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Non-Interest Income and Bank Lending

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Abstract. This paper examines the influence of non-interest activities on bank lending in terms of loan quality and interest spread. We also investigate the possible existence of profit complementarities between non-interest activities and lending. Using quarterly data on 6,921 U.S. commercial banks between 2007:Q3 to 2016:Q3 we find that non-interest activities have no adverse influence on bank credit risk. This is the case for banks of different asset size (including systemically important banks) as well as for distressed banks. There is evidence that banks with assets between $100 million and $1 billion that have a greater share of fiduciary income have lower credit risk. They also have lower interest rates on loans secured by real estate, and higher franchise values, particularly post-crisis. Moreover, banks in the aforementioned size range benefit from synergies in joint production of non-interest income and lending, whereas other banks, in particular smaller banks (below $100 million in assets) suffer from diseconomies of joint production. Larger banks exhibit cross-subsidization between several non-interest activities and lending business.

JEL Classifications: G21

Keywords: Non-interest Income, Fiduciary, Credit Risk, Spread, Profit Complementarities

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