Discussion on 'Are Some Banks More Lenient in Implementation of Placement Classification Rules?' by Tomislav Ridzak.

Summary: The objective of the paper is to provide an estimate of the relative lenience/strictness with which commercial banks implement rules to classify credit risk. To this end, the author adopts the Rasch model to placement classification and applies it to data on the credit classification of non-financial companies by Croatian banks.

The main novelty of the paper is the application of a new model (the Rasch model) to an interesting and important topic.

The paper also presents interesting results and performs several clever robustness checks.

Questions and remarks:

How well does the Rasch model fare compared to other the other approaches cited in the paper? There seems to be at least a few drawbacks of the analysis presented here:

- A drawback of using new data (Croatian) is that is does not allow for direct comparisons with the results obtained by previous techniques. This makes it difficult to assess the relative success of the proposed approach.
- Also, a limitation of the present approach seems to be that the techniques are only informative about firms which are scored by (have loans in) several banks AND are receive a bad classification (default) with at least some of the banks.
- That the classification is more tied to a loan than the company is obviously problematic. The paper checks robustness with respect to different collaterals (in a rather nice way). But aren't there other loan characteristics that affect the repayment ability (maturity structure of a loan, interest rate etc.)? Moreover,

could a company which faces a liquidity shortage (but is solid) chose to delay payments to a particular bank, rather than all?

Some suggestions:

Hence, it would be nice to see a more thorough (theoretical) discussion outlining the major differences, advantages and drawbacks of existing techniques compared to the present one.

It would be also be nice to see a slightly more elaborate and technical description of the Rasch model somewhere in the paper. (For example, what code is used for a Rasch matrix element corresponding to a company which has no loan with a some particular bank? Zero?)

The exposition of the paper could be also be improved: For example, the labels in the tables are not always defined, formal results discussed in the main text are sometimes difficult to find etc.