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## **Evaluating subjectivity in credit risk assessments in mid-market lending: an Indian experience**

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**Abstract:** This paper empirically evaluates credit risk assessment subjectivity in lending to mid-corporates by the Indian public sector banks. Mid-market lending has assumed significant importance because of its growing perspective. The study investigates banks' internal credit rating/scoring models in this specific segment analysing the combined use of quantitative and qualitative factors in financial, management, business and industry risk categories. The research carried over 337 credit analysts (belonging to 12 public sector banks) points out the high odds of human bias in credit risk ratings in such commercial loans. The chi-square analysis of 30 core credit risk factors has concluded that on 37% of such factors, the credit analysts have statistically significant association with different length of banking experience, levels of management, and size of their banks. The highest subjectivity has been observed in assessment of business and management risk factors like cost effective technology, marketing opportunities, labour relations, environmental risk/clearances, borrower type and management integrity.

**Keywords:** middle-market borrowers; risk pricing; credit appraisals; subjective assessments; collaterals; core risk factors; greenfield projects; India.

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