

The Impact of the Type of Financial System and the Type of Corporate Governance System on interest rate spread of syndicated loans

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Abstract

The institutional environment of the company's country is reflected in its choices between different sources of financing. Given the fact that different countries have diverse specific characteristics, this work proposes to investigate how the financial, governance and legal systems of the borrower's country of origin influence the costs of financing. Using a sample of syndicated loans with 85,220 tranches, corresponding to 50,658 loans by 25,511 non-financial borrowers from 122 countries, over the period between 2000 and 2012, we find evidence that borrowers pay lower spreads when they come from countries with a bank-based financial system, a continental governance system and when the legal system is common law.

By splitting the sample according to the level of risk, we show that for borrowers with an investment grade rating, the type of legal system is irrelevant, whereas for those borrowers with junk ratings no type of system is relevant in determining spreads. When borrowers are junk or unrated, the lenders tend to perform a careful analysis of the company's financial situation and award higher spreads in countries where the legal system is civil or socialist law.

Our results suggest that the borrower country's financial, governance and legal systems are relevant in determining syndicated loan spreads.

Keywords: Bank loans; Cost of debt; Financial system; Governance system; Legal system.