

Corporate Governance and Excessive Risk-Taking in Banks: Lessons from Spain

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Abstract:

Using a unique borrower-lender matched dataset on mortgage loans in Spain, Akin et al. (2014) shows that banks' lending standards are softer in the boom than in the bust. Their results provide suggestive evidence of excessive risk-taking in the boom period. Merging this unique dataset with a hand collected data on top executives' education, experience and political connection, we explore the effect of board characteristics on bank's excessive risk-taking. We find that higher education and more experience associated with lower risk-taking in banks. We further investigate the relationship between board characteristics and overappraisal behavior. We find that higher education and more experience leads to lower overappraisal. Finally, we test the effect of the corruption in the region on overappraisal behavior. We consider overappraisal as a type of fraud and test whether in regions with high corruption level fraud increases. Our results confirm this hypothesis. We observe higher overappraisal in banks whose head office is in a region with lower transparency and higher corruption. All these results are important for policy makers.

Keywords: Corporate Governance, Financial Institutions, Excessive Risk-Taking, Financial Crises

JEL Codes: G01, G21, G28