Banks as Stewards

Abstract

Banks may play a more active role in corporate finance than previously documented. We document that banks hire industry experts and then steward firms to undertake investments in expansion (new to the firm) sectors. In supervisory data including detailed regulatory risk measures and granular loan-level industry attribution, expansion loans are double as likely to emerge in bank-firm potential pairs when the bank has a team of 2-3 deep industry experts, measured in PhDs and non-banking advanced degrees in Revelio/LinkedIn data. Results are robust to specifications that build off dynamic comparables strategies (Sun and Abraham (2021)), 'within-firm' (Khwaja and Mian (2008)) and 'within-bank' (Blickle et al. (2024)) analyses, and fully saturated bank-firm-time models (Paravisini et al. (2023)). Conceptualizing our setting, we frame that bank stewarding will be more prevalent when firms neglect expansion investment because of high discount rates. Empirically, the effect of bank expertise unlocking expansion loans is increasing in firms' short termism. Finally, we document the mechanism through loan pricing: banks with experts provide loans at 30-76 bps lower interest rates, with an annual value to firms of $3.3-$8.5 billion. Such expansion stewarding is likely most valuable in moments of transition for an industry. We corroborate our general expansion evidence in the context of firm expansion investments from the energy transition.
Active bank stewarding moves the literature beyond the classic view of banks as mere credit
providers.

This paper is joint work with Kristian Blickle and Parinitha Sastry.

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