Investing in Bank Lending Technology IT Spending in Banking

Author:Zhiguo He, Sheila Jiang, Douglas Xu, Xiao Yin

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This paper studies the economics behind the investment in information technologies (IT) by U.S. commercial banks in the past decade. By linking banks’ IT spending to their lending technologies, we analyze the distinctive natures of banks’ dealings with information across various lending activities. Investment in communication IT is shown to be associated more with improving banks’ ability of soft information production and transmission, while investment in software IT helps enhance banks’ hard information processing capacity. We exploit polices that affect geographic regions differentially to show causally that banks respond to an increased demand for small business credit (mortgage refinance) by increasing their spending on communication (software) IT spending. We also find that the entry of fintech induces commercial banks to increase their investment in IT—more so in the software IT category.