Accepted Manuscript

Do universal banks finance riskier but more productive firms?

Daniel Neuhann, Farzad Saidi

PII: S0304-405X(18)30025-4
DOI: 10.1016/j.jfineco.2018.01.011
Reference: FINEC 2855

To appear in: *Journal of Financial Economics*

Received date: 31 October 2014
Revised date: 28 October 2016
Accepted date: 29 November 2016

Please cite this article as: Daniel Neuhann, Farzad Saidi, Do universal banks finance riskier but more productive firms?, *Journal of Financial Economics* (2018), doi: 10.1016/j.jfineco.2018.01.011

Do universal banks finance riskier but more productive firms? ☆

Daniel Neuhann[a], Farzad Saidi[b,*]

[a] *University of Texas at Austin, Department of Finance, McCombs School of Business, 2110 Speedway Stop B6600, Austin, TX 78712, USA*

[b] *Stockholm School of Economics, Swedish House of Finance, Drottninggatan 98, SE-111 60 Stockholm, Sweden*

Abstract

Using variation in bank scope generated by the stepwise repeal of the Glass-Steagall Act in the US, we show that the deregulation of universal banks allowed them to finance firms with 14% higher volatility. This increase in risk is compensated by lasting improvements in firms' total factor productivity of 3%. Using bank scope-expanding mergers to identify shocks to universal banks' private information about borrower firms, we provide evidence that informational economies of scope across loans and non-loan products account for the firm-level real effects of universal banking.

JEL classification: E20, G20, G21

Keywords: Universal banking, Financial deregulation, Bank scope, Firewalls, Cross-selling

---

☆We thank Bo Becker (discussant), Harold L. Cole, Alexandra Effenberger, Xavier Gabaix, Itay Goldstein (discussant), Alessandro Lizzeri, Ulrike Malmendier, David Martinez-Miera (discussant), Hamid Mehran, Anthony Saunders, Philipp Schnabl, Sophie Shive (discussant), Per Strömberg, Vikrant Vig, Alexander Wagner, Jeffrey Wurgler and Alminas Žaldokas, as well as seminar participants at New York University Stern School of Business, New York University (Department of Economics), Federal Reserve Bank of Boston, HEC Paris, London Business School, Cambridge Judge Business School, University of Cambridge (Faculty of Economics), Stockholm School of Economics, Brown University, Federal Reserve Bank of New York, University of Illinois at Urbana-Champaign, Federal Reserve Board of Governors, Federal Reserve Bank of Philadelphia, Einaudi Institute for Economics and Finance Rome, Collegio Carlo Alberto, University of Amsterdam, University of Wisconsin at Madison, Brandeis University, the 2014 Federal Deposit Insurance Corporation and Journal of Financial Services Research Annual Bank Research Conference, the 2014 Annual Cambridge-Princeton Conference, the 2014 Bocconi-Center for Applied Research in Finance International Banking Conference, the 2015 European Winter Finance Conference, and the 2015 Swiss Winter Conference on Financial Intermediation for their comments and suggestions.

*Corresponding author. Email address: farzad.saidi@hhs.se (F. Saidi). Tel.: +46-8-736-9150; fax: +46-8-31-81-86.