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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

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