Distressed Bank Merger and Credit to Innovative Firms

: Loan-Level Evidence from a Megamerger

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Abstract

This paper examines how a distressed bank merger affects credit to innovative firms, focusing on the 2006 merger of the solvent Bank of Tokyo-Mitsubishi (BTM) with the financially distressed UFJ Bank in Japan. Using a uniquely matched dataset that links patent records, firm characteristics, and individual loan-level data, we conduct a detailed analysis of credit reallocation before and after the merger. Innovative firms that had borrowed from the distressed target experienced an average 25 percent relative increase in lending from the merged bank compared with non-merging banks, while no similar effect appears for acquirer borrowers, non-innovative firms, or firms in non-distressed mergers. The strongest gains occur among innovative firms with greater pre-merger exposure to the target bank, consistent with a monitoring-incentive mechanism rather than simple capital-constraint relief. These findings show that when the acquirer is well-capitalized, distressed mergers can channel credit toward innovation-intensive borrowers.

Keywords: Bank mergers; Bank lending; Innovation finance
JEL Codes: G21, G28, G34