

**The Effect of Information Sharing on Relationship
Lending: Evidence from a Natural Experiment
securities**

Bank, Segev and Shaton

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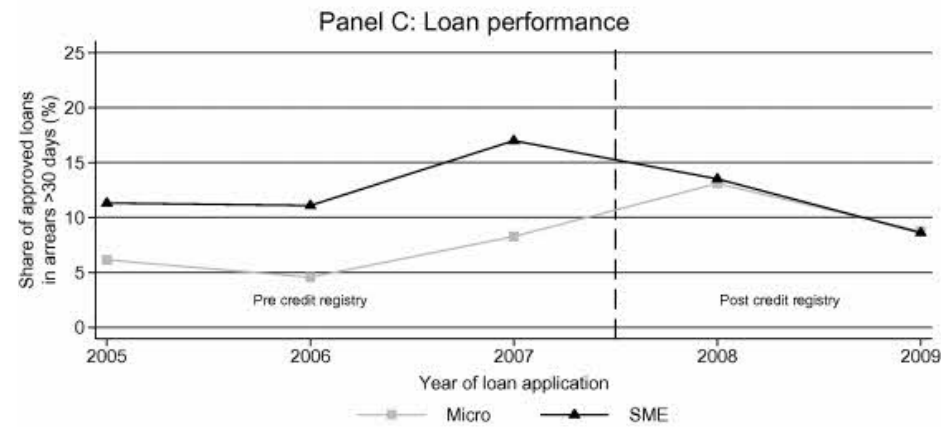
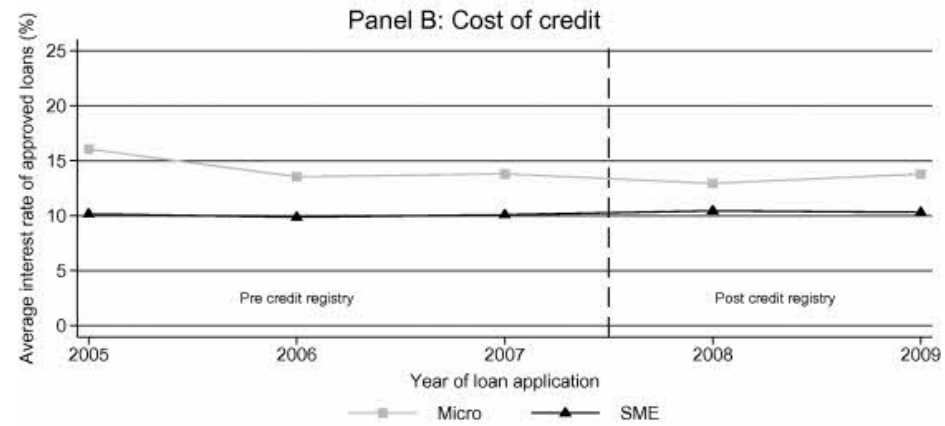
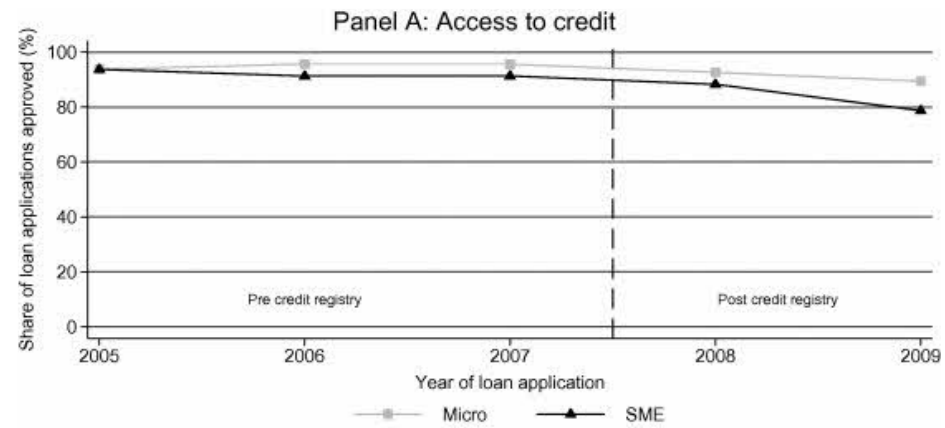
Public credit registry and relationship banking

- **The Event:** The introduction of a centralized credit register for consumer credit and prices alongside the introduction of credit scores in April 2019.
- **Research Question:** Does the introduction of credit register and credit score reduce the premium that exclusive borrowers pay relative to non-exclusive borrowers?
- **Method:** A diff-in-diff approach to compare the changes in loan pricing for exclusive and non-exclusive borrowers before and after April 2019,
- **Main Result:** once information asymmetry is reduced, relationship banking matters less

The effect of information sharing between lenders on access to credit, cost of credit, and loan performance (Behr and Sonnekalb, JBF, 2012)

- The Albanian central bank introduced in January 2008 a public credit registry
- The authors analyze the effect of information sharing between lenders on:
 - Access to credit
 - Cost of Credit
 - Loan Performance

Does a centralized credit register increase public welfare?



Is the cost of credit a good measure for the improvement in public welfare?

- How the introduction of a credit registry should affect loans' yield?
- **Cherry picking**
- **Competition** (Pagano and Jappelli, 1993)
- **Information** - lenders may be informed about the higher (lower) risk of existing loans or of borrowers and ask for a higher (lower) return.

A better method for measuring the improvement in public welfare?

- An event study approach to check the effect of the legislation on the value of banks' stocks and bonds
- The relative size of nonexclusive relationship over time
- Access to credit
- **The performance of non-exclusive lenders (% of borrowers with bad history)**
- **The yield spread between exclusive loans to non-exclusive loans**



The paper contribution!!!

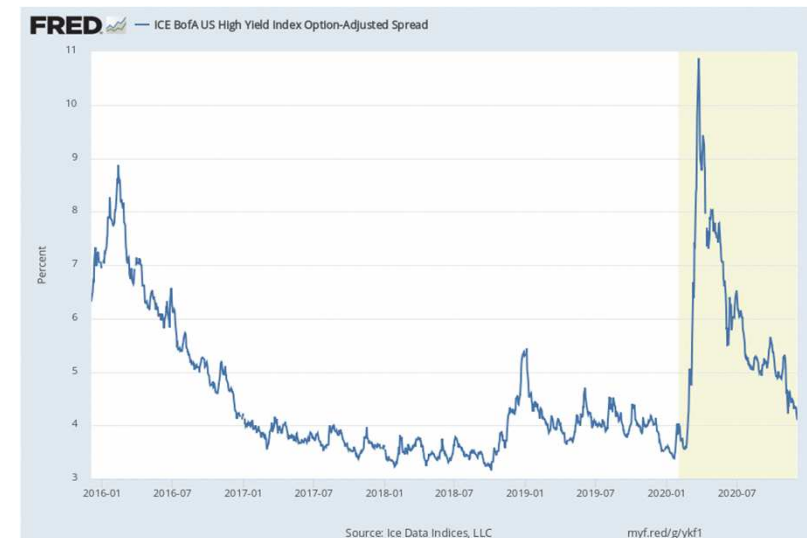


What do we study from the results?

“All else equal, we show that the difference in the interest rates for exclusive and non-exclusive borrowers decreased by about 10 to 13 basis points. This represents a 30 percent reduction in the interest-rate-difference between the two groups relative to the prior period.”

“the average spread for non-exclusive loans in the pre-credit registry period was around 449 basis points.”

- Statistical significant versus economic significant
- The costs versus the benefits of the new legislation?
- Evidence that information sharing is less important in less competitive markets



Control Variables

“In our estimation, we use both loan specific and borrower specific controls..”

- Control variables for market conditions that can affect differently loans with different quality may contribute



— Moody's Seasoned Aaa Corporate Bond Yield



Source: Moody's

[myf.fred/g/ymlj](https://myf.fred.stlouisfed.org/g/ymlj)

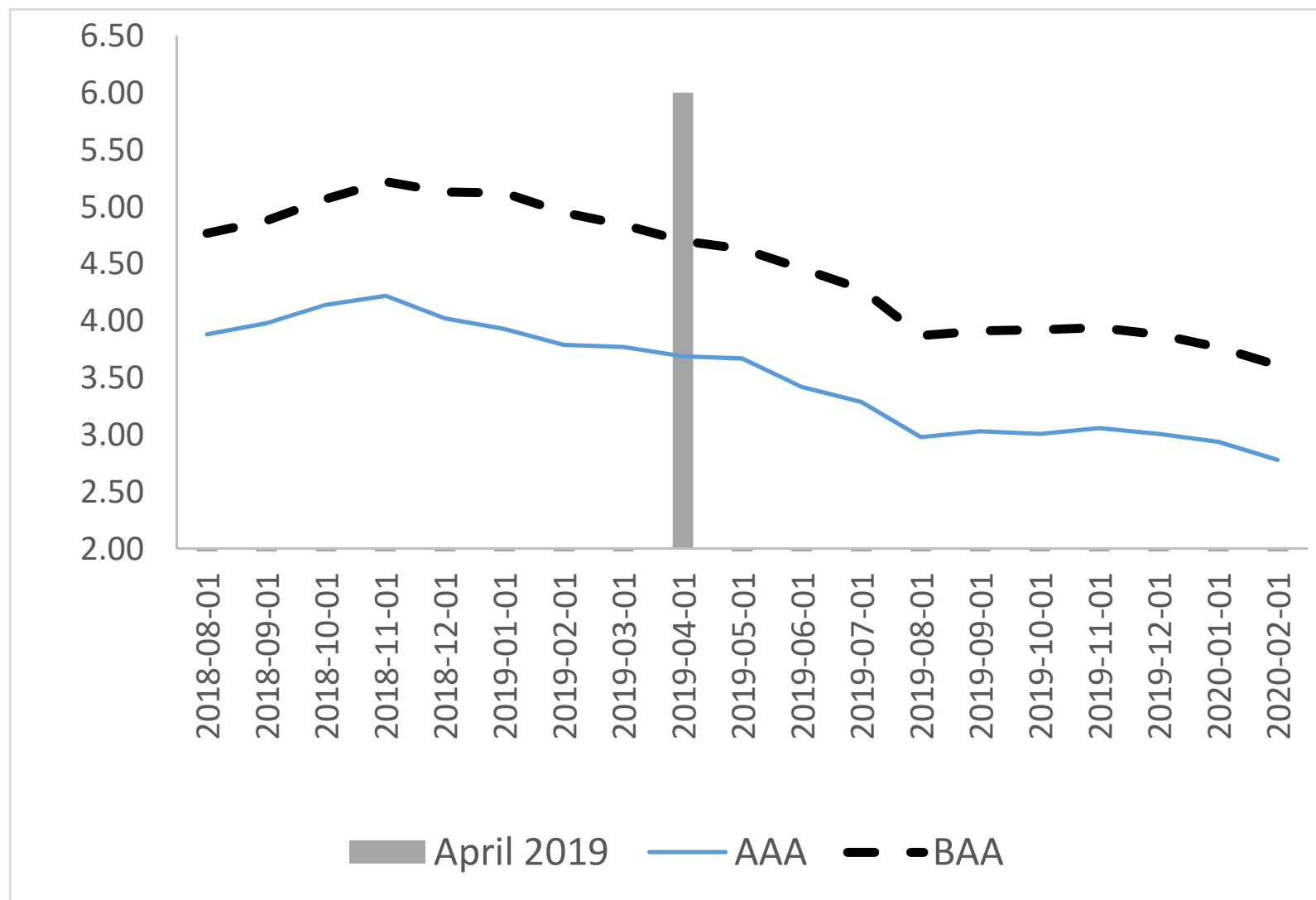


— Moody's Seasoned Baa Corporate Bond Yield

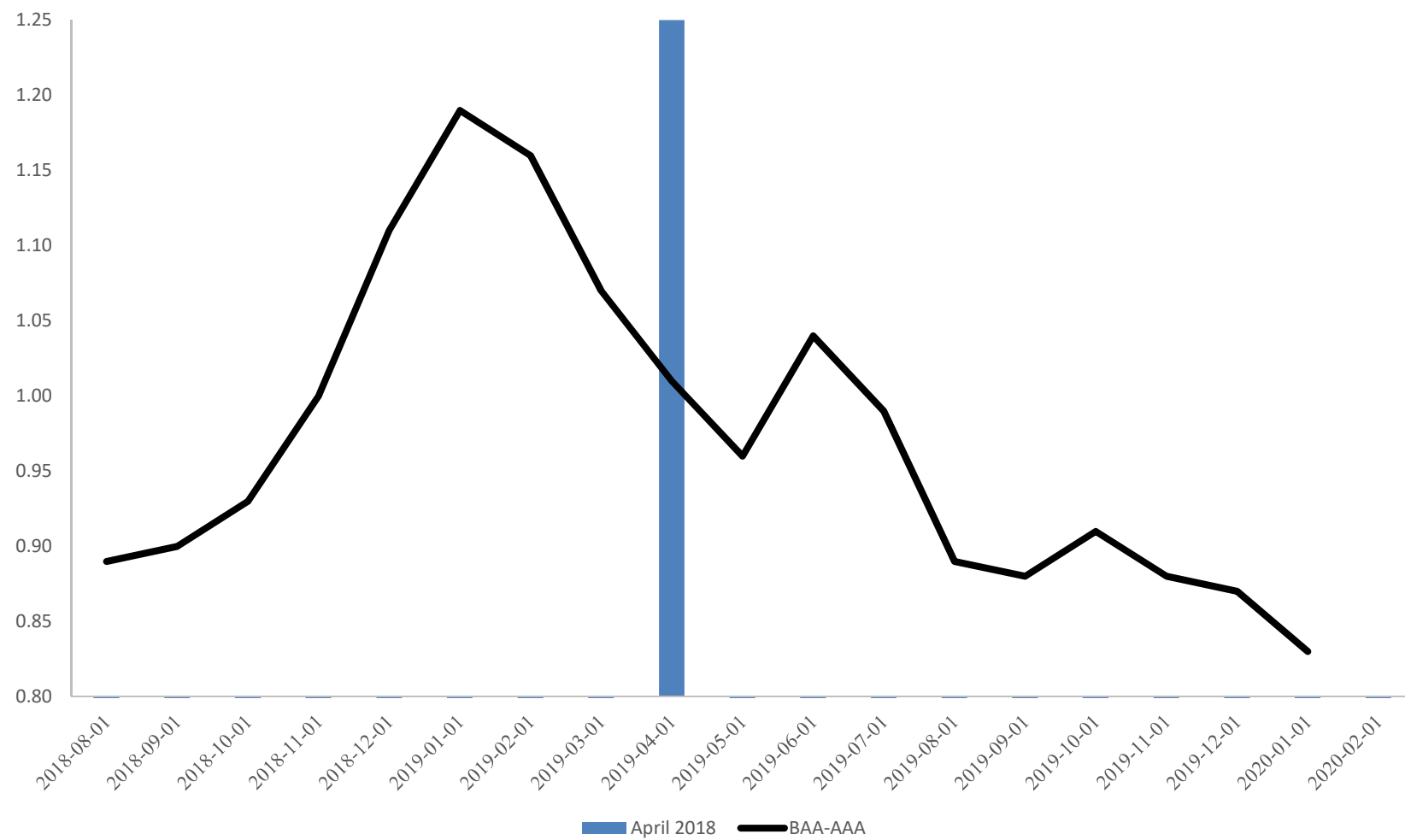


Source: Moody's

myf.fred.stlouisfed.org/g/ymLK







Other minor comments

- Margin Spread of the loan in addition to the loan maturity as a control variable.
- Covid-19, Covid-19 and Covid-19
- Transparency and information versus collateral