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The Incentive Effect of Scores: Randomized Evidence From Credit Committees

We design a randomized controlled trial to evaluate the adoption of credit scoring with a bank that uses soft information in small businesses lending. We find that credit scores improve the productivity of credit committees, reduce managerial involvement in the loan approval process, and increase the profitability of lending. Credit committee members' effort and output also increase when they anticipate the score becoming available, indicating that scores improve incentives to use existing information. Our results imply that credit scores improve the efficiency and decentralize decision-making in loan production, which has implications for the optimal organization of banks.

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