

Discussion: Do banks extract informational rents through collateral?

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Summary:

- ▶ Collateral incidence increases with relationship intensity.
- ▶ Collateral incidence declines after an IPO.

Advantages:

- ▶ Easy readable;
- ▶ Good literature review;
- ▶ Many robustness checks.

Disadvantages:

- ▶ The question.
- ▶ First paragraph.
- ▶ Too complicated (for commercial banks) to be the truth.
- ▶ The paper is too long, sometimes certain points are over-explained.

How does a small Lithuanian commercial bank work?:

- ▶ 1) Borrowers can be divided into 2 groups: those who like “shopping” and those who prefer stability.
- ▶ 2) “Shopping-lovers” look for better “formal” conditions, and as a result, more often get credits without a collateral.
- ▶ 3) “Stability-lovers” get other benefits, for example, they receive loans faster, banks often provide a total package of services to them, which is cheaper than a number of services taken separately.
- ▶ 5) Firms, before the IPO often take credits not because they need them, but because they want to create a good credit history: therefore, usually they do not mind to collateralize their loans.

How does a small Lithuanian commercial bank work?

- ▶ 6) Banks usually have very simple models for credit risk management: logit, probit. It is possible that IPO has a significant negative coefficient.
- ▶ 4) Usually information itself does not cost a lot for commercial banks. However, information needs to be managed. The quality of risk management is different.
- ▶ 7) Small banks often cannot afford good credit risk management. IPO is a signal for such banks that the borrower is good, consequently, they often try to attract this borrower.

Thank you!

