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BANKS' DIVIDEND POLICY AND NON-PERFORMING LOAN DISPOSAL

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《SUMMARY》

This paper examines the impact of intensified competition among regional financial institutions for their business stability. The markup (P – MC) for each institution, which represents financial institutions' competitive environment, has declined over 30 years. The estimation result shows that until the first-half of 1990s, that intensified competition had increased their business stability through the downward default risk by the decline of lending rate. However, from the second-half of 1990s, that intensified competition has decreased their business stability due to the tightening of their profits margins under the low interest rate environment. Focusing on the banks which exited from market due to their bankruptcy or mergers, they had tended to take more risks, and this action initially had increased profits, however, it had decreased their business stability in the long run.

Until the end of fiscal year 2002, official figures of non-performing loan in the banking industry had been increasing and banks' dividends were almost uncorrelated with the existence of nonperforming loan. After fiscal year 2003, while the influences of the factors suggested by Fama and French were limited, the non-performing loans began to show negative and significant influences on dividends. We interpret this result as indicating the consequences of the regulatory enforcement.

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