Financial Contracting: Banks versus Banks

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Abstract

We use a sample of 1,602 syndicated loans issued to 495 commercial banks from 1995 to 2007 in 42 countries to examine the impact on a bank's borrowing cost if the lender is another bank. We find that the cost of bank loans to banks is significantly influenced by banking regulations and the banking environment within each country. Our results further demonstrate that the effect of bank regulations on reducing the cost of banks' financing is higher if the lead lender is from a different country than the borrower. This relationship is most pronounced among borrowers without any previous lending or cooperation relationship, and borrowers without credible rating from S&P or Moody's. Finally, we find that the regulation effect on the reduction of banks' borrowing cost is more pronounced in a highly concentrated banking industry or in countries with weak legal systems.