

Accepted Manuscript

Title: Systematic Risk Factors and Bank Failures

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PII: S0148-6195(17)30190-X

DOI: <https://doi.org/10.1016/j.jeconbus.2018.05.001>

Reference: JEB 5809

To appear in: *Journal of Economics and Business*

Received date: 9-8-2017

Revised date: 7-4-2018

Accepted date: 2-5-2018

Please cite this article as: Sun J, Wu D, Zhao X, Systematic Risk Factors and Bank Failures, *Journal of Economics and Business* (2018), <https://doi.org/10.1016/j.jeconbus.2018.05.001>

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Systematic Risk Factors and Bank Failures

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Office of the Comptroller of the Currency

March 2018

Highlights

- Local housing market conditions contributed to bank failures.
- Interbank funding market conditions strongly contributed to post 2008 bank failures.
- Banking crises seemed to be driven by episode-specific risk factors.
- Finding the right systematic risk factors for the next banking crisis can be hard.
- Correctly gauging the impact of systematic factors on bank failures is challenging.

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We wish to thank two anonymous referees, Filippo Occhino, Min Qi, James Thomson, Mark Wu, and seminar participants at the Financial Management Association 2016 annual meetings; the 2016 International Banking, Economics, and Finance Association annual conference; the Office of the Comptroller of the Currency; the Federal Reserve Bank of Chicago; and the University of Akron for valuable comments. We thank Matthew Reardon for his excellent research support. The views expressed in this paper are those of the authors and do not necessarily reflect those of the Office of the Comptroller of the Currency or the U.S. Department of the Treasury. The authors take responsibility for any errors.

Abstract

We investigate the impact on bank failures of two systematic risk factors—the stress in the interbank funding market and conditions in the local housing market—in the two banking crises during the period

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