# Abstract

The financial crises in the early 2000s have given prominence to the financial markets' exposure to credit risk. To minimize credit risk, the risk that a borrower will fail to meet her contractual obligations, lenders seek to identify borrowers with a high probability of default prior to granting credit. In my dissertation I examine several screening devices that lenders utilize in alleviating adverse selection present on the credit market. In the first chapter, I ask whether the existence of informal collateral signals better loan repayment. Taking advantage of a unique dataset of household loans from a Czech commercial bank, I find that housing loans without lien on the property default less compared to loans with unspecified purpose. I also show that the interest rate differential between specific purpose loans and unspecified purpose loans is systematically higher than their default rate differential. In the second chapter, I investigate the role of loan contract terms in household loan demand and performance. Utilizing a sample of accepted and rejected Czech household loans, I find that loan demand for low-income borrowers is more sensitive to liquidity constraint and loan maturity changes than to interest rate changes. The results also suggest that by reflecting the borrower's riskiness in the interest rate, lenders discourage risky borrowers from obtaining short-term loans and this might then lead to their higher default probability. Finally, in the third chapter, I focus on credit ratings of financial/non-financial institutions that issued debt. The paper identifies the determinants of credit rating changes by the two incumbent rating agencies: S&P and Moody's. I show that there is a statistically significant difference in the rating evaluations of the two incumbent credit rating agencies, and Fitch's increasing market share deepens the rating splits between S&P and Moody's. The results also suggest that sovereign ceilings cease to be restrictive for non-financial institutions over the recent financial crisis, and S&P is a follower in its rating actions when compared to Moody's for both financial and non-financial institutions.