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Assessing the Effects of Recent Provisioning Rules on Consumer Credit Allocation in Colombia

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This document evaluates the impact of new provisioning requirements applicable to long-term consumer loan portfolios on the coverage indicators of credit institutions and on the supply conditions of newly originated loans, implemented in a context of robust credit growth. In accordance with External Circular No. 026 of November 29, 2022, issued by the Financial Superintendency of Colombia, the calculation of loan provisions was modified as of January 2023 in order to internalize the risk associated with long-term leverage in new disbursements.

Contribution
The paper makes three main contributions to the literature. First, using granular consumer credit data, it assesses the effects of a macroprudential measure on the supply conditions of new loans at the regulatory thresholds of 72 and 108 months, considering loan amounts, interest rates, and collateral requirements. Second, it examines heterogeneity in responses at the institutional level by analyzing how credit institutions of different sizes adjusted to higher provisioning requirements. Third, the analysis employs advanced matching methodologies that mitigate issues of imbalance, inefficiency, model dependence, and bias. In this way, the document provides new evidence on the interaction between macroprudential regulation, credit market behavior, and financial stability in emerging economies.

Results
The study documents three main findings. First, as expected, the regulation increased the level of loan provisions and improved the coverage indicators of credit institutions. Second, the measure did not significantly affect the aggregate supply conditions of new loans in terms of amounts, interest rates, and collateral requirements. This result suggests that maturity-targeted provisioning requirements have more limited effects than broad-based measures, such as the adoption of the expected loss approach in place since 2007. It also indicates that the higher intermediation costs associated with the regulatory measure were not immediately

passed on to debtors. Third, the analysis reveals significant heterogeneity across institutions of different sizes: although the average effects are not statistically different from zero, smaller institutions significantly restricted their supply of loans with maturities longer than 108 months in response to the regulatory measure, reducing both loan amounts and the loan-to-value (LTV) ratio. In contrast, larger institutions were found to have absorbed the regulatory costs without changing their credit supply conditions.

Fuente: https://www.banrep.gov.co/en/publications-research/working-papers-economics/effects-provisioning-consumer-credit