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# The Impact of Expanded Bank Powers on Loan Portfolio Decisions

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Highlights:

- This paper analyzes the impact of the expansion into nontraditional banking activities on banks' loan portfolio management.
- The paper finds that increased risk exposure to nontraditional assets has a nontrivial impact on traditional loan portfolios and, in particular, on the supply of short-term credits.
- Confronted with the market-wide shock of the financial crisis, commercial-focused banks which hold larger amounts of risky nontraditional banking assets gravitate their loan portfolios away from business and consumer loan sectors.
- In the presence of an exogenous shock of the mandatory accounting guidelines of FAS No. 166 and 167, securitizer banks tend to reduce business credits substantially more due to pre-existing exposures to nontraditional assets on their balance sheets.
- Limitations on excessive nontraditional banking investments for banks may be effective in maintaining not only bank stability but also the availability of business and consumer lending in the banking industry.

**Abstract**

This paper investigates the impact of the integration of traditional and nontraditional banking activities on loan portfolio management at the consolidated level. The increased risk exposure to nontraditional banking assets, e.g., trading and merchant banking assets, has a nontrivial impact on traditional loan portfolios and, in particular, on the supply of short-term credits. The findings show that confronted with the market-wide shock of the financial crisis, commercial-focused banks which hold larger amounts of risky nontraditional banking assets gravitate their loan portfolios away from business and consumer loan sectors. The results from a quasi-natural experiment reveal that in response to an exogenous regulatory shock of FAS No. 166 and 167, which required banks to transfer off-balance sheet securitized loans onto bank balance sheets, securitizer banks tend to reduce business credits substantially more due to their pre-existing exposures to nontraditional assets.