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Abstract

We use end-May 2020 loan-level data from three major Irish banks to examine which Irish firms took COVID-19 payment breaks. We show that SME borrowers were significantly more likely to utilise a payment break compared to Large Corporate borrowers, even after taking a host of loan and borrower characteristics into account. We find that borrower sector is the best available predictor of payment break utilisation. Borrowers in sectors with high shares of employees on Pandemic Unemployment Payment or the Temporary Wage Subsidy Scheme had substantially higher payment break rates. While some regions of the country have higher payment break rates than others, we find that this is mostly due to the sectors in which borrowers in those regions trade. We show that performing loans with weaker credit quality prior to the pandemic were moderately more likely to utilise a payment break. Similarly, loans with a record of having been previously non-performing were more likely to have a payment break. Nonetheless, the majority of borrowers that took a payment break showed no explicit signs of vulnerability prior to the shock. Our results support the view that payment breaks provided valuable temporary liquidity relief to firms in sectors experiencing a severe deterioration in trading conditions due to the pandemic.

1 Introduction

The COVID-19 shock placed many Irish firms under severe financial strain. Measures of labour market conditions, consumer spending, and economic sentiment all point to a major contraction in activity in March and April 2020.[2] Business surveys similarly show very large declines in turnover for firms in affected sectors.[3]

Liquidity was the most immediate issue facing firms in mid-March 2020 as the impact of the pandemic and associated public health restrictions became apparent. Firms experiencing an abrupt deterioration in trading conditions sought to cut or defer their expenses, with most firms entering this period with modest cash holdings. SMEs, in particular, reported remarkably low levels of cash holdings and had quite limited access to undrawn credit.[4]

Irish retail banks responded to the COVID-19 shock by allowing borrowers to apply for temporary loan payment breaks. If approved for a break, then borrowers could postpone or reduce their loan

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[1] We thank Allan Kearns, Paul Lyons, Vasileios Madouros, Fergal McCann, and Caroline Mehigan for helpful comments. The views expressed in this Note are those of the authors and do not necessarily represent the views of the Central Bank of Ireland. Email: david.duignan@centralbank.ie; niall.mcgeever@centralbank.ie

[2] See the Central Bank of Ireland's 2020Q3 Quarterly Bulletin.

[3] See the CSO's Business Impact of COVID-19 survey.

[4] See McGeever et al. (2020) and the Central Bank of Ireland's 2020H1 Financial Stability Review.

repayments for a set period of months.[5] This approach was similar to that taken by financial institutions in other jurisdictions and was in line with European Banking Authority (EBA) guidance.[6]

Kearns et al. (2020) show that payment break utilisation by Irish retail bank borrowers has been substantial. They report that Irish-resident firms had payment breaks in place as of June 19th for loans with €8.1bn in outstanding balances. The scale of this figure and typically short term lengths on business loans suggests that payments breaks provided a major source of liquidity relief to Irish firms at a time of extraordinary financial stress.[7]

In this *Note*, we build on the work of Kearns et al. (2020) by using end-May 2020 loan-level data to investigate which Irish firms took COVID-19 payment breaks. This approach allows us to examine the characteristics of payment break borrowers in detail. We are able to relate payment break utilisation to borrower sector, borrower county, numerous ex ante measures of borrower credit quality, non-performing loan (NPL) history, and loan collateralisation. We are also able to provide insight into the maturity profile of scheduled repayments for payment break loans.[8]

We show that the sector in which a borrower conducts their primary economic activity is the strongest available predictor of payment break utilisation. Those sectors most affected by the pandemic and the associated public health restrictions have the highest payment break rates. This is seen through sectors with a high share of employees on the Pandemic Unemployment Payment (PUP) or the Temporary Wage Subsidy Scheme (TWSS) having higher payment break rates. This is suggestive evidence that retail bank borrowers in these sectors may have experienced significant declines in turnover, resulting in temporary employee lay-offs and eligibility for the TWSS.

While some regions of the country have higher payment break rates than others, we find that this is mostly due to the sectors in which borrowers in those regions trade. When we conduct a more formal statistical analysis, the regional pattern in payment break rates is largely accounted for by borrower sector and pre-pandemic loan characteristics.

We next examine if borrowers that were in a vulnerable position before the pandemic are more or less likely to have a payment break by May 2020. We find that performing loans with weaker reported credit quality in December 2019 are moderately more likely to have an active payment break in May 2020. In addition, loans with a documented record of having been previously non-performing are also more likely to have an active payment break. While these are robust patterns, it should be borne in mind that the proportion of low credit quality loans in December 2019 was relatively small. Thus, the vast majority of loans with a payment break in May 2020 did not show explicit signs of vulnerability in December 2019. Pre-existing vulnerability plays only a modest role in explaining payment break utilisation by Irish firms.

We further show that payment breaks are overwhelming associated with non-revolving products like term loans, hire purchase agreements, and leases. The majority of these non-revolving loans are due to mature at or before 2025 and the overwhelmingly majority will mature by 2027. Lastly, we show that 65 per cent of SME loans balances with a payment break are secured with collateral and the equivalent figure for Large Corporates is 52 per cent. If a loan is secured, then the collateral in question is overwhelmingly likely to be commercial real estate.

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[5] While we restrict our analysis to payment breaks, some borrowers received further relief through measures such as amendments to loan covenants.
[6] See BIS research on other jurisdictions and EBA guidelines.
[7] Banks were not the only source of liquidity relief for firms. The government introduced a number of significant measures to support the incomes of households and to boost firm liquidity. See the Central Bank of Ireland's 2020H1 Financial Stability Review.
[8] See Gaffney and Greaney (2020) for a related analysis of payment break utilisation by Irish residential mortgage borrowers.

It is important to note that we are analysing data at close to the peak of payment break utilisation and at a time when a large share of businesses were still subject to significant public health restrictions. Our work is thus able to better inform us of who took payment breaks, but it is unlikely to provide a reliable forecast of how these borrowers are currently performing or will perform as they roll off payment breaks.

The remainder of this *Note* is organised as follows. Section 2 provides a summary of the data we examine. Section 3 provides a detailed breakdown of payment break rates by various loan and borrower characteristics. Section 4 reports the results of a multivariate logistic regression which we use to further assess the data. Section 5 concludes.

2 Data

We use loan-level data to examine payment break utilisation by the SME and Large Corporate borrowers of AIB, Bank of Ireland, and Ulster Bank. We measure payment break status as at the end of May 2020 and loan and borrower characteristics as at the end of December 2019. The three banks we study are major sources of debt finance for Irish firms. Together they account for 98 per cent (72 per cent) of the outstanding credit owed by non-financial Irish resident SMEs (Large Corporates) to Irish registered banks as of March 2020.[9]

Table 1 shows the end-May 2020 payment break status of the December 2019 outstanding balances of Irish resident SME and Large Corporate borrowers. The sum of outstanding balance across both size categories was approximately €34bn, with roughly €21.2bn accounted for by SMEs. Note that we include loans to borrowers in all sectors, including real estate.

SME borrowers had higher payment break rates than Large Corporate borrowers. 20.5 per cent of the balances of SME borrowers in December 2019 had an active payment break in May 2020. A further 1.9 per cent had a pending application and 3.2 per cent had an approved, but unimplemented break. In contrast, 9.1 per cent of Large Corporate balances in December 2019 report an active or unimplemented payment break in May. The rejection rate of reported applications is close to zero.

Table 1: End-May 2020 payment break status of December 2019 outstanding balances

	SME		Large Corporate		All firms	
	€m	%	€m	%	€m	%
Active	4,347	20.5	856	6.5	5,202	15.2
Pending	395	1.9	382	2.9	777	2.3
Approved, not implemented	687	3.2	338	2.6	1,025	3.0
Cancelled/Rejected	10	<0.1	-	-	10	<0.1
No observed break request	15,742	74.3	11,492	87.9	27,234	79.5
	21,181	100.0	13,068	100.0	34,248	100.0

The payment break utilisation rates we report in Table 1 will not align perfectly with figures published by the banks for May 2020 or indeed in the June figures reported by Kearns et al. (2020). This is due to a number of factors. First, 7 per cent of reported payment breaks by count relate to loans originated in 2020 and so are not present in the December 2019 data. Second, there will have been some amortisation or repayment of pre-existing loans between December and May. This is a non-trivial issue given the relatively short term lengths of non-revolving products and the existence of large revolving credit facilities for commercial borrowers. Third, the level of borrower

[9] Bank-level data underlying the 2020Q1 SME and Large Enterprise Credit and Deposits statistical release.

concentration in commercial loan portfolios is high and the activity of very large borrowers can generate material changes in portfolio totals over relatively short periods of time.

For the remainder of this note, we refer to an "approved payment break" as a case where a loan has an active break, an approved but unimplemented break, or an expired break.

3 Loan and borrower characteristics

3.1 Borrower sector

We first look at the sector in which borrowers conduct their primary economic activity. Given the nature of the COVID-19 shock and the sector-specific intensity of public health restrictions and altered consumer behaviour, we expect ex ante to see a large spread in payment break rates across sectors.[10]

Table 2 shows the sum of outstanding balances (OB) of each sector in December 2019, the amount of those balances that had an approved payment break (PB) as of May 2020, and the implied approved payment break rate. We report separate figures for SMEs, Large Corporates, and all firms. In cases were sector-level balances are quite low in absolute terms, we suppress the results and report only an aggregated "Other" category.

Payment break rates clearly do vary a lot across sectors. We see the highest payment break rates in Accommodation & Food, Arts, Entertainment & Recreation, and Other Services. 47 per cent of Accomodation & Food balances had a payment break and this rises to 59 per cent if we look at SME balances in isolation. Similarly, 48 per cent of Arts, Entertainment & Recreation SME balances had a payment break. Other sectors have fairly low payment break rates. Agriculture, Forestry & Fishing is a major lending portfolio with a remarkably low payment break rate of under 6 per cent. Information & Communication borrowers similarly have a relatively low payment break rate of 9 per cent.

Table 2: Payment break rate by sector

	SME			Large Corporate			All firms		
	OB (€m)	PB (€m)	PB(%)	OB (€m)	PB (€m)	PB(%)	OB (€m)	PB (€m)	PB(%)
A – Agriculture, Forestry & Fishing	2,443	146	6.0	1,075	50	4.6	3,519	195	5.6
C – Manufacturing	1,493	289	19.4	2,062	139	6.7	3,555	428	12.0
F – Construction	471	78	16.6	709	46	6.5	1,180	124	10.5
G – Wholesale & Retail	2,559	625	24.4	1,292	197	15.3	3,852	822	21.3
H – Transportation & Storage	683	202	29.5	709	37	5.2	1,392	238	17.1
I – Accommodation & Food	2,506	1,475	58.9	1,113	219	19.7	3,619	1,695	46.8
J – Information & Communication	255	28	11.0	182	10	5.4	437	38	8.7
L – Real Estate	7,104	1,234	17.4	2,937	278	9.5	10,041	1,512	15.1
M – Prof., Technical & Scientific	560	133	23.7	275	18	6.5	835	151	18.0
N – Administrative & Support Services	936	248	26.5	298	21	7.1	1,234	269	21.8
P – Education	274	39	14.3	223	10	4.5	496	49	9.9
Q – Human Health	1,071	260	24.3	764	84	11.0	1,835	344	18.7
R – Arts, Entertainment & Recreation	247	111	44.8	370	18	4.8	617	129	20.8
S – Other Services	378	126	33.3	261	67	25.6	638	192	30.1
Other	202	41	20.1	797	1	0.2	999	42	4.2
	21,181	5,034	23.8	13,068	1,194	9.1	34,248	6,228	18.2

Borrower sector is clearly an excellent predictor of payment break utilisation and we show in Section 4 that it's predictive power holds up in a multivariate regression setting.

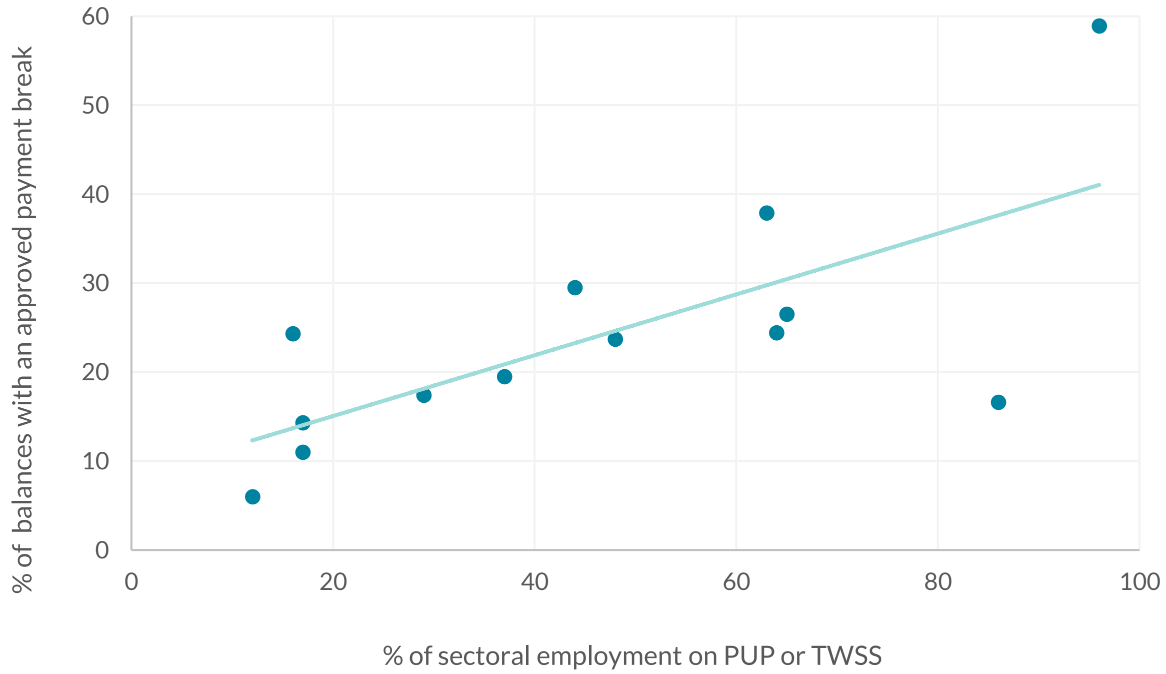
We next look at how these payment break rates line up against other sector-level measures of the COVID-19 shock. Figure 1 shows that borrower in sectors with higher shares of employees on Pandemic Unemployment Payment (PUP) or the Temporary Wage Subsidy Scheme (TWSS) have

[10] See also Byrne et al. (2020) for a sectoral analysis of the labour market impact of the COVID-19 shock.

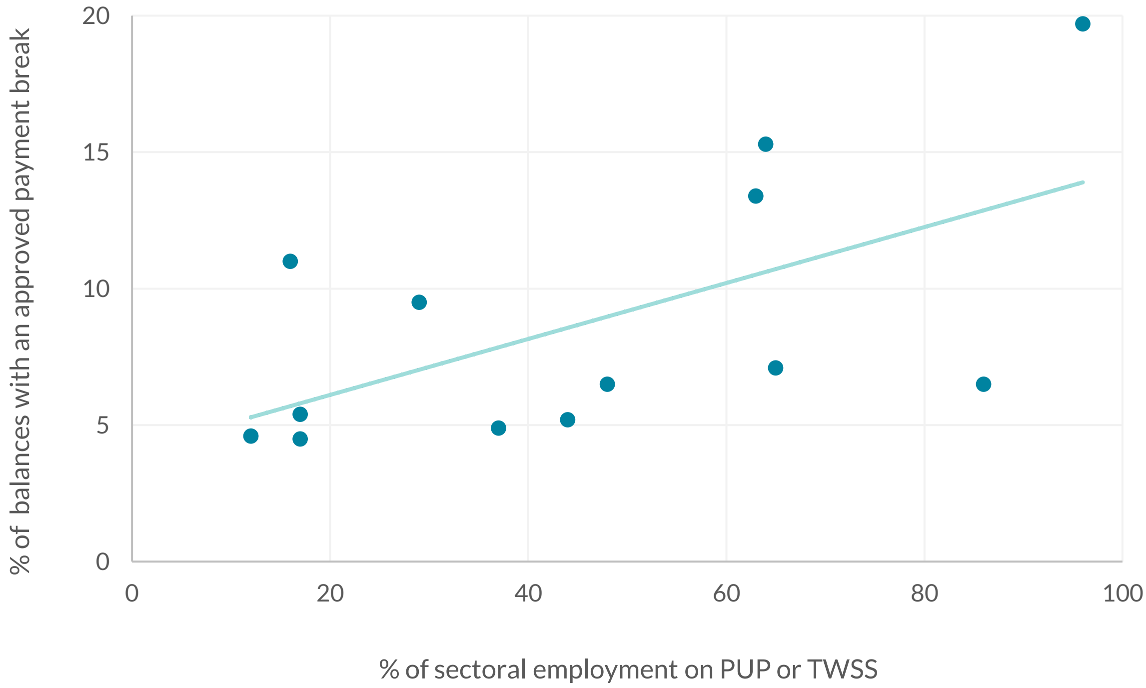
higher payment break utilisation rates as measured in mid-May 2020. We show this separately for SME borrowers in Panel (a) and Large Corporate borrowers in Panel (b).

Figure 1: Sectoral PUP/TWSS uptake vs. payment break utilisation

(a) SME



(b) Large Corporate



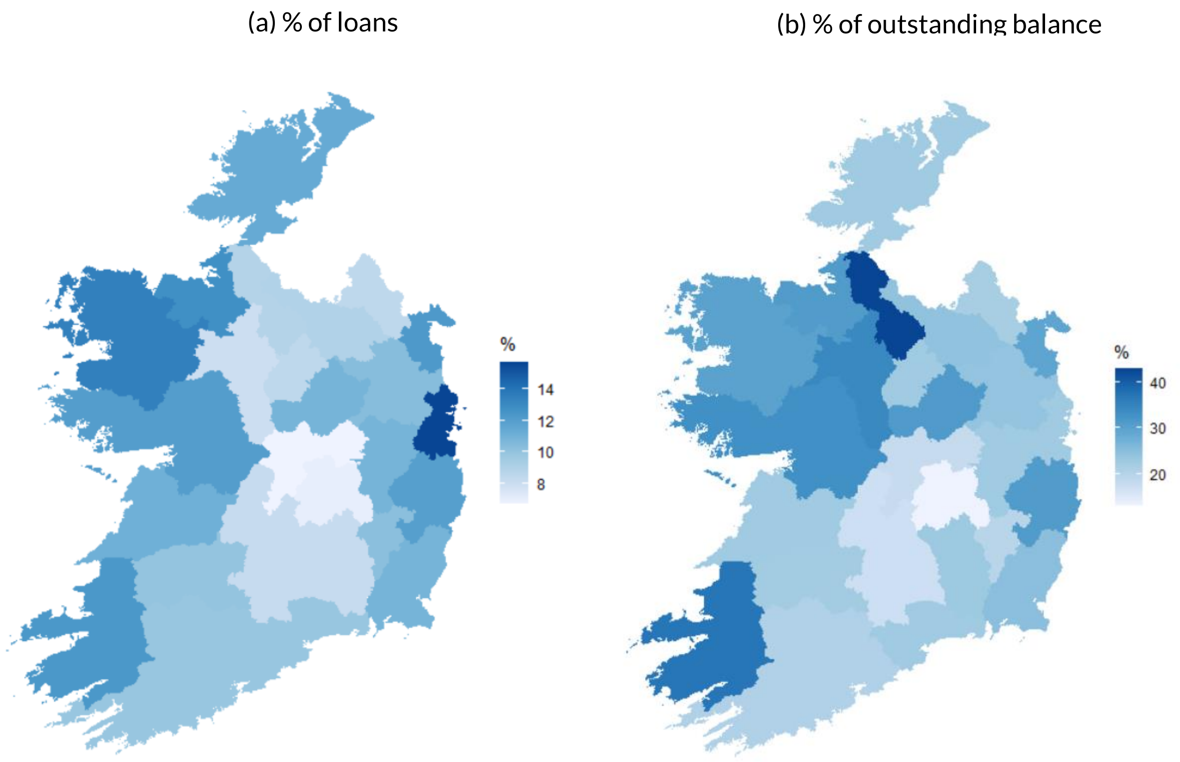
While we cannot measure borrower-level financial stress due to the COVID-19 shock, the plots above strongly suggest that borrowers in highly-affected sectors are heavily utilising payment break rates as of a means of accessing short-term liquidity relief.

3.2 Borrower county

We next look at payment break rates by county. We conduct this analysis using the county in which borrowers declared their address. It is important to recognise that firms may be exposed to economic conditions outside of their local areas through a variety of channels. For instance, a Large Corporate borrower may conduct the majority of their business overseas. In this way, a borrower's registered address may only give a noisey indication of exposure to regional economic conditions. Thus, we bear this limitation in mind and restrict our analysis to SME borrowers.

Figure 2 shows the county-level approved payment break rates for Irish-resident SME borrowers. Panel (a) shows the proportion of *loans* with a payment break, while Panel (b) shows the proportion of *outstanding balances* with a payment break. Some counties in the Midlands, Mid-West, and South-East have lower payment break rates than in other regions by either measure. Dublin has a relatively high amount of payment break loans, but the balances associated with these loans are relatively low. Conversely, counties like Leitrim and Roscommon have relatively few payment breaks by count, but some relatively large loans in these counties are on payment breaks. Some counties in South-West and West have relatively high payment break rates by either measure.[11]

Figure 2: Payment break rate by county



[11] The relative differences across counties are essentially unchanged if we look only at non-revolving loans.

It is crucial to understand that the composition of county-level SME loan portfolios is influenced heavily by the structure of the local economy. If the borrowers in a particular county are heavily involved in sectors that have been hit badly by the COVID-19 shock, then our county results will be presenting a sector-based story in disguise. Indeed, we show in Section 4 that most of the variation in payment break rates across counties we see in the maps above is accounted for by the sectors in which borrowers in those counties trade in, along with other loan characteristics.

3.3 Credit quality

In this section, we look at whether loans with weak credit quality prior to the pandemic were more or less likely to take a payment break. We look at a range of credit quality indicators, including measures of past distress.

Table 3 reports payment break rates by NPL status using the EBA ITS definition.[12] Note the EBA guidance on payment breaks does not preclude banks from granting payment breaks to NPL borrowers. We also provide information on loans that have a documented record of being previously non-performing.

Table 3: Payment break rate by NPL status

	SME			Large Corporate			All firms		
	OB (€m)	PB (€m)	PB(%)	OB (€m)	PB (€m)	PB(%)	OB (€m)	PB (€m)	PB(%)
Performing	19,787	4,843	24.5	12,697	1,185	9.3	32,485	6,028	18.6
No NPL record	17,760	4,231	24.0	12,255	1,106	9.0	29,915	5,337	17.8
Previously NPL	2,127	612	28.8	442	79	17.9	2,569	691	26.9
NPL	1,394	191	13.7	370	9	2.4	1,764	200	11.3
	21,181	5,034	23.8	13,068	1,194	9.1	34,248	6,228	18.2

Performing loans are significantly more likely to have an approved payment break than NPLs. Loans that were performing in December 2019 and with a record of being NPL at some point in the past are more likely to have an approved payment break than performing loans with no NPL record. There are some candidate explanations for this pattern, but it is difficult to be categorical. It may be that these borrowers were, all else equal, more vulnerable to the kind of cashflow volatility experienced by firms during the COVID-19 shock. It may also be the case that these borrowers simply had past experience of going through an NPL resolution process successfully and were less reserved about asking their bank for temporary flexibility.

Table 4 shows payment break rates by IFRS 9 stage. Stage One loans are the best quality, Stage Two loans are thought to have a deteriorated credit quality, and Stage 3 are the lowest quality.[13] The results show a more mixed picture. SME borrowers with Stage Two loans were more likely to take payment breaks than Stage One loans, but Large Corporate borrowers with Stage One or Two loans had similar payment break rates.

Table 4: Payment break rate by IFRS 9 stage

	SME			Large Corporate			All firms		
	OB (€m)	PB (€m)	PB(%)	OB (€m)	PB (€m)	PB(%)	OB (€m)	PB (€m)	PB(%)
One	17,713	4,229	23.9	11,418	1,075	9.4	29,132	5,304	18.2
Two	2,154	649	30.1	1,290	112	8.6	3,445	761	22.1
Three	1,313	156	11.9	359	8	2.1	1,672	164	9.8
	21,181	5,034	23.8	13,068	1,194	9.1	34,248	6,228	18.2

[12] See the EBA ITS technical documentation.
[13] See the IFSR 9 documentation.

Finally, we look at loan forbearance. Table 5 shows payment break rates by forbearance and NPL status. We find that, conditional on NPL status, forborne SME loans (cases the loan has been restructured in some way from its original terms) were more likely to end up with an approved payment break. Large Corporate borrowers do not neatly fit this pattern, as most of their payment breaks relate to performing non-forborne loans.

Table 5: Payment break rate by forbearance and NPL status

	SME			Large Corporate			All firms		
	OB (€m)	PB (€m)	PB(%)	OB (€m)	PB (€m)	PB(%)	OB (€m)	PB (€m)	PB(%)
Not forborne	19,441	4,556	23.4	12,486	1,178	9.4	31,927	5,733	18.0
Performing	18,837	4,528	24.0	12,319	1,176	9.5	31,156	5,703	18.3
NPL	604	28	4.6	167	2	1.2	771	30	3.9
Forborne	1,740	478	27.5	581	16	2.8	2,321	494	21.3
Performing	950	316	33.2	378	9	2.4	1,329	325	24.4
NPL	789	163	20.6	203	7	3.4	993	170	17.1
	21,181	5,034	23.8	13,068	1,194	9.1	34,248	6,228	18.2

These results show that, apart from NPL status, credit quality is not a first-order determinant of payment break utilisation. Indicators such as IFRS9 stage and forbearance status have some moderate predictive power for SME payment break utilisation, but it is clear from the above tables that the majority of loan balances that ended up with a payment break showed no explicit signs of vulnerability prior to the pandemic.

3.4 Product types and maturity profile

The business loan portfolios of Irish retail banks contain a lot of different products. It is important for us to take this into account in our analysis as product type may influence the propensity of borrowers to utilise payment breaks. If borrowers are not inclined to ask for or banks simply do not offer payment breaks on certain products, then we would like to capture this. Thus, we look in this section at payment break utilisation by product type and incorporate product type in our regression analysis in section 4.

Table 6 shows that term loans make up by far the largest share of outstanding balances. However, there are a number of other products with significant outstanding balances including leasing, hire purchase, invoice finance, and overdrafts.

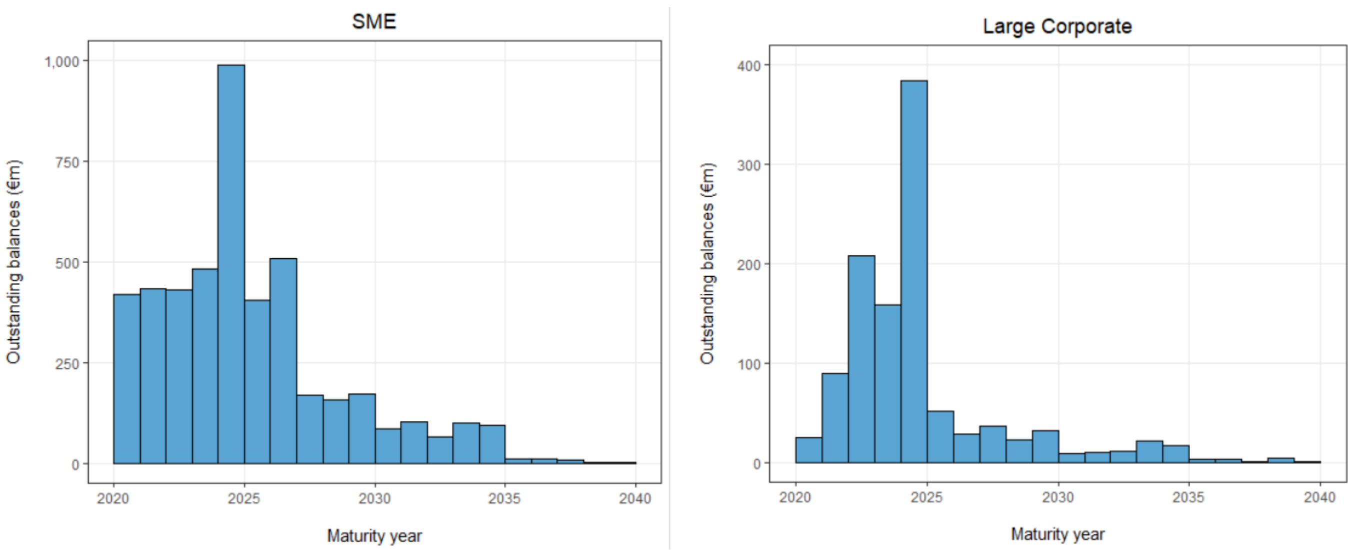
Term loans, leasing, and hire purchase products have the highest payment break rates at between 21.5 and 25.6 per cent for all firms. Given also their large share of outstanding balances, these three non-revolving products thus make up the overwhelming majority of payment break balances. Overdrafts and revolving credit facilities on the other hand make up a very small amount of payment break balances.

Table 6: Payment break rate by product type

	SME			Large Corporate			All firms		
	OB (€m)	PB (€m)	PB(%)	OB (€m)	PB (€m)	PB(%)	OB (€m)	PB (€m)	PB(%)
Term loan	17,103	4,543	26.6	8,519	1,013	11.9	25,622	5,556	21.7
Participating loan	212	0	0.0	1,779	76	4.3	1,991	76	3.8
Revolving credit	372	8	2.1	1,350	49	3.6	1,723	57	3.3
Invoice finance	1,034	108	10.5	419	11	2.7	1,453	119	8.2
Overdraft	755	28	3.6	410	2	0.5	1,166	30	2.5
Hire purchase	764	175	22.9	111	14	12.2	876	189	21.5
Leasing	575	147	25.5	93	24	25.9	668	171	25.6
Other	364	25	7.0	386	5	1.4	750	31	4.1
	21,181	5,034	23.8	13,068	1,194	9.1	34,248	6,228	18.2

We are also able to go further and analyse the maturity profile of non-revolving loans with a payment break. This allows us to examine the urgency with which borrowers will have to repay loans as they roll off payment breaks. The relatively short term length for standard business loans -- usually 3 to 7 years at origination -- implies that the remaining life on payment break loans is likely to be relatively short. Figure 4 shows that remaining terms on these loans are indeed quite short. The majority of balances are due to mature before 2025 and the vast majority are due to mature before 2027.

Figure 4: Maturity profile of loan balances with a payment break



3.5 Collateral

Lastly, we look at the collateralisation of loans with payment breaks. Table 7 shows that 65 per cent of SME payment break balances are secured. Of the €3.3bn that are secured, commercial real estate is by far the most common collateral asset. The Unspecified* category relate solely to asset finance and invoice finance products where the collateral is very likely to be a mix of vehicles, machinery, and trade credit. Residential property is the collateral asset for only €114m of balances.[14]

Over half (52 per cent) of Large Corporate payment break balances are secured and, again, commercial real estate is the main asset. The residential real estate collateral of Large Corporate borrower relates mostly to borrowers engaged in real estate investment or development.

Table 7: Payment break rate by collateral status

	SME			Large Corporate			All firms		
	OB (€m)	PB (€m)	PB(%)	OB (€m)	PB (€m)	PB(%)	OB (€m)	PB (€m)	PB(%)
Unsecured	8,489	1,766	20.8	8,267	573	6.9	16,756	2,340	14.0
Secured	12,692	3,268	25.7	4,800	621	12.9	17,492	3,888	22.2
Commercial property	9,869	2,881	29.2	3,081	548	17.8	12,950	3,429	26.5
Residential property	731	114	15.6	811	50	6.2	1,542	164	10.6
Cash/Deposits/Issued debt	130	13	10.0	286	1	0.2	416	14	3.3
Unspecified*	1,555	121	7.8	-	-	-	1,555	121	7.8
Other	408	139	34.0	622	22	3.5	1,030	160	15.6
	21,181	5,034	23.8	13,086	1,194	9.1	34,248	6,228	18.2

[14] It should be noted that while cannot observe personal guarantees at a loan-level, the Department of Finance Credit Demand Survey shows that personal guarantees are a common feature of small business lending in Ireland.

4 The determinants of payment break utilisation

Finally, we present the results of a multivariate logistic regression of approved payment break status on loan and borrower characteristics and the associated marginal effects. This approach builds on the analysis in Section 3, but crucially allows us to jointly examine the relationship of particular characteristics with payment break status. For example, a sector may have a high approved payment break rate due to its borrowers having relatively low credit quality in December. This analysis allows us to better distinguish and measure the influence of these characteristics on payment break utilisation.

Table 8: Logistic regression of payment break status on loan and borrower characteristics

	(1) All firms		(2) SMEs	
	Estimate	Marginal fffect	Estimate	Marginal effect
Intercept	-5.894***		-5.522***	
C – Manufacturing	2.092***	0.160***	2.074***	0.189***
F – Construction	1.728***	0.111***	1.661***	0.127***
G – Wholesale & Retail	1.734***	0.101***	1.652***	0.114***
H – Trans. & Storage	2.465***	0.223***	2.425***	0.256***
I – Accom. & Food	2.924***	0.318***	2.873***	0.355***
J – Info. & Comm.	1.605***	0.106***	1.551***	0.123***
L – Real Estate	1.334***	0.745***	1.255***	0.084***
M – Prof., Tech. & Sci.	2.118***	0.169***	2.077***	0.197***
N – Admin. & Support	1.456***	0.078***	1.411***	0.090***
P – Education	2.387***	0.228***	2.274***	0.247***
Q – Human Health	2.079***	0.169***	1.996***	0.189***
R – Arts, Ent. & Rec.	2.736***	0.295***	2.734***	0.346***
S – Other Services	2.386***	0.204***	2.328***	0.239***
Other sector	1.974***	0.157***	2.063***	0.205***
Dublin	0.056*	0.002*	0.089**	0.004**
Mid-East	-0.026	-0.001	-0.065*	-0.002*
Mid-West	-0.189***	-0.002**	-0.202***	-0.007***
Midlands	-0.081**	-0.005***	-0.109***	-0.004***
South-East	-0.102**	-0.003***	-0.107**	-0.004***
South-West	-0.083**	-0.002**	-0.085**	-0.003**
West	0.089**	0.003**	0.113***	0.005***
SME	0.474***	0.013***		
NPL	-1.781***	-0.031***	-1.748***	-0.039***
Forborne	0.400***	0.015***	0.449***	0.021***
ln(outstanding balance)	0.241***	0.007***	0.256***	0.010***
Hire purchase	-0.508***	-0.013***	-0.525***	-0.017***
Invoice finance	-1.831***	-0.026***	-1.822***	-0.034***
Leasing	-0.138***	-0.004***	-0.143***	-0.005***
Other	-0.679***	-0.015***	-0.67***	-0.019***
Overdraft	-3.136***	-0.075***	-3.053***	-0.088***
Participating loan	-3.178***	-0.030***	-11.496	-0.040***
Revolving credit	-5.146***	-0.034***	-4.572***	-0.041***
Observed loans	275,003		221,900	
Payment breaks	28,264		25,088	
Pseudo-R^2	0.241		0.229	

Table 8 shows two specifications. The first looks at all firms and the second includes only SME borrowers. The results are consistent across both specifications and show that borrower sector remains a very strong predictor of payment break utilisation. The reference category for sector is Agriculture, Forestry & Fishing and the results show that this sector has a significantly lower payment rate than every other sector, even after controlling for credit quality, NPL history, and product type. Accommodation & Food and Arts, Entertainment & Recreation remain the sectors where borrowers have the highest payment break rates.

SME borrowers are significantly more likely to have an approved payment break than Large Corporate borrowers. NPLs have lower payment break rates than performing loans. Performing loans with weaker credit quality in December 2019 have higher approved payment break rates in May 2020. Higher balance loans have higher payment break rates.

The reference category for borrower region is the Border area. The logistic regression estimates show that borrowers in the Mid-West and Midlands have lower payment break rates, while borrowers in the West have higher payment break rates. However, the marginal effect estimates show that economic magnitude of these differences is very slight. The predictive power in the model comes from the sector of the borrower, their size category, credit quality, and loan product type.

5 Summary

We use end-May 2020 loan-level data from three major Irish banks to examine which Irish firms took COVID-19 payment breaks. We show that SME borrowers were significantly more likely to utilise a payment break compared to Large Corporate borrowers, even after taking a host of loan and borrower characteristics into account.

Borrower sector is the best available predictor of payment break utilisation. Borrowers in sectors most affected by the pandemic and the associated public health restrictions have the highest payment break rates. While some regions of the country have higher payment break rates than others, we find that this is mostly due to the sectors in which borrowers in those regions trade in.

We show that loans with weaker credit quality prior to the pandemic were moderately more likely to utilise a payment break than borrowers. Loans with a record of having been previously non-performing are more likely to have a payment break. The overwhelming majority of borrowers that took payment breaks showed no explicit signs of vulnerability prior to the shock.

Our results support the view that payment breaks provided valuable temporary liquidity relief to firms in sectors experiencing a severe deterioration in trading conditions due to the pandemic.

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