Multinational Banks

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Abstract

15% of the loans in the US are held by foreign banking institutions, headquartered in more than 50 countries. While earlier research documented the entry mode of foreign institutions in the United States, very little is known about foreign banks' motive to enter the U.S. We address this gap by asking: why do foreign banks enter in the US market? And what drives the institutional form they adopt upon entry? Using bank-level data, we present novel stylized facts describing characteristics of foreign institutions and compare then to the incumbent set of banks. Our findings suggest that several factors affect the form of entry: demand, business type, differences between countries' regulatory requirements, and access to funding. We incorporate these facts into a structural model of entry in the banking sector where profit maximizing foreign banks decide whether and how to enter the US market. The model sheds light on

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the relationship between market access, capital flows, regulation, and entry, and has implications for the risk exposure that different organizational forms entail.

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