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Loan Prospecting and the Loss of Soft Information

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Abstract

We study a controlled experiment in which a bank's loan officers were incentivized based on originated loan volume to encourage prospecting for new business. While treated loan officers did attract new applications, both extensive and intensive margins of loan origination expanded (+31% new loans; loan size +15%). We find that loan officers gave greater weight to hard information in approval decisions. Despite no change in the observable characteristics of approved loans, their default rate increased (+24%). Finally, the bank's imputed credit default model lost its predictive power. Overall, loan prospecting incentives led to unfavorable soft information being overlooked in the origination process.

Keywords: loan officers, loan prospecting, information production, banking, soft information, big data, credit default model

JEL Classification: G01, G21

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