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TRACING OUT CAPITAL FLOWS:

HOW FINANCIALLY INTEGRATED BANKS RESPOND TO NATURAL DISASTERS

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ABSTRACT

Multi-market banks reallocate capital when local credit demand increases after natural disasters. Using property damage as an instrument for lending growth, we find credit in unaffected but connected markets declines by a little less than 50 cents per dollar of additional lending in shocked areas. However, banks shield their core markets because most of the decline comes from loans in areas where banks *do not* own branches. Moreover, banks increase sales of more-liquid loans and they bid up the rate on deposits in the connected markets. These actions help lessen the impact of the demand shock on credit supply.

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*The views expressed in the paper are those of the authors and do not necessarily represent the views of the Federal Reserve Bank of Cleveland or the Federal Reserve System overall.