

# Effects of Bank Soundness on Lending Relationships Promotion Activities

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## Abstract

This paper examines the effects of the soundness of financial institutions on the activities of financial institutions to establish or strengthen lending relationships with small and medium-sized enterprises (SMEs) by using a unique bank-level dataset of 120 financial institutions in Japan. The major findings of this paper are the following three points. First, sound financial institutions are more likely to take any activities to promote lending relationships with SMEs. Second, among these activities, sound financial institutions tend to increase target number of frequencies of contact with current client firms by loan officers, increase in the decision power of branch managers in lending, and relax lending standards or increase in credit limit amount. Finally, sound financial institutions are more likely to take such activities particularly about loan officers from earlier terms.

JEL classification: G00; G21

Keywords: Bank soundness; Bank activity; Lending relationships; Small and medium-sized enterprises

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