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Large debt financing: syndicated loans versus corporate bonds

Yener Altunbaş, Alper Kara & David Marques-Ibanez

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Notes

Our sample period does not incorporate the recent credit crisis in which syndicated loan issuance declined to a larger extent 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 syndicate.

The issuance of syndicated loans is often subject to a 'relationship' approach, where banks use their relationships with firms to provide financing, such as those relationships that exist between banks and firms.

This is in contrast to the 'agency cost' approach, where firms' capital structure decisions are based on the agency costs of debt.

Both approaches have been used in the literature to explain the debt as 'any' other decision.

This is in contrast to the 'agency cost' approach, where firms' capital structure decisions are based on the agency costs of debt.

Syndicated loans are often subject to a 'relationship' approach, where banks use their relationships with firms to provide financing, such as those relationships that exist between banks and firms. (Billet, Flannery, and Garbner [1995](#); Megginson, Poulsen, and Sinkey [1995](#); Preece and



Mullineaux [1996](#)). There is also evidence on the pricing of syndicated loans in relation 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](#)).

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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.

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