Accepted Manuscript

Credit Risk Modelling Under Recessionary and Financially Distressed Conditions

Y. Dendramis, E. Tzavalis, G. Adraktas

PII: S0378-4266(17)30077-8
DOI: 10.1016/j.jbankfin.2017.03.020
Reference: JBF 5124

To appear in: *Journal of Banking and Finance*

Received date: 15 January 2016
Revised date: 13 February 2017
Accepted date: 29 March 2017

Please cite this article as: Y. Dendramis, E. Tzavalis, G. Adraktas, Credit Risk Modelling Under Recessionary and Financially Distressed Conditions, *Journal of Banking and Finance* (2017), doi: 10.1016/j.jbankfin.2017.03.020

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

ACCEPTED MANUSCRIPT

Credit Risk Modelling Under Recessionary and Financially Distressed Conditions

Dendramis Y.* Tzavalis E.† Adraktas G. ‡

April 13, 2017

Abstract

This paper provides clear cut evidence that economic recession and distressed financial conditions, as well as political instability constitute the key factors for mortgage default. Banning foreclosure procedures, often adopted by governments to mitigate the effects of the above conditions on loan defaulting, are found to positively influence the loan default probability, and thus they make efforts of banks to restructure (or refinance) mortgage loans a difficult task. Our results add support to the view that foreclosure moratorium may raise moral hazard incentives that borrowers will not maintain their payments in long run. The empirical analysis of the paper is based on an extension of the discrete-time survival analysis model which allows for a structural break in its baseline hazard function and a unique set of individual loan accounts. We also consider alternative specifications of the binary link function between default events and covariates. Asymmetric link functions are found to be more appropriate under financial distressed conditions.

JEL classification: G12, E21, E27, E43

Keywords: mortgage loans, survival analysis, structural breaks, financial distressed conditions, probability of default.

The authors would like to thank the editor, two anonymous referees, Jonathan Crook, Costas Anyfantakis, Eleni Athanasiou, Yiannis Billias, Evangelos Charalambakis, the participants in the Credit Scoring and Credit Control XIV Conference held in Edinburgh 2015, the ECB research seminars and the Department of Economics of Athens University of Economic & Business for helpful comments and discussions on a first version of this paper. The views presented in the paper are those of the authors alone and do not present official views of their institutions.

*Department of Accounting & Finance, University of Cyprus, email: dendramis.yiannis@ucy.ac.cy, Corresponding author.
†Department of Economics, Athens University of Economics and Business, email: etzavalis@aueb.gr.
‡Alpha Bank, Greece, Retail Banking Credit Risk Division, email: georgios.adraktas@alpha.gr.

Download English Version:

https://daneshyari.com/en/article/7356556

Download Persian Version:

https://daneshyari.com/article/7356556

Daneshyari.com