PROFITABILITY OF SCORING LENDING

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〈SUMMARY〉

The objective of this paper is to evaluate the profitability of small business credit scoring lending. We model the scoring lending market and conduct empirical studies by using widely-used commercial scoring models and SMEs' hard information. We find that scoring lending makes profit and increases loan supply. But we also find that small business credit scoring only using hard data has its limitations. To remove the limitations, the omitted variable bias problem of scoring models, low quality of SMEs' financial statements (e.g. window dressing), and the adverse seletion problem should be improved. Using soft information (e.g. loan officers' interview of SME owners) more in addition to hard information leads to profitable small business credit scoring lending.