Information, Credit and Organization*

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Abstract

This paper investigates the effect of a change in informational environment, brought about by the introduction of credit registry for a subset of borrowers, on the organizational design of lending. We exploit micro data from a large multinational bank and find that the establishment of credit registry improves the efficiency of credit allocated by the bank. This is accompanied by a concurrent change in the organizational design that involves an increase in the delegation of tasks to the loan officers and an expansion of scope of activities of both loan officers and divisional managers. There is some suggestive evidence that larger banks in the economy were better able to implement these changes. We discuss that these patterns can be understood within the framework of information cost processing and incentive based theories. Our findings could help rationalize why improvement in information environment is altering the landscape of lending by moving decisions outside the boundaries of financial intermediaries.