“Corporate Governance and Loan Syndicate Structure” by Bharath, Dahiya and Hallak

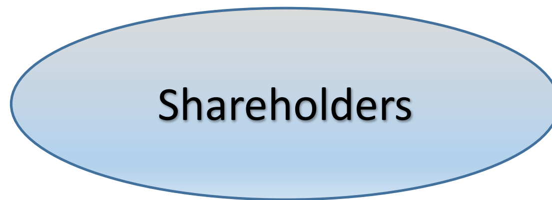
Discussion: Teodora Paligorova (Federal Reserve Board)

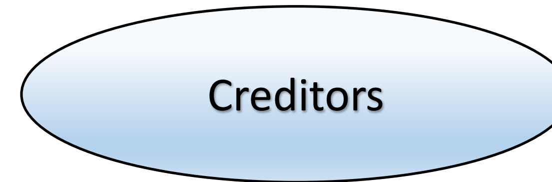
Chicago Financial Institutions Conference, 2018

What is this paper about?

Pre 1985

- *Without* antitakeover laws, *no* protection from hostile takeovers





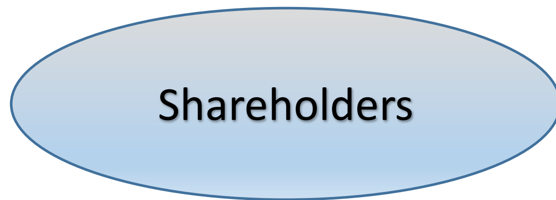
- Stronger risk-shifting (higher transfer of wealth from creditors to shareholders

- Weaker agency conflicts between managers and shareholders [strong shareholder rights]

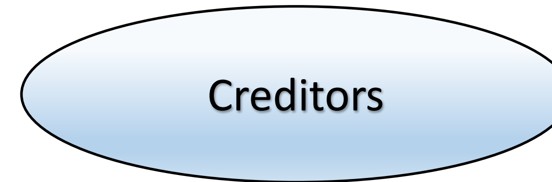
What is this paper about?

Post 1991

- With antitakeover laws, protection from hostile takeovers



- Stronger agency conflicts between managers and shareholders [weak shareholder rights but higher managerial slack, risk-shifting)



- Weaker risk-shifting (lower transfer of wealth from creditors to shareholders

Research Question

- This paper explores whether the passage of antitakeover statutes from 1985-1991 causes significant changes in ‘non-price’ terms of bank loans.

- The focus is on lead bank share, syndicate size and concentration (HHI) of shares

- Lower (bank) monitoring costs → lower lead share, larger syndicates and higher concentration of shares

Comment 1: Hypotheses

- The main hypothesis: fewer hostile takeovers, lower risk of high leverage, less need for monitoring, hence lower lead share
- But on the flip side, the agency conflict between managers and shareholders becomes stronger; managers may engage in risk-shifting through managerial slack, (inefficient) empire building etc.
- Suggestion: model explicitly the above agency conflict (i.e. firms that are vulnerable to such conflicts vs the rest)
- The shareholder structure (i.e., large shareholders) should matter

Comment 1a: Lead Share

- β <0 may be driven in part by the strong downward trend of lead share

Comment 2: Syndicate Structure

- What is the channel through which weaker shareholder rights affect HHI and the size of the syndicate?
- The lead arranger is proxy for monitoring but HHI and the size of the syndicate do no have direct impact on monitoring (except through the lead share)
- Figure 1: within a bank
    - Lead share before/after the passage of the law; lead share in states without the law

Comment 3: Bank side

- Consider bank controls in the main specification (bank capital, size, funding); include lead bank fixed effects
- Bank level regressions
- Sole lender: the main reason for syndication is loan size
  - Estimate (3) for firms with similar size range
- It may be interesting to follow the loans in the sample over time. How do they perform?