

ISIL EREL

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Academic Employment:

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:

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:

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

Academic Fellowships and Awards:

- Fisher Research Fellow, 2011
- Recipient of the Pace Setter Faculty Research Award, 2010.
- Recipient of the 2010 China International Conference in Finance Best Paper Award
Paper Title: Does Governance Travel around the World? Evidence from Institutional Investors
- Recipient of the Institute for Quantitative Research in Finance (Q-Group) Research Grant, 2007
- Dean's Summer Research Fellowship, Ohio State University, 2006-2010

- 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:

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

Review of Financial Studies, 24/4, pg. 1068-1101.

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, 23/3, 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.

Does Governance Travel Around the World? Evidence from Institutional Investors
(with Reena Aggarwal, Miguel Ferreira and Pedro Matos),

Journal of Financial Economics, 100/1, pg. 154-181.

We examine whether institutional investors affect corporate governance by analyzing portfolio holdings of institutions 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 institutions from countries with strong shareholder protection play a role in promoting governance improvements outside of the U.S. 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 Chief Executive Officers (CEOs) and exhibit improvements in valuation over time. Our results suggest that international portfolio investment by institutional investors promotes good corporate governance practices around the world.

Determinants of Cross-Border Mergers and Acquisitions (with Rose Liao and Michael Weisbach)

Forthcoming, Journal of Finance

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. In addition to the factors that motivate domestic mergers, national borders provide an additional set of factors that affect the likelihood that two firms choose to merge. Geography, the quality of accounting disclosure, and bilateral trade increase the likelihood of mergers between two countries. In addition, valuation appears to play a role in motivating mergers; firms in countries whose stock market has increased in value, whose currency has recently appreciated, and who have a relatively high market to book value tend to be purchasers and firms from weaker-performing economies tend to be targets.

Macroeconomic Conditions and Capital Raising (with Brandon Julio, Woojin Kim, and Michael Weisbach)

Forthcoming, Review of Financial Studies

Do macroeconomic conditions affect firms' abilities to raise capital? If so, how do they affect the manner in which the capital is raised? We address these questions using a large sample of publicly-traded debt issues, seasoned equity offers, bank loans and private placements of equity and debt. Our results suggest that a borrower's credit quality significantly affects its ability to raise capital during macroeconomic downturns. For noninvestment-grade borrowers, capital raising tends to be procyclical while for investment-grade borrowers, it is countercyclical. Moreover, proceeds raised by investment grade firms are more likely to be held in cash in recessions than in expansions. Poor market conditions also affect the structure of securities offered, shifting them towards shorter maturities and more security. Overall, our results suggest that macroeconomic conditions influence the securities that firms issue to raise capital, the way in which these securities are structured and indeed firms' ability to raise capital at all.

Economic Nationalism in Mergers and Acquisitions (with Serdar Dinc), *Revise and Resubmit, Journal of Finance*

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 prefers the target companies remain domestically owned rather than foreign-owned. This preference is stronger at times and places with strong far-right parties, weaker governments, and against countries for which the people in the target country have little affinity. This nationalism has both direct and indirect economic impact on mergers and impedes capital flows. In particular, nationalist government reactions deter foreign companies from bidding for other companies in that country in future.

Why did U.S. banks invest in highly-rated securitization tranches? (with Taylor Nadauld and René M. Stulz)

We estimate holdings of highly-rated tranches of mortgage securitizations of American deposit-taking banks ahead of the credit crisis and evaluate hypotheses that have been advanced to explain these holdings. We find that holdings of highly-rated tranches were economically trivial for the typical bank, but banks with greater holdings performed more poorly during the crisis. Though univariate comparisons show that banks with large trading books had greater holdings, the holdings of highly-rated tranches are not higher for banks with large trading books in regressions that control for bank size. The ratio of highly-rated tranches holdings to assets increases with bank assets, but not for banks with more than \$50 billion of assets. This evidence is inconsistent with explanations for holdings of highly-rated tranches that emphasize the incentives of banks deemed “too-big-to-fail”. Further, the evidence does not provide support for “bad incentives” theories of holdings of highly-rated tranches. We find, however, that banks active in securitization held more highly-rated tranches. Such a result can be consistent with regulatory arbitrage as well as with securitizing banks holding highly-rated tranches to convince investors of the quality of these securities. Our evidence supports the latter hypothesis.

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

We demonstrate that banks and other financial firms should allocate capital to lines of business based on marginal default values, which are the derivatives of the value of the bank’s default put with respect to expansion of the lines. Marginal default values give a unique allocation of capital that adds up exactly, regardless of the joint probability distribution of returns. Capital allocations follow from the conditions for the bank’s optimal portfolio. The allocations are systematically different from allocations based on VaR or contribution VaR. We also show how regulation based on risk-weighted capital requirements can distort a bank’s investment decisions, even when regulators have complete information about the risk of bank assets.

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.

Work in Progress

Financing-Motivated Acquisitions (with Yeejin Jang and Michael Weisbach)

The Role of Public Opinion, Proxy Advisors, and Financial Crisis on Voting by Institutions (with Reena Aggarwal and Laura Starks)

Invited Presentations/Discussions:

- European Finance Association Meetings, Capital Markets Board Of Turkey, University of Arizona, University of Alberta, University of Texas at Austin, Purdue University, 2011
- Summer Finance Conference at IDC in Israel, University of Notre Dame, Washington University at St Louis, 2010
- NBER Corporate Finance Meetings, Georgetown University, American Finance Association Meetings in San Francisco (Discussion), 2009
- The International Finance Conference at Queen's Business School (Discussion), American Finance Association Meetings in New Orleans, , 2008
- Ohio State University Propensity-Score-Matching Working Group, Conference on Corporate Governance in Emerging Markets (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:

The Ohio State University, Fisher College of Business, 2007-2008, 2010-2011.

- Business Finance 726 & 826 (Financial Institutions)

PhD Dissertation Committee:

Alvaro Taboada (Assistant Professor, University of Tennessee)

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

Ji-Woong Chung (Assistant Professor, Chinese University of Hong Kong)

Ayelet Ben-David (PhD, University of Chicago)

John Sedunov (PhD Candidate, Ohio State University)

Robert Prilmeier (PhD Candidate, Ohio State University)

Professional Services:

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

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

Member of the Program Committee,

European Finance Association Meeting, 2010 and 2011

Financial Management Association Annual Meeting, 2008, 2009, 2010, and 2011