Accepted Manuscript

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PII: S0927-5398(17)30123-8
DOI: https://doi.org/10.1016/j.jempfin.2017.12.005
Reference: EMPFIN 1027

To appear in: Journal of Empirical Finance

Received date: 18 December 2013
Revised date: 7 November 2017
Accepted date: 12 December 2017


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The number of bank relationships and borrowing costs: the role of information asymmetries

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Abstract

In a unique dataset that covers virtually all bank loans granted in Portugal, we find that when a firm borrows from one additional bank, the interest rate on bank loans for this firm decreases on average by 14 to 28 basis points. The result holds for small firms but not for larger firms. We test three theories that are consistent with this finding. More banks relationships may: 1) increase firms bargaining power, 2) decrease banks monitoring costs, 3) reduce asymmetric information between borrowers and lenders. We show that our empirical findings are neither consistent with the increase in firm bargaining power nor supportive of the decrease in banks’ monitoring costs. Our results are

*We are thankful to an anonymous referee, Rui Albuquerque, António Antunes, Mário Centeno, Gerardo Cerqueiro, Jorge Farinha, Miguel Ferreira, Amrit Judge, Jose Maria Liberti, Steven Ongena, Thomas Philippson, Pedro Portugal, Ana Dalácio Rei, Nuno Ribeiro, and seminar participants at the EFMA 2008 conference, the 2009 Midwest Finance Association Meeting, European Banking Symposium 2008, the 25th Symposium on Money Banking and Finance, the XLI EWGFM meeting, the 2008 Luso Brazilian Finance Meeting, the 2010 Portuguese Finance Network, Banco de Portugal, Faculdade de Economia da Universidade do Porto and the University of Bonn for useful comments. An earlier version of this paper was circulated under the title "The number of bank relationships, borrowing costs and bank competition". The analyses, opinions and findings of this paper represent the views of the authors, which are not necessarily those of Banco de Portugal or the Eurosystem. The authors gratefully acknowledge funding from Fundação para a Ciência e Tecnologia (research grant PTDC/ECO/74065/2006).

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