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(Just) first time lucky? The impact of single versus multiple bank lending relationships on firms and banks' behavior

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WORKING PAPER SERIES

(Just) first time lucky?

**The impact of single versus multiple bank lending relationships
on firms and banks' behavior**

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(Just) first time lucky?

The impact of single versus multiple bank lending relationships
on firms and banks' behavior*

Giorgia Barboni[†] and Tania Treibich[‡]

August 6, 2012

Abstract

The widespread evidence of multiple bank lending relationships in credit markets suggests that firms are interested in setting up a diversity of banking links. However, it is hard to know from the empirical data whether a firm's observed number of lenders is symptomatic of financial constraints or rather a well-designed strategy. By setting up a model and testing it in a controlled laboratory experiment we are able to uncover the conditions favoring multiple versus single lending strategies of borrowers, as well as the probability to get funding from lenders.

We find that borrowers adjust the way they signal their trustworthiness according to the experimental design: they do so by choosing a single lending strategy when the asymmetry of informations is high. Multiple lending is therefore strategically chosen by dishonest borrowers. Instead, when relationship building is possible, the single lending choice reinforces the positive effect of repeatedly interacting with the same lender. In this case, multiple lending is related to borrowers' financial constraints. Finally, when information upon borrowers' behavior is made available, lenders are more likely to punish free-riding behaviors than simple default due to project failure.

Keywords: Repeated Games, Information Asymmetries, Multiple Lending, Relationship lending.

JEL codes: C72 C73 C92 G21.

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1 Introduction

Early theoretical contributions on financial intermediation suggest that borrowing from one bank is optimal as it reduces banks' monitoring costs (Diamond, 1984) and the requirement of collateral (Boot and Thakor, 1994). Consolidated evidence on multiple bank lending relationships appears then to be at odds with these models: multiple bank lending relationships have been extensively documented in credit markets, among firms of all size and ages. In the US, for instance, 50% of firms borrow from more than one bank (Petersen and Rajan, 1994), while this share reaches 80% for Italian firms (Detragiache et al., 2000). Firms may indeed benefit from multiple lending. It has been shown theoretically that multiple bank lending relationships represent a mean to restore competition among lenders and to limit ex post rent extraction (von Thadden, 1995), to mitigate ex-post moral hazard behaviors (Bolton and Scharfstein, 1996) and to reduce the probability of an early liquidation of the project (Diamond, 1991; Detragiache et al., 2000).

On the empirical ground, several works have tried to explain the variety observed in the number of bank relationships, both across countries and within one country. Cross-country studies have shown that a higher frequency of multiple bank lending relationships is associated to countries with inefficient judicial systems and poor enforcement of creditor rights (Ongena and Smith, 2000). Moreover, in their study on a sample of Portuguese firms, Farinha and Santos (2002) have revealed that firms with a poor credit or performance record have a higher probability to switch from single to multiple lending relationships. Guiso and Minetti (2010) further add that among Italian firms multiple lending is more frequent among financially opaque companies, that is young or small ones. In analyzing the determinants of multiple bank lending relationships, these works encounter several endogeneity issues which are only partly solved by appropriate econometric instruments. From one end of the spectrum, firms' quality is strictly correlated to their access to funds, and this in turn affects their decision upon single versus multiple bank lending relationships. We refer to this point as the "credit rationing story": as the borrower's quality deteriorates, her access to credit becomes more difficult, and she might split her loan requests and ask smaller amounts to a higher number of lenders. Such poor quality firm would therefore maintain several credit links. It might also be the case that a firm chooses multiple lending as a "diversification" strategy: maintaining diverse sources of funds helps to limit hold-up costs associated with single lending. Moreover, playing the competition between banks might further improve the firm's contract conditions. On the other end of the spectrum, firm's creditworthiness is inherently related to relationship lending, that is the ability to create a stable relationship with one lender, i.e. the firm's main bank. With respect to this, Petersen and Rajan (1994) and Berger and Udell (1995) have shown that when a borrower builds a long-term relationship with the same lender, she can benefit from better credit terms as well as access to further funds. The "rela-

relationship lending story” thus affirms that the firm’s quality, by facilitating relationships’ stability, is positively correlated with borrowing concentration.

Both stories are plausible, and have been verified both theoretically and empirically.

From lenders’ perspective, benefits of relationship lending are related to a reduction of information asymmetries from repeated interactions, and increased incentives for the firm to behave in a good manner. However, observational data do not allow to identify which channel develops more frequently and under which conditions. Therefore, a controlled laboratory experiment seems the most appropriate setting to answer to the following research question: what drives a firm’s number of bank links: is it the firm’s choice or rather the banks’? Indeed, multiple lending can be observed as the outcome of a firm’s diversification strategy as well as the result of credit rationing, the firm having to split the funding request in order to get enough funds. Similarly, relationship lending can be the outcome of a concentration of borrowing strategy or the result of credit rationing, the firm only being able to get funding from the lender who has soft information about her quality. To our knowledge, this is the first experimental credit market to study the determinants of single versus multiple bank lending relationships.

We build a laboratory experiment in which, in a similar spirit as [Carletti et al. \(2007\)](#), lenders have limited diversification opportunities and are subject to ex-post moral hazard problems. We then allow borrowers’ quality to vary exogenously and test how this affects lenders’ funding decisions as well as borrowers’ choice between single and multiple bank lending relationships. Besides, in the first treatment borrowers and lenders can’t create any long term relationships, because the latter are randomly chosen. In the second treatment, however, we let relations be established through time, by giving the borrower the possibility to choose her lender. By comparing funding decisions and repayment behavior, keeping riskiness constant, we are able to detect the impact of relationship lending as well as credit rationing on firms’ borrowing strategies. Finally, we further modify the relationship lending setting by making the source of moral hazard (if any) public.

Our experimental design also allows to test for the emergence of social preferences in addition to self-interested actions. In particular, by implementing a treatment in which borrowers have the possibility to choose to which lender they want to address their funding request first, we are able to study lenders’ decision along two dimensions: from one side, by comparing randomness with intentionality, we can study whether in a relationship lending setting borrowers and lenders engage in a committed relationship, and reach the cooperative equilibrium. From the other side, we can also test for the impact of ”not being chosen” on the lender’s decision. In other words, we can analyze whether lenders change their behavior depending on their rank in the borrowers’ lending requests. Besides, we can also condition lenders’ decisions to single versus multiple bank lending strategies, and see whether, *ceteris paribus*, lenders do behave differently. Laboratory experiments are not new in the credit market literature: using an experimental credit market, [Brown](#)

and Zehnder (2007) show that information sharing between lenders works as an incentive for borrowers to repay, when repayment is not third-party enforceable, as they anticipate that a good credit history eases access to credit. This incentive becomes negligible when interactions between lenders and borrowers are repeated, as banking relationships can discipline borrowers. Similarly, Brown and Zehnder (2010) find that asymmetric information in the credit market has a positive impact on the frequency of information sharing between lenders, whereas competition between them may have a negative, though smaller, effect on information sharing.

Closer to our paper are the laboratory experiments conducted by Fehr and Zehnder (2009) and Brown and Serra-Garcia (2011): both papers analyze how borrowers' discipline is affected by debt enforcement and find that (strong) debt enforcement has a positive impact on borrowers' discipline. However, when debt enforcement is weak, Brown and Serra-Garcia (2011) show that bank-firm relationships are characterized by a lower credit volume.

We contribute to the empirical literature on multiple bank lending relationships along twodirections: first, we show that firms tend to use multiple bank lending relationship in an opportunistic way, as more dishonest firms tend to have multiple bank lending relationships, irrespectively of their riskiness. Second, we show that firms are less credit rationed when they concentrate their credit. This result is in line with the recent work on the financial crisis: De Mitri et al., 2010, for example, show that firms with higher borrowing concentration are less hit by credit tightening.

The paper is organized as follows. Section 2 describes our theoretical framework; the experimental design and predictions are reported in Section 3. Results are discussed in Section 4. Section 5 concludes.

2 The Model

Our lending game builds on the investment game introduced by Berg et al. (1995), where the lending as well as repayment decisions relate to the economic characteristics of the borrower and the screening and enforcement capacities of the lender. In order to study borrowers' funding strategies as well as lenders' decisions, we introduce several novelties. Lending contracts and relationships are endogenously formed, as is reputation. However, interest rates and project types are exogenously given, while project returns are stochastic, as in Fehr and Zehnder (2009). The enforcement of debt repayment is incomplete as we allow for strategic default from the borrower. Information about the borrower's risk level as well as her trustworthiness is incomplete, but we allow for information sharing among lenders: they observe default events in a Credit Register. Again, similar to Fehr and Zehnder (2009), borrowers don't have any initial endowment and cannot use excess returns in the future rounds of the game. However, contrary to their design, we assume

that, if the borrower is not able to conclude the credit contract, she has no access to any alternative project. Similarly, lenders cannot invest in a safe project and therefore they compete against each other in order to enter the game: the value of both the borrower's and the lenders' outside option is normalized to zero.

Throughout the game, we observe players' decisions keeping constant price (interest rates), risk (the project's fixed success probability) and information (using a Credit Register, as in [Brown and Zehnder, 2007](#)).

2.1 Basic Setup

We start with an ex-post moral hazard model with an infinite number of identical games. For each game ϕ_i , a borrower i needs to finance an investment project which requires D units of capital to become profitable. We assume that the borrower has not enough wealth to implement her project by herself. Therefore, she has to turn to the credit market, which consists of k identical lenders l_k where $k = \{1, 2\}$, who can lend up to D units of capital. The borrower pays s every time she faces a lender. By s , we identify the "administrative costs" faced by the borrower at each bank, that is, all costs the borrower has to sustain in order to go to a bank and ask for a loan ¹. We assume that the borrower has enough collateral to advance her funding request to both lenders ($c = 2s$, where $c < D$).

The borrower moves first and chooses whether she wants to borrow D from only one lender (*Full* decision), or, rather, to borrow $\frac{D}{2}$ from each lender (*Partial* decision). This is how we design single versus multiple bank lending relationships. In the basic setup, Nature then determines who, between l_1 and l_2 , enters the game first, with equal probability. After receiving the application fee s , the first lender is asked to take the second move which is to accept or deny the loan request. Lenders can only accept or reject the loan request they have received (e.g. they cannot lend $\frac{D}{2}$ if they have been requested D). We assume that each lender will lend with probability γ_k ².

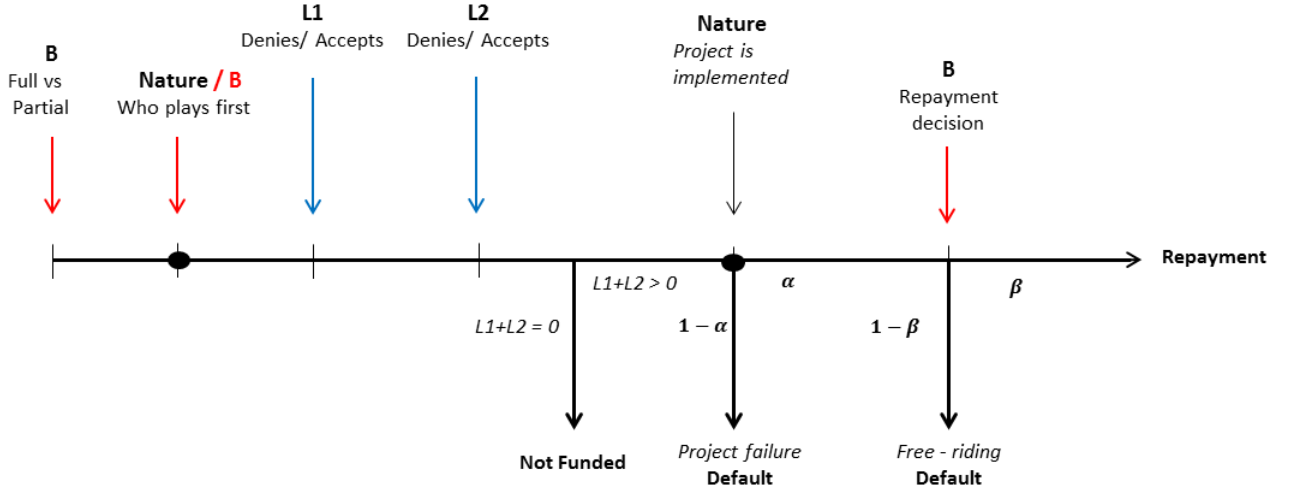
Neither the borrower nor the lenders know who has been chosen by Nature to enter the game first. The lenders only know whether in the round they have been requested to enter the game or not, and the size of the loan requested by the borrower.

After the first lender has made his decision, the second lender might be asked to enter the game if the borrower has obtained less than D . This is the case in the *Partial* subgame and in the *Full* subgame conditional on the first lender having denied credit. In that case, the second lender receives the application fee s and chooses to accept or deny the loan request. If the obtained amount is positive, the borrower implements the project that yields P with probability α and 0 with probability $1 - \alpha$. If the borrower has only obtained $\frac{D}{2}$

¹In other words, s represents the fee the borrower has to pay to ask for loan review, and it enters the bank's turnover. The lender will receive s irrespectively of whether the loan is issued or not.

²For ease of notation, we call γ_1 (γ_2) the probability that the lender (randomly) chosen to play first (the lender chosen to play second) gives the loan.

Figure 1: The timeline of decisions



she can implement a small project which yields $I/2$ in case of success³. Conditional on the project being successful, the borrower then chooses to repay the loan (with probability β) or to free-ride (with probability $1-\beta$). If the borrower repays, lenders will receive $L(1+r)$, with L the amount they lent in that round, $L = \{\frac{D}{2}; D\}$. If the borrower free-rides or the project is not successful, lenders observe default, and receive no repayment. Throughout the game, the lenders can recall (and observe) the borrower’s repayment behavior in all previous games in a “Credit Register”⁴, irrespectively of whether they received a loan request or not⁵. Given that both lenders observe default events in the Credit Register, this signal is public. Besides, they observe the loan size request, even in rounds of play for which they don’t enter the game. However, they have no direct information on α and no information on their position in the game. On the contrary, the borrower knows α and the decisions of each lender, however she is not able to differentiate l_1 from l_2 .

Once the borrower has made her repayment decision, the game ends. The next game, ϕ_{i+1} is identical to the game described so far. The timeline of decisions in each game ϕ_i is shown in Figure 1.

The decision problem of the agents is displayed in Figure 3, in the Appendix. In particular, the borrower’s profit will be⁶:

³However, if she has obtained D , she cannot implement two small projects, and has to invest the full amount in one project.

⁴In the experiment that we describe in section 6, such information will be further specified in a “Credit Register” shared database which collects the information about the borrower’s repayment behavior in all periods.

⁵At the end of each round, the Credit Register is updated with the outcome of the round, that is either *Not Funded*, *Repaid*, or *Default*. Therefore at the beginning of round t , lenders can observe the outcomes of all rounds up to $t-1$.

⁶We display the end node number corresponding to each payoff between brackets.

$$\Pi_B = \begin{cases} -2s & \text{if no loan } (\gamma_1 = \gamma_2 = 0); [3] \text{ or } [7] \\ \alpha[I - D(1+r)] - s & \text{if loan is repaid, } Full \text{ strategy } (\gamma_1 = 1; \beta = 1); [1] \\ \alpha[I - D(1+r)] - 2s & \text{if loan is repaid, } Full \text{ strategy } (\gamma_1 = 0; \gamma_2 = 1; \beta = 1); [2] \\ & \text{or } Partial \text{ strategy } (\gamma_1 = 1; \gamma_2 = 1; \beta = 1); [4] \\ \alpha[\frac{I}{2} - \frac{D}{2}(1+r)] - 2s & \text{if loan is repaid, } Partial \text{ strategy } ((\gamma_1 = 0; \gamma_2 = 1) \vee (\gamma_1 = 1; \gamma_2 = 0); \beta = 1); [5] \text{ or } [6] \\ \alpha I - s & \text{if strategic default, } Full \text{ strategy } (\gamma_1 = 1; \beta = 0); [1] \\ \alpha I - 2s & \text{if strategic default, } Full \text{ strategy } (\gamma_1 = 0; \gamma_2 = 1; \beta = 0); [2] \\ & \text{or strategic default, } Partial \text{ strategy } (\gamma_1 = 1; \gamma_2 = 1; \beta = 0); [4] \\ \alpha\frac{I}{2} - 2s & \text{if strategic default, } Partial \text{ strategy } ((\gamma_1 = 0; \gamma_2 = 1) \vee (\gamma_1 = 1; \gamma_2 = 0); \beta = 0); [5] \text{ or } [6] \end{cases}$$

On the contrary, the first and second lender's profit will be respectively:

$$\Pi_{L,1} = \begin{cases} s & \text{if no loan } (\gamma_1 = 0); [2], [3], [5] \text{ or } [6] \\ \alpha Dr + s & \text{if loan is repaid, } Full \text{ strategy } (\gamma_1 = 1; \beta = 1); [1] \\ \alpha\frac{D}{2}r + s & \text{if loan is repaid, } Partial \text{ strategy } (\gamma_1 = 1; \beta = 1); [4] \text{ or } [5] \\ -D + s & \text{if strategic default, } Full \text{ strategy } (\gamma_1 = 1; \beta = 0); [1] \\ -\frac{D}{2} + s & \text{if strategic default, } Partial \text{ strategy } (\gamma_1 = 1; \beta = 0); [4] \text{ or } [5] \end{cases}$$

and

$$\Pi_{L,2} = \begin{cases} 0 & \text{if } Full \text{ strategy } (\gamma_1 = 1); [1] \\ s & \text{if no loan } (\forall \gamma_1; \gamma_2 = 0); [3], [5] \text{ or } [7] \\ \alpha Dr + s & \text{if loan is repaid, } Full \text{ strategy } (\gamma_1 = 0; \gamma_2 = 1; \beta = 1); [2] \\ \alpha\frac{D}{2}r + s & \text{if loan is repaid, } Partial \text{ strategy } (\forall \gamma_1; \gamma_2 = 1; \beta = 1); [4] \text{ or } [6] \\ -D + s & \text{if strategic default, } Full \text{ strategy } (\gamma_1 = 0; \gamma_2 = 1; \beta = 0); [2] \\ -\frac{D}{2} + s & \text{if strategic default, } Partial \text{ strategy } (\forall \gamma_1; \gamma_2 = 1; \beta = 0); [4] \text{ or } [6] \end{cases}$$

2.2 Case with complete information

In a first step we present the equilibrium in the setting with complete information for the finite-horizon and the infinite-horizon games, then we relieve this assumption and do not let the lenders know the risk level of the project, α , nor the borrower's discount factor, δ . All players observe the outcome of all previous stages before the current stage begins. We assume that all players are risk neutral.

The finite-horizon game

In a game with finite horizon, lenders' problem is to decide whether to accept or deny the borrower's request for funding (with probability γ_k) subject to the borrower's incentive compatibility constraint. As all players know when the game will come to an end, they can use backward induction strategies. In particular, once the project has succeeded, the

borrower (player i) will choose to repay or not by comparing her profit in both cases. She will prefer to repay her debt rather than free-ride if and only if the following constraint is satisfied:

$$\Pi_{B,repay} \geq \Pi_{B,default} \quad (1)$$

If the borrower chooses to request the entire amount to one lender at the time (playing *Full*), condition 1 is only satisfied for $D(1+r) \leq 0$. It is straightforward to see that this condition implies that the borrower will always default in this type of game, by choosing to free-ride on the loan. In this case of course, the amount repaid $D(1+r)$ is equal to zero.

When asked to enter the game, the lender's maximization problem is to choose whether or not to lend, that is $\gamma_k = 1$ or $\gamma_k = 0$ ($k = \{1, 2\}$). We proceed by backward induction and compute the lender's profit as follows:

$$\max_{\gamma_k} \Pi_{L,k} = \gamma_k(s - D) + (1 - \gamma_k)s \quad (2)$$

where $\gamma_k^* = 0$ is the decision which maximizes the lender's profit. Therefore, the lender's optimal strategy in the finite-horizon game is not to lend, knowing that the borrower would never repay. It is important to notice in this case that the solution of the game as presented in equation 2 is identical for both lenders. Besides, as the probability that the second lender enters the game depends upon the first lender's lending decision, by backward induction we get that, given that $\gamma_1^* = 0$ for the first lender, the second lender will automatically enter the game but will face the same maximization problem as the first lender. Thus the second lender's optimal decision is also not to lend ($\gamma_2^* = 0$). In the equilibrium of the single lending case, players thus reach the end node number 3 (Cf. figure 3, in the Appendix).

If the borrower instead opts for multiple bank lending relationships (playing *Partial*), her decision conditional on receiving funding will be exactly the same as in 1 only that S is always equal to $2s$. At end nodes 5 and 6, the amount obtained is $L = D/2$ while at end node 4 it is $L = D$. In all cases, condition 1 requires $D(1+r) \leq 0$ and the borrower never repays.

Lenders' profit in the multiple lending setting is now $\Pi_{L,k} = \gamma_k(s - D/2) + (1 - \gamma_k)s$. Again, the solution of the maximization problem for lenders is to refuse lending. In the equilibrium of the multiple lending case, players thus reach the end node number 7.

Given the equilibria obtained above, the final payoff of the borrower is always $\Pi_B = -2s$. Thus the borrower is indifferent between choosing the single lending or the multiple lending strategy.

The infinite-horizon game

The game ϕ_i is repeated an infinite number of times. In the first period of this model, when the borrower takes the decision of repaying the loan or not, she compares the present value from cooperating, $V_{c,B}$ to the present value from defecting $V_{d,B}$. We solve the model in the case of a “trigger” strategy: there is no cooperation after the first defection⁷. Thus repaying today allows for cooperation in the future while defecting prevents it. If the borrower chooses to play *Full*, she asks the entire amount to one lender at the time, the incentive compatibility constraint of the borrower now becomes:

$$V_{c,B} > V_{d,B} \quad (3)$$

where

$$V_{c,B} = \sum_{t=1}^{\infty} \delta^{t-1} [\alpha[I - D(1+r)] - s]$$

and $\delta \in [0;1]$ is the subject’s time discount rate.

Defecting in each period means to receive $\alpha I - s$ in the first period and paying the fee s to both lenders in all subsequent periods without receiving any loan⁸:

$$V_d = \alpha I - s + \sum_{t=2}^{\infty} \delta^{t-1} (-2s)$$

The borrower thus cooperates if the following condition is satisfied⁹:

$$\alpha > \frac{-\delta s}{\delta I - D(1+r)} \quad (4)$$

We call α^* the threshold value at which the borrower changes her decision, with $\alpha^* = \frac{-\delta s}{\delta I - D(1+r)}$ ¹⁰. Thus we get the following decisions of the borrower in the single lending case:

$$\beta = \begin{cases} 0 & \text{if } \alpha < \alpha^* \\ 1 & \text{if } \alpha \geq \alpha^* \end{cases}$$

⁷There might be other strategies in which lenders start punishment after a higher number of defections, or punishment for a finite number of periods. Instead we are only considering the simplest case, although it might not be a subgame perfect equilibrium.

⁸Indeed, both lenders observe free-riding in the first period before taking their decision in the subsequent periods

⁹It is important to note that equation 4 is true if the borrower believes that $\gamma_1 = 1$. In turn, if the borrower doesn’t receive funds then he should always choose to cooperate (see proof in the Appendix).

¹⁰Given our parametrization, we can expect a threshold value $\alpha^* = 0,6$ for a value of the discount factor $\delta = 0,45$. Notice that the expression on the right is negative for $\delta > \frac{D(1+r)}{I} = \delta^*$, therefore cooperation is always satisfied for $\delta \in]\delta^*; 1]$. If $\delta \in [0; \delta^*]$ the equilibrium depends on the value of α . Moreover, if $\delta = 0$ and $\alpha > 0$ then the condition is never satisfied: an extremely impatient individual behaves as if it were a one-shot game.

In the *Partial* case, she asks half of the amount to each lender, and pays the fee $S = 2s$ for sure. As a consequence, the borrower cooperates if $\alpha[\delta I - D(1+r)] > 0$, that is, $\delta > \frac{D(1+r)}{I}$. Setting $\delta^* = \frac{D(1+r)}{I}$, we get the following decisions of the borrower in the multiple lending case:

$$\beta = \begin{cases} 0 & \text{if } \delta < \delta^* \quad \forall \alpha \\ 1 & \text{if } \delta \geq \delta^* \quad \forall \alpha \end{cases}$$

In order to make their decision, lenders compare their expected value from cooperating or not. Lender l_k , $k = 1, 2$ accepts to give the loan if:

$$V_{c,l_k} > V_{d,l_k} \tag{5}$$

with

$$V_{c,l_k} = \sum_{t=1}^{\infty} \delta^{t-1} [\beta \alpha L(1+r) - L + s]$$

and

$$V_{d,l_k} = \sum_{t=1}^{\infty} \delta^{t-1} s$$

Expression 5 is true if $\beta \alpha > \frac{1}{1+r}$ ¹¹. Both the project's risk level and the borrower's trustworthiness matter in lenders' decision. The size of the loan ($L = D$ in the *Full* branch and $L = D/2$ in the *Partial* branch) does not affect the threshold of making lending profitable, however the borrower's trustworthiness is defined differently in the case of single or multiple lending (see above). Thus lenders' decision follow the condition:

$$\gamma_k = \begin{cases} 0 & \text{if } \alpha < \frac{1}{1+r} \quad \forall \beta \\ 1 & \text{if } \alpha \geq \frac{1}{1+r} \quad \text{and } \beta = 1 \end{cases}$$

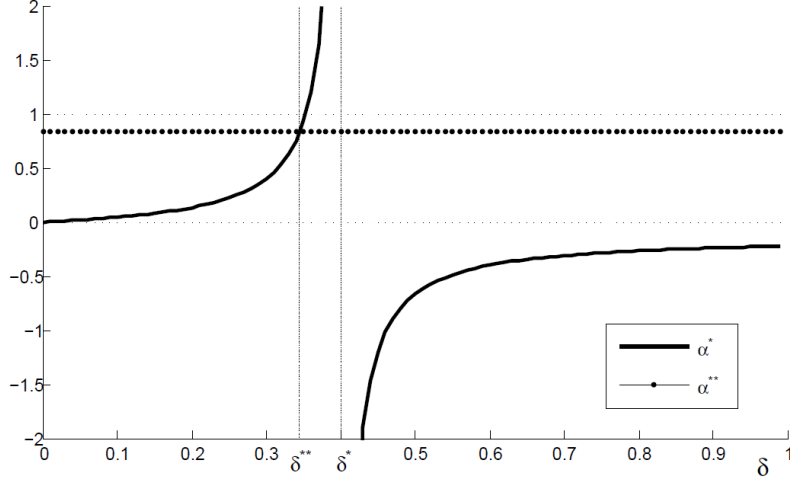
If the project is too risky, the lender has no incentive to accept the borrower's request, whatever her behavior. However, if the project is safe enough, it is the borrower's behavior, that is β , which conditions lending.

We now turn to the analysis of the borrower's choice between single and multiple bank lending relationship. According to the analysis we have conducted so far, the borrower will prefer single bank lending relationships as long as the following inequality is satisfied:

$$V_{single,B} > V_{multiple,B} \tag{6}$$

¹¹Notice that for α high enough ($\alpha > \alpha^*$ and $\alpha > \frac{1}{1+r}$), the lenders' and the borrowers' incentives align. Moreover, for $\frac{1}{1+r} > \alpha^*$, the lender's threshold is binding. Figure 2 however shows that which threshold between the lenders' (with $\alpha^{**} = \frac{1}{1+r}$) and the borrower's is binding depends on the borrower's patience.

Figure 2: α^* and α^{**} as function of δ , single lending



Note: both thresholds are equal at $\delta^{**} = \frac{D(1+r)}{I+s(1+r)}$.
 Moreover, there is no value of α^* for $\delta = \delta^*$.

with

$$V_{single,B} = \beta \left[\sum_{t=1}^{\infty} \delta^{t-1} [\alpha[I - D(1+r)] - s] \right] + (1-\beta) \left[\alpha I - s + \sum_{t=2}^{\infty} \delta^{t-1} (-2s) \right]$$

and

$$V_{multiple,B} = \beta \left[\sum_{t=1}^{\infty} \delta^{t-1} [\alpha[I - D(1+r)] - 2s] \right] + (1-\beta) \left[\alpha I - 2s + \sum_{t=2}^{\infty} \delta^{t-1} (-2s) \right]$$

It is easy to see that the borrower should always prefer single to multiple bank lending relationships. Indeed, the difference between the borrower's payoff under the single lending strategy as compared with the multiple lending one is either s (for a fixed value of δ , whatever the value of α) or $\delta^{t-1}s$ (for a fixed value of α). We can therefore formulate the following hypothesis :

Hypothesis 1: *The single lending strategy strictly dominates the multiple lending one.*

The repeated game with complete information predicts that no contract will be formed in the case of risky or untrustworthy borrowers. On the contrary, repeated contracts will be formed between the borrower and the first lender to be chosen if the project is safe and the borrower has incentives to be trustworthy. Thus both riskiness and trustworthiness have to be combined to allow for cooperation to emerge.

2.3 Solving the game with incomplete information

We now relieve the assumptions that lenders know the riskiness of the project and the borrower's discount factor. Therefore, a lender has to form beliefs on the probability to be repaid in order to make his lending decision. In the finite horizon game, lenders' decisions do not depend on their knowledge of those parameter values, thus the equilibrium will also be, by backward induction, not to lend, knowing the borrower would free-ride. In the infinite horizon game instead, both the riskiness of the project and the trustworthiness of the borrower matter. In the case with complete information, the probability to be repaid is defined by $p^R = \beta\alpha$. Lenders accept to lend if the probability to be repaid is high enough: $p^R > \frac{1}{1+r}$, or, by construction, if the probability of default is low enough: $p^D < \frac{r}{1+r}$. However, with no information on β and α , lenders need to compute a proxy of the probability of default \hat{p}_t^D which is reevaluated in each period. In the first period of the game, lenders have no information about the riskiness of the project, thus they use their prior \hat{p}_0^D on the value of the probability of default in order to decide whether to lend or not in the first period. If the prior is below $\frac{r}{1+r}$ a lender would accept, and refuse in the alternative. In this latter case, the player will refuse to lend in all subsequent periods if he has no new information. However, if contracts are formed by him or the other lender, the player will use observed default events in order to update \hat{p}_t^D in each period. Such proxy is defined by the frequency of defaults:

$$\hat{p}_t^D = \frac{\#Default_t}{t} \quad (7)$$

Lenders can both recover the number of defaults in each period using the Credit Register, which is public information¹². Starting from a low prior ($\hat{p}_0^D < \frac{r}{1+r}$), a player can stop lending if observed defaults are too frequent. On the contrary, starting from a high prior ($\hat{p}_0^D \geq \frac{r}{1+r}$), and if some contracts are actually formed by the other two players, a lender can start giving funds after observing enough repayments. However, if both lenders start with high priors, no contracts will be formed in all subsequent periods.

Introducing asymmetry of information about the project riskiness and the borrower's patience constrains lenders to reevaluate the borrower's probability to repay in each period, based on the available information. We can therefore introduce the following hypothesis:

Hypothesis 2: *There is a negative relation between the frequency of observed defaults and the probability to get funds.*

¹²There is one way however that lenders can disentangle the borrowers' repayment behavior from the riskiness of the project. Indeed, her decision on repaying or not (β) is defined by the following rule: $\beta = 1$ if $\alpha > \alpha^*$ and $\beta = 0$ if $\alpha \leq \alpha^*$. Therefore we get the following probabilities to repay: $p^D = 1 - \alpha$ if $\alpha > \alpha^*$ and $p^D = 1$ if $\alpha \leq \alpha^*$. Thus any repayment event observed by the lender is enough to signal that the borrower will always repay if she can ($\beta = 1$). Still, we have seen that the order of the thresholds α^* and α^{**} depends on the borrowers' patience δ . The repayment event therefore contains information about α but it is ambiguous due to the uncertainty about the borrower's patience.

3 Treatments

The experiment was implemented at the EXEC, University of York in October 2011. The experiment was programmed and conducted with the experiment software z-Tree (Fischbacher (2007)). All subjects were volunteers, and each subject could only take part in one session. All participants were undergraduate students of the University of York. We conducted six experimental sessions, for a total of 129 subjects. To ensure that the subjects understood the game, the experimenters read the instructions aloud and explained final payoffs with the help of tables provided in the instructions¹³. Before the game started, the subjects practiced three directed test runs. In each session, groups of three subjects were formed: one borrower (player A) and two lenders (players B and C). All subjects received a show-up fee of 5 pounds to which their payoff in the game was added in order to compute their final payoff. The players earned an average of 13 pounds from participating in the game.

At the end of the game, the subjects randomly selected one of the periods of play to be the one that was actually paid. If the payoff achieved in this period were to be negative, subjects lost part of the show-up fee. Each session lasted approximately one hour and a half.

We implement three treatments in order to detect the effect of borrowers' riskiness, the identification of lenders and information disclosure on subjects' decisions. In each treatment, we identify the borrower as player A, while the two lenders as player B and player C. Treatments were constructed as follows. In the *Random treatment* (hereafter "RA", the baseline treatment), who plays first between player B and player C is randomly set¹⁴. In the *Relationship lending treatment* (hereafter, "RL"), at the beginning of each round, player A is asked to choose to play first with player B or player C. The *Information Disclosure treatment* (hereafter "ID") is identical to the RL treatment with the only exception that it allows player B and player C to know whether player A's default has to be accounted for investment failure or free-riding. This information is only accessible to the player(s) who have lent in this particular round of play.

For each treatment, we ran two separate sessions¹⁵, a safe project session (α_{low}) and a risky project one (α_{high})¹⁶. Therefore, we ran a total of six sessions (see Table 1 below).

¹³See the instructions in the Appendix. We only provide here the instructions for the "Random" treatment. Instructions for the "Relationship Lending" and the "Information Disclosure" treatments are also available upon request.

¹⁴with equal probability that either player B or player C is selected as the first lender. In the experiment, the choice of Nature was generated by computer.

¹⁵Each participant played in only one session

¹⁶where $I\alpha_{low} < I\alpha_{high}$.

Table 1: Treatments

<i>Session 1</i> <i>RA</i> α low	<i>Session 2</i> <i>RA</i> α high
<i>Session 3</i> <i>RL</i> α low	<i>Session 4</i> <i>RL</i> α high
<i>Session 5</i> <i>ID</i> α low	<i>Session 6</i> <i>ID</i> α high

Safe vs Risky treatments

If lenders had perfect information on the borrower’s riskiness, we might have expected a higher share of successful contracts in the case of the safe treatments ($\alpha = \alpha_{high}$) from the beginning. In a setting with asymmetric information about α , through repeated interaction, players should adapt their beliefs over the borrowers’ overall quality (the combination of her riskiness and trustworthiness). Thus, we might expect that the share of accepted requests should increase in the case of safe treatments and decrease in the case of risky treatments, with a significant difference between the two. In the former case, players should approach a “Cooperative equilibrium” (lenders accept requests and get repaid) while in the latter case they should converge to a “Defecting equilibrium” (no contracts formed). Thus the following should be observed:

Hypothesis 3 (Risk): *The share of accepted requests should increase over periods in the case of safe treatments and decrease in the case of risky treatments .*

Corollary: *The average number of contracts should be higher in the safe than in the risky treatments.*

The Random treatment (RA)

The game with incomplete information predicts that both lenders should converge to the same lending rate¹⁷, if they have the same priors. If their priors on the probability to be repaid differ, players’ lending decision might differ as well. However, differences should not be systematic: not knowing their position in the game their decisions should be the same when they play first or second. Therefore, we expect γ_1 and γ_2 to be equal.

¹⁷By lending rate we mean the share of accepted loan requests, not their cost, the latter being always fixed in our setting.

Moreover, through repeated interaction lenders should also adapt their behavior to the observed frequency of default. As a consequence, overall, we should expect a higher credit volume in the sessions with safer projects. The model also predicts that all borrowers choose single lending. Finally, loan size should not have any impact on lenders' decision. Specific to this treatment, we should observe that:

Hypothesis 4 (Anonymity): *The probability to get funding from the first or second lender should be equal in the RA treatment.*

The Relationship Lending treatment (*RL*)

We modify the above described game (defined as the *RA* treatment), by allowing the borrower to choose l_1 or l_2 to enter the game first, at the beginning of each round of play, instead of Nature. Furthermore, lenders are informed of their position in the game. We define as p_{chosen_1} the probability that player l_1 is chosen as first (such that $p_{chosen_2} = 1 - p_{chosen_1}$), with p_{chosen_1} being endogenously determined by the borrower's choice in each period. The game then proceeds exactly as in the Random Game. However, this time, when one lender receives a loan request from the borrower, his decision about lending not only depends upon the borrower's past repayment behavior (that is, by his beliefs over α and β), but also upon the fact that the borrower has *voluntarily* chosen him instead of the other lender.

Assuming complete information, in the finite-horizon game, the borrower's incentive-compatibility constraint will be exactly as in equation 1: therefore, her optimal decision will be to default. Besides, she will also be at most indifferent between choosing one lender instead of the other. Therefore, lenders' optimal strategy under the finite-horizon game is to deny credit, knowing that the borrower would never repay.

However, with the repetition of the game, the issue for lenders becomes to know whether or not they gain from being chosen to play first. As before, if the project is too risky or the borrower untrustworthy ($\beta\alpha < \frac{1}{1+r}$), their decision will be to deny funding, whatever their position in the game. However, if the project is safe enough, and the borrower chooses the single lending strategy, she will form a contract with the first lender to play, and the second lender will not enter the game. In that case, the first lender makes a positive profit and the second lender no profit at all. Therefore, both lenders compete in order to play first, that is increase their probability to be chosen $p_{chosen,k}$, for $k = a, b$. However, because lenders are only incentivized to increase $p_{chosen,k}$ in the profitable range of α , where they both would accept to give the loan anyway, there is no way they can differentiate one from the other. Therefore the predictions of the relationship lending game are exactly the same as the random one.

Interesting effects can however emerge when we consider the game with imperfect information, as implemented in the experiment. Indeed, when lenders are uncertain about the

default probability, they might interpret repeated matching as a signal of trustworthiness, and increase their expected repayment probability as a consequence. This can be tested by measuring the probability to give funds conditional on the length of relationship between the borrower and one of the lenders.

The possibility to identify the lender and choose which lender plays first (in the *RL* and *ID* treatments) should increase lending and repayment behavior probability, as well as relationship length: as trust is built up both players have higher incentives to cooperate. Relationship lending could therefore mitigate risk: if the borrower's fixed quality element is poor (the project is risky), its endogenous element is improved (the borrower is trustworthy). Thus a trade-off between risk and trustworthiness could help improve risky borrowers' access to funding.

Furthermore, in the *RL* treatment, lenders' behavior under the single or multiple lending strategies might differ, for two reasons. First, as both lenders do not take their decisions simultaneously, but sequentially, additional information can be inferred from the unfolding of the stage game. This is the case in the "Full" branch, when the first lender denies funding and the borrower goes to the second lender. The second lender knows his position in the game and thus this is the only case in which the action of l_1 is disclosed to l_2 (if l_1 had accepted, l_2 would not play). This indirect information might therefore affect γ_2 : the second lender can reevaluate the probability to be repaid based on the decision of the first lender. Second, when the borrower chooses the single lending strategy, he offers the lender chosen to play first the possibility to access the highest payoff. In a setting with incomplete information, this could reduce the lender's prior \hat{p}^D and increase γ_1 .

Hypothesis 5a (Single vs multiple lending decision, first lender): *In the RL treatment, the willingness to lend of the first lender should be higher under the single lending strategy than under the multiple lending one : $\gamma_{1,full} > \gamma_{1,partial}$.*

Hypothesis 5b (Single vs multiple lending decision, second lender): *In the RL treatment,, the willingness to lend of the second lender should be lower under the single lending strategy than under the multiple lending one : $\gamma_{2,full} < \gamma_{2,partial}$.*

The Information disclosure treatment (*ID*)

In this third treatment lenders having formed a contract with the borrower in the round are told when default is caused by the borrower's voluntary free-ride. As commented above, after being given such information, the lender should stop lending at all: whatever the value of α , the probability to be repaid in all subsequent rounds is expected to be zero, if $\beta = 0$. This effect should act as an enforcement device and increase borrowers' repayment probability. In turn, credit volume conditional on no free-riding history should be relatively higher than in the *RL* treatment. The possibility given to lenders to dis-

entangle riskiness from trustworthiness in the *ID* treatment should therefore drastically limit free-riding behaviors: borrowers could no longer use the benefit of the doubt to free-ride.

Hypothesis 6 (Free-riding disclosure): *Free-riding behaviors should be lowest in the ID treatment as compared to the RA and RL ones.*

Corollary: *The probability to give funds (γ_k) should be highest in the ID treatment as compared to the RA and RL ones.*

4 Results

In this section we report the results of the six experimental sessions. After presenting descriptive statistics, we investigate further the determinants of players' choices.

4.1 Descriptive Statistics

We start investigating our data with summary statistics in order to get a first intuition on players' behavior. Figure 4 in the Appendix shows borrower's repayment behavior, while figure 6 reports the lending decision by the first and the second lender. By comparing the three figures, it is straightforward to see that lenders' behavior displays a higher variability than borrowers'. While the distribution of borrowers' decisions is clearly unimodal, or, in other words, we observe a very low degree of strategic default, the distribution of lenders' decisions is, instead, bimodal. Indeed, although a relevant share of lenders always accept the borrowers' request, some of them deny funding most of the time. When it comes to multiple vs single lending strategies, Hypothesis 1 seems verified: the *Full* choice is observed most of the times (above 68% in all sessions), still this number is far from the predicted value of a 100% (see tables 6 to 8). Next we test if the size of the loan request affects players' decision. First, when choosing to play the single lending strategy, the borrower is more trustworthy (Table 4, top right). Also, lenders seem to be able to detect the *Full* choice as a signal for the borrower's willingness to cooperate, as also shown in figure 9, bottom. However, here it is important to distinguish between the first and the second lender's decisions. As predicted by Hypotheses 5a and 5b, γ_1 is higher under the single lending strategy while γ_2 follows the opposite pattern. As expected, second lenders lend less when they enter the game by default, knowing that the first lender has denied funding to the borrower¹⁸.

Table 5 reports whether the behavior of the first and second lenders are statistically different one from the other. When chosen as first, 48% of lenders accepted the funding

¹⁸Of course this reasoning is only valid for the *RL* and *ID* sessions.

request, while only 28% gave credit when chosen as second. Such difference is statistically significant and quite robust. Indeed, results from the t -test don't change when we perform them by treatment (RA , RL or ID) or by risk class ($Safe$ vs $Risky$). These t -tests thus run in favor of the argument that lenders tend to positively respond to borrowers' willingness to cooperate. At the same time, however, they confute the predictions we made under Hypothesis 4: the order in which lenders enter the game matters for the borrower's probability to receive funding, even in the random treatment¹⁹.

We then relate lenders' order and their willingness to lend to the borrowers' choice in terms of single versus multiple bank lending relationships. We find that the order of requests matters only when the borrower has chosen the single-lending strategy (as proxied by the $Full$ choice), while we find no statistically significant difference between the willingness to lend by the first and the second lender when the borrower has chosen the multiple-lending strategy (as proxied by the $Partial$ choice). Therefore being chosen only matters when the borrower signals his willingness to favor one lender over the other, choosing the $Full$ strategy. In what follows we compare players' decisions across treatments.

Safe vs risky treatments

In table 4 we take a first step in detecting what explains the variability in players' decisions, that is the borrower's trustworthiness β or lender's willingness to lend γ_k . When the risk level is exogenously increased (bottom, left) both the borrower and the lenders cooperate more. Indeed, although borrowers' repayment rate is always high (above 70% in all sessions), they repay more in safe treatments as compared to risky ones. The effect of riskiness on players' decisions is therefore in accordance with Hypothesis 3. This is further confirmed by figures 5 and 8 (top): lenders are able to identify borrowers' probability to repay given that they mostly refuse lending in the risky treatments, while they accept significantly more in safe treatments. Moreover, figure 7 compares the evolution of lenders' decisions over time in the case of safe or risky treatments. It is very clear that starting from a similar prior ($\gamma_0 = 0,6$), lenders adapt their beliefs over the probability to be repaid over time, following predictions from the game with incomplete information. In the case of the safe treatments, with a low rate of default, lending rates are very stable and comprised between 60 and 80%. In the case of risky treatments on the contrary, lending rates are strictly decreasing, reaching 20% at the end of the game. Indeed, it takes time for lenders to learn the risk level of the borrower.

Table 6 presents summary statistics for our two corresponding sessions when the order of the lenders in each period is randomly determined (RA Treatment- α_{low} and RA

¹⁹Investigating why this is possible in a setting where lenders do not know their position in the game, we find that in RA sessions, γ_1 is significantly higher than γ_2 only in the safe environment. It is possible that, although not told by the experimenter, players were able to uncover their position in the game by the fact that they had to wait before playing. In the risky sessions lending rates are lower so the difference doesn't show.

Treatment- α_{high} ²⁰). As shown in columns (5) and (6), we test whether or not mean differences across levels of riskiness are significant, for each decision variable. Not surprisingly, there is more cooperation between players in the safe sessions, and the mean distribution of all variables is significantly higher in the α_{high} session than in the α_{low} one. In the safer session, borrowers are more willing to repay and lenders are more willing to lend. This is further confirmed by the fact that in the safer session, even in the absence of relationship lending, borrowers experience less credit rationing (the share of rationed borrowers is significantly lower)²¹.

Moreover, borrowers exogenously endowed with a risky project are more willing to opt for multiple bank lending relationships than safe borrowers (the share of *Full choice* is lower). However, the analysis here doesn't allow us to understand whether this result is driven by risk-diversification motives or, rather, by strategic behavior. We will specifically test the determinants underlying borrowers' choices in the following section.

Random vs relationship lending treatments

Next we test whether removing lenders' anonymity changes players' behaviors (table 4 bottom, left and figure 8, middle). As in Petersen and Rajan (1994), when relationship lending is possible, we observe a stronger commitment from the parts. In particular, we find that the probability to be given funds increases in *RL* treatments as compared with *RA* ones. Actually, only first lenders significantly increase the number of contracts they form under *RL* relative to *RA*, positively responding to the choice of the borrower. If repayment rates are not statistically different across treatments, figure 9 shows that borrowers positively respond to the length of the relationship: they repay more often when the lending relationship is stable.

The intuition behind these results is that, as theory predicts, in a stable relationship lenders acquire more information on the borrowers' riskiness and creditworthiness. Moreover, being chosen here plays a role, along two directions: from one side, being chosen increases the lending rate; from the other, not being chosen seems to trigger a retaliation behavior. Indeed, the lender who enters the game by default (because the first lender denied funding) is less likely to give the loan as compared to when the decision is randomly set. Results from table 7 also indicate that relationship lending doesn't seem to mitigate moral hazard behavior: repayment rates across risk levels are not statistically different. A possible explanation for this latter evidence is that the repayment rate is already very high (greater or equal than 80%) in both sessions.

Furthermore, the share of single bank lending relationships in the risky session of the *RL* treatment is significantly lower than the share of single bank lending relationships in the risky session of the *RA* treatment. A possible explanation is that borrowers need to

²⁰Tables 7 and 8 show that similar results are found in the *RL* and *ID* treatments.

²¹The construction of the *Rationed* variable as well as all others is detailed in the Appendix.

signal their creditworthiness to lenders in order to increase their probability to receive funds. In the *RA* treatment they only have one means to do this and it is by choosing a single lending strategy. In the *RL* treatments however the signaling process is more directly made by repeatedly choosing the same lender. In that case, the choice of single vs multiple lending strategies loses its signaling importance. We will further test this statement in the regression analysis.

Relationship lending vs Information Disclosure treatments

The *ID* treatment only differs from the *RL* Treatment in the type of information lenders receive about the borrower’s behavior. Indeed, while in the *RL* treatment the source of default - whether it depends upon project’s failure or borrower’s unwillingness to repay - was kept undisclosed, in the *ID* sessions, instead, it is revealed to the lender(s) suffering losses. Therefore they receive a perfect signal upon the borrower’s decision.

Hypothesis 6 predicts that both borrowers and lenders should cooperate more under *ID* because of such perfect monitoring setting. Table 4 (bottom, right) reports that the effect on borrowers’ behavior is not significant. This is because, as already stated above, they are already very high, with an average of 90%. Disclosing information also affects lenders’ willingness to lend (*RL* vs *ID*, figure 8, bottom and table 4). Overall, following the predictions of Hypothesis 6’s corollary, first lenders give more contracts when they have perfect information on the borrower’s source of default. However, conditioning on risk sets a different picture: lending rates are higher than the *RL* treatment in risky sessions, however they are lower in safe ones. This latter element can be related to perfect monitoring: when free-riding is observed early in the game, lenders refuse to cooperate in all subsequent periods, bringing mean lending rates down. On the contrary, in risky sessions, lenders are told when default is related to project failure, and show leniency in that case. Such behavior is consistent with model predictions: if default is due to free-riding ($\beta = 0$), the probability to be repaid is null. However, if default is due to risk, lenders’ belief over the probability to be repaid is decreased, but positive.

This first look into the data points that risk, loan size and lender order might be important determinants of lenders’ decisions. On the borrower side, risk, but also the stability of the relationship with a lender seem to matter.

4.2 Determinants of players’ decisions

We build our identification strategy in order to test two main hypotheses. From the borrowers’ perspective, we want to understand to what extent the choice of single versus multiple bank lending relationships depends upon the firm’s characteristics and behavior, or on the lenders’ decisions towards her. From the lenders’ perspective, we investigate the determinants of the lending decision, and more precisely, whether being chosen by the

borrower to play first has an impact on lending behavior. We estimate our main equations using both a linear probability and a probit model on our panel throughout 22 periods²². Besides running the analysis over the entire sample, we compare how subjects' behavior changes across treatments using subsamples.

We are interested in the determinants affecting the choice of single versus multiple bank lending relationships. If the previous section has pointed towards risk as a possible determinant, we also test whether the borrower's trustworthiness (β), or lenders' behavior in the previous round also impact such decision. Indeed, although our theoretical model defines single lending as the best strategy, previous works on multiple lending (Detragiache et al., 2000, Farinha and Santos, 2002) have shown that financially constrained borrowers tend to spread their lending requests in order to maximize their chances to get funding. Thus we estimate the main equation as follows, for each borrower i and period t ²³:

$$Full_{i,t} = \theta_0 Rationed_{i,t-1} + \theta_1 \beta_{i,t-1} + \theta_2 Safe + \theta_3 Final_{period} + \epsilon_{i,t} \quad (8)$$

where $Rationed_{t-1}$ is a dummy which takes value one if the borrower has been credit rationed in the previous round²⁴ and β is a dummy which is one if the borrower has voluntarily repaid in the previous period. We also include controls for riskiness ($Safe$ is equal to one in α_{high} sessions) and time ($Final_{period}$)²⁵. Results for equation 8 are shown in table 9. As expected, we find that having experienced credit rationing in the previous period leads the borrower to spread its credit requests at present (the coefficient θ_0 is negative and statistically significant). However running the regression over treatment subsamples reveals that such effect is significant only for the RL and ID treatments. Therefore, when reputation building is possible, multiple bank lending relationships are used as a means to overcome credit rationing. On the contrary, in the RA treatment, that is, in absence of relationship building, only dishonest borrowers are more likely to establish multiple bank lending relationships (θ_1 is positive and statistically significant). In turn, honest borrowers have to keep signaling their trustworthiness by choosing the single lending strategy even when they are rationed. In the RL and ID treatments borrowers have other means to signal their quality, that is by repeatedly choosing the same lender.

Evidence from table 9 suggests that borrowers choose multiple lending for two reasons, each one holding under different conditions. From one side, when borrowers have the possibility to establish long-term relationships, they will be more likely to opt for multiple

²²Our sessions lasted between 22 and 30 periods. In order to prevent biases due to session length, we censor all observations above period 22.

²³Standard errors are clustered at the group level.

²⁴We classify a borrower as credit rationed if he is not able to implement the whole project, that is, both if she receives 0 or $\frac{D}{2}$ in the round.

²⁵The time dummy, $Final_{period}$, is equal to one for the second half of the session.

bank lending relationships if they have experienced credit restrictions, irrespectively of their riskiness and creditworthiness. On the other side, when relationship lending is not allowed, the choice of multiple versus single bank lending relationships is closely related to the borrower’s trustworthiness.

Table 9, however, is not enough to draw the whole picture. Indeed, we also need to fully understand what explains credit rationing in order to identify further the link between credit rationing and the choice of single versus multiple bank lending relationships. We therefore estimate how the probability of being credit rationed is affected by a set of variables at the firm level as follows, for each borrower i and period t :

$$Rationed_{i,t} = \theta_0 Rationed_{i,t-1} + \theta_1 Rationed_{i,t-2} + \theta_2 \beta_{i,t-1} + \theta_3 Full_{i,t} + \theta_3 Safe + \theta_4 Final_{Period} + \epsilon_{i,t} \quad (9)$$

Results for equation 9 are displayed in table 10. First, we see that credit rationing is strongly autocorrelated: borrowers rationed in the previous periods have a higher probability to stay rationed in period t . Then, the main result is that, controlling for project riskiness, the probability of being credit rationed is negatively and significantly correlated with the choice of single bank lending relationships, under all treatments: the more the borrower has concentrated her borrowing, the less credit tightened she will be. What this finding suggests is that lenders perceive multiple bank lending strategies as a signal of borrowers’ bad quality, and protect themselves by denying credit. More importantly, when relationship lending is possible (that is, both in the *RL* and *ID* treatments), the more honest the borrower is, the less likely she will be to experience credit rationing. The link is not significant in the *RA* treatment. We interpret this result as further evidence of the impact of relationship lending on lenders’ behavior: through repeated interaction, the lender gets a more precise evaluation of the borrower’s quality, both in terms of riskiness and trustworthiness. The latter is rewarded by relaxing credit conditions.

We also perform some robustness checks. In particular, table 11 shows the determinants of borrowers’ switches from single to multiple lending. In doing so, we regress the number of switches the borrower makes throughout the game on a series of variables like credit rationing in past periods, borrower’s repayment behavior in past periods, and we control for project riskiness. In line with previous findings, results show that borrowers are more likely to switch between single and multiple bank lending relationships if they have experienced credit rationing in the past or if they have been dishonest. These effects are significant across all treatments.

In what follows, we study the determinants of the lenders’ decision. In a first step we test general determinants of the lending decision across all treatments. In a second step we focus on the *RL* and *ID* treatments in order to measure the effect of being chosen to

play first and other default probability proxies. As a first investigation of the data, we thus estimate the following regression equation, for each lender j playing with borrower i in each period t :

$$\gamma_{1,j,t} = \theta_0 Full_{i,t} + \theta_1 Default_{hist,i,t-1} + \theta_2 Safe + \theta_3 Final_{Period} + \epsilon_{j,t} \quad (10)$$

Results are displayed in table 12. The dependent variable, identified as $\gamma_{1,j,t}$, is a dummy which takes the value of one if the borrower has received credit from the first lender to enter the game, and it is 0 if he has denied. As regressors, we use a series of variables related to the bank-firm relationship: the loan size request, as defined by the borrower's choice $Full$, and the borrower's credit history. In this first specification, the borrower's default probability is thus proxied by the dummy variable $Default_{hist}$, which takes the value of one if the borrower has defaulted at least once in the past periods. We also control for the riskiness level and time.

As expected by Hypothesis 2, we observe a negative relation between observed defaults and the probability that lenders give funds, in all treatments but the ID one. We will study below other possible determinants for the lending decision in this treatment (see Table 14).

Moreover, we find that in the RL treatment, safer borrowers get more funds (θ_2 is positive and significant) while in the two other treatments (RA and ID) it is the choice between single and multiple lending that is used as a proxy for borrowers' quality, θ_0 being positive and significant.

As a second step, we focus on the RL and ID treatment (tables 13 and 14, respectively). Our dependent variable is now the decision of all lenders, would they be first or second to enter the game. This allows us to measure the effect of being chosen to play first on the lending decision, using the $Chosen$ variable. Further, we add a variable defining the number of periods the lender has cooperated with the borrower, $Length$, in order to test whether the stability of the relationship also impacts the lending decision. Besides $Default_{hist}$, we also test other proxies for the borrower's probability of default. $High_{default}$ (Model 2) tests whether the frequency of default events matters. It is a dummy taking value 1 if the frequency of defaults ($Default_t/t$) is higher than the threshold computed in section 2.3, that is $\frac{1}{1+r}$. Then $Freeride_{hist}$ (Model 3), is a dummy which takes the value of 1 if the borrower has ever free-ridden. Finally β (Model 4), the borrower's trustworthiness in the previous period, is the last default proxy we use. Note that comparing models 3 and 4 will help to see whether one single freeriding event has the same effect as recent freeriding.

Results reveal that $Default_{hist}$, $High_{default}$ and $Freeride_{hist}$ all have the same predictive in the RL treatment, while using β reduces the goodness of fit. This shows that lenders have memory: they base their lending decision not only upon the borrower's behavior in

the past period, but on her overall credit history. If in the *RL* treatment lenders cannot identify the type of default (thus $Default_{hist}$ and $Freeride_{hist}$ have the same predictive power), in the *ID* treatment only the measures related to trustworthiness ($Freeride_{hist}$ and β) have a significant impact on the probability to lend (the former having a negative effect and the latter a positive one, as expected).

Tables 13 and 14 also report that besides the credit history, the determinants of the lending decision differ in both treatments: in the *RL* treatment, when the asymmetry of information is high, being chosen to play first or having a stable relationship with the borrower don't impact the lenders' decision. What do are the "objective" elements, that is the riskiness level and the credit history. In the *ID* it is the exact opposite. What matter are the borrower's trustworthiness, as we have noted above, but also the stability of the relationship. Both the length of the relationship up to $t-1$ and the continuing effort of the borrower to cooperate, as signaled by *Chosen* positively impact the probability to get funds.

Finally, we investigate what drives borrowers' preferences towards one of the lenders. The regressions in table 15 shows that lenders' behavior can affect their probability of being chosen: the more they are willing to give credit, and the more stable the relationship, the more likely it is that the borrower will choose them in the following period.

5 Conclusions

Uncovering the determinants underlying the choice between single and multiple bank lending relationships through the use of observational data often implies the resolution of endogeneity issues which are not easy to tackle. We thus build an experimental credit market in which a borrower can implement an investment opportunity either through single or multiple bank lending relationships by addressing her funding request to either one or two identical lenders. We first implement a market in which there is no opportunity to create long term relationships between borrowers and lenders. We then modify it by allowing relations to be established through time. Besides, lenders have limited diversification opportunities and are subject to ex-post moral hazard problems. Throughout the game, we allow the borrower's quality to vary exogenously and study how this affects lenders' funding decisions as well as borrowers' choice between single and multiple bank lending relationships. In particular, the use of a controlled laboratory experiment helps us to address the following research questions: are multiple bank lending relationships explained by difficulties to build a stable relationship or rather a strategy in order to diversify the sources of credit? Moreover, as the borrower can choose to which lender she wants to address her funding request first, does the rank in which the lender appears in the borrower's preferences play a role in his funding decision? We find that the choice of multiple bank lending relationship is highly correlated with borrowers' untrustworthiness

only if relationship lending is not possible. When we allow for repeated interactions between lenders and borrowers, we show instead that multiple bank lending relationships are preferred by those borrowers who have experienced credit rationing in the past, irrespective of their trustworthiness. From the other side, we observe that lenders are less likely to give credit to borrowers that spread their loan requests among several financial intermediaries, but only in absence of relationship lending, while when relationship lending is possible, lenders will base their funding decisions upon borrowers' riskiness. Taken together, our results suggest that lenders evaluate borrowers' debt exposure towards other banks as a "free-riding" strategy - and indeed borrowers do so - when they are not able to gather further information upon their quality and interactions are only seldom repeated. On the contrary, when borrowers and lenders engage in a committed relationship lending, multiple bank lending relationships serve as a diversification strategy. From the lenders' side, we find that being chosen as first by the borrower as well as the length of the relationship positively affect their willingness to lend. Last, when information upon borrower's behavior is made available, lenders are more likely to punish free-riding behaviors than simple default due to project failure: our results thus show that the reason why borrowers default matters for the continuation of the relationship lending.

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Appendix A

Proof of equation 4 for all values of γ_1 and γ_2

When the borrower doesn't assume that lenders will accept to lend in the first period, the value from cooperating $V_{c,B}$ integrates the probability to be given the funds from the first or the second lender:

$$V_{c,B} = \sum_{t=1}^{\infty} \delta^{t-1} \{ \gamma_1 [\alpha [I - D(1+r)] - s] + (1-\gamma_1) [\gamma_2 [\alpha (I - D(1+r)) - s] + (1-\gamma_2)(-2s)] \}$$

Similarly, the value from defecting $V_{d,B}$ becomes:

$$V_{d,B} = \gamma_1(\alpha I - s) + (1 - \gamma_1)[\gamma_2(\alpha I - 2s) + (1 - \gamma_2)(-2s)] + \sum_{t=2}^{\infty} \delta^{t-1}(-2s)$$

As a consequence, the borrower will cooperate if the following condition is satisfied:

$$\alpha > \frac{-\delta s \gamma_1}{(\delta I - D(1+r))(\gamma_1 + \gamma_2 - \gamma_1 \gamma_2)} \quad (11)$$

Note that for $\gamma_1 = \gamma_2 = 0$ the condition is true for all values of α .

Appendix B

Figure 3: The game tree

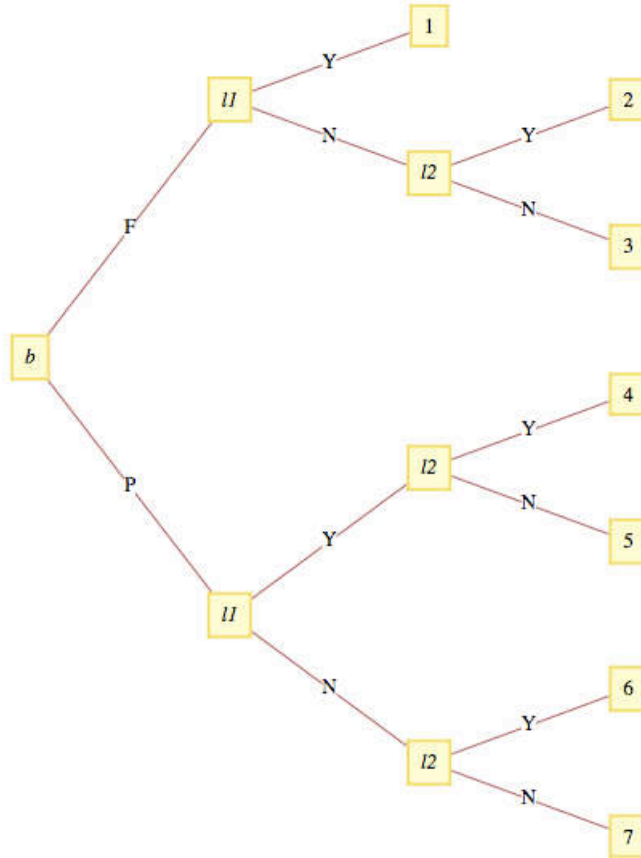


Figure 4: Borrowers' repayment decision (Left: by session ; Right: overall distribution)

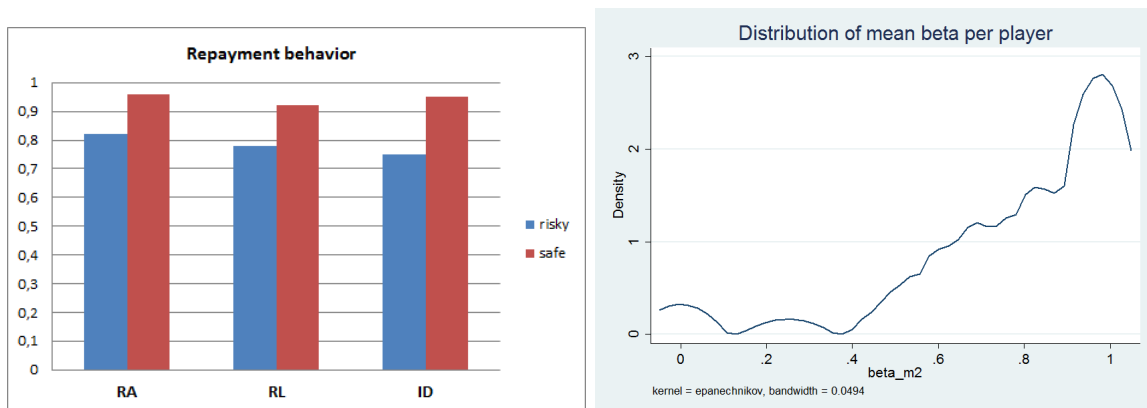


Table 2: Construction of variables used in the regressions

Variable	Description
$Rationed_t$ (v)	= 1 if the borrower was denied credit by at least one lender in the period
$Safe$ (d)	= 1 for sessions with a high value of α
$Final_{period}$ (d)	= 1 for the second half of the game
$Default_{hist,t}$ (v)	= 0 if the borrower has never defaulted up to period t = 1 if the borrower has defaulted at least once since the game started
$Freeride_{hist,t}$ (v)	= 0 if the borrower has never free-ridden up to period t = 1 if the borrower has free-ridden at least once since the game started
$Length_{first,t}$ (v)	in sessions allowing for relationship lending, length of relationship between the chosen lender and the borrower in number of periods (the lender gives the loan and the borrower repays)
$High_{default,t}$ (v)	= 1 if the frequency of defaults (defined as $\frac{Default_t}{t}$) is above the threshold value of $\frac{r}{1+r}$ (that is 0,166 according to our parametrization) = 0 otherwise

Note: (d) Dummy variable ; (v) variable.

Table 3: Parameters and treatments

	Random treatment	RL treatments
Parameters		
Risk level: α	p	p
Project size: D	p	p
Revenue: I	p	p
Interest rate: r	p	p
Decisions		
Full vs. Partial	$d(b)$	$d(b)$
l_1 (or l_2) enters the game first	Nature	$d(b)$
Accept vs Deny the loan	$d(l_1)$ and/or $d(l_2)$	$d(l_1)$ and/or $d(l_2)$
Repay the loan if project successful	$d(b)$	$d(b)$
Information		
α	only b	only b
Loan size request	all players	all players
l_1 (or l_2) enters the game first	None	all players
Success of the project	only b	only b
Default /repayment/not funded	all players	all players

Note: p are parameters; $d(x)$ is the decision of player x , where $b = \text{borrower}$ and $l_k = \text{lender}$, with $k = \{1,2\}$

Figure 5: Lenders' acceptance rate by lender order; by session

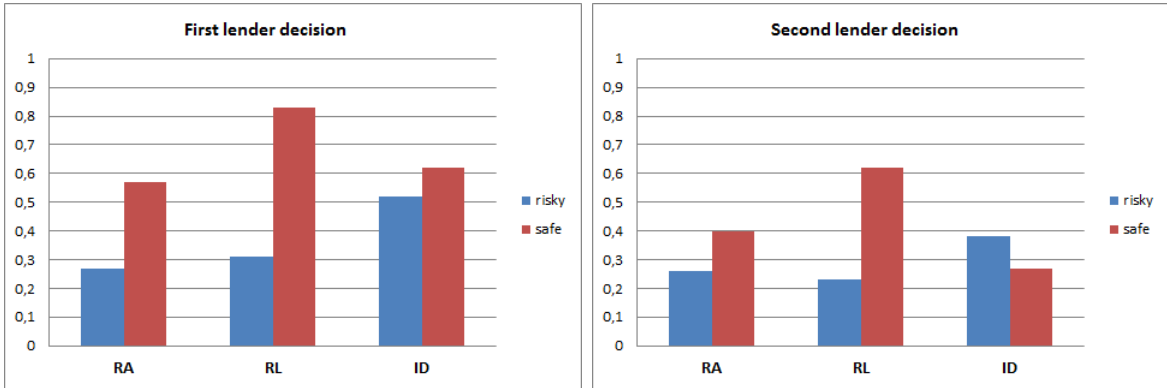


Figure 6: Lenders' acceptance rate by lender order; overall distribution

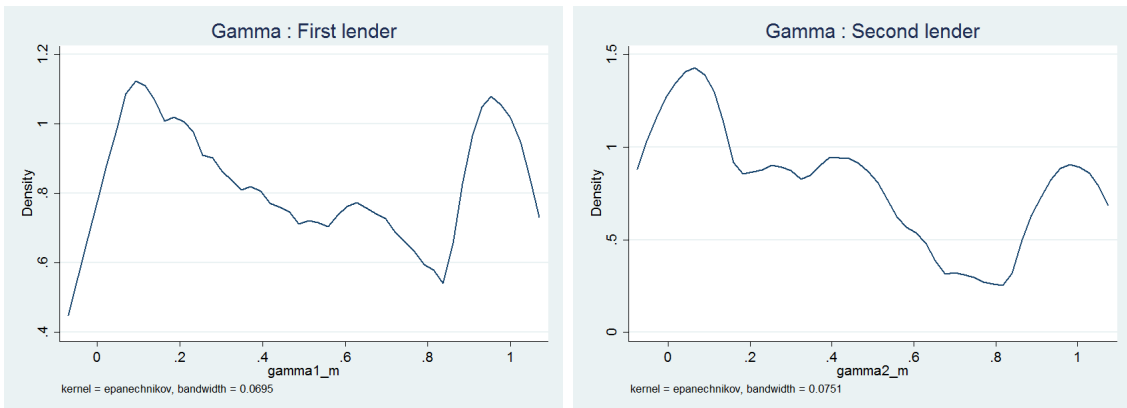


Figure 7: Evolution of lending over time by riskiness level

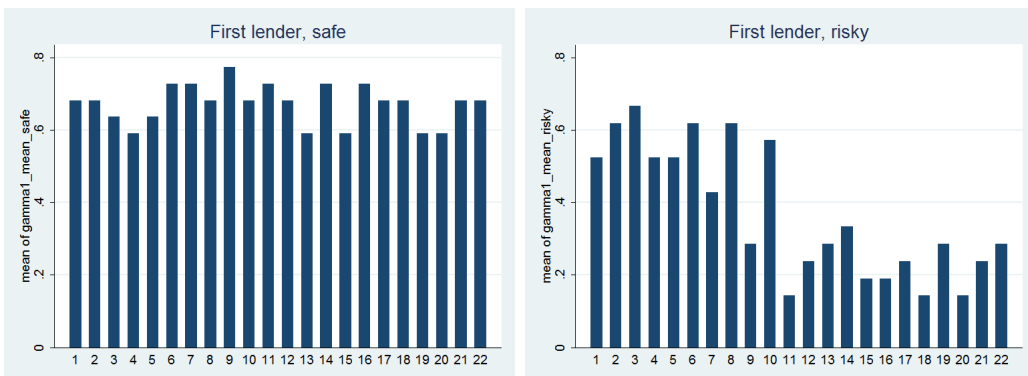


Figure 8: Distribution of lenders' decisions across treatments

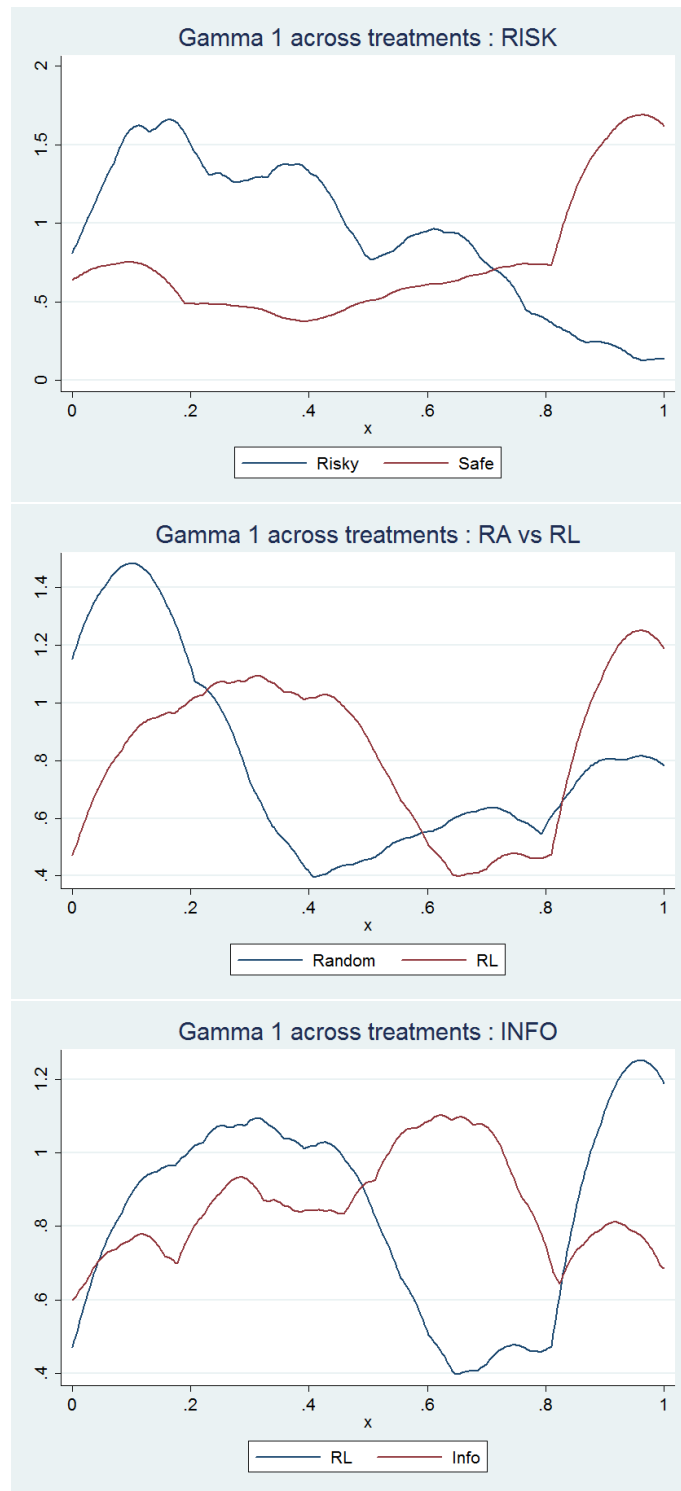


Figure 9: Conditional distributions

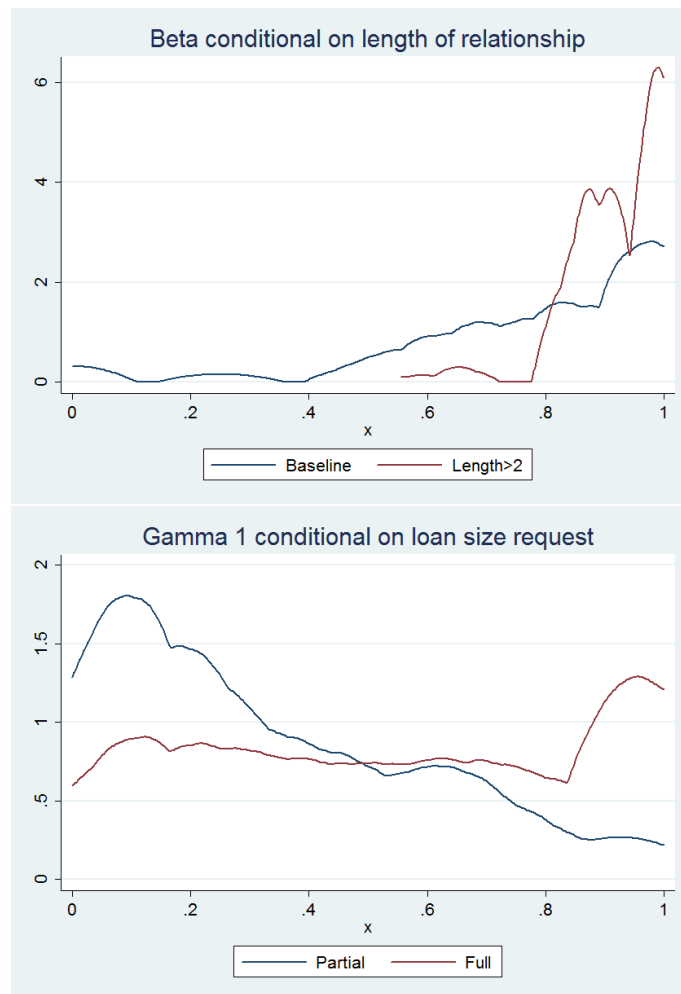


Table 4: Mean difference tests between treatments

	Safe	Risky	ttest	t stat	Full	Partial	ttest	t stat
β	0,94	0,78	0,157***	4,31	0,93	0,72	0,213***	3,98
γ	0,78	0,46	0,319***	11,49	0,67	0,41	0,264***	7,71
γ_1	0,66	0,31	0,352***	15,07	0,55	0,27	0,285***	8,88
γ_2	0,38	0,23	0,150***	1,95	0,28	0,29	0,017	0,47
	Random	RL	ttest	t stat	No info	Info	ttest	t stat
β	0,92	0,89	0,030	0,99	0,91	0,89	0,016	0,59
γ	0,54	0,60	-0,064*	-1,77	0,57	0,69	-0,115***	-3,77
γ_1	0,38	0,50	-0,128***	-3,56	0,44	0,58	-0,140***	-4,38
γ_2	0,27	0,25	0,015	0,36	0,26	0,32	-0,057	-1,43

Table 5: Mean difference tests - γ_1 and γ_2

	γ_1	γ_2	ttest	t stat
Overall	0,48	0,27	0,204***	8,55
Safe	0,67	0,38	0,285***	7,41
Risky	0,31	0,23	0,083***	2,94
Full	0,55	0,27	0,279***	9,37
Partial	0,27	0,29	0,022	0,58

Table 6: Summary statistics: Random treatment

	Random - α_{low}		Random - α_{high}		ttest	
	mean	sd	mean	sd	ttest	t stat
β	0.82	0.39	0.96	0.19	-0.138**	-2.30
γ_1	0.21	0.41	0.57	0.49	-0.362***	-13.56
γ_2	0.21	0.41	0.39	0.49	-0.178***	-4.89
Full choice	0.73	0.44	0.82	0.38	-0.0956***	-3.97
Avg volume lent	3.36	2.29	7.33	3.86	-3.978***	-12.17
Avg volume repaid	1.94	4.30	8.01	5.64	-6.068***	-20.49
Rationed	0.70	0.46	0.27	0.44	0.435***	9.54
n. switches	0.18	0.38	0.06	0.23	0.116***	3.64

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 7: Summary statistics: Relationship Lending treatment

	Rel Lend - α_{low}		Rel lend - α_{high}		ttest	
	mean	sd	mean	sd	ttest	t stat
β	0.8	0.40	0.92	0.27	-0.121*	-1.78
γ_1	0.27	0.44	0.83	0.37	-0.565***	-22.76
γ_2	0.16	0.37	0.62	0.49	-0.456***	-9.82
Full choice	0.68	0.47	0.84	0.36	-0.163***	-6.50
Avg volume lent	3.33	1.44	9.02	1.36	-5.693***	-38.40
Avg volume repaid	1.77	1.44	9.74	4.54	-7.969***	-29.50
Rationed	0.70	0.46	0.13	0.34	0.570***	13.65
n. switches	0.14	0.35	0.06	0.23	0.080***	2.61

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 8: Summary statistics: Information Disclosure treatment

	Info Disc - α_{low}		Info Disc - α_{high}		ttest	
	mean	sd	mean	sd	ttest	t stat
β	0.75	0.43	0.95	0.21	-0.204***	-3.33
γ_1	0.52	0.50	0.62	0.48	-0.106***	-3.46
γ_2	0.38	0.49	0.26	0.44	0.120***	3.03
Full choice	0.75	0.43	0.76	0.42	-0.0182	-0.68
Avg volume lent	6.27	1.27	6.67	3.87	-0.409	-1.40
Avg volume repaid	3	5.04	7.23	5.77	-4.230***	-1.52
Rationed	0.43	0.50	0.35	0.48	0.080	1.08
n. switches	0.15	0.36	0.11	0.31	0.039	1.08

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 9: Determinants of single vs. multiple lending

dep var: Full choice	Random		Rel Lend		Info Disc		All sample	
	ols	probit	ols	probit	ols	probit	ols	probit
<i>Rationed</i> _{t-1}	-0.410 (0.264)	-0.306 (0.308)	-0.661*** (0.174)	-0.688*** (0.195)	-0.302* (0.170)	-0.298* (0.162)	-0.463*** (0.105)	-0.444*** (0.109)
<i>β</i> _{t-1}	0.379** (0.160)	0.335** (0.157)	0.181 (0.110)	0.202 (0.124)	-0.004 (0.088)	0.001 (0.077)	0.176*** (0.064)	0.171** (0.067)
<i>Safe</i>	0.020 (0.033)	0.010 (0.024)	0.048 (0.081)	0.064 (0.113)	0.025 (0.075)	0.017 (0.069)	0.012 (0.043)	0.012 (0.042)
<i>Final</i> _{period}	0.019 (0.034)	0.018 (0.027)	-0.058 (0.042)	-0.072 (0.045)	0.037 (0.044)	0.045 (0.039)	-0.004 (0.024)	-0.000 (0.024)
<i>Constant</i>	0.586* (0.176)	0.133 (0.643)	0.741* (0.106)	0.656* (0.369)	0.864* (0.0662)	1.102* (0.299)	0.759* (0.0634)	0.753* (0.220)
Observations	144	144	168	168	163	163	475	475
R-squared	0.47		0.33		0.08		0.21	
Pseudo R-squared		0.52		0.29		0.12		0.20

Marginal effects ; Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 10: Determinants of credit rationing

dep var: Rationed	Random		Rel Lend		Info Disc		All sample	
	ols	probit	ols	probit	ols	probit	ols	probit
<i>Rationed</i> _{t-1}	0.327 (0.272)		-0.033 (0.071)	-0.008 (0.011)	0.411*** (0.115)	0.545*** (0.151)	0.284*** (0.092)	0.235* (0.124)
<i>Rationed</i> _{t-2}	0.320 (0.240)	0.246 (0.218)	0.032 (0.047)	0.010 (0.010)	0.137 (0.111)	0.073 (0.087)	0.170** (0.074)	0.143* (0.085)
β_{t-1}	-0.008 (0.090)	0.032 (0.026)	-0.576*** (0.148)	-0.649*** (0.158)	-0.417*** (0.132)	-0.485*** (0.182)	-0.374*** (0.087)	-0.383*** (0.109)
<i>Full</i>	-0.458** (0.164)	-0.992*** (0.008)	-0.416** (0.147)	-0.597*** (0.220)	-0.315*** (0.084)	-0.489*** (0.107)	-0.315*** (0.081)	-0.336*** (0.100)
<i>Safe</i>	0.000 (0.059)	-0.011 (0.022)	-0.025 (0.061)	-0.029 (0.070)	-0.070 (0.072)	-0.086 (0.082)	-0.048 (0.044)	-0.056 (0.044)
<i>Final</i> _{period}	-0.073 (0.050)	-0.036 (0.028)	-0.037 (0.022)	-0.037* (0.019)	0.038 (0.040)	0.042 (0.032)	-0.029 (0.028)	-0.036 (0.033)
<i>Constant</i>	0.529** (0.181)	0.555 (0.710)	1.038* (0.113)	3.374* (1.297)	0.760* (0.165)	1.660* (0.545)	0.752* (0.103)	1.420* (0.415)
Observations	135	128	158	158	153	153	446	446
R-squared	0.63		0.65		0.55		0.55	
Pseudo R-squared		0.47		0.68		0.58		0.56

Marginal effects ; Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 11: Determinants of number of switches

dep. var: n. switches	Random ols	Rel Lend ols	Info Disc ols	All sample ols
<i>Rationed</i> _{<i>t</i>-1}	10.102*** (1.328)	5.666*** (1.059)	3.966*** (0.835)	5.831*** (0.592)
<i>β</i> _{<i>t</i>-1}	-2.509** (1.085)	-2.549*** (0.865)	-2.819*** (0.823)	-2.860*** (0.529)
<i>Safe</i>	-3.709*** (0.638)	-4.192*** (0.629)	-1.562*** (0.563)	-3.188*** (0.353)
<i>Constant</i>	7.402*** (1.130)	8.699*** (0.879)	7.183*** (0.778)	7.975*** (0.526)
Observations	144	168	163	475
R-squared	0.58	0.39	0.26	0.39

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 12: Determinants of lending decision (1)

dep var: γ_{1}	Random		Rel Lend		Info Disc		All sample	
	ols	probit	ols	probit	ols	probit	ols	probit
<i>Safe</i>	0.052 (0.087)	0.059 (0.113)	0.422*** (0.077)	0.456*** (0.074)	0.029 (0.149)	0.029 (0.153)	0.175** (0.081)	0.192** (0.084)
<i>Full</i>	0.235*** (0.074)	0.297*** (0.085)	0.110 (0.077)	0.147 (0.101)	0.205* (0.101)	0.217** (0.105)	0.211*** (0.068)	0.239*** (0.072)
<i>Default_{hist,lag}</i>	-0.470*** (0.091)	-0.488*** (0.097)	-0.280*** (0.074)	-0.378*** (0.073)	-0.118 (0.189)	-0.129 (0.197)	-0.268*** (0.091)	-0.297*** (0.097)
<i>Final_{period}</i>	-0.006 (0.072)	-0.007 (0.095)	-0.081 (0.075)	-0.089 (0.103)	-0.197** (0.087)	-0.203** (0.088)	-0.097** (0.046)	-0.108** (0.053)
<i>Constant</i>	0.544* (0.109)	-0.0447 (0.383)	0.508* (0.124)	0.264 (0.371)	0.600* (0.189)	0.292 (0.519)	0.511* (0.108)	0.0563 (0.329)
Observations	294	294	294	294	315	315	903	903
R-squared	0.32		0.40		0.10		0.21	
Pseudo R-squared		0.25		0.34		0.07		0.17

Marginal effects ; Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 13: Determinants of lending decision (2, effect of being chosen, *RL* treatment)

dep var: gamma Rel Lend	(Model 1)		(Model 2)		(Model 3)		(Model 4)	
	ols	probit	ols	probit	ols	probit	ols	probit
<i>Chosen</i>	0.031 (0.042)	0.028 (0.058)	0.050 (0.043)	0.066 (0.060)	0.046 (0.040)	0.058 (0.059)	0.075 (0.095)	0.072 (0.090)
<i>Length</i> _{t-1}	0.039*** (0.007)	0.059*** (0.015)	0.015 (0.009)	0.027 (0.019)	0.018* (0.009)	0.034** (0.016)	0.011 (0.010)	0.022 (0.018)
<i>Default</i> _{hist,t-1}	-0.381*** (0.065)	-0.491*** (0.060)						
<i>High</i> _{default,t-1}			-0.377*** (0.063)	-0.421*** (0.077)				
<i>Freeride</i> _{hist,t-1}					-0.346*** (0.046)	-0.416*** (0.062)		
β_{t-1}							0.510*** (0.125)	0.491*** (0.131)
<i>Safe</i>	0.319*** (0.054)	0.354*** (0.057)	0.243*** (0.052)	0.282*** (0.061)	0.372*** (0.046)	0.437*** (0.067)	0.050 (0.080)	0.057 (0.088)
<i>Full</i>	0.016 (0.047)	0.026 (0.062)	0.013 (0.037)	0.020 (0.052)	0.003 (0.043)	0.002 (0.065)	0.044 (0.122)	0.049 (0.120)
<i>Final</i> _{period}	-0.100 (0.058)	-0.113 (0.081)	-0.140** (0.050)	-0.178*** (0.069)	-0.073* (0.039)	-0.094* (0.052)	-0.030 (0.048)	-0.032 (0.052)
<i>Constant</i>	0.630* (0.0867)	0.689** (0.302)	0.648* (0.0839)	0.453 (0.288)	0.502* (0.0678)	-0.00170 (0.207)	0.223* (0.125)	-0.901** (0.447)
Observations	444	444	444	444	444	444	209	209
R-squared	0.39		0.39		0.41		0.28	
Pseudo R-squared		0.33		0.31		0.34		0.24

Marginal effects ; Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Note: $High_{default,t} = 1$ if $\frac{Default_t}{t} > \frac{1}{1+r}$

Table 14: Determinants of lending decision (3, effect of being chosen, *ID* treatment)

dep var: gamma Info Disc	(Model 1)		(Model 2)		(Model 3)		(Model 4)	
	ols	probit	ols	probit	ols	probit	ols	probit
<i>Chosen</i>	0.166*** (0.052)	0.183*** (0.056)	0.166*** (0.055)	0.180*** (0.059)	0.149** (0.053)	0.178*** (0.061)	0.140 (0.097)	0.151 (0.098)
<i>Length</i> _{t-1}	0.048*** (0.010)	0.076*** (0.017)	0.045*** (0.012)	0.075*** (0.017)	0.032** (0.013)	0.054*** (0.021)	0.012* (0.006)	0.024 (0.018)
<i>Default</i> _{hist,t-1}	-0.170 (0.183)	-0.203 (0.202)						
<i>High</i> _{default,t-1}			-0.167 (0.132)	-0.218 (0.147)				
<i>Freeride</i> _{hist,t-1}					-0.340** (0.123)	-0.368*** (0.114)		
β_{t-1}							0.445*** (0.135)	0.448*** (0.145)
<i>Safe</i>	-0.095 (0.111)	-0.108 (0.128)	-0.109 (0.121)	-0.134 (0.142)	-0.126 (0.087)	-0.153 (0.107)	0.149 (0.105)	0.164 (0.105)
<i>Full</i>	0.064 (0.077)	0.080 (0.087)	0.064 (0.073)	0.084 (0.084)	0.080 (0.080)	0.098 (0.095)	0.107 (0.086)	0.134 (0.093)
<i>Final</i> _{period}	-0.216*** (0.064)	-0.230*** (0.068)	-0.236*** (0.051)	-0.249*** (0.056)	-0.121* (0.067)	-0.143** (0.072)	0.012 (0.069)	0.018 (0.079)
<i>Constant</i>	0.562* (0.174)	0.146 (0.504)	0.565* (0.148)	0.176 (0.426)	0.588* (0.107)	0.199 (0.297)	0.0134 (0.160)	-1.558* (0.530)
Observations	483	483	483	483	483	483	212	212
R-squared	0.21		0.22		0.28		0.27	
Pseudo R-squared		0.18		0.18		0.23		0.23

Marginal effects ; Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Note: $High_{default,t} = 1$ if $\frac{Default_t}{t} > \frac{r}{1+r}$

Table 15: Determinants of being chosen

dep var: Chosen	Rel Lend		Info Disc		Rel Lend		Info Disc	
	ols	probit	ols	probit	ols	probit	ols	probit
$\gamma_{1,t-1}$	0.254*	0.260*	0.141	0.143	0.089	0.073	-0.012	-0.076
	(0.132)	(0.142)	(0.107)	(0.107)	(0.147)	(0.168)	(0.107)	(0.117)
<i>Safe</i>	-0.220	-0.228	-0.130	-0.132	-0.250*	-0.260*	-0.163	-0.165*
	(0.139)	(0.145)	(0.114)	(0.114)	(0.125)	(0.135)	(0.098)	(0.099)
<i>Final_{period}</i>	0.021	0.024	0.060	0.062	-0.028	-0.027	0.016	0.024
	(0.067)	(0.071)	(0.062)	(0.064)	(0.059)	(0.064)	(0.058)	(0.058)
<i>Length_{first,t-1}</i>					0.076***	0.095***	0.058***	0.099***
					(0.022)	(0.034)	(0.013)	(0.029)
<i>Constant</i>	0.419*	-0.211	0.456*	-0.114	0.457*	-0.110	0.501*	-0.00901
	(0.0880)	(0.230)	(0.0815)	(0.206)	(0.0780)	(0.210)	(0.0698)	(0.178)
Observations	294	294	315	315	294	294	315	315
R-squared	0.05		0.03		0.13		0.10	
Pseudo R-squared		0.04		0.02		0.10		0.09

Marginal effects ; Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1