Why Do Relationship Lenders Use Small Business Credit Scoring? Evidence from the Firm-Bank Matched Data in Japan

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This paper examines the determinants of small business credit scoring (SBCS) loans. Using a unique firm-bank matched data in Japan, we identify whether a firm obtains SBCS loans, and if so, from which bank, a relationship lender or a transactional lender. We find that smaller, younger, and riskier small businesses are more likely to obtain SBCS loans, either from relationship lenders or transactional lenders. We also find that the primary reason for relationship lenders to extend SBCS loans is to set loan contract terms more accurately, and, to a lesser extent, to reduce costs in originating loans to small businesses. In contrast, transactional lenders extend SBCS loans to borrower firms that have less intimate relationships with their relationship lenders.