Sharing information on lending decisions: an empirical assessment

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Impact of information sharing on corporate lending in Italy

How does the availability of information on past loan rejections impact corporate lending in Italy?

• Access and use of information → negative impact on loan approval for opaque firms, while relationship is positive for other firms.
• Increase in the number of past loan rejections → borrower more likely to suspend loan search/lower likelihood of loan approval
• Results dependent on bank- and firm-specific characteristics and macroeconomic conditions.

➤ Unique dataset provides a valuable contribution to the analysis of supply and demand effects in corporate lending
➤ Possibility to conduct a similar exercise for Austria? No.
➤ Macroleprudential regulation requires in-depth understanding of the functioning of banks’ lending process.
Role of conditions of the loan contract

Dependent variable = loan approval yes/no (dummy variable)

- **Conditions of the loan contract** are important for its realization:
  - credit volume
  - price (rate of charge incl. interest rate + fees)

- Firms might change the details of their loan application after several loan rejections (positive learning effect vs. damped expectations/resignation)
- Firms might reject the loan offer as it doesn’t fit their needs.
- At what stage of the credit application process was the credit denied?

- Is there such information in the database?

- Suggestion for future research: Use a fictitious credit application

- **Financial stability analysis needs to account for changes in credit volumes and prices.**
Reasoning behind the loan approval/rejection I

Large banks/banks using statistical evaluation procedures:

• “Positive effect despite more standardized lending methods. [..] because borrowers signal confidence in their project.” (p.16)

• Other reasons for loan approval/rejection from the banks’ perspective:
  • Loan might fit the bank’s strategy to increase/decrease the respective loan portfolio.
  • Some banks might want to enlarge/shrink their balance sheet.

➢ FE account for any remaining bank characteristics > area of future research to learn even more about banks' characteristics.
➢ More nuanced interpretation in the paper.
Reasoning behind the loan approval/rejection II

Foreign banks:

- **Compare to other research results** (Bottero 2014: Foreign bank lending: evidence from the global financial crisis)
  - Foreign banks restricted credit supply during the crisis in Italy more sharply (distance = among the reasons for the higher negative relationship)

Opacity of firms: Alternative measure = intangible assets/total assets of firms

- **Contains information about the business model** of the firm rather than opacity.

Changing signs of coefficients: …when accounting for firm quarter FE

- Reasoning behind.

Sample bias: Firms with approved loan drop out of the sample.
Impact of the macroeconomic environment

• In a favorable economic environment (if GDP increases), loans are approved despite past rejections.

- Mere high loan growth is not a desirable policy objective.
- Crisis costs = higher if crisis preceded by credit boom

• Were firms with a loan rejection during the crisis period already not doing well before the crisis?
- Relate the results to the Italian economic development in a descriptive way.

<table>
<thead>
<tr>
<th>Fiscal costs (in % of GDP)</th>
<th>Welfare loss (in % of GDP)</th>
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</thead>
<tbody>
<tr>
<td>all</td>
<td>Excessive credit growth</td>
</tr>
<tr>
<td>8</td>
<td>33</td>
</tr>
<tr>
<td>5</td>
<td>22</td>
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<tr>
<td>No excessive credit growth</td>
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<td>14</td>
<td>47</td>
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Thank you.