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# Large debt financing: syndicated loans versus corporate bonds

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## Abstract

Following the introduction of the euro, the markets for large debt financing experienced a historical expansion. We investigate the financial factors behind the issuance of syndicated loans for an extensive sample of euro area non-financial corporations. For the first time, we compare these factors to those of its major competitor: the corporate bond market. We find that large firms, with greater financial leverage, more (verifiable) profits and higher liquidation values tend to choose syndicated loans. In contrast, firms with mo growth opportu re the preferre ut have less grow

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# Notes

Our sample period does not incorporate the recent credit crisis in which syndicated loan issuance declined to a larger extend than corporate bond issuance.

This runs contrary to the Modigliani and Miller (1958) assumptions, which resulted in the ‘irrelevance hypothesis’ regarding corporate financing decisions.

Theoretically, these models would have the additional complication of the structure of the syndication arrangement (Sufi 2007).

The issuance of public debt requires substantial fees to be paid to the investment banks underwriting the debt securities. In addition, there are other payments, such as those relating to filing, legal, printing, and trustee fees.

This is in contrast with the extensive theoretical and empirical literature on firms’ capital structure (Tirole 2006).

Both studies classify public debt as ‘any publicly traded debt’ and private debt as ‘any other de

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Syndica bank certificat 989; Billet, Flannery and Mullineaux 1996). There is also evidence on the pricing of syndicated loans in relation

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to lender characteristics and the borrower's default risk (Angbazo, Mei, and Saunders 1998; Altman and Suggitt 2000; Hubbard, Kuttner, and Palia 2002; Thomas and Wang 2004; Coleman, Esho, and Sharpe 2006). Yet again, almost all of the research on syndicated loan markets is overwhelmingly centred on the US (Bosch 2007 and Steffen and Wahrenburg 2008 are two recent interesting exceptions). In addition, this literature does not offer a comparison with the corporate bond market, which is, however, the most obvious benchmark candidate for the syndicated loan market. Thomas and Wang (2004) is an exception looking at price convergence.

In Section 5.2 we extend the analysis by including those observations where a firm issues both syndicated loans and bonds within a given year. In this alternative specification, we also extend the dependent variable to host the third option of joint issuance. This is further explained in Section 5.2.

Owing to a lack of variation in the discrete dependent variable that leads to a great loss of observations, we use random effect estimates throughout the study. To control for heteroscedasticity we use robust standard errors for multinomial logistic models.

See Smith and Watts (1992), Barclay and Smith (1995), Krishnaswami, Spindt, and Subramaniam (1999), Esho, Lam, and Sharpe (2001), and Denis and Mihov (2003). Ideally data on board level representation of lender banks would be extremely helpful to ‘flesh out’ the existence of a moral hazard problem. We have not found this data at the euro area level.

There are 164 firms included in Category IV (Table 1). In Model 2, we include issuance observations from Category IV firms when they only issue one type of debt within a year. These add up to 175 syndicated loan and 311 corporate bond observations. We exclude observations in which these firms issue both syndicated loan and corporate bond simultaneously within the same year.

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There are 164 firms in Category IV (Table 1). In Model 2 only loans (175 observations) and bonds (311 observations) issued by Category IV firms in different years were included in the sample. In Model 3 we include observations from Category IV corresponding to joint issuances (i.e. years in which the firm issues both loan and a bond within the same year).

Other descriptive characteristics comparing the two sets of firms are provided in Table 5.

Ideally, the analysis could have given better results if we had the opportunity to include bilateral loans and other private debt incurred by the firms in our sample. However, owing to data unavailability we rely only on the findings of previous studies.

To check for robustness we ran similar regressions with our original sample of 1377 firms by including the years in which they do not issue any debt. We find that firms' characteristics affecting the choices of alternative debt options (bond, loan or both within the same year) are similar. This is due to the fact that the differences between the alternative choices are only present at marginal levels after the firms tap the market. However, these unreported findings only capture the characteristics affecting the firms' decision of whether to borrow (via any of the three options) or not to borrow (no issuance) at all.

We also undertook regressions using debt as a proportion of total assets as a dependent variable. As the focus is on the marginal financing choices of firms we defined this variable as the amount of newly debt raised in the specific financial market (i.e. either bonds or syndicate loans) divided by total assets. Results, available upon request, pointed in the direction of using discrete choice models for the analysis of large debt financing.

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