Does Geographical Proximity Matter in Small Business Lending? Evidence from the Switching of Main Bank Relationships

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Abstract

Using a unique and huge firm-bank matched dataset in Japan during 2000-2010, this paper examines whether the lending distance matters for maintaining firm-main bank relationships. To this end, we utilize exogenous variations in firm-main bank distances brought about by bank mergers and bank branch consolidations. We find, first, that the change in lending distance positively affects the probability of switching firm-main bank relationships. This effect is more pronounced for when the distance increased than for when it decreased. Second, the average lending distance of firms that switched their main banks significantly decreased after the switch. Our findings suggest that geographical proximity is still an important factor for firm-main bank relationships.

JEL classifications: G21, R12

Keywords: lending distance, main bank relationships

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