

## Accepted Manuscript

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PII: S1042-9573(16)30046-8  
DOI: [10.1016/j.jfi.2016.09.004](https://doi.org/10.1016/j.jfi.2016.09.004)  
Reference: YJFIN 736



To appear in: *Journal of Financial Intermediation*

Received date: 18 February 2016  
Revised date: 9 September 2016  
Accepted date: 17 September 2016

Please cite this article as: Ugo Albertazzi, Margherita Bottero, Gabriele Sene, Information Externalities in the Credit Market and the Spell of Credit Rationing, *Journal of Financial Intermediation* (2016), doi: [10.1016/j.jfi.2016.09.004](https://doi.org/10.1016/j.jfi.2016.09.004)

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# Information Externalities in the Credit Market and the Spell of Credit Rationing

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## Abstract

We present the first empirical study of loan searching strategies and loan granting decisions in a context where banks observe whether applicants have unsuccessfully applied for credit to other lenders in the past. Our identification strategy benefits from the use of granular data on loan applications and exploits the fact that evaluating lenders observe only the rejections received by a borrower up to six months before the current application. We document that past rejections diminish the probability of approval and increase the probability that a loan search is interrupted.

**JEL classification:** E51, G21, G28.

**Keywords:** sequential lending decisions, credit supply, winner's curse, informational spillover.

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