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The Effect of Banking Relationships on Default Likelihood*

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Abstract

We study how the number of banking relationships a borrower has influences defaults in India, where lending is dominated by public-sector banks and institutional reforms have reshaped creditor rights. Using a firm-level panel for 2002–2019, we find that each additional bank increases default likelihood by 6–8%, with the effect concentrated among public-sector banks. Sub-sample analyses show that reputation concerns do not offset this association, while greater bank-network connectedness mitigates it. The results remain robust to expanded controls, entropy balancing, and an instrumental variables approach using lagged bank financial characteristics. The relationship becomes more adverse after the 2016 Insolvency and Bankruptcy Code (IBC), with each additional bank increasing default likelihood by an additional 6%.

Keywords: Loan Default, Multi-bank Relationships, Insolvency and Bankruptcy Code.