Sustained relationship lending and the role of loan officers – Evidence from microfinance

Sustained lending relationships have substantial benefits for lenders and borrowers. However, many microfinance institutions (MFIs) fail to engage in long-term relations with most of their clients. Based on a dataset covering more than 85,000 loans from Microcred Nanchong, China, we explore the role of loan officers in fostering sustained relationships. Running a Cox proportional hazard (CPH) model we find that age and gender composition of the loan officer-borrower dyad as well as workload and education level of loan officers have a significant bearing on the length of the MFI-client relationship. Most importantly, loan officer turnover severely raises the likelihood of client exit. Overall, our results suggest that loan officers play a crucial role in sustaining lending relationship. Thus, investments in the selection, training and motivation of loan officers should be a top priority for MFIs in order to enhance long-term relationships with their clients.