

The Role of Collateral and Personal Guarantees in Relationship Lending: Evidence from Japan's Small Business Loan Market

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《報告要旨》

This paper investigates the role of collateral and personal guarantees in small business lending using the unique data set of Japan's small business loan market, "Survey of the Financial Environment" conducted by the Small and Medium Enterprise Agency of Japan and the TSR (Tokyo Shoko Research) database. Consistent with conventional theory, collateral is more likely to be pledged by riskier borrowers, implying they may be useful in mitigating debtor moral hazard. Contrary to conventional theory, we find that banks whose claims are either collateralized or personally guaranteed monitor borrowers more frequently. We also find that borrowers who establish long-term relationships with their main banks are more likely to pledge collateral. Our empirical evidence thus suggests that collateral and personal guarantees are complementary to relationship lending.