.

Originality/value

This paper provides a comprehensive analysis of the which the business model decisions made by bank managers have an impact on the stability of the banking system.

Keywords

Bank structure
Bank failure
Financial crisis
Banks
Banking
Business failures
Financial risk

Citation

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