

# ISIL EREL

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## Academic Employment:

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**Ohio State University, Fisher College of Business**, June 2006 – *present*  
*Assistant Professor of Finance*

**MIT Sloan School of Management**, November 2005 – May 2006  
*Post-Doctoral Associate*

**Board of Governors of the Federal Reserve System**, June 2004 - September 2004  
*Dissertation Intern*

## Education:

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**MIT Sloan School of Management**, September 2000 – February 2006  
*PhD in Financial Economics*

Thesis Title: Essays on Banking (defended in October 2005)

Thesis Committee: Stewart C. Myers (Co-chair), Stephen A. Ross (Co-chair), and Antoinette Schoar.

**Koc University**, Istanbul/Turkey, September 1995 - May 2000  
*B.A. in Economics & Business Administration*  
Double Major; GPA: 4.00/4.00.

## Research Interests:

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Corporate Finance; Corporate Governance; Banking; Mergers and Acquisitions; Regulation

## Academic Fellowships and Awards:

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- Recipient of the Institute for Quantitative Research in Finance (Q-Group) Research Grant, 2007
- Nominated as the First Runner Up for the Best Paper Award in Financial Markets and Institutions by Financial Management Association, October 2005.  
Paper Title: The Effect of Bank Mergers on Loan Prices: Evidence from the U.S.
- Recipient of MIT Sloan School of Management Henry B. Dupont Fellowship, September 2000-May 2005.
- Valedictorian of Koc University, Istanbul/Turkey, Class of 2000.
- Recipient of the Werner-von-Siemens Excellence Award, Koc University, June 2000.

- Recipient of Vehbi Koc Fellowship for full-tuition & Vehbi Koc Scholarship for outstanding academic performance, Koc University, September 1995-May 2000.
- Named in the high honour list of Koc University, September 1995-May 2000.
- Ranked 7th among around one million high school graduates in the 1995 Nationwide University Entrance Examination of the Turkish Republic Higher Education Council.

## **Research Papers:**

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### **The Effect of Bank Mergers on Loan Prices: Evidence from the United States**

#### *Forthcoming, Review of Financial Studies*

Bank mergers can increase or decrease loan spreads, depending on whether the increased market power outweighs efficiency gains. Using proprietary loan-level data for U.S. commercial banks, I find that, on average, mergers reduce loan spreads, with the magnitude of the reduction being larger when post-merger cost savings increase. My results suggest that the relation between spreads and the extent of market overlap between merging banks is non-monotonic. Market overlap increases cost savings and consequently lowers spreads, but when the overlap is sufficiently large, spreads increase, potentially due to the market-power effect dominating the cost savings. Furthermore, the average reduction in spreads is significant for small businesses.

### **Differences in Governance Practice between U.S. and Foreign Firms: Measurement, Causes, and Consequences** (with Reena Aggarwal, René Stulz, and Rohan Williamson)

#### *Review of Financial Studies*, August 2009, pg. 3131-3169

We construct a firm-level governance index that increases with minority shareholder protection. Compared to U.S. matching firms, only 12.68% of foreign firms have a higher index. The value of foreign firms falls as their index decreases relative to the index of matching U.S. firms. Our results suggest that lower country-level investor protection and other country characteristics make it suboptimal for foreign firms to invest as much in governance as U.S. firms do. Overall, we find that minority shareholders benefit from governance improvements and do so partly at the expense of controlling shareholders.

### **Macroeconomic Conditions and the Structure of Securities** (with Brandon Julio, Woojin Kim, and Michael Weisbach)

Economic theory, as well as commonly-stated views of practitioners, suggests that macroeconomic conditions can affect both the ability and manner in which firms raise external financing. Theory suggests that downturns should be associated with a shift toward less information-sensitive securities, as well as a ‘flight to quality,’ in which firms can issue high-rated securities but not low-rated ones. We evaluate these hypotheses on a large sample of publicly-traded debt issues, seasoned equity offers, and bank loans. We find that worse macroeconomic conditions lead firms to use less information-sensitive securities. In addition, poor market conditions affect the structure of securities offered, shifting them towards shorter maturities and more security. Furthermore, market conditions affect the quality of securities offered, with worsening conditions substantially lowering the number of low-rated debt issues. Overall, these findings suggest that macroeconomic conditions are important factors in firms’ capital raising decisions.

### **Economic Nationalism in Mergers & Acquisitions** (with Serdar Dinc)

This paper studies the government reaction to large corporate merger attempts in the European Union during 1997-2006 using hand-collected data. It documents widespread economic nationalism in which the government reaction depends on the nationality of the acquiring company. The nationalism takes place both as resistance to foreign acquirers and as support for domestic ones. This nationalism has both direct and indirect economic impact. The paper shows that government intervention is very effective in preventing foreign bidders from completing the merger and in helping domestic bidders succeed. The paper also demonstrates that nationalistic government reactions deter, indirectly, foreign companies from bidding for other companies in a country in the future.

### **Does Governance Travel Around the World? Evidence from Institutional Investors** (with Reena Aggarwal, Miguel Ferreira and Pedro Matos), *Revise and Resubmit, Journal of Financial Economics*

We examine whether institutional investors affect corporate governance by analyzing institutional holdings in companies from 23 countries during the period 2003-2008. We find that firm-level governance is positively associated with international institutional investment. Changes in institutional ownership over time positively affect subsequent changes in firm-level governance, but the opposite is not true. Foreign institutions and independent institutions drive governance improvements outside of the U.S. The origin of the institution matters, as institutions in countries with strong shareholder protection are more effective in promoting good governance than are institutions from countries with weak shareholder protection. The shareholder protection of the country where the firm is located also matters, with foreign institutions playing a crucial role in countries with weak shareholder protection. Institutional investors affect not only which corporate governance mechanisms are in place, but also outcomes. Firms with higher institutional ownership are more likely to terminate poorly performing CEOs and exhibit improvements in valuation over time. Our results suggest that institutional investors promote good corporate governance practices around the world.

### **Capital Allocation** (with Stewart C. Myers and James A. Read, Jr.)

Banks and other financial institutions should allocate capital in proportion to the marginal default value of each line of business, which is the derivative of the value of the bank's default put with respect to a change in the scale of the business. Marginal default values give a unique allocation that adds up exactly. Cross subsidies are avoided if capital allocations are set so that capital-adjusted marginal default values are the same for all lines. We include a series of examples showing how our procedures work and why the allocations are different from allocations based on VaR and the allocations implicit in risk-weighted bank capital requirements. We explain how capital allocations should be "priced" and charged to each line of business.

### **World Markets for Mergers and Acquisitions** (with Rose Liao and Michael Weisbach)

Despite the fact that one-third of worldwide mergers involve firms from different countries, the vast majority of the academic literature on mergers studies domestic mergers. What little has been written about cross-border mergers has focused on public firms, usually from the United States. Yet, the vast majority of cross-border mergers involve private firms that are not from the United States. We provide an analysis of a sample of 56,978 cross-border mergers occurring between 1990 and 2007. We first characterize the patterns of who buys

whom: Geography matters, with firms being much more likely to purchase firms in nearby countries than in countries far away. Purchasers are usually but not always from developed countries and they tend to purchase firms in countries with lower investor protection and accounting standards. A significant factor in determining acquisition patterns is currency movements; firms tend to purchase firms from countries relative to which the acquirer's currency has appreciated. In addition economy-wide factors reflected in the country's stock market returns lead to acquisitions as well. Both the currency and stock market effect could reflect either misvaluation or wealth explanations. Our evidence is more consistent with the wealth explanation than the misvaluation explanation.

### **Incentive-based Regulation of Banks: An Interpretation of Basel II**

This paper models the incentives of banks to undertake "Regulatory Capital Arbitrage," under the current capital requirements. I show that in equilibrium banks making risky investments pool with the banks investing safely so that they can be subject to a lower amount of regulatory capital because the risk exposures of banks cannot be precisely measured. The paper examines whether the proposed "Basel II" regulatory system would be more or less efficient and effective than the current system. I show that the Internal Ratings-based (IRB) Approach of Basel II can be interpreted as a way of forcing a separating equilibrium, in which good banks that do not pursue unduly risky strategies identify themselves to the regulators and are rewarded with a lower capital requirement. Such a separating equilibrium can only be sustained under an effective supervision system or by giving some incentives to the excessively risk-taking banks to stay in the current system rather than opting into the new IRB approach.

### **Invited Presentations/Discussions:**

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- Washington University at St Louis, 2010
- NBER Corporate Finance Meetings, Georgetown University, Allied Social Science Associations Annual Meeting, San Francisco, 2009
- Allied Social Science Associations Annual Meeting, New Orleans, 2008
- Ohio State University, Propensity Score Matching Working Group, Conference on Corporate Governance in Emerging Markets (Global Corporate Governance Forum; Presentation and Discussion), Case Western Reserve University, 2007
- University of Georgia, Conference on Corporate Finance of Financial Intermediaries (Wharton School of University of Pennsylvania), Sabanci University, Koc University, Bilkent University, UCLA, University of Texas at Dallas, University of Rochester, University of North Carolina, University of Oregon, University of Washington at Seattle, Ohio State University, University of Michigan, Indiana University, 2006
- Federal Reserve Bank of Chicago, MIT Sloan School of Management, Financial Management Association Annual Meetings, Research Conference of the FDIC Center for Financial Research, Bank Structure Conference of the Federal Reserve Bank of Chicago, 2005
- Board of Governors of the Federal Reserve System Finance Seminar, 2004

## **Teaching Experience:**

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The Ohio State University, Fisher College of Business, Spring 2007 and 2008

- Professor, Business Finance 726 & 826 (Financial Institutions)

Koc University, Department of Economics and Mathematics, September 1998 – May 2000

- Teaching Assistant, Math 203 (Linear Algebra & Multivariable Calculus), Econ 202 (Introduction to Macroeconomics), and Econ 200 (Introduction to Economics)

## **PhD Dissertation Committee:**

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Alvaro Taboada (Assistant Professor, University of Tennessee)

Rose C. Liao (Assistant Professor, Rutgers Business School)

Ji-Woong Chung (Job Market Candidate, Ohio State University)

## **Professional Services:**

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**Referee**, Journal of Finance, Review of Financial Studies, Journal of Financial and Quantitative Analysis, Review of Finance, Journal of Economic Theory, Journal of Corporate Finance, and Journal of Financial Intermediation

**Membership**, American Economic Association, American Finance Association, Western Finance Association, and Financial Management Association

### **Member of the Program Committee,**

European Finance Association Meeting, 2010

Financial Management Association Annual Meeting, 2008, 2009, and 2010

## **Personal:**

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- Date and Place of Birth: 17<sup>th</sup> of July 1977, Turkey
- Gender: Female
- Visa Status: United States (Permanent Resident); Turkey (Citizen)

## **References:**

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**Stewart C. Myers**, Robert C. Merton (1970) Professor of Financial Economics

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**Stephen A. Ross**, Franco Modigliani Professor of Finance & Economics

MIT Sloan School of Management, office: 617-258 8371, e-mail: sross@mit.edu

**Antoinette Schoar**, Michael Koerner '49 Professor of Entrepreneurial Finance

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