Bank Characteristics and Bank Lending to New Firms

南山大学　大鐘雄太
同志社大学　内木栄莉子

This paper examines the characteristics of financial institutions that provide finance to new firms using a unique firm-bank match-level dataset of more than 3,000 unlisted small and medium-sized enterprises (SMEs) incorporated in Japan. We employ a within-firm estimator that controls for unobserved time-varying firm heterogeneity through firm*time fixed effects. We find that financial institutions with many branch stores or employees are more likely to provide finance to new firms. We also find that Shinkin banks tend to provide loans to these firms more aggressively than profit-maximizing financial institutions. Moreover, we find that when financial institutions provide finance to new firms from just after their incorporation, the number of stores is more important than the case of lending to such firms in general. Furthermore, we find that financial institutions with high capital adequacy ratios continuously provide loans to the same new firms.

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