

Differentiated Use of Small Business
Credit Scoring by Relationship Lenders
and Transactional Lenders : Evidence
from Firm-Bank Matched Data in Japan

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Differentiated Use of Small Business Credit Scoring by Relationship Lenders and Transactional Lenders: Evidence from Firm-Bank Matched Data in Japan

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Abstract

This paper examines the ex-post performance of small and medium enterprises (SMEs) that obtained small business credit scoring (SBCS) loans by using a unique Japanese firm-bank matched dataset. The ex-post probability of default after the SBCS loan was provided significantly increased for SMEs that obtained an SBCS loan from a transactional lender. Also, the lending attitude of relationship lenders during the recent global financial crisis was more severe if a transactional lender had extended an SBCS loan to a firm. These findings suggest that SBCS loans by a transactional lender are more prone to type II errors and detrimental to a relationship lender's incentive to provide "liquidity insurance".

JEL classifications: G21, G32

Keywords: small business credit scoring, lending technology, relationship lending

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1. Introduction

Loans to small businesses have traditionally been based on intimate relationships between borrower firms and lenders, because many of these firms are much more informationally opaque than large firms and thus lenders primarily rely on “soft” information gathered through long-lasting transaction relationships with small businesses. However, advances in information technology over the past decades have considerably transformed the landscape of small business lending, and a number of transaction-based lending technologies that rely on quantifiable and verifiable “hard” information have become available for small businesses. In particular, small business credit scoring (SBCS) has expanded rapidly in many countries and has attracted a fair amount of research interest.¹ It has been argued that SBCS is effective in increasing the availability of credit to small businesses (Agarwal and Hauswald, 2008; Berger et al., 2011; Berger et al., 2005a; Frame et al., 2004; Frame et al., 2001) and/or improving the accuracy of risk-based pricing of loans to them (Berger et al., 2005a). However, the recent contraction in small business lending in the United States, where the use of SBCS is the most advanced, has cast some doubts on the predictive power of SBCS.² The recent global financial crisis has also raised concerns that, in cases where relationship lending plays an important role, transactional loans such as SBCS loans may have adverse effects on the provision of credit by relationship lenders during the crisis.

¹ See Berger and Frame (2007) for a survey.

² See, for instance, “When Business Credit Scores Get Murky,” *Wall Street Journal*, March 18, 2010. Mester (1997) cautioned the accuracy of SBCS models needed to be assessed based on their performance during an economic downturn.

Against this background, the present paper, focusing on Japan, examines how firms that received SBCS loans have weathered the financial crisis that erupted after the failure of Lehman Brothers in September 2008. In particular, the paper examines whether the ex-post performance of firms that received an SBCS loan before the crisis depends on the bank's strategies of implementing SBCS. Previous studies suggest that there are two potential benefits for a lender to adopt SBCS: cost-saving in the screening of loan applications, and the mitigation of informational opacity of prospective borrowers (Berger and Udell, 2007). We develop this argument and hypothesize that transactional lenders tend to use SBCS based on the cost-saving motive, whereas the motive of relationship lenders in adopting SBCS is to make more efficient lending decisions. We argue that the differentiated use of SBCS by relationship lenders and transactional lenders would affect firms' ex-post performance as well as the relationship lenders' willingness to provide rescue finance when firms face difficulties during crisis.

The analysis in this paper relies on a unique firm-bank matched dataset on SBCS in Japan. Our dataset is based mainly on firm surveys conducted by the Research Institute of Economy, Trade, and Industry (RIETI) during 2008-2009. The virtue of these surveys is that we can identify SBCS loan user firms and non-user firms as well as firms' primary bank, that is, the bank that has the largest amount of loans outstanding to a particular firm. Moreover, we can identify whether a primary bank (relationship lender) or a non-primary bank (transactional lender) has extended SBCS loans to a particular firm. Thus, we can make inferences on how a bank's strategy of implementing SBCS differs depending on whether the bank is a relationship lender or

a transactional lender.

Focusing on the period of financial turmoil after the failure of Lehman Brothers, we perform two exercises and find the followings. First, we examine how the provision of SBCS loans, either by a primary bank or a non-primary bank, affected borrowing firms' performance during the crisis. Existing studies find mixed evidence on whether SBCS loans may be associated with more type II errors (approving loans that will default) than relationship loans (see, for example, Agarwal and Hauswald (2008) and DeYoung et al. (2008) that find positive result, and Berger et al. (2011b) that find no effects). We conjecture that if a transactional lender uses SBCS for cost-saving, then it is likely that SBCS loans have a higher PD than non-SBCS loans, because credit scores are based on a limited set of quantifiable information and thus the scores alone are imperfect indicators of borrower quality. In contrast, if a relationship lender uses SBCS discretionally in order to evaluate the creditworthiness of opaque small businesses more accurately, then it is likely that SBCS loans are associated with a lower likelihood of default.

Consistent with the first part of the above hypothesis, we find that, on average, the ex-post PD of firms that have obtained SBCS loans from non-primary banks is higher than that of non-SBCS loan user firms, conditional on the ex-ante PD and other covariates. In contrast, we find that the ex-post PD of firms that have obtained an SBCS loan from their primary bank becomes smaller than that of non-SBCS loan user firms.

Second, we investigate whether the use of transactional loans such as SBCS loans adversely affected a relationship lender's incentive to provide assistance to its client-firms during the financial crisis. In particular,

we examine whether the lending attitude of a primary bank worsened more in the midst of the crisis if a firm obtained SBCS loans. We conjecture that the provision of SBCS loans is detrimental to a firm-bank relationship if it is provided by a transactional lender for the following reasons. First, a higher indebtedness of a borrowing firm as a result of loans from another lender will exacerbate its moral hazard incentives and reduces the relationship lender's willingness to provide credit (Degryse et al., 2012). Second, standard theory of adverse selection argues that, in the presence of informational asymmetry, a low quality firm would tend to self-select to banks that are more prone to type II errors in anticipation of being mistaken for a high quality borrower (Ergungor and Moulton, 2011; Gropp et al., 2012). This suggests that a low quality firm chooses to obtain SBCS loans from transactional lenders that adopt SBCS for the cost-saving motive. But then, the relationship lender would infer that the firm's credit prospect has worsened and would reduce its credit supply in the midst of crisis. On the other hand, we predict that such negative spillover effects will not appear if an SBCS loan has been extended by a relationship lender itself.

Consistent with the first part of the second hypothesis above, we find that the lending attitude of a firm's primary bank worsened during the financial crisis if the firm had obtained an SBCS loan from a non-primary bank. In contrast, when SBCS loans were provided by the primary bank itself, we do not find such detrimental effects of SBCS loans on primary banks' lending attitude.

Overall, our findings suggest that the main motive of extending SBCS loans for a transactional lender is to expand the customer base via the cost-saving effect generated by SBCS. The cost associated with

this strategy of implementing SBCS is that these loans are more prone to type II errors and that it induces borrower adverse selection problems. For a relationship lender, the virtue of SBCS is that it improves the accuracy of lending decisions in that the credit score represents one of many inputs. From borrowers' viewpoint, SBCS loans from transactional lenders appear to be beneficial in that – at least in normal times – they increase the availability of credit. However, such loans may also have their drawbacks in that the use of SBCS loans from transactional lenders may be detrimental to the close ties borrowers have with their relationship lender, which may be particularly crucial for small businesses during times of crisis.

Our contributions to the literature on SBCS are as follows. First, despite its growing relevance in small business loan markets, there is little empirical research on SBCS in countries other than the U.S. We fill this gap by utilizing a unique firm-bank matched dataset in Japan.

Second, our analyses show that relationship and transactional lenders have different motives in extending SBCS loans. While understanding this point is important, it has not been explored much in the literature. This is due to the data limitations previous empirical studies faced, namely that they were based on bank-level datasets and thus were not able to distinguish whether banks extending SBCS loans are a relationship lender for the particular firms to which they extend such loans.³ It should also be noted that this

³ Most studies are based on a survey of the largest U.S. banks conducted by the Federal Reserve Bank of Atlanta in January 1998. On the other hand, Berger et al. (2011b) recently used a survey of U.S. community banks conducted by the U.S. Small Business Administration.

paper is closely related to Berger et al. (2005a), which find that the primary motive of “rules” banks that use SBCS to automatically make lending decisions is cost-saving, while “discretion” banks that utilize credit scores as one of several inputs in making credit decisions aim to reduce the opaqueness of potential borrowers. While our findings are consistent with the use of SBCS by “rules” banks vs. “discretion” banks by Berger et al. (2005), the key contribution of this paper to the literature is that it sheds light on the reasons why banks adopt a particular strategy in implementing SBCS.

Third, this paper empirically examines, for the first time to our knowledge, how the role of a relationship lender as a provider of liquidity insurance during financial crises is affected by the use of SBCS, and finds that SBCS loans by transactional lenders have negative externalities.

The remainder of the paper is organized as follows. Section 2 briefly describes the development of the SBCS loan market in Japan. Section 3 then develops our empirical hypotheses on how the use of SBCS loans affects the ex-post performance of borrower firms and the lending attitude of their relationship lenders during times of crisis. Next, Section 4 describes the data and variables used in the paper and explains our empirical models, while Section 5 presents the results of our empirical analysis. Section 6 summarizes the paper’s findings.

2. The Development of Small Business Credit Scoring in Japan

Credit scoring is a quantitative method to evaluate the credit risk (PD) of loan applications. Using both

qualitative and quantitative data and statistical techniques, credit scoring produces a “score” for a loan applicant that forms the basis of credit decisions such as whether or not to provide a loan and the loan contract terms. Following Berger and Udell (2006), we define SBCS loans as loans where the primary lending decision is based on numerical credit scores. Note that this definition does not rule out the use of other information (for instance, soft information that is primarily used in relationship lending) as a secondary source.⁴

In the United States, credit scoring has been used for underwriting consumer credit for some time, but it was not used for small business credit until the mid-1990s because of the heterogeneity of small businesses. The development of credit scoring models for small business loans in the 1990s was motivated by the casual observation that repayments of small business loans depended less on the business itself than on the credit history of the business owner (Mester, 1997; Allen et al., 2004). Since then, many U.S. banks have been using the consumer credit score of small business owners to evaluate small business loan applications (Cowan and Cowan, 2006).

SBCS has been rising in popularity among Japanese banks as well since the early 2000s. Although there is no official aggregate data on the volume of SBCS loans in Japan, the outstanding amount of SBCS loans for the three largest banks was 5 trillion yen (about 50 billion dollars) at the end of 2005, about 5 percent

⁴ Whether SBCS is a substitute or complement to other lending technologies is one of the key issues in the literature (Berger et al., 2005a) that will be discussed below. Uchida et al. (2008b) investigate the relationship among different lending technologies in Japan. However, they do not include SBCS in their analysis.

of their entire loans outstanding to small businesses.⁵ SBCS has also spread among regional banks and cooperative financial institutions, who originated more than 8 trillion yen of SBCS loans in total during FY2003 – FY2006.⁶ Many scoring models adopted by Japanese banks use only firms' attributes such as financial ratios and do not take into account most, or any, of the business owners' personal attributes, because banks do not have sufficient access to databases on the personal credit histories of business owners⁷ (Ono, 2006). In essence, SBCS loans by Japanese banks are based on business credit scores.

The expansion of SBCS among regional banks and cooperative financial institutions in the early 2000s was partly due to regulatory pressure from the Financial Services Agency (FSA) to provide small business loans that did not require small business borrowers to pledge real estate collateral.⁸ However, growth in the SBCS loan market has stagnated since the mid-2000s, in part because the default rates of SBCS loans

⁵ *Nikkei Newspaper*, September 20, 2006.

⁶ Financial Services Agency (FSA), "Progress Report on the Action Program Concerning Enhancement of Relationship Banking Functions," July 12, 2007.

⁷ Note, however, that Japanese banks usually collect information of the business owners' personal attributes manually when extending non-scoring loans including relationship-based loans.

⁸ In March 2003, the FSA released the "Action Program Concerning Enhancement of Relationship Banking Functions." The action program urged regional banks and cooperative financial institutions to "utilize methods such as the credit scoring model [...] from the perspective of promoting lending activities, placing emphasis on cash flow from business operations and avoiding an excessive reliance on collateral and personal guarantees" (p.4, authors' translation).

have been higher than expected.⁹ This suggests that the predictive power of SBCS models based on business credit scores is relatively weak. Worried by the fact that some banks were accumulating non-performing loans, the FSA has ceased to promote the use of SBCS in its Action Program since 2007. Thus, we can infer that during the period of SBCS loan extension that we focus on – before the onset of the global financial crisis that erupted after the failure of Lehman Brothers in September 2008, but after the FSA had stopped actively promoting the use of SBCS – there was little regulatory pressure to extend SBCS loans, so that the decision whether or not to extend such loans at most banks was based on economic motives. This situation provides us with a good opportunity to examine the empirical hypotheses described below.

3. Empirical Hypotheses

To examine how the use of SBCS affects the performance of loans to small businesses and their ties with relationship lenders in times of crisis, we put forward empirical hypotheses that are based on the existing theoretical and empirical literature.

3.1. Strategies of Implementing SBCS

⁹ A typical example is the failure of Shin Ginko Tokyo. The bank was established in 2004 at the initiative of the Tokyo metropolitan government, but by the end of 2007 the bank had lost nearly 80 percent of its capital because of the extremely high default rate on its SBCS loans. See Hasumi and Hirata (2010) for details.

There may be several reasons for lenders to adopt SBCS, and the strategies of implementing SBCS (and the associated effects on loan contract terms and ex-post loan performance) may differ across banks. Previous studies suggest that there are two potential benefits for lenders of adopting SBCS: (i) cost-saving in screening loan applications, which would help to expand small business lending, and (ii) the mitigation of the borrower-opacity problem, which would contribute to more efficient lending decisions and/or setting contract terms more accurately (Mester, 1997; Berger et al., 2005a; Berger and Frame, 2007). Berger and Frame (2007) argue that cost-saving is likely to be the key motive for “rules” banks that use scores to automatically approve or reject loan applications, as this greatly reduces the human resource expenses associated with loan processing. In contrast, banks that use scores as a supplementary factor in making credit decisions are termed as “discretion” banks. For discretion banks, the key incentive for adopting SBCS is to improve the precision of their information about the creditworthiness of prospective borrowers and make correct lending decisions.

3.2. The Effect of SBCS on Borrower Performance

Regarding the effect of SBCS on loan performance, DeYoung et al. (2008) point out three potential effects on a bank’s risk taking and loan performance. First, SBCS may make the loan production process more efficient and reduce associated costs. As a result, the bank will be more willing to extend loans to marginally riskier borrowers (risk-taking effect), because, with increased efficiency, the bank has greater capacity to absorb losses. This effect would increase the ex-post default rate, all else equal. Second, if used in isolation,

SBCS may be informationally inferior to traditional relationship lending, as credit scores – because they are based on a limited set of quantifiable information – are an imperfect indicator of the creditworthiness of prospective borrowers. This effect of SBCS makes both type I errors (rejecting good loans) and type II errors (approving loans that will default) more frequent and will result in a higher default rate.¹⁰ This being the case, lenders will use SBCS only if the cost-saving effect of credit scoring outweighs the deterioration in expected loan performance. In contrast, and finally, by combining the hard information obtained from the credit scoring model and the soft information gathered through an existing firm-bank relationship and the traditional loan screening process, SBCS may improve the lender's information set and result in a smaller default rate. The first and second effects correspond to the cost-saving motive underlying the adoption of SBCS, while the third effect is likely to be found for banks that use SBCS to reduce the borrower opacity problem.

The performance of SBCS loans would be affected not only by banks' lending strategies but also by borrowers' self-selection. A standard theory of adverse selection suggests that, in the presence of informational asymmetry, a low quality borrower will apply to uninformed lender in anticipation of being mistaken for a high quality borrower (type II error). Thus, it is likely that a low quality borrower will select a bank that uses SBCS for cost-saving, while a high quality borrower will select a bank that uses SBCS for the reduction of borrower-opacity problem (Shaffer, 1998). Consistent with the reasoning, empirical studies by Ergungor and Moulton (2011) and Gropp et al. (2012) find that a creditworthy borrower will choose to apply credits to

¹⁰ For the sake of brevity, we will only refer to type II errors hereafter.

relationship banks or local banks that are deemed to have accumulated the borrower's soft information.

Turning to empirics, previous studies find mixed evidence on the association between SBCS loans and ex-post loan performance.¹¹ Using U.S. SBA loans data, DeYoung et al. (2008) report that the default rate for SBCS loans is higher than that for non-scoring loans. Agarwal and Hauswald (2008) also find that the credit delinquency of online scoring loans is higher than that of relationship-based in-person loans. On the other hand, Berger et al. (2011b) report that the use of SBCS does not materially affect the non-performing loan ratio of U.S. community banks.

We posit below that relationship lenders and transactional lenders have different motives for adopting SBCS, and the differentiated use of SBCS by these lenders will result in contrasting ex-post performance of SBCS-loan user firms.

On extending an SBCS loan to a prospective borrower, a transactional lender does not have sufficient access to soft information on the borrower. Thus, the likely motive for employing SBCS for a transactional lender is cost-saving. On the other hand, employing SBCS solely based on the cost-saving motive is likely to exacerbate the borrower opacity problem, resulting in more frequent type II errors. A deterioration in the performance of loans after the adoption of SBCS may also occur as a by-product of more ex-ante risk-taking if

¹¹ Regarding the ex-ante riskiness of borrowers, Berger et al. (2005a) find that the average risk rating of loans issued by "rules" banks is higher (i.e., such loans are riskier) than that by non-scoring banks, while the average risk rating of loans issued by "discretion" banks is lower than that by non-scoring banks. Thus, the empirical results by Berger et al. (2005a) suggest that the risk-taking effect of SBCS is limited to "rules" banks.

SBCS is useful for a transactional lender in reducing loan origination costs, and/or as a by-product of adverse self-selection by low quality borrowers. It should also be noted that SBCS loans by Japanese banks are mostly based on business credit scores, and thus they may be more prone to type II errors than those based on consumer credit scores.

In contrast, using the credit score as a complement to the soft information that has been accumulated, a relationship lender may be able to evaluate the creditworthiness of small businesses more accurately. If that is the case, the default rate of SBCS loans provided by a relationship lender should be smaller than that of non-scoring loans.¹² In addition, a high quality borrower with positive soft information is more likely to self-select to its relationship bank.

In summary, we put forward the following hypothesis:

Hypothesis 1 (The effect of SBCS on borrower performance)

The average ex-post performance of SBCS loan user firms deteriorates more than that of non-scoring loan user firms if SBCS loans are extended by a transactional lender that implements SBCS for the cost-saving motive.

¹² Another potential benefit of SBCS for a relationship lender is the creation of uniform and objective loan underwriting criteria across borrowers (Mester, 1997). That is, SBCS is likely to mitigate uneven credit decisions by loan officers, which are inherent in traditional relationship lending.

In contrast, the average ex-post performance of SBCS loan user firms improves more than that of non-scoring loan user firms if SBCS loans are provided by a relationship lender that adopts SBCS in order to more accurately evaluate the creditworthiness of prospective borrowers.

Note that cost-saving may be the main motive also for a relationship lender if it is relatively costly for the lender to reproduce (update) soft information. In this case, SBCS loans by a relationship lender are qualitatively the same as those by a transactional lender, and we would expect the average performance of SBCS-loan borrowers to deteriorate more than that of non-scoring loan borrowers.

3.3. The Effect of SBCS on Liquidity Provision by a Relationship Lender in Times of Crisis

Previous studies on relationship lending suggest that firms, especially small firms that are informationally opaque, tend to suffer from credit rationing during financial crises, but that firms that have a close relationship with a relationship lender are less likely to be affected by such crises than other similar firms (see, for instance, Section 4.3.2.7 of Degryse et al. (2009) and references therein). The reason is that relationship lenders can provide a kind of implicit liquidity insurance in situations where borrowing firms experience a temporary adverse shock, as the proprietary information accumulated through intimate relationships produces rents that allow lenders to offset temporary losses (Boot, 2000). The empirical literature on main banks (relationship lenders) in Japan in particular suggests that main banks tend to play a critical role

when their client firms fall into distress (Aoki, 1994; Hoshi et al., 1990; Kang and Shivdasani, 1995; Sheard, 1989; 1994; Suzuki and Wright, 1985).¹³ However, empirical evidence that relationship lenders provide liquidity in times of financial distress is not limited to Japan but has also been found for other countries such as Germany (Elsas and Krahen, 1998), Korea (Ferri et al., 2001; Jiangli et al., 2008), Italy (De Mitri et al., 2010), and the United States for the 19th-century (Bodenhorn, 2003).

What has not been explored in the literature is how the use of transactional lending such as SBCS affects relationship lenders' incentives to provide liquidity insurance during financial crisis. We hypothesize that the effect of SBCS on the liquidity provision by a relationship lender also depends on whether the bank that extends an SBCS loan is the relationship lender itself or another, transactional lender.

On the one hand, if a small business borrower obtains an SBCS loan from a transactional lender, this is likely to lower a relationship lender's willingness to lend during a period of crisis for the following two reasons. First, a higher total indebtedness by obtaining SBCS loans from a transactional lender reduces the borrower's incentive to repay the debt as well as the relationship lender's willingness to provide credit.¹⁴ For instance, Degryse et al. (2012) find that a creditor reduces its credit supply when a borrower obtains loans from another creditor. The argument is further supported by empirical studies on Japanese main banks that show that

¹³ In this context, a number of empirical studies suggest that main banks charge their borrowers higher interest margins to compensate for the provision of liquidity insurance. See, for instance, Kawai et al. (1996), Nemoto et al. (2011), Osano and Tsutsui (1985), and Weinstein and Yafeh (1998).

¹⁴ Note, however, that this argument applies not only to SBCS loans but also to any type of loans.

distressed firms with a smaller dependence on their main bank in their total debt outstanding are less likely to receive rescue finances and other assistance from the main bank, resulting in a higher probability that such firms go bankrupt (Suzuki and Wright, 1985) and lower sales and investment afterwards (Hoshi et al., 1990). Second, we argued in the previous subsection that a low quality firm would apply to SBCS loans provided by transactional lenders that are more prone to type II errors. Then, the relationship lender of the firm would infer that the creditworthiness of the firm has worsened, and becomes less willing to provide rescue finance afterwards.

On the other hand, SBCS loans obtained from a relationship lender do not create such negative externalities and therefore are likely to leave the provision of liquidity by a relationship lender during financial crisis unaffected. Moreover, if a relationship lender uses the numerical credit score as one of many inputs in making a credit decision, then it is likely that the relationship lender will be better informed about the borrowing firm than when not using credit scores. In this case, the use of SBCS will reduce the informational opacity problem with regard to borrowing firms and strengthen the incentive for a relationship lender to provide credit to client firms in distress.

In summary, we put forward the following hypothesis:

Hypothesis 2 (The effect of SBCS on liquidity provision by a relationship lender in times of crisis)

A relationship lender is less willing to provide liquidity insurance during a period of crisis to client firms that

have obtained SBCS loans from other, transactional lenders than to firms that have not obtained SBCS loans.

In contrast, a relationship lender is more willing to provide liquidity insurance during a period of crisis to client firms that have obtained SBCS loans from the same relationship lender than to firms that have not obtained SBCS loans from it.

Note that the latter part of Hypothesis 2 again rests on the assumption that a relationship lender adopts SBCS in order to reduce the information opacity of a borrower firm. If, on the other hand, the lender uses SBCS as a substitute for relationship lending, it will lose, at least partially, soft information that is needed to evaluate the creditworthiness of the firm in times of distress, and effectively becomes a transactional lender. Under this scenario, the positive effect of SBCS on liquidity provision by a relationship lender during financial crisis is likely to be muted. Another implicit assumption in the latter part of Hypothesis 2 is that firms that need financial assistance from a relationship lender face a shortage of liquidity but not a solvency problem. If a firm faces a solvency problem, then a more informed relationship lender that utilize SBCS has no incentive to provide liquidity to such a firm in permanent distress.

4. Data, Variables, and Empirical Approach

4.1. Data

The two main sources of our dataset are the “Survey on Transactions between Enterprises and Financial

Institutions under the Financial Crisis” conducted in February 2009 and the “Survey on Transactions between Enterprises and Financial Institutions” conducted in February 2008, both by the Research Institute of Economy, Trade and Industry (RIETI). Based on a sample drawn from the Financial Information Database of Tokyo Shoko Research (TSR), a commercial credit research firm that compiles information on more than 1.2 million firms, the 2008 survey questionnaire was sent to 17,018 firms, of which 6,059 responded. The 2009 survey questionnaire was sent to 5,979 firms out of the 6,059 respondents to the 2008 survey. The number of respondent firms for the 2009 survey is 4,103.

These RIETI surveys ask a variety of questions on corporate financing, including, in the 2009 survey, whether firms have obtained SBCS loans or not and, if they have, from which financial institutions (for the sake of convenience, we call them “banks” hereafter). Banks are categorized as “primary bank,” “second-primary bank,” and “other bank.” The primary bank is defined as the bank with the largest amount of loans outstanding to the firm, while the second-primary bank is the bank with the second-largest amount of loans outstanding to the firm. Firms were asked to identify their primary and second-primary banks both in the 2008 and the 2009 survey. In addition, we tried to identify other SBCS banks by sending follow-up questionnaires to firms that reported using SBCS loans in the 2009 survey (RIETI, “Survey on Small Business Credit Scoring,” November 2009).¹⁵ Thus for each firm, we are able to identify its primary and second-primary banks, and

¹⁵ The questionnaire was sent to 418 firms that responded to the 2009 survey and answered that they had obtained SBCS loans. The number of respondent firms to the follow-up survey is 284.

whether these banks have extended an SBCS loan. As for the other banks, we are able to identify them only if they have extended an SBCS loan to the firm.

In addition to the information on the usage of SBCS loans, we collect information on firm characteristics, primary bank characteristics, and firm-primary bank relationship variables in order to test our hypotheses. Firm variables are taken from the RIETI surveys as well as from the TSR Financial Information Database, which contains the financial statements of firms surveyed. Firms whose latest financial statements are prior to March 2006 are excluded from our sample. In addition, because the focus of the paper is on *small business* credit scoring, we exclude firms whose annual gross sales exceed 5 billion yen.

Data for primary bank financial variables come from several sources: data for most variables are from the Nikkei Financial Quest Database. We then try to supplement missing data from the website of the Financial Services Agency (FSA),¹⁶ which contains information on regional banks and cooperative financial institutions, from “Kinyu Map,” which is published annually by Kinyu Journal Company, from the Shinkin Bank and Credit Cooperatives (Shinyo Kumiai) database supplied by Keio University, and from banks’ annual reports. Because we are primarily concerned with private banks’ usage of SBCS, we drop observations from our dataset if a firm has transactions with government-sponsored financial institutions or finance companies (non-banks).

Information for firm-primary bank relationship variables is taken from the 2008 RIETI survey. The

¹⁶ <http://www.fsa.go.jp/policy/chusho/shihyou.html>.

2008 survey asks several questions on the relationship between a firm and its primary bank, including the duration of the relationship, the frequency of meeting, the physical distance between the firm and the bank branch, and the amount of loans outstanding.¹⁷ In order to maintain consistency with regard to the identity of firms' primary bank between 2008 (the year for which firm-bank relationship variables are constructed) and 2009 (the year for which the use of SBCS loans is identified), we drop observations of firms whose primary bank changed between 2008 and 2009.

Matching the data on the usage of SBCS with firm characteristics, primary bank characteristics, and firm-primary bank relationship variables, we have a maximum of 819 observations for the empirical analysis. The number of observations differs depending on which dependent variable we use and on the estimation strategy that we employ to test our hypotheses below. The reduction in the number of observations from the original RIETI surveys (4,103 firms) is due to missing data as well as the exclusion of some firms and financial institutions for the reasons explained above.¹⁸

¹⁷ These firm-bank relationship variables are also available for second-primary banks, and we will use this information in Table 4 below.

¹⁸ To be more precise, the number of observation falls from 4,103 to 2,837 by excluding firms whose annual gross sales exceed 5 billion yen in order to focus on small businesses. Among these 2,837 firms, the number of observation we can obtain information on (i) whether a firm has obtained SBCS loans, (ii) firm characteristics, (iii) primary bank characteristics, and (iv) firm-primary bank relationships are 2,002, 2,738, 2,005, and 1,257, respectively. The intersection of these four sets of information makes up our sample of 819 observations.

4.2. Variables

A list of variables and their definitions is provided in Table 1, while Table 2 presents summary statistics for all sample firms, for firms that have obtained SBCS loans, and for firms that have not obtained any SBCS loans. Finally, Table 3 presents summary statistics for firms that have obtained SBCS loans from a primary bank, a non-primary bank (a second-primary or other bank), and both primary and non-primary banks.

In our analysis below, we assume that primary banks act as relationship lenders, while non-primary banks act as transactional lenders. First, given that one of the intrinsic features of the main bank system in Japan is that firms' main bank – typically the bank with which a firm has the largest amount of loans outstanding – acts as a relationship lender, this assumption is likely to be valid for the large majority of firms. Second, apart from whether a bank is a firm's main bank, several other proxies have been used in the literature to identify relationship lenders, such as the duration of a firm-bank lending relationship, the frequency of firm-bank meeting, the firm-bank distance, and the share of loans obtained from a bank (Degryse et al., 2009; Ono and Uesugi, 2009). Table 4 compares the mean values of these proxies for firm-primary bank and firm-non-primary bank pairs in our sample of 819 firms. The results indicate that the intimacy of firm-bank relationships measured by these proxies is, on average, stronger for primary banks than for non-primary banks, underpinning that our assumption that firms' main bank acts as a relationship lender is valid.¹⁹

¹⁹ In Table 4, firms' relationship with non-primary banks is measured in terms of the relationship with their secondary bank.

The variables of key interest in our empirical analysis are two dummy variables indicating whether a firm had SBCS loans outstanding as of February 2009. Specifically, we construct the following dummy variables: whether a firm obtained SBCS loans from a primary bank (*SC_DUM_PR*) and whether it obtained SBCS loans from a non-primary bank (*SC_DUM_NPR*). In the RIETI surveys, SBCS loans are defined as “loans that are quickly processed (loan approval/denial is usually decided within a few days) and are easy to apply for, that, in general, do not require collateral and/or third-person guarantees, and that are often referred to as ‘business loans’ and/or ‘quick loans’” (authors’ translation). The last part reflects the casual observation that, in Japan, many banks have specific names for their SBCS loan products, so that firms can judge whether they are applying for an SBCS loan. Furthermore, in order to avoid any misclassification, the answer “do not know” is allowed in the survey questionnaire. Roughly 20 percent of survey respondent firms selected this choice, and these observations are dropped from our dataset. Table 2 indicates that 12.6 percent of firms (103 out of the 819 firms) in our dataset obtained SBCS loans. Specifically, Table 3 indicates that the ratio of firms that obtained an SBCS loan from their primary bank is 7.6 percent (62/819), while that of firms that obtained an SBCS loan from a non-primary bank (or banks) is 7.3 percent (60/819). 2.3 percent of sample firms (19/819) obtained SBCS loans from both their primary and a non-primary bank.

4.2.1. Variable for Testing Hypothesis 1: Ex-post Performance of Borrower Firms

As a proxy for ex-post performance to examine Hypothesis 1, we employ the borrower firm’s probability of

default in year 2009 (F_PD), that is, the PD of a firm estimated based on its financial statement after the SBCS (or non-SBCS) loan was extended.²⁰ As a proxy for the observable riskiness of a firm, we employ the annualized probability of default within 3 years calculated using the scoring model of Moody's RiskCalc.²¹ Table 2 shows that, on average, F_PD is higher for SBCS loan user firms than for non-user firms. In addition, Table 3 shows that, among the former, the mean value of F_PD is higher for firms that obtained SBCS loans from a non-primary bank (2.8 percent) than for firms that obtained SBCS loans from their primary bank (1.7 percent).

4.2.2. Variable for Testing Hypothesis 2: Liquidity Provision by a Relationship Lender during the Financial Crisis

To examine Hypothesis 2, we use firms' answers in the RIETI survey to the question whether the lending

²⁰ Ideally, we would like to use actual default events as a proxy for the ex-post performance of borrowing firms. However, because our ex-post data span only a one-year period, the number of firms in our sample that defaulted is very limited (9 out of 826 firms) and thus it is difficult to examine Hypothesis 1 empirically by using actual default events.

²¹ RiskCalc v3.2 Japan is created using pooled data on 201,000 SMEs for the period 1992 to 2005. Released in 2009 by Moody's KMV, it is one of the most widely used "third-generation" credit scoring models for evaluating the creditworthiness of unlisted companies in Japan. RiskCalc employs probit regressions whose independent variables are inventory to net sales, trade receivables to net sales, EBITDA to interest expense, net sales growth, total liabilities less cash to total assets, retained earnings to total liabilities, cash to total assets, gross profit to total assets, previous year income to previous year net sales, and real net sales.

attitude of their primary bank improved, remained unchanged, or worsened after the failure of Lehman Brothers in September 2008. We use these answers to construct an index variable, *R_ATTITUDE* (1: improved, 2: remained unchanged, 3: worsened), that we employ to examine whether relationship lenders were less likely to act as providers of liquidity insurance in times of financial distress if a firm had obtained an SBCS loan from a transactional lender and whether they became more likely to act in such a manner if the firm had obtained an SBCS loan from the relationship lender itself. It should be noted that as a proxy for a relationship lender's willingness to lend during the financial crisis, *R_ATTITUDE* is superior to the actual amount of credit supplied because the latter is contaminated by loan demand factors.²²

Tables 2 and 3 show that the mean value of *R_ATTITUDE* is 2.27 for firms that have obtained SBCS loans from non-primary banks, 2.11 for firms that have obtained SBCS loans from primary banks, and 2.02 for firms that have not obtained SBCS loans. That is, primary banks exhibit the severest lending attitude toward firms that have obtained SBCS loans from non-primary banks, on average.

4.2.3. Other Control Variables

To control for other covariates that may affect the ex-post performance of a borrowing firm and the

²² Degryse et al. (2012) in their empirical analysis on loan contracts in Sweden employ a different approach and use banks' internal lending limit for each specific firm as a proxy instead. Banks' internal lending limits indicate the maximum amount that they are willing to lend to a particular firm and therefore represent a proxy that is also immune to the effect of loan demand.

lending attitude of its primary bank, we include the following variables.

First, regarding firm characteristics, we include a firm's probability of default before SBCS loans are extended (*PD*), because the ex-post probability of default (*F_PD*) is likely to be positively correlated with the ex-ante *PD*. Consistent with this conjecture, we find that the average probability of default before the SBCS loan is extended is higher for firms that obtained SBCS loans than for firms that did not obtain SBCS loans (Table 2).

In addition to *PD*, we also include the logarithm of annual gross sales (*LN_SALES*) as a proxy for firm size and the logarithm of firm age (*LN_FIRMAGE*). Further, we control for the share of equity holdings by a business representative (*OWNERS_HOLD*), as such holdings carry the risk of a commingling of a firm's business assets and a representative's personal assets.

Second, to control for the characteristics of a firm's primary bank, we use the logarithm of the bank's asset size (*BK_LN_ASSETS*) and the bank's share of branches within the prefecture of the borrowing firm (*BK_SHARE*). The primary bank's asset size may be an important determinant of the firm-bank relationship, since studies on relationship lending generally find that small banks have a comparative advantage in relationship lending (Berger and Udell, 2004; Berger et al., 2005b; Uchida et al., 2008a). The market share of the bank is included as a covariate to control for the degree of competition in a local loan market. In addition, we use the Herfindahl Index in each prefecture (*HERFINDAHL*). *HERFINDAHL* is calculated based on the share of banks' branches within the prefecture in which a borrowing firm is located. *BK_SHARE* and

HERFINDAHL may also be important for firm-bank relationships, although the existing empirical literature is ambiguous on whether market concentration (competition) is conducive or detrimental to relationship lending (Elsas, 2005; Degryse and Ongena, 2007, Presbitero and Zazzaro, 2011).

Finally, we use a set of variables to measure the strength of the relationship between a firm and its primary bank, as this is likely to affect the ex-post performance of a firm as well as the bank's lending attitude in the midst of a crisis. Specifically, we use the logarithm of the duration of the firm-bank relationship (*R_LN_DURATION*), an index variable representing the frequency of meeting (*R_FREQ*), and an index variable for the physical distance between a firm and the primary bank's branch (*R_DISTANCE*). We also construct a variable that measures the percentage share of the primary bank in a firm's loans outstanding (*R_PRIME_SHARE*). Table 2 shows that, on average, the intimacy of relationships measured by these proxies is stronger for firms that have not obtained SBCS loans than for firms that have obtained SBCS loans.

4.3. Empirical Approach

4.3.1. Baseline Estimations

To examine our hypotheses, we begin by estimating the following linear-regression models:

$$F_PD_i = \beta_0 + \beta_1 \cdot SC_DUM_PR_i + \beta_2 \cdot SC_DUM_NPR_i + \mathbf{X}_i' \boldsymbol{\beta} + \varepsilon_i \quad (1)$$

$$R_ATTITUDE_{ij} = \gamma_0 + \gamma_1 \cdot SC_DUM_PR_i + \gamma_2 \cdot SC_DUM_NPR_i + \mathbf{X}_i' \boldsymbol{\gamma} + u_i \quad (2)$$

where vector \mathbf{X}_i contains the set of covariates for firm i described in Section 4.2.3.

The dependent variable F_PD_i represents the expected default probability of firm i as of year 2009, that is, after any SBCS loans were extended. $R_ATTITUDE_{ij}$ is an index variable representing the lending attitude of firm i 's primary bank j as of February 2009. The two dummy variables for SBCS loans indicate whether a firm had SBCS loans outstanding from either its primary bank (SC_DUM_PR) or a non-primary bank (SC_DUM_NPR) as of February 2009. Because most SBCS loans to our sample firms were provided before February 2009,²³ F_PD_i and $R_ATTITUDE_{ij}$ measure the probability of default and the lending attitude of a firm's primary bank after the firm had obtained an SBCS loan or loans. Regarding the other covariates \mathbf{X}_i , firm variables are taken from the 2009 RIETI survey and firms' most recent financial statement, dates for which range from March 2006 to December 2008. For bank variables, BK_LN_ASSETS is as of the end of March 2008. BK_SHARE and $HERFINDAHL$ are calculated using the "Nihon-Kinyu-Meikan 2008" published by Kinyu Journal Company (the data are as of October 2007) and the Keio/Kyoto Joint Global COE Program's Shinkin and Shinso data. Finally, firm-primary bank relationship variables are constructed from the 2008 RIETI survey, i.e., they are for one year prior to the 2009 survey. In essence, we examine how SBCS loans extended by either a primary bank or a non-primary bank affect a user firm's ex-post performance and the lending attitude of the firm's primary bank, conditional on the firm's and its primary bank's ex-ante

²³ For a limited number of firms (221 firms), we can identify the date at which an SBCS loan was provided. Only 3 firms out of the 221 answered that they obtained an SBCS loan in February 2009.

characteristics and the strength of the firm-primary bank relationship.

4.3.2. Treatment Effects Estimations

Whether a firm obtains an SBCS loan – be it from its primary bank or a non-primary bank – is not a random event. Also, as explained above, borrowers will choose for which banks to apply based on their prospect for successfully obtaining credits. Hence, even if we find that the two SBCS loan dummy variables have a significant effect on firms' ex-post performance and their primary bank's lending attitude in linear-regression models, there may be several possible causal interpretations.

For instance, suppose we obtain a significantly positive coefficient for SC_DUM_NPR in equation (1): SBCS loans extended by a firm's non-primary bank are associated with an increase in the future probability of default F_PD , conditional on ex-ante characteristics of the firm (such as its ex-ante riskiness) and of the primary bank. One possible explanation for the result would be that SBCS loans by non-primary banks are more prone to type II errors and/or the borrower adverse selection when such banks are screening loan applications (ex-ante selection effect). However, an alternative possible explanation is that such firms' performance deteriorated as a result of less intensive monitoring by both the non-primary bank that provided the SBCS loan and the primary bank (ex-post treatment effect). In a similar vein, the provision of an SBCS loan by a non-primary bank may be associated with a tightening of the primary bank's lending attitude during the financial crisis either because the firm-primary bank relationship became less intimate after the firm

obtained an SBCS loan from a non-primary bank and the primary bank perceived such a loan to have increased the credit risk of the firm (ex-post treatment effect), or because firms that obtain an SBCS loan from a non-primary bank had a less intimate relationship with their primary bank in the first place (ex-ante selection effect).

In order to make sharper inferences on the mechanisms underlying the empirical results obtained from linear regression models (1) and (2), we need to distinguish the selection effect (selection bias) and the treatment effect of SBCS loans. Guo and Fraser (2010) present several models that can consistently estimate treatment effects, and we employ propensity score matching. The basic idea of propensity score matching is to compare the average performance of firms that have obtained SBCS loans (treatment group) to the average performance of treatment firms' identical "twins" that have not obtained SBCS loans (control group). By matching treatment firms to appropriate benchmark firms that have the "closest" propensity scores, we create a sample that is akin to the one generated by randomization. The exact procedure of propensity score matching is described in the Appendix.

5. Results

5.1. Baseline Estimations

Table 5 presents the ordinary least square regression results of equations (1) and (2). Regarding the effect of SBCS on ex-post borrower performance, the coefficient on S_DUM_NPR in the F_PD regression is

significantly positive, indicating that the probability of default during the financial crisis increased by as much as 0.82 percentage points for borrowers that obtained an SBCS loan from a non-primary bank. This result is consistent with the first part of Hypothesis 1, which states that the provision of SBCS loans by transactional lenders is associated with a deterioration in borrower ex-post performance, because the transactional lender adopts SBCS for the cost-saving motive and thus is more prone to committing type II errors. In contrast, the coefficient on *S_DUM_PR* is significantly negative and indicates that obtaining an SBCS loan from the primary bank is associated with a reduction of the probability of default by 0.46 percentage points. The result is consistent with the second part of Hypothesis 1, which states that the average ex-post performance of SBCS loan user firms improves in comparison with non-scoring loan user firms, since primary banks adopt SBCS in order to evaluate the creditworthiness of prospective borrowers more accurately.²⁴

Turning to other covariates, the coefficient on *PD* is positive and significant, indicating that an observably riskier borrower ex-ante is likely to be riskier ex-post as well. The coefficient on *R_DISTANCE* is also positive, although only statistically significant at the 10 percent level. The positive coefficient is consistent with the finding in previous empirical studies (Agarwal and Hauswald, 2010; DeYoung et al., 2008) that a

²⁴ As noted in footnote 20, we do not use actual default events as a proxy for ex-post firm performance because of the limited number of defaulting firms (9 out of 826 firms). However, the following default rates are consistent with the estimation results using *F_PD*: 0.7 percent (5/722) for non-SBCS loan user firms, 1.6 percent (1/63) for firms that obtained an SBCS loan from their primary bank, and 5.0 percent (3/60) for firms that obtained an SBCS loan from a non-primary bank.

borrower that is located farther away from a lender is more likely to default. The coefficient on *R_FREQ* is also weakly positive, suggesting that the average performance of borrowers deteriorates more if their primary bank monitors them more frequently. A possible explanation is that firms that turn out to be observably riskier ex-post are likely to be informationally opaque ex-ante, and hence primary banks consult with such firms more often.

Regarding the lending attitude of primary banks during the financial crisis, the coefficient on *S_DUM_NPR* in the *R_ATTITUDE* regression is significantly positive, indicating that firms that obtained an SBCS loan from a non-primary bank prior to the crisis were more likely to experience a tightening in the lending attitude of their primary bank during the crisis. In contrast, the coefficient on *S_DUM_PR* is statistically insignificant; that is, SBCS loans provided by the primary bank did not have any positive or negative effects on its lending behavior during the crisis period. Taken together, these results are consistent with the first part of Hypothesis 2 which states that an SBCS loan by a transactional lender has an adverse effect on the provision of liquidity by a firm's relationship lender during financial crisis, while they are inconsistent with the latter part of Hypothesis 2 that an SBCS loan by a relationship lender will strengthen its liquidity provision during a crisis. From a borrower's perspective, the results suggest that there is a certain cost associated with switching from a relationship lender to a transactional lender via SBCS loans. Although SBCS loans from transactional lenders seem to be beneficial in increasing the availability of credit during normal times, they may be detrimental to a firm's ties with its relationship lender, which may be particularly valuable

during times of financing difficulty. On the other hand, SBCS loans from a relationship lender do not have such a potentially detrimental effect, but neither do they increase the availability of loans.

The coefficient on *PD* is again positive and significant, indicating that the lending attitude of primary banks is worse for ex-ante riskier firms. Although significant at only 10 percent, the negative coefficients on the relationship variables (*R_PRIMESHARE*, *R_LN_DURATION*, *R_FREQ*) suggest that having established a closer relationship with the primary bank has a positive effect on the bank's lending attitude in times of crisis.

5. 2. Treatment Effects Estimations

The empirical results in the previous section generally support Hypotheses 1 and 2 posited in Section 3. As noted above, however, simple linear regression models allow several causal interpretations.

To investigate whether the results obtained in Table 5 are due to the ex-ante selection effect or the ex-post treatment effect, we implement propensity score matching estimation. To begin with, Table 6 shows the results of the probit estimations for the determinants of whether a firm obtained an SBCS loan from a primary (*S_DUM_PR*) or non-primary bank (*S_DUM_NPR*).²⁵ The results are mostly in line with the findings of the previous studies. Starting by looking at *LN_SALES* and *LN_FIRMAGE*, we find that the coefficients are

²⁵ In estimating a firm's probability of obtaining an SBCS loan from a primary bank (non-primary banks), observations for firms that have obtained an SBCS loan only from non-primary banks (a primary bank) are dropped from the sample ("control" group in the treatment effect estimation). This is because we want to restrict our control observations to firms that have not obtained an SBCS loan from *any* bank.

negative, indicating that smaller and younger firms are more likely to obtain SBCS loans (Frame et al., 2001; Cowan and Cowan, 2006), either from a primary bank or a non-primary bank. Next, the positive coefficient on *PD* implies that SBCS loans are more likely to be extended to observably riskier firms. This is consistent with the point made by De Young et al. (2008) mentioned in section 3.2 that the adoption of SBCS may lead banks to take a more aggressive risk-taking stance. Turning to the firm-primary bank relationship variables, the positive coefficient on *R_DISTANCE* in the primary bank estimation indicates that the primary bank is more likely to extend an SBCS loan to a firm that is located farther away from the bank's branch. One possible explanation for this result is that primary banks use SBCS in order to complement soft information on borrower firms that are farther away, because soft information on these firms may be less accurate. The negative coefficient on *R_PRIMESHARE* in the non-primary bank estimation suggests that a firm is more likely to obtain an SBCS loan from a non-primary bank when it has a less intimate relationship with its primary bank as measured in terms of the primary bank's share in the firm's loans outstanding.

Based on the propensity scores obtained from the probit regression models above, we next estimate the treatment effect for SBCS loans using kernel matching estimators.²⁶ We match each treated observation with the non-treated observations, each of which has its own weight that is proportional to the "closeness" to

²⁶ We also estimate the treatment effects for SBCS loans using other matching algorithms, namely, 5-nearest matching and radius matching. The estimation results (not reported) in most cases are qualitatively the same as those of the kernel matching estimation and can be obtained from the authors upon request.

the treated observation, where “closeness” here is measured by the propensity scores.

The estimation results for the treatment effect are reported in Table 7. For each variable, there is an unmatched estimator and an average treatment effect on the treated (ATT) estimator, both of which are shown in the column labeled “Difference.” For example, regarding the treatment effect of SBCS loans by a primary bank, in the “Unmatched” row for the variable F_PD , there are two values, one for the treatment group (firms that obtained an SBCS loan from a primary bank) and the other for the non-treated group (firms that did not obtain an SBCS loan). The former value (1.715) indicates that SBCS loan user firms’ average probability of default after the crisis was 1.7 percent, whereas the latter (1.483) indicates that it was 1.5 percent for non-user firms. The difference between these two figures, 0.2 percentage points, is the unmatched estimate of the treatment effect as shown in the column labeled “Difference.” We should note, however, that the unmatched estimate of the treatment effect may well be driven by selection bias since ex-ante differences in terms of firm and bank characteristics between SBCS loan users and non-users possibly affect the difference in F_PD . The ATT estimator takes into account the sample selection and gives us the treatment effect of SBCS. In the “ATT” rows, the value for the non-treated group in the “Unmatched” row is replaced by the value for the control group, in which the counterfactual firms are non-SBCS loan users with similar ex-ante characteristics as SBCS users. The difference between the value of “Treated” and “Controls” is -0.3 percentage points but is statistically insignificant. This suggests that the improvement in the ex-post performance of SBCS loan borrowers from primary banks that we found in the previous subsection (Table 5) is driven by the selection

effect, that is, a reduction in type II errors due to effective screening by banks and/or self-selection by high quality firms.

Table 7 further indicates that the treatment effect on *R_ATTITUDE* is also insignificant for firms that obtained SBCS loans from a primary bank.

Turning to the treatment effects of SBCS loans by non-primary banks, Table 7 shows that the treatment effects on both *F_PD* and *R_ATTITUDE* are positive and significant. The treatment effect on *F_PD* suggests that the ex-post performance of SBCS loan user firms deteriorated more than that of non-user firms, presumably because the primary bank exerted less effective monitoring. It may also be the case that the interim monitoring by a non-primary bank that had provided an SBCS loan was weak. The treatment effect on *R_ATTITUDE* indicates that the lending attitude of firms' primary banks during the financial crisis tightened after the provision of an SBCS loan by a non-primary bank. This reduced willingness by relationship lenders to provide liquidity may be another factor that contributed to the deterioration in the ex-post performance of firms that obtained an SBCS loan from a non-primary bank.

6. Conclusion

This paper empirically examined the ex-post performance of SMEs that obtained SBCS loans, using a unique firm-bank matched dataset for Japan. The paper further examined whether a relationship lender's willingness to provide liquidity to its client firms in times of crisis was negatively affected by the provision of SBCS loans

by other banks. Our rich dataset allowed us to investigate whether (and how) the impact of SBCS loans differed depending on whether they were extended by a relationship or a transactional lender. The findings of the paper can be summarized as follows.

First, we find that a firm's ex-post probability of default increased if the firm had obtained an SBCS loan from a non-primary bank (transactional lender). The finding is consistent with the hypothesis that a transactional lender that adopts SBCS for the cost-saving motive is more prone to type II errors and/or the borrower adverse selection problem. Our analysis on the treatment effect of SBCS suggests that weakening monitoring activity by banks also played a role.

In contrast, we find that SBCS loans extended by a primary bank (relationship lender) were associated with a decrease in the ex-post default probability of user firms. The finding is consistent with the hypothesis that a relationship lender uses SBCS in order to augment the information set in assessing the creditworthiness of informationally opaque borrowers.

Third, we find that the lending attitude of a firm's primary bank in the midst of the recent financial crisis was adversely affected by the use of SBCS loans if these loans were extended by a non-primary bank. This suggests that for borrowers the advantage of increased credit availability through SBCS loans from transactional lenders in normal times comes at the cost of a reduced willingness of relationship lenders to provide liquidity insurance in times of crises. In contrast, we find neither a positive nor a negative effect on loan availability in the case of SBCS loans provided by a primary bank, indicating that while the utilization of

SBCS by primary banks is useful for a more accurate evaluation of the creditworthiness of potential borrower-firms ex-ante, it does not materially affect the provision of liquidity by a relationship lender during a crisis.

As far as we know, this is the first empirical analysis on the different use of SBCS by relationship and transactional lenders. Our analysis suggests that SBCS loans by a relationship lender are complementary to relationship-based loans and the lender uses the numerical credit score as one of many inputs in making a credit decision. In contrast, SBCS loans by transactional lenders seem to be genuinely transaction-based in that these lenders adopt SBCS for the cost-saving motive.

There are various possible extensions to our analyses. One would be to widen the time window for observing borrowers' ex-post performance. Currently, we only have a one-year window for analysis due to data limitations. As more data become available over time, we may be able to extend the window to several years including non-crisis period, and incorporate additional ex-post performance variables including actual default rates. A second extension would be to examine more closely how banks determine their strategy of implementing SBCS. In this paper, we did not pay attention to the composition of relationship-based SBCS loans and transaction-based SBCS loans within a bank. However, it may well be the case that at one bank, SBCS loans are mostly relationship-based, while at another bank, they are mostly transaction-oriented. Exploring the determinants of banks' SBCS strategies further represents an interesting topic for future research. Finally, the paper did not analyze the loan contract terms of SBCS loans, such as loan interest rates and

collateral. However, our analysis on the different impact of SBCS loans by relationship lenders and by transactional lenders suggests that the loan contract terms of SBCS loans may also differ depending on the lender. Tackling this issue may reinforce the paper's findings and further expand our understanding of the nature of SBCS loans.

Appendix. Procedure of Propensity Score Matching

Procedure of propensity score matching is as follows:

- (i) We implement the following probit estimations that model the probability of a firm obtaining an SBCS loan from a primary or non-primary bank:

$$\text{Pr}(SC_DUM_PR_i = 1) = f(\mathbf{X}_i' \boldsymbol{\delta}) \quad (3)$$

$$\text{Pr}(SC_DUM_NPR_i = 1) = g(\mathbf{X}_i' \boldsymbol{\delta}) \quad (4)$$

where vector \mathbf{X}_i contains the same covariates as in equations (1) and (2). Borrower firms that obtained an SBCS loan ($SC_DUM_PR=1$, $SC_DUM_NPR=1$) are labeled treatment observations. Based on the estimation results, we then attach a propensity score to each observation. The propensity score is defined

as $e_{PR}(\mathbf{X}_i) \equiv \text{Pr}(SC_DUM_PR_i = 1 | \mathbf{X}_i)$ for equation (3) and as

$e_{NPR}(\mathbf{X}_i) \equiv \text{Pr}(SC_DUM_NPR_i = 1 | \mathbf{X}_i)$ for equation (4).

- (ii) Next, for each treatment observation, we identify matched observations from non-treatment observations.

We define non-treatment observations as firms that did not obtain an SBCS loan from *any* bank. That is, in matching observations, firms that obtained an SBCS loan from a non-primary bank are excluded from non-treatment observations in estimating equation (3). Similarly, firms that obtained an SBCS loan from their primary bank are excluded from the sample in estimating equation (4). The matched observations are observations that have the “closest” propensity score to a particular treatment observation and are labeled control observations. There are several matching algorithms to find the “closest” control observations. As a baseline for our analysis, we employ kernel matching.

(iii) Finally, we compare the change in the probability of default and in the lending attitude of the primary bank, F_PD and $R_ATTITUDE$, of the treatment group and the control group after the eruption of the financial crisis.²⁷

One of the benefits of employing propensity score matching estimation is that we can match treatment and control observations using the scalar propensity score. The propensity score, which is the conditional probability of being treated given the value of observed characteristics, is a very useful variable in

²⁷ To be precise, F_PD measures the level of the probability of default after the crisis. However, because we control for the probability of default before the crisis by including it as one of the covariates in the first-stage probit estimation and the balancing condition explained in equation (6) below ensures that the probability of default before the financial crisis is the same on average between the treatment and control groups, we are effectively looking at the change in the probability of default.

dealing with a highly dimensional vector of covariates. Rosenbaum and Rubin (1983) showed that treatment observations (in our case firms that obtained SBCS loans) and control observations (firms that obtained non-SBCS loans) with the same propensity score value have the same distribution of the full vector of covariates. It is thus sufficient to match firms in terms of the propensity score in order to obtain the same probability distribution of covariates for treatment and control observations.

In propensity score matching, an assumption known as unconfoundedness has to be satisfied so that the differences in F_PD and $R_ATTITUDE$ between the treated observations and the control observations with the same propensity scores are attributable to the treatment effect of SBCS loans (Rosenbaum and Rubin, 1983). For instance, regarding F_PD ,

$$\begin{aligned} (F_PD^T, F_PD^C) \perp SC_DUM_PR | e_{PR}(\mathbf{X}_i) \quad \text{and} \\ (F_PD^T, F_PD^C) \perp SC_DUM_NPR | e_{NPR}(\mathbf{X}_i) \end{aligned} \quad (5)$$

need to hold (superscripts T and C stand for the treatment group and the control group, respectively). Although there is no direct test for unconfoundedness, this assumption means that it is necessary to control for all relevant variables \mathbf{X}_i that influence the selection of treatment observations and their ex-post probability of default (outcome variable). We believe our data is rich enough to include all the necessary covariates.

In addition to unconfoundedness, the following balancing condition of the covariates given the propensity score must be satisfied (Becker and Ichino, 2002):

$$SC_DUM_PR_i \perp \mathbf{X}_i | e_{PR}(\mathbf{X}_i) \quad \text{and} \quad SC_DUM_NPR_i \perp \mathbf{X}_i | e_{NPR}(\mathbf{X}_i). \quad (6)$$

In other words, for a given propensity score, treatment observations are randomly chosen and, therefore, the treatment sample and the control sample are on average identical. In order to verify the balancing condition (6), we implement t-tests for equality of means for each covariate between treated and controls. If there are no statistically significant differences between the two groups, then we can proceed to estimate the treatment effect in the second step with some confidence.

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Table 1: Definitions of Variables

Dependent variables	
<i>F_PD</i>	Ex-post probability of default: annualized default rate within 3 years estimated using Moody's RiskCalc, based on the financial statement of the firm in year 2009.
<i>R_ATTITUDE</i>	Index variable indicating the change in lending attitude of a primary bank after September 2008: 1: better, 2: unchanged, 3: worse.
Use of small business credit scoring (SBCS) loans	
<i>SC_DUM_PR</i>	1 if a firm has SBCS loans outstanding from a primary bank, 0 otherwise.
<i>SC_DUM_NPR</i>	1 if a firm has SBCS loans outstanding from a non-primary bank, 0 otherwise.
Firm characteristics	
<i>LN_SALES</i>	Log of gross annual sales.
<i>LN_FIRMAGE</i>	Log of firm age.
<i>PD</i>	Ex-ante probability of default: annualized default rate within 3 years estimated using Moody's RiskCalc, based on the financial statement of the firm during March 2006 to December 2008.
<i>OWNERS_HOLD</i>	Share of equity holdings by business representatives.
<i>INDUSTRY</i>	Borrower industry dummy variable: 1: construction, 2: manufacturing, 3: wholesale and retail, 0: other.
<i>REGION</i>	Borrower dummy variable for region of headquarters: 1: Tokyo metropolitan area, 2: Chukyo metropolitan area, 3: Kinki metropolitan area, 0: other.
Primary bank characteristics	
<i>BK_LN_ASSETS</i>	Log of asset size.
<i>BK_SHARE</i>	Share of branches within the prefecture of a borrowing firm.
<i>HERFINDAHL</i>	Herfindahl index computed based on the shares of bank branches within the prefecture of a borrower firm, as of October 2007.
Firm-primary bank relationship	
<i>R_LN_DURATION</i>	Log of the number of years a borrower firm has been transacting with its primary bank.
<i>R_FREQ</i>	Index variable indicating the frequency of meeting between a borrower firm and its primary bank: 1: less than annually, 2: annually, 3: semi-annually, 4: once every 2-3 months, 5: monthly, 6: weekly, 7: daily, 0: no direct meeting.
<i>R_DISTANCE</i>	Index variable indicating the physical distance between a borrower firm and its primary bank's branch: 1: less than 500m, 2: 500-1,000m, 3: 1-10km, 4: 10-30km, 5: 30-50km, 6: 50km and more.
<i>R_PRIMESHARE</i>	Share of loans obtained from the primary bank to a firm's total loans.

Note: The dependent variables, *F_PD* and *R_ATTITUDE*, measure the ex-post performance of borrowing firms and the change in the lending attitude of their primary bank after the global financial crisis erupted. The independent variable *SC_DUM_PR/SC_DUM_NPR* indicates whether a firm has SBCS loans outstanding from a primary/non-primary bank as of February 2009. Firm variables are taken from the 2009 RIETI survey and firms' most recent financial statement, ranging from March 2006 to December 2008. *BK_LN_ASSETS* is as of the end of March 2008, while *BK_SHARE* and *HERFINDAHL* are calculated from "Nihon-Kinyu-Meikan 2008" (data as of October 2007). Relationship variables are constructed from the 2008 RIETI survey conducted in February 2008.

Table 2: Summary Statistics - SBCS Loan User Firms and Non-user Firms

This table presents summary statistics of variables used in the OLS estimations (Tables 5 and 6). Definitions of variables are provided in Table 1.

	All firms						Firms with SBCS loans			Firms without SBCS loans		
	N	Mean	SD	Min	Median	Max	N	Mean	SD	N	Mean	SD
Dependent variables												
<i>F_PD</i>	581	1.577	1.699	0.130	1.010	10.510	58	2.422	2.254	523	1.483	1.602
<i>R_ATTITUDE</i>	819	2.042	0.429	1.000	2.000	3.000	103	2.175	0.532	716	2.022	0.409
SBCS dummies												
<i>SC_DUM_PR</i>	819	0.076	0.265	0.000	0.000	1.000	103	0.602	0.492	716	0.000	0.000
<i>SC_DUM_NPR</i>	819	0.073	0.261	0.000	0.000	1.000	103	0.583	0.496	716	0.000	0.000
Firm characteristics												
<i>LN_SALES</i>	819	13.589	1.051	10.104	13.631	15.419	103	13.041	0.994	716	13.668	1.036
<i>LN_FIRMAGE</i>	819	3.505	0.525	1.099	3.638	4.663	103	3.295	0.527	716	3.535	0.519
<i>PD</i>	819	1.542	1.738	0.130	0.920	10.890	103	2.349	2.177	716	1.426	1.634
<i>OWNERS_HOLD</i>	819	0.642	0.350	0.000	0.720	1.000	103	0.719	0.287	716	0.631	0.357
<i>INDUSTRY_1</i>	819	0.286	0.452	0.000	0.000	1.000	103	0.350	0.479	716	0.277	0.448
<i>INDUSTRY_2</i>	819	0.245	0.431	0.000	0.000	1.000	103	0.146	0.354	716	0.260	0.439
<i>INDUSTRY_3</i>	819	0.286	0.452	0.000	0.000	1.000	103	0.311	0.465	716	0.282	0.450
<i>REGION_1</i>	819	0.179	0.384	0.000	0.000	1.000	103	0.272	0.447	716	0.166	0.373
<i>REGION_2</i>	819	0.095	0.294	0.000	0.000	1.000	103	0.058	0.235	716	0.101	0.301
<i>REGION_3</i>	819	0.127	0.333	0.000	0.000	1.000	103	0.107	0.310	716	0.130	0.336
Primary bank characteristics												
<i>BK_LN_ASSETS</i>	819	15.252	1.701	10.672	15.117	18.755	103	15.086	1.597	716	15.276	1.716
<i>BK_SHARE</i>	819	0.149	0.121	0.000	0.112	0.462	103	0.158	0.130	716	0.148	0.120
<i>HERFINDAHL</i>	819	0.115	0.067	0.037	0.103	0.292	103	0.122	0.070	716	0.113	0.067
Borrower-primary bank relationship												
<i>R_LN_DURATION</i>	819	3.087	0.824	0.000	3.401	4.605	103	2.891	0.824	716	3.115	0.821
<i>R_FREQ</i>	819	5.172	1.185	0.000	5.000	7.000	103	5.155	1.211	716	5.175	1.182
<i>R_DISTANCE</i>	819	2.683	0.898	1.000	3.000	6.000	103	2.728	0.782	716	2.676	0.914
<i>R_PRIMESHARE</i>	819	0.612	0.250	0.000	0.600	1.000	103	0.584	0.230	716	0.616	0.252

Table 3: Summary Statistics - Breakdown of SBCS Loan User Firms

This table presents the means and standard deviations of variables used in the OLS estimations (Tables 5 and 6) for firms that have obtained SBCS loans. Definitions of variables are provided in Table 1.

	SBCS loans from primary banks (<i>S_DUM_PR</i> =1)			SBCS loans from non-primary banks (<i>S_DUM_NPR</i> =1)			SBCS loans from both primary and non-primary banks (<i>S_DUM_PR</i> =1 & <i>S_DUM_NPR</i> =1)		
	N	Mean	SD	N	Mean	SD	N	Mean	SD
Dependent variables									
<i>F_PD</i>	35	1.715	1.290	33	2.846	2.749	10	1.348	1.523
<i>R_ATTITUDE</i>	62	2.113	0.483	60	2.267	0.548	19	2.263	0.452
SBCS dummies									
<i>SC_DUM_PR</i>	62	1.000	0.000	60	0.317	0.469	19	1.000	0.000
<i>SC_DUM_NPR</i>	62	0.306	0.465	60	1.000	0.000	19	1.000	0.000
Firm characteristics									
<i>LN_SALES</i>	62	13.059	0.986	60	13.059	0.958	19	13.158	0.831
<i>LN_FIRMAGE</i>	62	3.304	0.550	60	3.265	0.530	19	3.230	0.609
<i>PD</i>	62	2.391	2.354	60	2.031	1.818	19	1.479	1.519
<i>OWNERS_HOLD</i>	62	0.733	0.283	60	0.690	0.290	19	0.676	0.285
<i>INDUSTRY_1</i>	62	0.371	0.487	60	0.317	0.469	19	0.316	0.478
<i>INDUSTRY_2</i>	62	0.194	0.398	60	0.083	0.279	19	0.105	0.315
<i>INDUSTRY_3</i>	62	0.306	0.465	60	0.317	0.469	19	0.316	0.478
<i>REGION_1</i>	62	0.226	0.422	60	0.317	0.469	19	0.263	0.452
<i>REGION_2</i>	62	0.081	0.275	60	0.033	0.181	19	0.053	0.229
<i>REGION_3</i>	62	0.081	0.275	60	0.150	0.360	19	0.158	0.375
Primary bank characteristics									
<i>BK_LN_ASSETS</i>	62	15.036	1.568	60	15.214	1.649	19	15.326	1.676
<i>BK_SHARE</i>	62	0.178	0.137	60	0.139	0.126	19	0.163	0.153
<i>HERFINDAHL</i>	62	0.133	0.069	60	0.117	0.073	19	0.140	0.078
Borrower-primary bank relationship									
<i>R_LN_DURATION</i>	62	2.954	0.804	60	2.787	0.878	19	2.766	0.951
<i>R_FREQ</i>	62	5.226	1.122	60	5.133	1.228	19	5.316	0.946
<i>R_DISTANCE</i>	62	2.774	0.876	60	2.700	0.671	19	2.789	0.787
<i>R_PRIMESHARE</i>	62	0.630	0.228	60	0.515	0.200	19	0.515	0.165

Table 4: Measures of Firms' Relationship with Primary and Non-primary Banks

This table compares the means of firm-bank relationship variables for primary banks and non-primary banks. Non-primary bank here refers to firms' second-primary bank (the bank accounting for the second-largest amount of a firm's loans outstanding). *DURATION* indicates the number of years a borrower firm has been transacting with a bank; *FREQ* is an index variable indicating the frequency of meeting between a borrower firm and a bank and takes a value from 0 to 7, with a larger value representing more frequent meetings; *DISTANCE* is an index variable indicating the physical distance between a borrower firm and a bank's branch and takes a value from 1 to 6, with a larger value representing a larger distance; *LOANSHARE* refers to a bank's share in a firm's total loans outstanding. ***, **, * indicate significance at the 1, 5, and 10% level, respectively.

Variables	With a primary bank			With a non-primary bank			Mean Difference: (a)-(b)	
	N	Mean (a)	SD	N	Mean (b)	SD	(a)-(b)	t-stat
Borrower-bank relationship								
<i>DURATION</i>	819	28.287	16.908	700	20.501	15.498	7.786 ***	13.350
<i>FREQ</i>	819	5.172	1.185	733	4.244	1.655	0.928 ***	16.081
<i>DISTANCE</i>	819	2.683	0.898	737	3.006	1.138	-0.323 ***	-7.913
<i>LOANSHARE</i>	819	0.612	0.250	696	0.227	0.138	0.385 ***	31.783

Table 5: OLS Estimation Results for Ex-Post Performance of Firms and Lending Attitude of the Primary Bank

This table presents the OLS estimation results for F_PD (ex-post probability of default) and $R_ATTITUDE$ (lending attitude of the primary bank). Definitions of the variables are provided in Table 1. ***, **, * indicate a significance level of 1, 5, and 10%, respectively.

	Dep. variable: F_PD				Dep. variable: $R_ATTITUDE$			
	Estimation method: OLS				Estimation method: OLS			
	Coef.	Std. Err.	t	P>t	Coef.	Std. Err.	t	P>t
SBCS dummies								
SC_DUM_PR	-0.459 **	0.223	-2.060	0.040	-0.028	0.057	-0.490	0.626
SC_DUM_NPR	0.816 ***	0.233	3.500	0.000	0.211 ***	0.059	3.610	0.000
Firm characteristics								
LN_SALES	-0.133 **	0.062	-2.150	0.032	0.018	0.017	1.030	0.305
$LN_FIRMAGE$	-0.004	0.128	-0.030	0.973	0.023	0.035	0.670	0.506
PD	0.719 ***	0.037	19.600	0.000	0.068 ***	0.009	7.460	0.000
$OWNERS_HOLD$	0.179	0.155	1.160	0.249	0.051	0.044	1.150	0.251
$INDUSTRY_1$	0.121	0.166	0.730	0.465	0.022	0.045	0.500	0.619
$INDUSTRY_2$	0.227	0.167	1.360	0.176	0.109 **	0.046	2.340	0.019
$INDUSTRY_3$	0.031	0.164	0.190	0.849	-0.009	0.044	-0.200	0.844
$REGION_1$	-0.102	0.180	-0.560	0.573	0.093 *	0.050	1.880	0.061
$REGION_2$	0.079	0.199	0.400	0.691	0.093 *	0.054	1.720	0.086
$REGION_3$	-0.050	0.173	-0.290	0.773	0.075	0.049	1.520	0.128
Primary bank characteristics								
BK_LN_ASSETS	-0.002	0.038	-0.060	0.955	-0.004	0.011	-0.350	0.723
BK_SHARE	0.929	0.605	1.540	0.125	-0.033	0.171	-0.190	0.846
$HERFINDAHL$	-2.257 *	1.209	-1.870	0.062	0.150	0.337	0.440	0.657
Borrower-primary bank relationship								
$R_LN_DURATION$	-0.076	0.084	-0.910	0.363	-0.037 *	0.022	-1.660	0.098
R_FREQ	0.079 *	0.045	1.770	0.078	-0.022 *	0.013	-1.690	0.091
$R_DISTANCE$	0.108 *	0.059	1.830	0.068	-0.004	0.017	-0.240	0.811
$R_PRIMESHARE$	0.060	0.212	0.280	0.778	-0.114 *	0.060	-1.910	0.056
Constant	1.840 *	0.990	1.860	0.064	1.857 ***	0.274	6.780	0.000
Number of observations	581				819			
Adj.-R ²	0.487				0.094			
Prob. > F	0.000				0.000			

Table 6: Probit Estimation Results for the Determinants of SBCS loans

This table presents the probit estimation results for S_DUM_PR (SBCS loans from a primary bank) and S_DUM_NPR (SBCS loans from a non-primary bank). Definitions of the variables are provided in Table 1. ***, **, * indicate a significance level of 1, 5, and 10%, respectively.

	Dep. variable: S_DUM_PR				Dep. variable: S_DUM_NPR				
	Estimation method: Probit				Estimation method: Probit				
	Coef.	Std. Err.	z	P>z	Coef.	Std. Err.	z	P>z	
Firm characteristics									
<i>LN_SALES</i>	-0.219 ***	0.084	-2.610	0.009	-0.311 ***	0.089	-3.480	0.001	
<i>LN_FIRMAGE</i>	-0.292 *	0.166	-1.760	0.078	-0.292 *	0.167	-1.750	0.081	
<i>PD</i>	0.091 **	0.037	2.490	0.013	0.082 **	0.040	2.030	0.043	
<i>OWNERS_HOLD</i>	0.265	0.229	1.160	0.246	0.066	0.239	0.280	0.782	
<i>INDUSTRY_1</i>	0.228	0.226	1.010	0.313	-0.159	0.208	-0.760	0.446	
<i>INDUSTRY_2</i>	0.235	0.247	0.950	0.342	-0.520 *	0.269	-1.930	0.053	
<i>INDUSTRY_3</i>	0.308	0.230	1.340	0.180	-0.051	0.204	-0.250	0.803	
<i>REGION_1</i>	0.707 ***	0.241	2.940	0.003	0.781 ***	0.240	3.260	0.001	
<i>REGION_2</i>	0.122	0.280	0.440	0.663	-0.064	0.367	-0.170	0.862	
<i>REGION_3</i>	0.103	0.260	0.400	0.693	0.573 **	0.243	2.350	0.019	
Primary bank characteristics									
<i>BK_LN_ASSETS</i>	0.013	0.056	0.240	0.812	0.020	0.054	0.370	0.708	
<i>BK_SHARE</i>	0.917	0.840	1.090	0.275	-0.483	0.861	-0.560	0.575	
<i>HERFINDAHL</i>	2.354	1.678	1.400	0.161	2.597	1.691	1.540	0.125	
Borrower-primary bank relationship									
<i>R_LN_DURATION</i>	-0.018	0.115	-0.160	0.873	-0.027	0.110	-0.240	0.807	
<i>R_FREQ</i>	0.091	0.066	1.380	0.167	0.100	0.067	1.490	0.136	
<i>R_DISTANCE</i>	0.137 *	0.083	1.660	0.098	0.106	0.089	1.190	0.235	
<i>R_PRIMESHARE</i>	-0.209	0.291	-0.720	0.473	-1.112 ***	0.312	-3.560	0.000	
Constant	0.510	1.366	0.370	0.709	2.810 **	1.378	2.040	0.041	
Number of observations	785				782				
Log likelihood	-193.8				-177.6				
Pseudo R ²	0.1162				0.1612				

Table 7: Treatment Effect Estimations for Ex-Post Performance of Firms and Lending Attitude of the Primary Bank

This table presents the estimation results for the treatment effects for F_PD (ex-post probability of default) and $R_ATTITUDE$ (lending attitude of the primary bank) of SBCS loan users. Definitions of the variables are provided in Table 1. ***, **, * indicate a significance level of 1, 5, and 10%, respectively.

[Primary Bank]

Variable		Treated	Controls	Difference	S.E.	t-stat.
F_PD	Unmatched	1.715	1.483	0.232	0.277	0.84
	ATT	1.715	1.981	-0.266	0.236	-1.13
$R_ATTITUDE$	Unmatched	2.113	2.022	0.091 *	0.055	1.65
	ATT	2.113	2.077	0.036	0.065	0.56

[Non-primary Bank]

Variable		Treated	Controls	Difference	S.E.	t-stat.
F_PD	Unmatched	2.846	1.483	1.363 ***	0.303	4.50
	ATT	2.846	1.801	1.045 **	0.490	2.13
$R_ATTITUDE$	Unmatched	2.267	2.022	0.244 ***	0.057	4.31
	ATT	2.267	2.055	0.211 ***	0.075	2.83