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*Checking account information
and credit risk of bank borrowers*

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- Starting point of paper:
 - How do banks reduce degree of asymmetric information in lending?
 - What are sources of information for banks (that are relevant for credit provision)?
 - Private or public information?
 - Hard or soft information?
 - For which purposes do banks use information?
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- What does paper do?
 - Studies whether checking account (ChA) information helps banks in monitoring credit risk (Nakamura, 1993)
 - Unique data set (3 mln account-months obs)
 - Event study and probit regressions
 - Do ChA variables indicate abnormal behavior prior to default (how long in advance)?
 - Robustness: subsamples of borrower/default type
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■ Findings:

- Credit line USAGE (+, 36-16m), AMPLITUDE (-, 6-10m), and CUMVIOL (+, 18m) signal defaults
 - For small firms and individuals, not larger businesses
 - Stronger signal for borrowers with better ratings at start (in-sample) and before default
 - Stronger signal for more severe defaults
 - Earlier signal for customers with close bank relationship (long duration, small distance)
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- Comments (1):
 - *Why* is checking information valuable, and why only for small, relationship customers?
 - How do you time ChA variables for non-defaulters? (is density smaller, and confidence intervals wider at $t=-36$?)
 - Endogeneity issues
 - What happens *after* the default?
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- Endogeneity of distress
 - How exogenous is distress (RC=5)
 - (i) LLP, restructuring, utilization of collateral, attachment proceedings: not fully exogenous
 - (ii) 90 days past due: exogenous
 - (iii) RC=6, could be exogenous





- Endogeneity of checking account
 - How exogenous are credit USAGE and AMPLITUDE?
 - Example 1: “USAGE falls for RC=5 prior to default” ⇔ implicit watch list effect
 - Example 2: ChA info more useful for good ratings
 - Example 3: why is ChA info more useful than ratings for nearby, long-duration (relationship) clients??
 - Check: what drives ChA variables? (rating, distance to default; financial variables)?
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■ After the default

- Bank doesn't block credit post-default
 - CUMVIOL increases
 - AMPLITUDE flat (except mid-size borrowers)
 - USAGE flat on average, but:
 - Why do RC=1,2,3 have higher USAGE post-default than RC=4?
 - $USAGE|_{\text{default}, RC=5}$ differs (falls) from $USAGE|_{\text{default}, RC=6}$ (constant, 100%).
 - Suggests usage may be endogenous
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- Comments (2)
 - Missing variables?
 - Financial variables: you assume ratings are a sufficient statistic (SS)
 - If ratings are “bad” or not a SS, then not only ChA but would add info.
 - Are missing financial variables driving value of ChA?
 - Panel data: Arellano Bond for Table 2
 - Small sample properties (comparison of RC=4 versus RC=1,2,3)?
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■ Minor issues

- Data set details
 - Distribution over rating grades (because you identify separate results for rating =4)
 - Geographical spread of customers
 - Discuss the legal framework
 - Which default events trigger mandatory (voluntary) action by bank
 - “Borrowers don’t strategically adjust payment behavior”
 - But checking account affects CLT, so clients may still act strategically
 - Why don’t you use USAGE_HIGH=MAX/LIMIT?
 - CUMVIOL: is it max 1/month? Do you have duration
 - Survivorship bias: “alleviate” rather than “eliminate”
 - What do you default on “without a credit line”? (Section 5.2)
 - Normalizing amplitude in Fig. 4 facilitates comparison between types
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