Discussion of “Difficult to Digest: Takeovers of Distressed Banks” (Phung & Troege)

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This paper

- **Government-induced takeovers often used in case of distress**
  - As an alternative to bailouts
  - Typical case: FDIC-led mergers in US
- **What consequences do these mergers have?**
  - $\rightarrow$ Understudied and important question (resolution, etc.)
  - Profitability and liquidity drop for acquirers
  - Critical view about these mergers

Main concern

- **Can there be a mechanical effect?**
  - Bank F is failing: A = 1000, NI = -10, ROA = -1%
  - Bank B acquires: A = 2000, NI = 20, ROA = 1%
  - B+F: A = 3000, NI = 10, ROA = 0.33%
  - → Measures of profitability drop
- Non-mechanical effects → **Refine the question**
  - What is the proper counterfactual?

Main concern

- **Current result consistent with value-enhancing merger**
  - Valuing a merger is ultimately valuing synergies
  - Is $V(B+F) > V(B) + V(F)$?
  - Paper seems to conclude "no", but does not show it
  - Positive synergies consistent with current results

- **Potential solution**: Use market data on stock prices
  - Total bank value (equity + debt) is what is relevant
  - Concern: Maybe not enough stock prices in Vietnam?
  - Why use Vietnam in the first place? No specific data/reason

Main concern

- **Other counterfactual: Bailout**
  - Perhaps mergers indeed are inefficient for private banks
  - ... but can still be socially optimal
  - Provided we want to avoid bank failures in first place
- **Solutions? Difficult question**
  - Exploit more differences between government-led and private mergers
  - Anything special about policy improvement?
  - (Of course whether the governments comes in is not random)

Conclusion

- **Interesting (understudied) question**
- **One main concern: How to interpret the effect?**