

**“Who’s the boss?” The role of dividend clienteles in
banks’ lending decision**

Katsoulis, Gerba, Barunik and Acosta-Smith

CNB 2025 Workshop on Financial Stability

Discussed by Valeriya Dinger

This paper...

- explores how the exposure to dividend clienteles affects the impact of dividend restrictions on:
 - stock price response.
 - required rate of return.
 - “systemic” risk.
 - bank lending.

The point of departure

- There is a broad literature and policy debate on how bank capital structure and the associated restrictions affect bank outcomes.
- Challenge: identification!

This paper

- Explores an exogenous restriction in capital structure - dividend ban.
- Variation in whether this restriction was binding or not.
- Variation in the relative importance of the restriction for existing shareholders.

My “take away”: a lot to like

- Interesting setup and very rich analysis - resulting in a very informative reading.

Comments: less can be more

- There is too much going on in this paper, and this has a cost.
- Focus on the impact of dividend restrictions on one dimension of bank performance.
 - E.g. lending: central according to the title, but not apparent when reading the text.
- Explain why all the other dimensions of bank performance are necessary (if they are).

Comments: storytelling

- Reducing the scope will enable you to concentrate on the key arguments.
 - What mechanisms are driving the hypotheses?
 - For example, with regard to stock price dynamics: Do mutual funds sell shares? Are they expected not to buy? Is there any way to test these presumptions directly?

Comments: storytelling

- What are the general policy implications?
- Dividend restrictions affect banks with dividend clienteles negatively relative to banks which are less exposed to these clienteles. But what is the aggregate impact on the system?
- How can policy be designed to account for the reaction of short-sighted investors without becoming entrenched by this reaction?

Comments: identification

- The composition of the treatment and control groups is not exogenous (whether a bank plans to announce dividend payouts depends on its performance and ownership structure, e.g. whether it has dividend clienteles).
- The relative importance of dividend clienteles for a bank is also not exogenous.
- These factors at least need to be discussed.

Smaller issues

- Better motivation for measurement choices (here are a few examples from the section on the required rate of return):
 - The measure used is linked to dividends, but it omits the impact of potential shifts from dividends to other payout policies.
 - The formula creates a bias towards the cost of capital driven by dividends, as banks with high dividends are more likely to have dividend clienteles!
- *'For the required rate of return to debt holders, we use the mid-yields of bank bonds traded on the secondary market with a residual maturity of at least one year.'* This distorts any effects coming from the yield curve, which was somewhat inverted in this period.

Conclusion

- Extremely interesting results
- Valuable contribution and impressive potential for understanding the impact of dividend restrictions