

# Bank Consolidation and Soft Information Acquisition in Small Business Lending

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## ABSTRACT

We empirically examine the impact of bank consolidation on bankers' acquisition of soft information about borrowers. Using a dataset of small businesses, we found that bank mergers have a negative impact on soft information acquisition by small banks while those by large banks that have less interest in acquiring soft information irrespective of mergers have no impact. Detailed analyses of the post-merger organizational restructuring show that the measures of an increase in organizational complexity have a negative and significant impact on soft information acquisition by small banks, while the measures of cost-cut do not have any significant impact on soft information acquisition. This result implies that the increase in organizational complexity by bank mergers hindered soft information acquisition, which is consistent with Stein's prediction [2002, J. Fin.] on the comparative advantage of simple and flat organizations in acquiring and processing soft information.

**Key words:** Relationship lending, soft information, bank consolidation, merger

**JEL classification code:** G21, G34, L22, L14, D82