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Short-term safety or long-term failure? Empirical evidence of the impact of securitization on bank risk

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Abstract

Based on a sample of U.S. commercial banks from 2002 to 2012, this paper shows that bank loan securitization has a significant and positive impact on both Z-scores and the likelihood of bank failure, indicating a short-term risk reduction and a long-term risk increase effect. We also find disparate impacts between mortgage and non-mortgage securitization. Loan sale activities are found to have a similar impact to securitization.

JEL Classification: G10, G20, G21

Keywords: Securitization; Bank Risk; Bank Failure; Heckman Self-selection; Survival Analysis

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