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**.

➢ **Macroprudential 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 asses/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

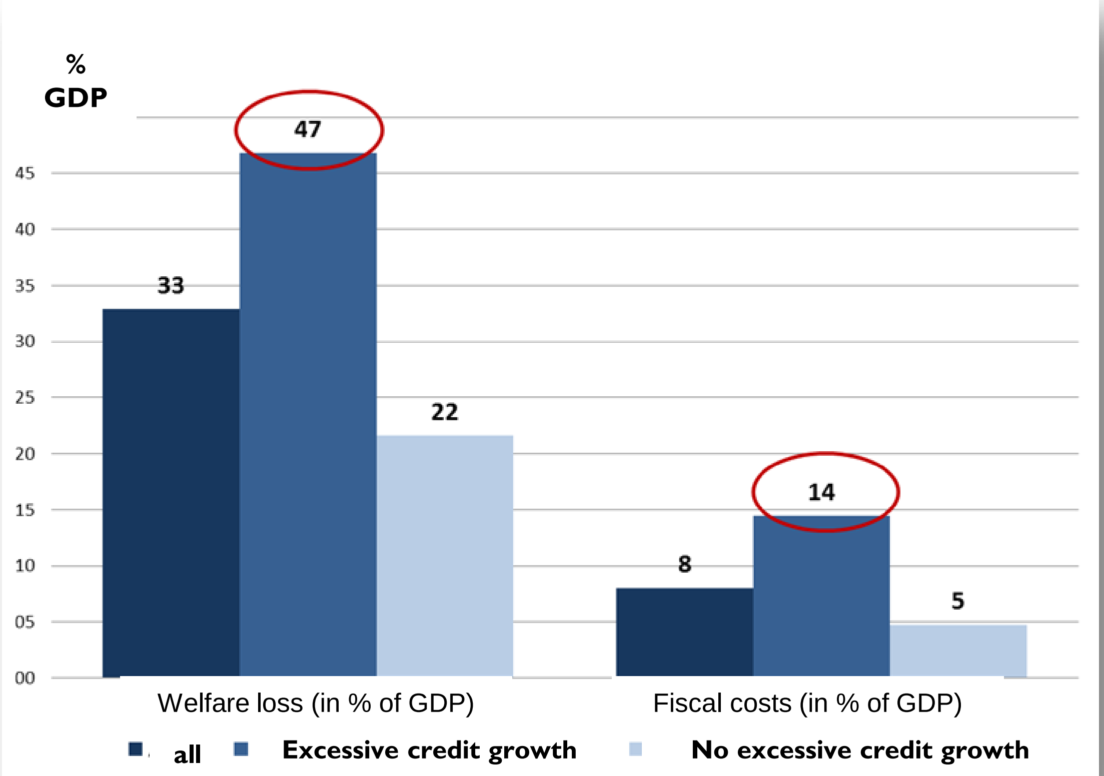
- In a favorable economic environment (if GDP increases), loans are approved despite past rejections.

➢ **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.



Source: IMF Global Banking Crises Data Base Update, own calculations. Sample: EEA countries 1977-2008, *n*=34.

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Thank you.