A bird eye (re)view of key readings

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This section of the journal indicates a few and briefly commented references that a non-expert reader may want to cover to obtain a first informed and broad view of the theme discussed in the current issue. These references are meant to possibly provide an extensive, though not exhaustive, insight into the main issues of the debate. More detailed and specific references are available in each article published in the current issue.

On Small Business Lending and Lending Technologies

Small firms are more "informationally opaque" than larger ones and, for this reason, they are more dependent on external capital provided by financial intermediaries such as banks, that are better able to produce information (Berger and Udell, 1998; Berger et al., 2005). The role of market failure related to informational issue with SMEs is addressed also in the Editorial of this Issue.

The financial intermediation industry has proposed a large number of possible solutions to reduce the information gap problem. An extensive line of research has investigated SMEs lending technologies (Berger and Udell, 2006; Berger, 2012; Udell, this issue), distinguishing between relationship banking, based on the collection of qualitative, or soft, information, and transaction banking, in which quantitative, or hard, data are collected and are frequently used to create a credit scoring.

Relationship lending generates long lasting and robust firm-bank relations, with positive effects on credit availability (Petersen and Rajan, 1994; Petersen and Rajan, 1995; Berger and Udell, 1995; Cole, 1998; Elsas and Krahnen, 1998; Harhoff and Korting, 1998; and Machauer and Weber, 2000). However, while strong and long lasting lending relationships can help reducing the information gap, this may lead to the so called hold-up problem, with banks extracting rents from small firms (Sharpe, 1990; Rajan, 1992; Petersen and Rajan, 1995). Indeed, a large strand of literature has analysed the role of bank lending relationships studying the effect of mergers and acquisitions (M&As), when large part of the soft information is lost, identifying a negative impact of M&As on lending to SMEs (Berger et al., 1995 and 1998; Keeton, 1995; Strahan and Weston, 1996; Peek and Rosengren, 1998; Focarelli et al., 2003).

A strongly related strand of literature has studied the comparative advantages of small and large banks in dealing with hard and soft information. The main prediction is that larger banks tend to have a comparative advantage in elaborating hard information, mainly because of the scale economies stemming from data collection and transmission and because of their more complicated managerial structure (Stein, 2002). Smaller banks, instead, with the leaner organization, are more capable of processing qualitative, and soft, information (Berger and Udell, 2002; Berger et al., 2005). Similar conclusions characterize the comparison of single vs. multimarket banks, and domestic vs. foreign banks. Single market banks tend to be concentrated in a limited area, and their knowledge of the local market allows them to have a comparative advantage in soft information (Degryse and Ongena, 2005; and DeYoung, Hunter and Udell, 2004). In a similar vein, foreign-owned banks are more skilled at dealing with hard information, and domestic banks tend to be more specialized in soft information lending (Detragiache et al., 2008).

The effect of transaction technologies on lending to SMEs is ambiguous. The adoption of credit scoring rules, for example, reduces the cost of collecting and processing information, therefore increasing credit supply (Frame, Srinivasan, and Woosley, 2001; Frame et al., 2004; Berger et al., 2005). However, excessively strict rules may hinder the flexibility of loan officers, and indeed some evidence shows that banks using more discretion in the application process are less likely to turn down potential borrowers (Berger et al., 2005).

The information gap problem is even more detrimental to younger firms, that had less or no time to build lending relationships, and therefore are even more likely to suffer a shortage of bank loans and the lack of alternative funding sources (Berger et al. 2005, 2014, Uchida et al. 2012, Beck et al. 2006, Petersen and Rajan 1997, Berger and Udell 2002, 2006.). For these firms, angel financing and venture capital are therefore among the most common alternatives to bank financing (Berger and Udell 2002).

On financial crises, banking lending, and the real economy

There is a wide consensus that economic crises tend to reduce bank lending, with a negative impact on the real economy. The information gap problem is more acute during economic downturns and financial crises (DeYoung, 2015 and this Issue), and indeed Iyer et al. (2010) and Mach and Wolken (2012) show that small, and younger, firms tend to be more credit constrained than larger, and older, firms during a credit crunch. However, also during a banking crisis, lending relationships can alleviate problems of credit constraints (Horiuchi and Shimuzu, 1998; Watanabe, 2006; Park et al. , 2007; Jiangli et al., 2008) and can help the recovery process of rescued firms (Dahiya, et al., 2003; Herrera and Minetti, 2007; and Rosenfeld, 2007). Beck et al. 2015 find that more relationship banks in the vicinity of a firm is associated with fewer firms being credit constrained in a crisis but not during the credit boom.

On credit guarantees

Gozzi and Schmukler (2015) in this Issue give a thorough treatment of public credit guarantee to SMEs discussing first the possible rationales for this public intervention and providing an overview of the existing public programs their differences and associated assessments.

The variety of these programs around the world is described in details in Beck et al. (2010) and the general principles are discussed in Honohan (2010). As Gozzi and Schmukler in this Issue emphasize, the difficulty in assessing

public programs on credit guarantees can be a daunting task and is in fact rarely performed convincingly.

OECD (2010) provides a general framework for assessment of government support programs for SMEs. The EU Commission report (2005) provides an overview of the best practices for private and public guarantees as a way of improving access to finance for SMEs.

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