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Loan officer Incentives and the Limits of Hard Information

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Poor loan quality is often attributed to loan officers exercising poor judgment. A potential solution is to base loans on hard information alone. However, we find other consequences of bypassing discretion stemming from loan officer incentives and limits of hard information verifiability. Using unique data where loans are based on hard information, and loan officers are volume-incentivized, we find loan officers increasingly use multiple trials to move loans over the cut-off, both in a regression-discontinuity design and when the cut-off changes. Additional trials positively predict default suggesting strategic manipulation of information even when loans are based on hard information alone.

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