Syndicated loans in the United States (1995-2000): Announcement Effects, Long-Term Performance and Capital Structure Issues from a Borrower Perspective.

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Declaration and list of papers published

I declare that this thesis is my own account of my research and contains as its main content work which has not previously been submitted for a degree at any tertiary education institution.

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The following journal and conference papers have been published from this thesis:

‘Syndicated Loan Announcements and Borrower Value.’ *Journal of Financial Research* 27:133-141. 2004.

‘Revolving Credit Loans, Financial Slack and Market Timing’ The 19th Australasian Finance and Banking Conference. Sydney. December, 2006.

‘The Impact of Syndication Announcements on Borrower Share Prices’ The 15th Australasian Finance and Banking Conference. Sydney. December 2002.

ABSTRACT

This thesis examines the impact of announcements of syndicated loans on the share prices of borrowing firms. I use a sample of 5,465 loan observations reported in the International Financing Review Platinum database to study this impact. Event study methodology is used. My overall results show significantly positive wealth effects on the borrowing firms. However, when I partition my data set into revolving credit agreements, term loans and hybrid loans, I find that the results are driven primarily by revolving credit agreements. I also observe that the size of the event window plays an important role in identifying the wealth effects for the borrowers. A five-day event window (-2, +2) shows share price response to revolving credit announcements to be significantly positive. A three-day event window (-1, +1) reveals that announcements are statistically positive for revolving credit agreements and statistically negative for term loan announcements. My results are consistent with previous studies in this area. I also distinguish between financial press announcements and information provider (IFR) announcements to cater for the potential for reporting bias. I find that both the IFR and financial press announcements are significant for the five-day window, but only the financial press results are significant for the three-day window. My study is unique in that I differentiate the impact of different sources of information on the market reaction to borrower share price.

In addition to the examination of the wealth effect, I also use the structure of the loans to examine the uniqueness of bank loans and their ability to provide financial slack. Specifically, I examine whether revolving credit loans or term loans or hybrid loans make bank loans unique and their ability to provide financial slack. I observe that out of the three structures of bank loan, only revolving credit loans allow the borrower to more precisely match the funds acquired with the firm's investment needs and to market time by borrowing at times when financing costs are attractive. Revolving credit loans are positively valued by the market both initially and over the longer term. Bank loans reduce information asymmetry, but the renegotiation characteristics of revolving credit loans allow borrowers to exploit changes in the interest rate environment, thus providing support for the market timing theory of capital structure. In contrast to puzzling results of previous studies, I present evidence of long-term positive performance following bank loans.

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