Why Do Firms Strategically Delay Payments of Corporate Loans?

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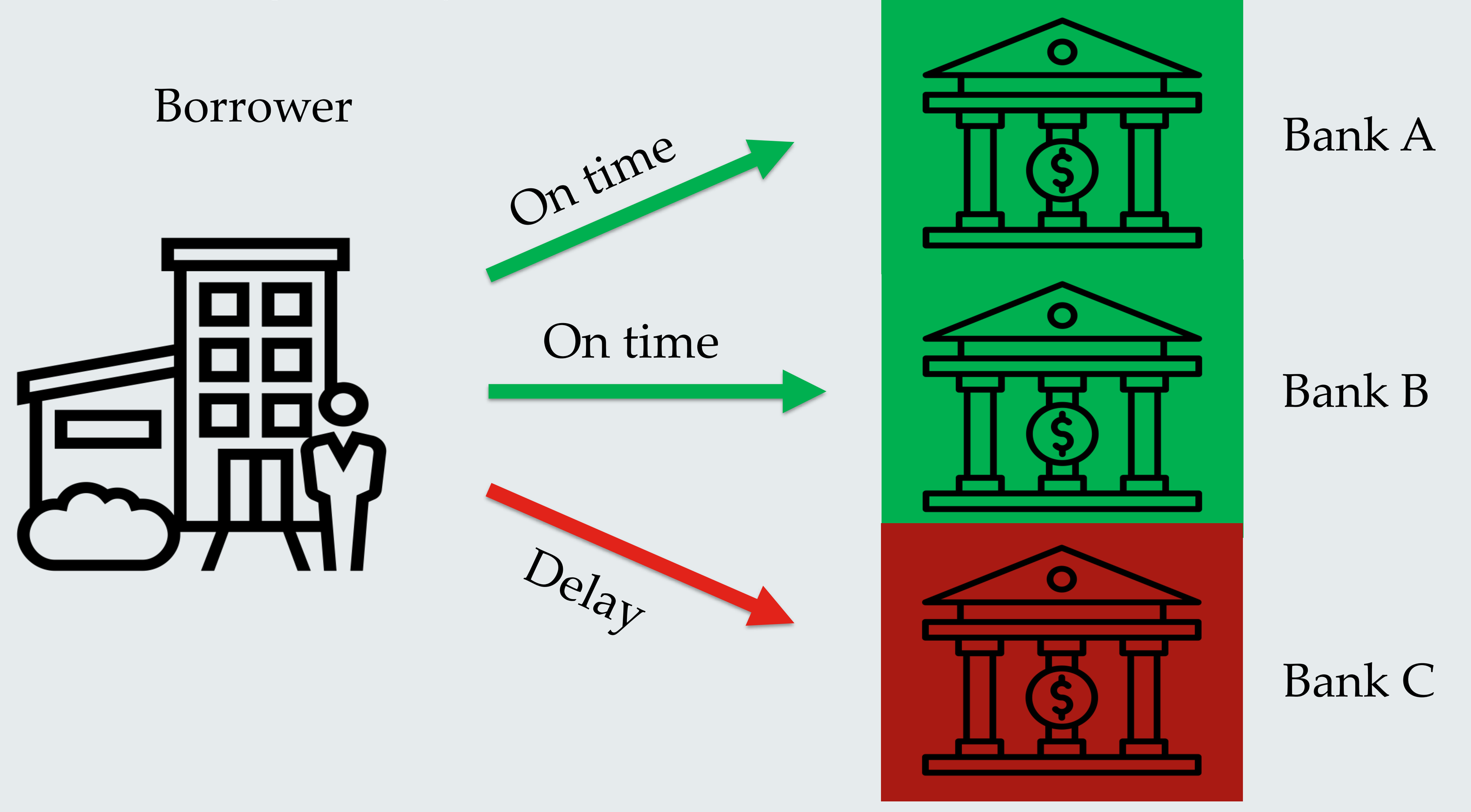
Motivation

- Much of the existing work in corporate default literature focuses primarily on factors leading to corporate defaults in which firms are unable to repay any of their debts.
- Yet, firms may be reluctant to repay a portion of their debts while continuing to service others or may have insufficient liquidity to meet their obligations and therefore must strategically choose the loan on which to be delinquent (Chart 1).

Chart 1: Strategic Delay



- Such events, called strategic default or strategic delay events, are rarely addressed in the literature and there is limited evidence on the types of factors that drive firms to strategically delay payments.
- In this study, I empirically examine the strategic delay decisions of firms with more than one banking relationship. Specifically, I focus on bank and bank–firm relationship characteristics that encourage firms to strategically delay some of their loans while continuing to service others.
- Utilizing this framework, I provide evidence from Türkiye, an emerging country. I exploit a very rich and granular dataset that provides around 70 million firm–bank-month-level observations.

Methodology

- I employ the linear probability model to examine the impact of bank- and bank–firm-level indicators on firms' strategic delay behaviors. The model is as follows:

$$Y_{i,b,t} = \alpha + \lambda\, Bank_{b,t-1} + \gamma\, BankFirm_{i,b,t-1} + \alpha_b + \alpha_{i,t} + \epsilon_{i,b,t} \qquad (1)$$

- where i, b, and t index the firm, bank, and time (monthly), respectively. In this study, there are two main dependent variables: delay and delayratio. Delay takes the value of 1 if a firm has a delayed loan balance with a bank in a given month and 0 otherwise. Delayratio is a continuous variable that represents the ratio of a firm's delayed loans at a bank to the total loans to the firm by the bank.

Results

- The results in Table 1 indicate that banks' non-performing loans (NPL) ratio is the only significant factor that affects firms' strategic delay decisions. Firms that have more than one banking relationship strategically delay payments on their loans from financially weaker banks.
- The firms delay payments less to the banks with which they have longer relationships, from which they provide most of their financing, and from which they can borrow in longer terms. Firms prioritize payments to smaller loans since they are easier to repay.

Table 1. The Determinants of Firms' Strategic Delay Decisions

	All Data		Data after omission of observations after the first delay event	
	delay (1)	delayratio (2)	delay (3)	delayratio (4)
nplratio	0.14167***	0.14108***	0.01794**	0.01700**
	(0.04509)	(0.04720)	(0.00671)	(0.00727)
logassets	–0.00519	–0.00518	–0.00155	–0.00160
	(0.00741)	(0.00757)	(0.00111)	(0.00114)
liquidity ratio	0.00256	–0.00028	0.00244	0.00203
	(0.01146)	(0.01233)	(0.00205)	(0.00203)
capital ratio	0.03897	0.04045	0.01017	0.01039
	(0.05514)	(0.05516)	(0.00893)	(0.00881)
loan to deposit ratio	–0.00005	0.00000	0.00002	0.00001
	(0.00006)	(0.00004)	(0.00001)	(0.00001)
share of loans	–0.01075***	–0.01075***	–0.00098***	–0.00099***
	(0.00183)	(0.00190)	(0.00012)	(0.00013)
maturity<12 months	0.00339***	0.00319***	–0.00002	–0.00008
	(0.00078)	(0.00076)	(0.00014)	(0.00013)
maturity>24 months	–0.01527***	–0.01542***	–0.00116***	–0.00118***
	(0.00165)	(0.00162)	(0.00020)	(0.00019)
share of FX loans	0.00067	0.00061	0.00001	0.00000
	(0.00103)	(0.00101)	(0.00012)	(0.00012)
logloansize	0.00306***	0.00299***	0.00021***	0.00020***
	(0.00049)	(0.00049)	(0.00003)	(0.00003)
length of relationship	–0.00035***	–0.00036***	–0.00004***	–0.00004***
	(0.00007)	(0.00006)	(0.00001)	(0.00001)
ever npl with the bank	–0.10972***	–0.11368***	0.00132	–0.00026
	(0.01132)	(0.01158)	(0.00221)	(0.00198)
Constant	0.18763	0.18835	0.03996	0.04123
	(0.19376)	(0.19800)	(0.02889)	(0.02951)
Bank Fixed Effects	Yes	Yes	Yes	Yes
Firm–time Fixed Effects	Yes	Yes	Yes	Yes
Observations	70,790,137	70,790,137	64,012,778	64,012,778

- Banks' ownership structure may also have a crucial impact on firms' strategic delay preferences (Table 2).
- The likelihood of establishing a long-lasting relationship with foreign banks is lower so firms prefer to strategically delay payments to foreign banks. There is a debate about whether banks operating according to Islamic principles can impose a penalty if borrowers fail to pay their debts on time and so it seems that Islamic banks maintain more relaxed standards for collecting their debt. Therefore, firms choose to strategically delay payments to Islamic banks more.
- Table 3 reports the regression results revealing the impact of financial literacy and judicial inefficiency on firm loan delinquency. The results show a negative relationship between financial literacy and firm delinquencies and no significant impact of judicial inefficiency on strategic delay.

Table 2. Bank Ownership Structure and Strategic Delays

	delayratio (1)	delayratio (2)
nplratio*public	–0.0428	–0.1249
	(0.2317)	(0.2079)
nplratio*local	0.1161	0.0978
	(0.0813)	(0.0823)
nplratio*foreign	0.1387**	0.1352**
	(0.0639)	(0.0612)
nplratio*Islamic	0.1497***	0.1280***
	(0.0407)	(0.0386)
Bank Controls	Yes	Yes
Bank–Firm Control	Yes	Yes
Observations	70,790,137	70,790,137

Table 3. Financial Literacy, Judicial Inefficiency and Strategic Delays

	delayratio	delayratio	delayratio	delayratio
Interaction Term	Education	Development	Judicial Inefficiency	Clearance Rate
	(1)	(2)	(3)	(4)
nplratio	0.2014***	0.1895***	0.49930	–0.2541
	(0.0593)	(0.0594)	(0.3220)	(0.2477)
nplratio*interaction	–0.0057*	–0.0222*	–0.0786	0.4112
	(0.0030)	(0.0116)	(0.0663)	(0.2709)
Bank Controls	Yes	Yes	Yes	Yes
Bank–Firm Control	Yes	Yes	Yes	Yes
Observations	70,675,270	70,675,270	70,675,270	70,675,270

Conclusions

- This study shows that the main motivation of firms in their strategic delay decisions is to increase the likelihood of getting additional financing in the future.
- Therefore, firms strategically delay payments to the banks that they consider to have relatively low capacity to provide further funding (banks with weak financials, foreign banks and short length of relationship). Also, they delay payments more to the banks which provide relatively low-quality funding (low share of total financing and short maturity).
- In addition, firms delay payments more when they anticipate the cost of strategically delaying is low (Islamic banks).