Lecture on

"Non-core Liabilities and Bank Risk: Evidence from the U.S. Bank Holding Companies"

by Professor Jungsoo Park,

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Date: **14 August 2015 (Friday)**

Time: **11:00 am– 12:15 pm**

Venue: **Lecture Theatre 4,**
Level 2, Cheng Yu Tung Building,
The Chinese University of Hong Kong
12 Chak Cheung Street,
Shatin, N.T.

About the Speaker:

Jungsoo Park received a Ph.D. in Economics from Stanford University in 1999 after receiving BA in economics from Seoul National University. He was an assistant professor at SUNY at Buffalo till 2005 and returned to Korea to be a professor of economics at School of Economics, Sogang University in Seoul. He served as an associate dean for Graduate School of Economics and the president for Korea Association of Applied Economics. He is currently a member of National Economic Advisory Council for the President of Korea (NEAC). His research interest is economic growth and technology, banking and finance, and international economics. He has more than thirty publications including articles in *Economic Inquiry, Information Systems Research, Journal of Productivity Analysis, Economics Letters.*

Abstract:

This study uses US Bank Holding Company panel data to identify the effect of non-core liability on bank risk during the normal times and crisis period. Our main results show that (1) The share of non-core liabilities positively affects bank risk during normal times, and (2) The non-core liability effect reverses during liquidity crunch time. It negatively affects stock return volatility, slows down deposit growth, and offsets the positive effect on bankruptcy risk. The positive effect in during normal times may explain why banks are interested in increasing the share of non-core liabilities. However, if this kind of behavior is prevalent in the banking sector and leads to higher non-core liability share in the banking sector as a whole, it can be detrimental to the economic stability and may heighten the probability of banking crisis. In the advent of financial crisis, our finding shows that non-core liability effect reverses and negatively affects bank risk. On one hand, the non-core liability is relatively cheap and efficient funding method for the individual banks to improve performance on the profitability. However, as the chance of crisis augments with aggregate level of non-core liability and as the banks with higher ratio of non-core liabilities suffer more in terms of bank risk, we should carefully monitor non-core liabilities at the macro-level as well as at the micro-level.

ALL ARE WELCOME

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