

# **The Decision-Making Mechanism of Regional Financial Institutions and the Utilization of Soft Information**

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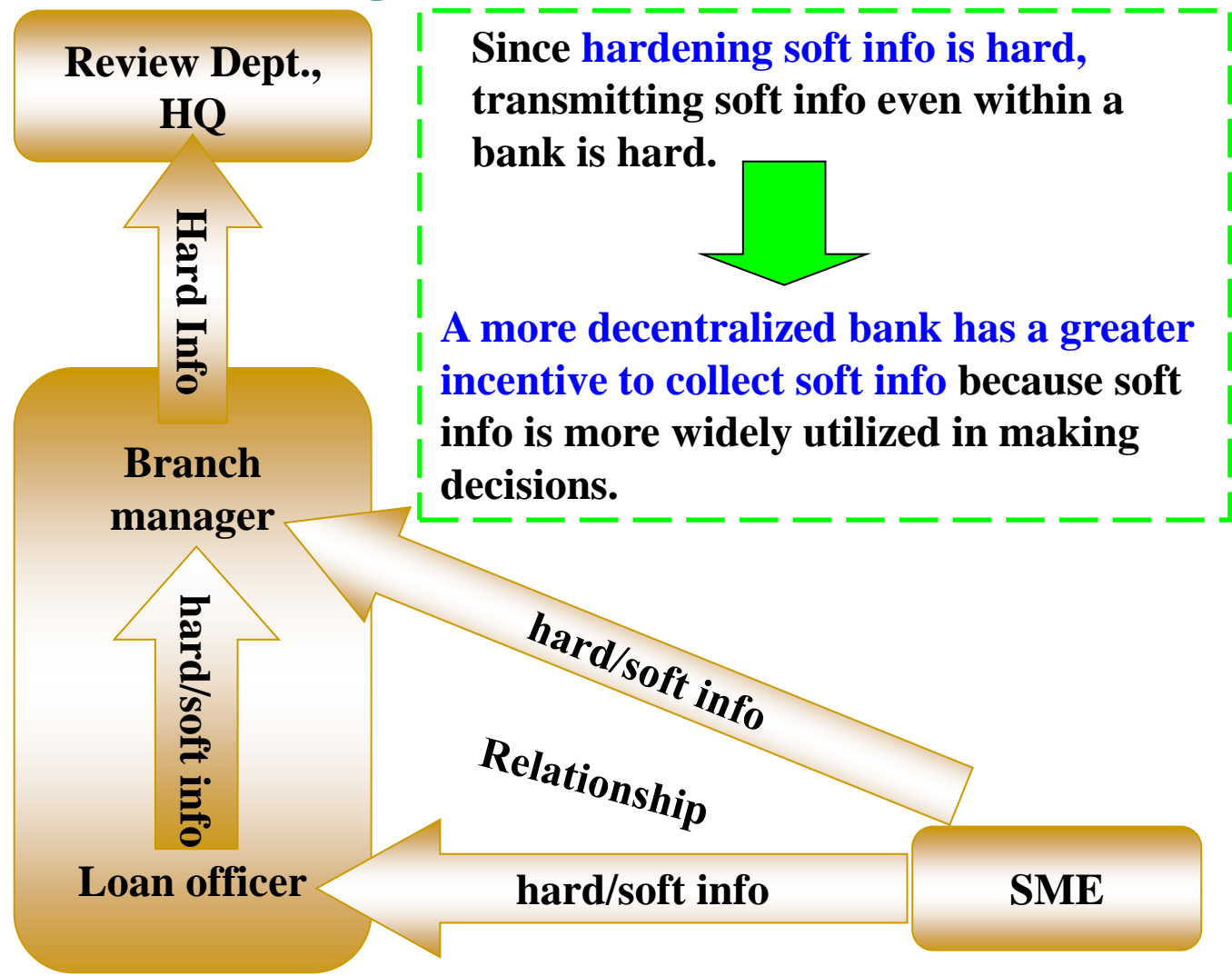
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# Soft info and the Organizational Structure



# Organizational Decentralization and Soft Info.

## Proposition

**Loan officers put more efforts in collecting soft info. and the soft info. is more greatly utilized at decentralized banks** than at centralized banks. (Stein, 2002, Proposition 1)

## Empirical Strategy

- Conducting the survey of banks about loan extending decisions

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# The Parsimonious Regression

Regression equation

$$\text{SOFT} = f(\text{DECENTRAL})$$

SOFT: A measure for use of soft info.

DECENTRAL: Measures for decentralized decision making structure

Our Survey

“The Survey on the Realities of and Challenges toward Smoothing Loans to Small and Medium Enterprises”

Conducted by RIETI, in November, 2010.

Distributed to all city, regional, regional 2, shinkin banks and credit associations. 299 banks responded (54.3%)

# Dependent Variable (SOFT)

Variables	Definition	N	Mean
<b>SOFTIRANY</b>	A dummy variable that is equal to one if the financial institution uses qualitative info. as supplemental info or uses the scoring of qualitative info, <u>for internal rating</u> , or zero otherwise.	262	0.779

# Independent Variables (DECENTRAL)

Variables	Definition	N	Mean	S.D.	Min	Max
<b>BRANCH</b>	The upper limit of the size of an unsecured loan to a performing borrower for a branch manager (10,000 JPY)	272	3,063	8,141	250	65,000
<b>BRANCHASSET</b>	BRANCH / total assets	272	0.000075	0.000108	6.40E-07	0.000682
<b>BRANCHSHARE</b>	Proportion of the number of loan applications that reach the final decision without an approval by HQ	275	0.475	0.227	0.10	0.95
<b>LAYER</b>	Maximum number of decision layers for a loan approval to a performing borrower (HQ and a branch)	292	7.75	2.07	2	14
<b>ASSET</b>	Total assets (March, 2009, million JPY)	299	554,528	970,252	4,556	7,401,837

HARDENED, a dummy variable to indicate a bank that records qualitative info. electronically within an entire bank, and bank type dummies are included as control variables.

# The Results of the Probit Model Estimation, Shinkin Banks Only

	Marginal effect	S.D.	Z value		Marginal effect	S.D.	Z value	
<b>BRANCHASSET</b>	<b>1061.93</b>	<b>600.06</b>	<b>1.77</b>	*	<b>1226.52</b>	<b>673.75</b>	<b>1.82</b>	*
<b>BRANCHSHARE</b>	0.1993	0.2111	0.94		0.0923	0.2050	0.45	
<b>LAYER</b>	-0.0083	0.0213	-0.39					
<b>LNASSET</b>					0.0263	0.0536	0.49	
<b>N</b>	135				138			

✓ Dep. var. = SOFTIRSCORE (Use of qualitative info. by scoring it when determining credit rating)

✓ **If the decision authority relative to bank size is larger, the bank is more likely to utilize soft info.**