[PRELIMINARY DRAFT - PLEASE DO NOT CIRCULATE]

Forbearance Patterns in the post-crisis Period*

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Abstract

Using unique loan-level data on corporate loans, we provide evidence for several lending patterns after the Global Financial Crisis. We find that when banks are under stress, they are more likely to grant forbearance measures to the riskiest group of borrowers. Dissecting this phenomenon further, we show that risky borrowers are more likely to get an increase in the overall limit or maturity, a stop in amortization, a significantly lower interest rate, or a roll-over of a loan product. As a second step, we look at the effectiveness and possible real effects of this practice. We show that borrowers who received forbearance measures are more likely to default compared to their peers within the same risk group. Finally, we suggest that forbearance and new lending are substitutes for banks as high shares of forbearance in parts of bank's loan book are negatively correlated with new lending to the same group of borrowers.

JEL: G21, G28

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