

The effect of industry lending specialization on syndicated loan portfolio reallocation

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Abstract

I study how banks experiencing funding shock stemming from the post-Lehman interbank market disruption reallocated their syndicated loans portfolios depending on their lending specialization. I find that industry specialization is an important factor for syndicated loan portfolio reallocation for distressed banks. The results show that one standard deviation increase in sector specialization mitigates a negative effect of the funding shock on industry credit supply by 32-38%. The effect remains significant after controlling for the lenders' sector market share and well-established effect of geographical specialization. I also study the effect of sector specialization on the changes in syndicated facility composition after September 2008. I find statistically and economically significant effect of specialization on the banks' loan originating activity and share of the loan retained. However, it did not depend on the level of funding shock.