Forbearance Patterns in the post-crisis Period*

Katharina Bergant Thore Kockerols
Trinity College Dublin Université Paris 1 Panthéon-Sorbonne

July 2017

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

Keywords: Forbearance, Non-Performing Loans, Banking Regulation

*We thank Fergal McCann, Bill Mendenhall, Steven Ongena, Jonathan Rice, and participants of the Central Bank of Ireland’s Financial Stability Seminar and Economics Seminar, and the participants of the RCEA Macro-Money-Finance Workshop for valuable discussions and comments. Katharina Bergant is grateful for financial support from the Grattan Foundation. Thore Kockerols gratefully acknowledges the support of the Laboratory of Excellence on Financial Regulation (Labex ReFi), and PRES heSam under the reference ANR-10-LABX-0095. The views expressed in this paper are solely the responsibility of the authors and should not be interpreted as reflecting the views of the Central Bank of Ireland. All errors are our own. Emails: thore.kockerols@labex-refi.com, bergantk@tcd.ie.