Research Seminar in Contract Theory, Banking and Money
joint with
Finance Seminar

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Granular credit risk

We provide causal quantification of single-name concentration risk for banks using a novel administrative matched bank-firm dataset from Norway. We find that firm shocks have a strong impact on bank-level returns and writedowns. The effect is strongly concave, consistent with the payoff structure of the debt contract. Using detailed data on banks' non-interest income we find that granular credit risk goes largely unhedged. In the aggregate, granular credit risk can explain up to 20% of the variation in total banking sector returns on corporate loans.