Stock Market Response to Syndicated Loans and Bilateral Loans

Abstract

This dissertation observes the response of stock market to both syndicated and bilateral loans. Generally speaking, the results show that there is no obvious reaction of stock market to bilateral loans. Meanwhile, the results also demonstrate that the stock market regards syndicated loans positively, and cumulated abnormal average returns increase generally. It means there is a positive reaction of stock market to syndicated loans.

Key words: stock market, syndicated loans, bilateral loans

Contents

Chapter 1: INTRODUCTION

1.1 Purpose of this Study

The main purpose of this dissertation is to examine the market effect caused by syndicated loans and bilateral loans respectively. Considering that previous literatures are mostly focused on the total effect of bank loans to the stock market, we might be able to gain a better understanding of how the market response to both loans, and which bank loan announcements is the main driver of a positive stock market return response to bank debt. By employing event study methodology, I will examine 50 syndicated banks loan announcements and 49 bilateral loan announcements from 2001 to 2008 in the UK setting. Empirical evidence of the market response of both bank loans will be presented in Chapter 5, and result will be discussed afterwards.

1.2 Importance of this Study

There are many previous literatures which discuss the effect of bank loans to the stock market, particularly in the US. We could find a large amount of US literatures that report a positive response of stock market to bank loans, such as James (87), Billett, Flanner and Garfinkel (95), Mikkelson and Parch (86) and so on. It should be noted that these previous literatures are primarily discuss the effect caused by bank loans announcements altogether. Although we can also find some literatures about the effect of syndicated loan to the stock market, for example Armitage (95); some literatures about syndicated loans, such as Hitchings, Robert (1994). While the difference between syndicated loans and bilateral loans, and the effects of both bank loans to the stock market separately are not often discussed.

This study is important, and I will give several reasons in following context. Firstly, it is important to distinguish syndicated bank loans from the bilateral one, as they have different characteristics and various advantages that suits for different companies. As Dennis and Mullineaux point out in 2000, a syndicated loan could be considered as a combination of private debt and public debt, which is made by several bank institutions to one borrowing firm. Whereas, a bilateral bank loan is a private debt, which have one lending bank and one borrower. Moreover, the former loan are usually made for raising large amount of funds (like over 50million); whereas, the latter loan is more likely for small funds raising. Hence, the effects of bilateral loans and syndicated loan to the stock market could be different, considering their differences in nature. In this thesis, I will present what kind of companies prefer bilateral loans and what kind of companies prefer syndicated loans.

Secondly, this study choose to examine sample data in the UK setting. Previous literatures are conducted mostly in the US, which may give us a view of stock market's response only in that region. While, this study may contribute to the full picture of this topic by choosing random sample data of announcements in the UK from 2001 to 2008.

1.3 Structure and Results

This thesis is structured as follows: Chapter 1 introduces this thesis and explains the reasons I conduct it. Chapter 2 reviews previous literatures that are important in this topic. In this chapter, I will present the majority view of the US studies and also the opposite view made by the UK researcher. In Chapter 3, an overview of sample data of announcements is reported. These data are hand collected sample of 99 announcements of total bank loans from 2001.1 to 2008.12. I will explain the methodology employed in this study in following chapter. In chapter 5, data of announcement are analyse by event study, and the empirical results are presented. In this chapter, I will further discuss the meaning of that empirical results, compare them to previous results, and try to analyse the reasons. Finally, conclusion of this thesis are made in last chapter.

From the empirical results of this study, we can see that stock market response different towards syndicated bank loans and bilateral bank loans, respectively. Generally speaking, I find a significant positive response of stock market towards a syndicated bank loan, and this finding is not surprising as it suggested by most previous literatures. However, I find no evidence of similar result on the side of bilateral loans. In fact, I find a generally insignificant negative relationship between bilateral loan announcements and stock market. From evidence above, it is possible that the positive stock market response may mainly due to the effect of syndicated loan announcement, and further investigation is required on that topic.