Accepted Manuscript

When Time Is Not on Our Side: The Costs of Regulatory Forbearance in the Closure of Insolvent Banks

Rebel A. Cole , Lawrence J. White , "If you snooze, you lose." – a popular saying

PII: S0378-4266(17)30066-3
DOI: 10.1016/j.jbankfin.2017.03.010
Reference: JBF 5114

To appear in: *Journal of Banking and Finance*

Received date: 19 February 2016
Revised date: 2 March 2017
Accepted date: 16 March 2017

Please cite this article as: Rebel A. Cole , Lawrence J. White , "If you snooze, you lose." – a popular saying, When Time Is Not on Our Side: The Costs of Regulatory Forbearance in the Closure of Insolvent Banks, *Journal of Banking and Finance* (2017), doi: 10.1016/j.jbankfin.2017.03.010

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

ACCEPTED MANUSCRIPT

When Time Is Not on Our Side: The Costs of Regulatory Forbearance in the Closure of Insolvent Banks

Rebel A. Cole*
Lawrence J. White**

"If you snooze, you lose." – a popular saying

*College of Business, Florida Atlantic University, 777 Glades Road--Kay Hall Room 134, Boca Raton, FL 33431; coler@fau.edu; 312-933-0584
**Stern School of Business, New York University, 44 West 4th Street, Room 7-65, New York, NY 10012; Lwhite@stern.nyu.edu; 212-998-0880

We thank Stephane Fourneaux, Alec Gevorkyan, Sean Hundtofte, Paul Kupiec, Seung Lee, Wook Sohn, Alexander Ufier, Gaiyan Zhang, two anonymous referees, an associate editor, and the managing editor Geert Bekaert for their helpful comments and suggestions. We also thank session participants at the Western Economic Association International Meetings in Hawaii, June 30, 2015; the Southern Economic Association Meetings in New Orleans, November 21, 2015, and in Washington, DC, November 21, 2016; the Chicago Financial Institutions Conference, March 28, 2016; the World Finance Conference in New York, NY, July 31, 2016, and in Dubai, UAE, December 14, 2016; the Quantitative Congress of the Federal Reserve Bank of Chicago, August 5, 2016; and the Southern Finance Association, November 17, 2016.

Abstract
In this paper, we empirically estimate the costs of delay in the FDIC's closures of 433 commercial banks between 2007 and 2014 based upon a counterfactual closure regime. We find that the costs of delay could have been as high as $18.5 billion, or 37% of the FDIC's estimated costs of closure of $49.8 billion. We think that these findings call for a more aggressive stance by bank regulators with respect to the provisions for loan losses and write-downs of banks' non-performing assets. More aggressive (and earlier) provisions and write-downs, or adoption of a capital ratio that penalizes nonperforming loans, would allow the concept of "prompt corrective action" (PCA) to play the role that it was meant to play in reducing FDIC losses from insolvent banks.

Keywords
Bank, bank failure; CAMELS; Commercial real estate; Failure cost; FDIC; Financial crisis; Forbearance; Insolvent
JEL codes
G17; G21; G28

I. Introduction.

During the years 2007 - 2014, 433 commercial banks and 77 savings institutions ("thrifts") were closed by U.S. bank regulators (see Figure 1). These closures (almost always due to insolvency) were costly to the Federal Deposit Insurance Corporation (FDIC), which was the deposit insurer for these 510 institutions: The FDIC has estimated that its closure costs totaled $77.5 billion: $49.8 billion for closing the commercial banks, and $27.7 billion for closing the thrifts.

Download English Version:

https://daneshyari.com/en/article/5088102

Download Persian Version:

https://daneshyari.com/article/5088102

Daneshyari.com