

## Internet Appendix A21: Banking

### Figure A21.1 Illustrative Pitch Template Example on Bank Risk Exposure

(Reverse engineered pitch for Ziadeh-Mikati, N. 2013. Bank Risk Exposure, Bank Failure and Off Balance Sheet Activities: an Empirical Analysis for U.S. Commercial Banks. *SSRN working paper*, ID2080857)

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(A) Working Title	Bank Risk Exposure, Bank Failure and Off Balance Sheet Activities: an Empirical Analysis for U.S. Commercial Banks		
(B) Basic Research Question	How will off-balance sheet activities affect the banks' risk? Will the impact of different kinds of off-balance activities on the riskiness and health of a banking institution be different?		
(C) Key Papers	DeYoung, R., Torna, G. 2013. Non-traditional banking activities and bank failures during the financial crisis. <i>Journal of Financial Intermediation</i> 22, 397-421. (Note: This key paper was not published at the time of the draft and thus it was referred as DeYoung and Torna (2012) in the working paper.)		
(D) Motivation/Puzzle	The economic impact of off-balance sheet (OBS) activities is not easy to interpret. On one hand, diversification into non-traditional activities has been beneficial to the banking sector specifically by implementing an additional fee income or by constituting new technique for hedging specific risk (i.e. Santomero and Chung, 1992). On the other hand non-traditional activities did influence bank condition by increasing bank exposure to different types of risk and by creating bank incentives to take more risk. (i.e. Instefjord, 2005). Therefore, the puzzle of whether OBS activities will increase banks' riskiness and banks' failure provides the motivation of this study.		
<b>THREE</b>	<b>Three core aspects of any empirical research project. i.e. the "IDioTs" guide</b>		
(E) Idea?	Core Idea: The different types of OBS items present heterogeneous characteristics and thus could impact differently bank risk-taking and bank risk exposure. Therefore, this study divides the OBS activities into three categories: credit substitutes, derivatives and credit derivatives, and then test the relation between each types of OBS with banks' risk separately. Tension: Will different OBS activities have different impact on banks' risk and will the impact of OBS activities on bank riskiness differs according to the purpose behind holding such contracts?		
(F) Data?	<b>Country:</b> United States. Reason: The quarterly report of condition and income of each insured commercial bank in the U.S. is required to submit to the Federal Financial Institutions Examination Council (FFIEC). <b>Unit of Analysis:</b> Individual banks. <b>Observation Sampling:</b> Quarter. <b>Data Type:</b> Bank-specific. <b>Sample Period:</b> Q1-2001/Q4-2010. <b>Cross-sectional Size:</b> 9,766 US Commercial Bank. <b>Sample Size:</b> 295,294 bank quarter observations. <b>Data Sources:</b> the Federal Reserve Bank of Chicago's website: <a href="http://www.chicagofed.org/webpages/banking/financial_institution_reports/commercial_bank_data.cfm">http://www.chicagofed.org/webpages/banking/financial_institution_reports/commercial_bank_data.cfm</a> This is a reliable databases for high quality data samples, and it is widely used in banking research (i.e. DeYoung		

	<p>and Torna, 2013).</p> <p><b>Issues:</b> Following Berger and Bouwan (2009), the author only keep banks with all the following specifications:  1) the bank has loans outstanding, 2) the bank has commercial real estate and commercial and industrial loans outstanding, 3) the bank's total deposit is not null, 4) the bank has a positive equity capital, 5) the bank's total assets is not below \$25 million, 6) the unused commitments do not exceed four times total assets, 7) bank's total consumer loans do not exceed 50% of total assets.  After that, excluding 2.5% highest and lowest values of all the bank level variables.</p>
(G) Tools?	<p><b>Research model:</b> Fixed effects multiple linear regression models fitted by the ordinary least squares procedure (OLS) and t-statistics are corrected for heteroskedasticity following White's methodology.  Employing the <b>probit model</b> used by DeYoung and Torna (2013).</p>
<b>TWO</b>	<b>Two key questions</b>
(H) What's new?	<p>The idea of dividing the OBS activities into three categories (credit substitutes, derivatives and credit derivatives) is quite new and innovative, as different types of OBS items present heterogeneous characteristics.  The measure of banks' failure is quite new, which is based on the reasons of termination of an entity (RSSD 9061) mentioned in call reports for US banks.</p>
(I) So what?	<p>This study is one of the first studies that examine the role of different OBS activities in the hundreds of U.S. commercial bank failures during the financial crisis, therefore, the results of this study provide a broader understanding for regulators and policymakers regarding the relevance of different types of off-balance sheet activities on financial systems.</p>
<b>ONE</b>	<b>One Bottom line</b>
(J) Contribution	<p><b>Key contribution:</b> This study takes in consideration different types of OBS activities and tests their respective implication on different types of bank risk as well as banks' failure.  <b>Additional:</b> This study will also differentiate the impact of derivatives used for trading and speculating issues and those used for hedging purposes.</p>
(K) Other considerations	<p><b>Target Journal:</b> A good "A" journal. Realistic? Yes, given Mayordomo, Rodriguez-Moreno, and Pena (2014).  <b>Risks:</b>  Moderate risk: the face value of derivatives could be very different from their market value, for example, the market value of over-the-counter derivatives securities in US banks was only about 3% of the face value in 2008 (Saunders and Cornett, 2011)  Moderate to high risk: Competitors; it is a quite topical and crowded research space.</p>