Access to finance – a few thoughts

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Selected take-aways from the papers

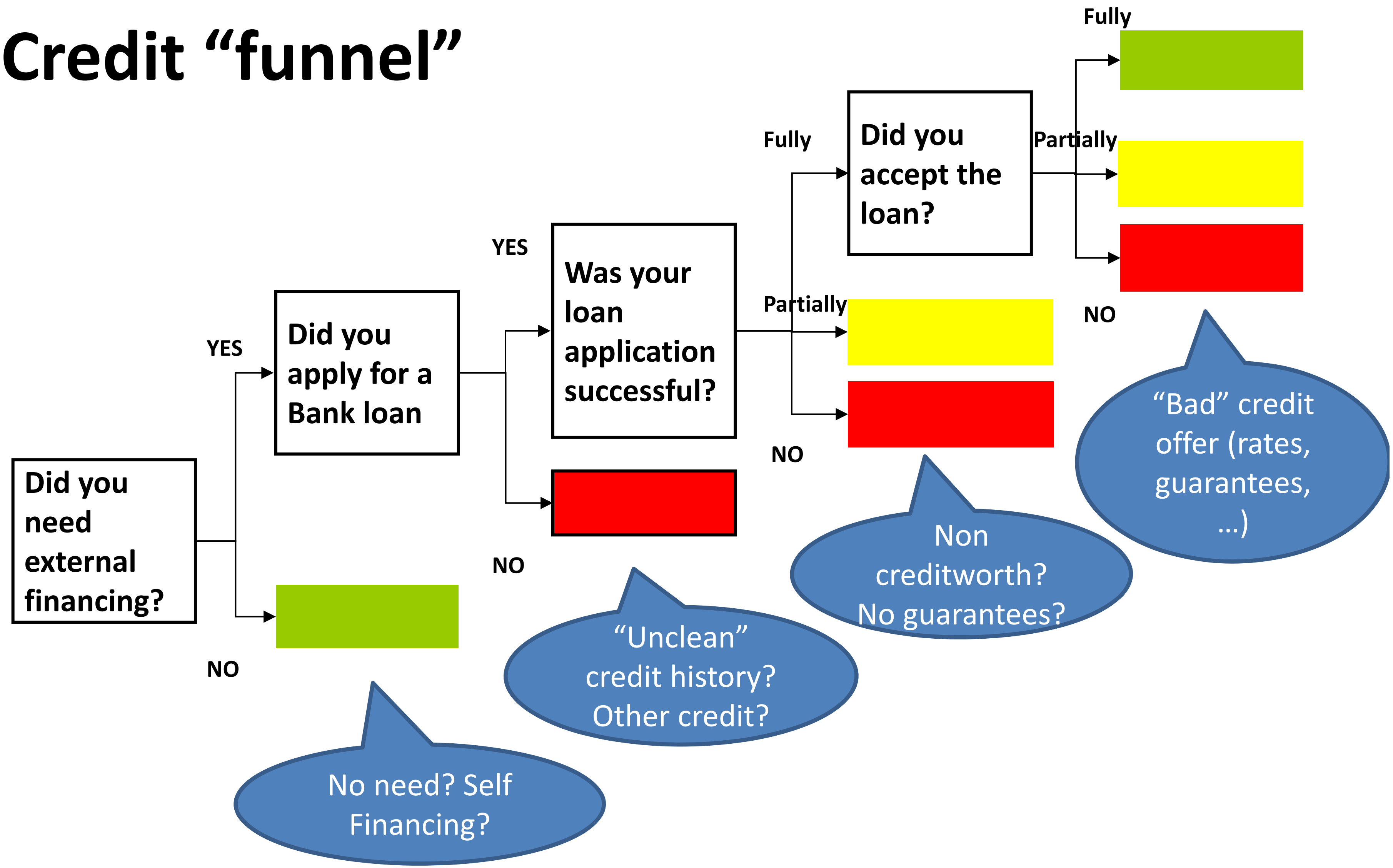
	“Standard” results …	… and less counterintuitive ones
Ferrando - Mulier	Profitability (in various forms) and WC (A-L) matter …	… but leverage does not
	Age matters …	… but size does not
	(Negative) ownership bias … (sole proprietors more constrained)	… but no sectors bias
	A two-speed Europe, with credit more difficult in the South)	
Abildgren - Kuchler	Crisis reduced profitability ...	… however, the corporate sector is more solid (higher solvency)
	More solid (profitable, solvent, liquid) firms receives credit …	… but they are not the only ones who do not apply
	Banks “tightened their belts” during the crisis…	… but lower CAR does not influence credit decisions

Few thoughts coming from the papers

1	**What does "refusal" mean?**	… careful about lumping together a set of borrowers who did not receive credit
	Are all borrowers equally worth?	… similar to the above: which mitigating factors can improve a creditor's position?
2	**Are all credit processes the same?**	No "one-size-fits- all" credit processes
3	**Do banks behave similarly across countries?**	How do banks behave across borders?

1

Credit "funnel"



Not all "yes" or "no" are the same: we should estimate different models or account for several factors

1

Creditworthiness is a function of several factors …

Probability of Default 2 % X **Loss Given Default** 40 % X **Exposure At Default** € 3'000

= **Expected Loss** € 24

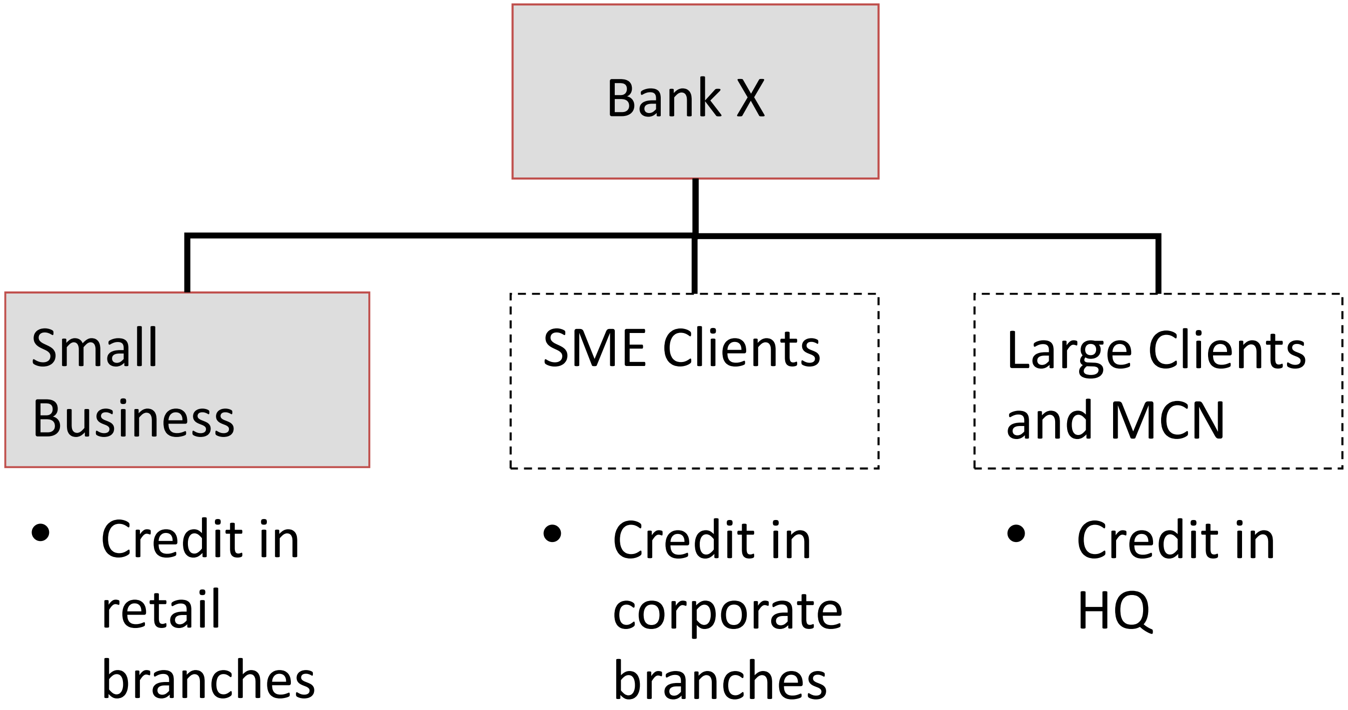
Firm characteristic: solvency

Guarantees (including personal ones)

“Credit type” (e.g. invoice discounting, revolving credit)

When estimating the models, we should look for ALL these factors, not just solvency

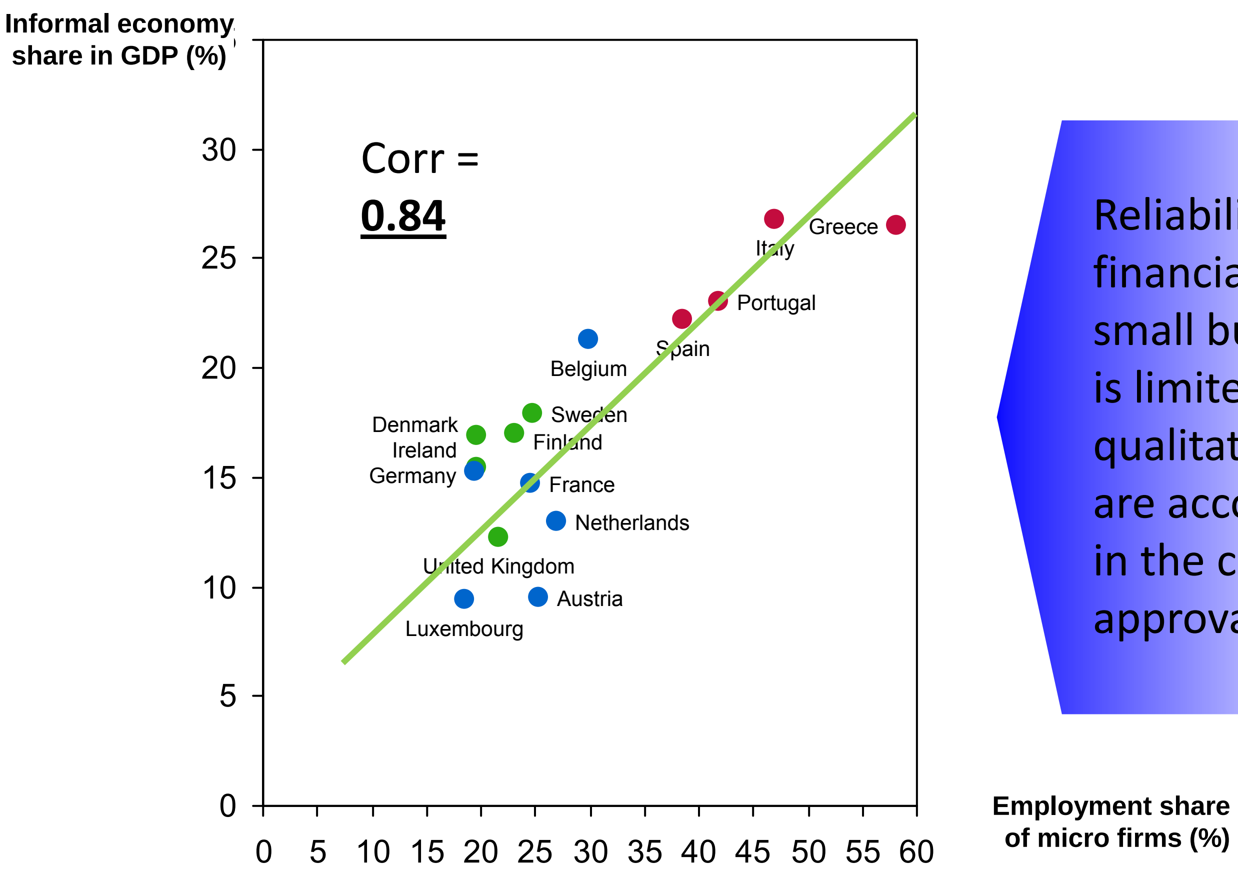
② … the Banks service (and credit) model is differentiated by corporate customers …



Size is a discriminating factor, which could be captured with a dummy, rather than through a continuous variable

2

… especially "small Businesses" are different

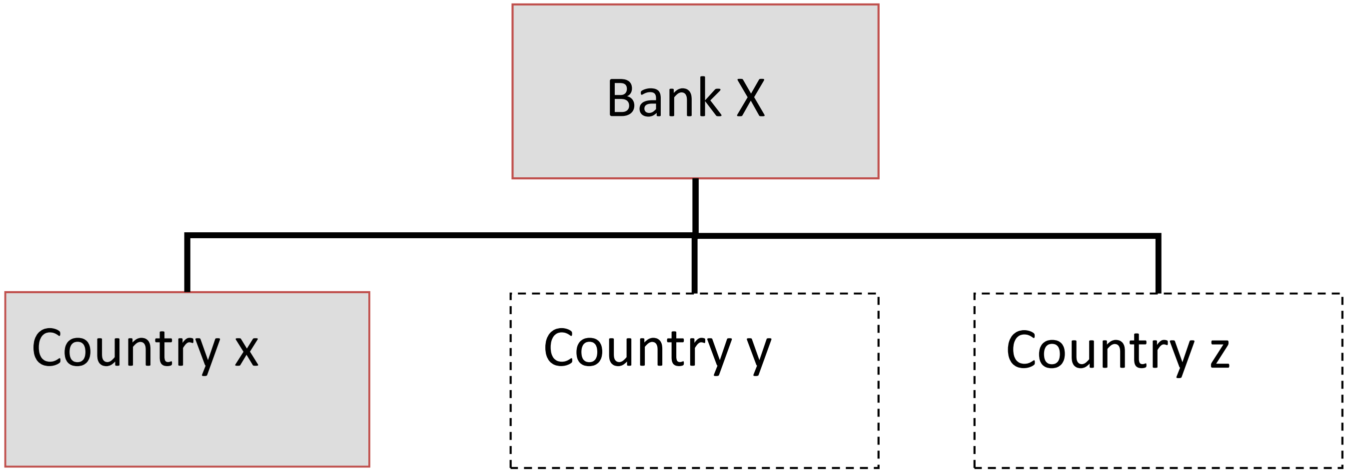


Reliability of financials for small businesses is limited … More qualitative factors are accounted for in the credit approval process

A reason to estimate a separate model for small businesses

③

Do Banks behave differently across countries?



Shall we control for country specific behavior? Maybe focusing on a specific banking group?