

APPENDIX A

Institutional Process of Syndicated Loan Granting

Bank loans are a major type of private sector financing in the capital market. A syndicated loan involves two or more lenders under a single set of legal documents for granting funds to a borrower. Banks participate in a syndicated loan in different ways. Lead arrangers, or arranging banks, play a lead role in the syndication process and advise and manage the transaction. They are responsible for analyzing credit quality and negotiating key terms with the borrower. Participating banks join the syndicate by reviewing the documentation provided by lead arrangers and committing a particular amount of funds to the syndicate. While delegating the power of assessing credit quality and monitoring borrowers to lead arrangers, participating banks are ultimately responsible for their own credit analysis in making the decision to join a syndicated loan. Below we provide a brief summary of the syndication process.

Step 1: A prospective borrowing firm presents a loan term sheet to potential lead arrangers.

A prospective borrowing firm with a need of bank finance initiates the transaction. The firm develops a term sheet specifying the amount of funds to raise and the desired number of years of loan term (i.e., maturity). The term sheet sometimes also specifies the availability of collaterals, the desired seniority of the loan, and special needs of waiving a certain covenant restriction. The firm presents its term sheet to a list of banks, normally including its primary relationship banks (which already know the firm well through past lending experience) and other banks that are perceived to have particular expertise in an industry or country.

Step 2: The potential lead arrangers submit their bids to the borrowing firm to make the short list.

After receiving the term sheet from the prospective borrowing firm, the banks decide the approximate interest rate they would like to charge by assessing the borrowing firm's credit quality as well as the attractiveness of the deal, and then submit a bid package to the borrowing firm. It is essential for the banks to set the appropriate interest rate after the screening process. The banks do not want to bid aggressively with low interest rates, because doing so would cause a failure to obtain sufficient compensation for the borrowing firm's credit risk if they won the deal. On the other hand, the banks do not want to set too high an interest rate either, because doing so would cause the borrowing firm to choose other banks, especially when the borrowing firm is perceived as trustworthy and thus has other choices in the lending market.

Step 3: The borrowing firm shortlists the banks and then the banks submit a final proposal.

The borrowing firm compares the bids it has received and makes a short list. The shortlisted banks prepare a final package including their finalized interest rate and, more importantly for winning the deal, also a detailed proposal of how they would structure the transaction and select the participating banks. It is, however, important to note that the number of banks interested to submit a bid in the first place and the attractiveness of the interest rates charged in the bids reflect perceptions of the borrower's trustworthiness. Only when a borrowing firm is sufficiently trustworthy does it receive multiple bids with favorable interest rates.

Step 4: The selected lead arranger designs and executes the syndication strategy.

The bank that wins the deal assumes the role of the lead arranger of the syndicated loan. The lead arranger decides the proportion of the loan it would like to hold and syndicates out the remaining amount to participating banks. Specifically, the lead arranger calls for submission of credit commitments from the targeted participating banks. If the total commitments exceed the amount of the loan to be syndicated out, an oversubscription occurs, and the lead bank will scale back the amounts to be allocated to each participating bank on a pro rata basis. If the lead arranger does not receive enough commitments to cover the amount to be syndicated out, an undersubscription occurs, and, for a fully underwritten bid, the lead bank will have to bear the consequence and hold a larger proportion of the loan than expected.

APPENDIX B
Variable Definitions

Variable	Definition	Data source
<i>Employee treatment</i>	Number of strengths in employee relations	KLD
<i>Cost of loans</i>	Natural logarithm of all-in-drawn spread (i.e. interest rate) in basis points measured over LIBOR or LIBOR equivalent	Dealscan
<i>Loan maturity</i>	Natural logarithm of loan maturity in months	Dealscan
<i>Loan size</i>	Natural logarithm of amount of loan facility in millions of dollars	Dealscan
<i>Number of participating banks</i>	Natural logarithm of number of lenders that participate in the loan syndicate	Dealscan
<i>Performance pricing</i>	Indicator variable that equals to one if the loan contract includes a performance pricing component; and zero otherwise	Dealscan
<i>Bank size</i>	Natural logarithm of the total amount of loans (in millions of dollars) granted by the lead bank in the past year	Dealscan
<i>Bank market share</i>	Total amount of loans granted by the lead bank divided by the total amount of loans recorded by the Dealscan database in the past year	Dealscan
<i>Foreign bank</i>	Indicator variable that equals to one if lead bank is not a U.S. bank; and zero otherwise	Dealscan
<i>Firm size</i>	Natural logarithm of sales in millions of dollars	Compustat
<i>Leverage</i>	Long-term debt divided by market value of assets	Compustat
<i>Market-to-book ratio</i>	Ratio of market value of assets to book value of assets	Compustat
<i>Stock price</i>	Natural logarithm of stock price	Compustat
<i>Profitability</i>	EBIDTA divided by total assets	Compustat
<i>Tangibility</i>	Net PP&E divided by total assets	Compustat
<i>Cash flow volatility</i>	Standard deviation of quarterly cash flows from operations scaled by total assets over the past five years	Compustat
<i>Altman's Z-score</i>	Altman's (1968) Z-score.	Compustat
<i>Existence of S&P credit ratings</i>	Indicator that takes value of one if firm has an S&P senior debt rating, and zero otherwise	Compustat
<i>Cash slack</i>	Cash reserve scaled by total assets in excess of the industry average	Compustat
<i>Employee concern</i>	Number of concerns in employee relations	KLD
<i>Industry munificence</i>	Growth rate of total sales in the industry	Compustat
<i>Industry uncertainty</i>	Standard deviation of total sales in the industry	Compustat
<i>Industry concentration</i>	Herfindahl-Hirschman Index of the industry	Compustat

<i>State GDP growth rate</i>	GDP growth rate of the state	Bureau of Economic Analysis
<i>State unemployment rate</i>	Unemployment rate of the state	Bureau of Labor Statistics
<i>State union coverage</i>	Proportion of labor covered by labor unions in the state	Union Membership and Coverage Database
<i>Term spread</i>	Difference between ten-year Treasury yield and two-year Treasury yield	Federal Reserve Board
<i>Credit spread</i>	Difference between BAA-rated corporate bond yield and AAA-rated corporate bond yield	Federal Reserve Board
<i>Pre-sample mean cost of loans</i>	Natural logarithm of average all-in-drawn spread in basis points measured over LIBOR or equivalent charged to same borrowing firm over five-year pre-sample period	Dealscan
<i>Industry voluntary quit rate</i>	Annual employee voluntary quit rate for the firm's NAICS industry	Bureau of Labor Statistics
<i>State unemployment insurance</i>	Natural logarithm of maximum weekly benefit amount times maximum number of covered weeks under state unemployment insurance system	Department of Labor
<i>Long-term institutional ownership</i>	Proportion of borrower's shares held by non-transient institutions; we require institutions to be ranked top five by their holdings of borrowing firm's shares.	Thomson Reuters Institutional Holdings
<i>Supplier trust</i>	Number of dependent suppliers whose sales derived from firm take up at least 10% of total sales; set to zero if firm's market share is above sample median; the Statement of Financial Accounting Standards (SFAS) No. 131 requires a firm to disclose the identity of customers that represent more than 10% of its total sales	Compustat Segments
<i>Prior firm-bank relation</i>	Number of loans by lead bank to borrower in the last five years scaled by total number of loans to borrower in the last five years	Dealscan
<i>Lender social capital</i>	Social-capital index in county where bank is located (dimensions: per capita no. of tax-exempt NPOs, per capita no. of social organizations, % of voters who voted in presidential elections, and response rate to decennial census)	Northeast Regional Center for Rural Development

APPENDIX C
Correlation Matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
<i>Cost of loans</i>	(1)											
<i>Employee treatment</i>	(2)	-0.246										
<i>Firm size</i>	(3)	-0.469	0.360									
<i>Leverage</i>	(4)	0.331	-0.078	0.025								
<i>Market-to-book ratio</i>	(5)	-0.295	0.053	-0.094	-0.401							
<i>Stock price</i>	(6)	-0.526	0.174	0.354	-0.319	0.320						
<i>Profitability</i>	(7)	-0.281	0.086	0.127	-0.208	0.456	0.371					
<i>Tangibility</i>	(8)	0.044	0.056	0.020	0.292	-0.136	0.016	0.111				
<i>Cash flow volatility</i>	(9)	0.117	-0.068	-0.208	-0.192	0.177	-0.061	0.004	-0.132			
<i>Altman's Z-score</i>	(10)	-0.279	0.032	-0.075	-0.594	0.621	0.331	0.447	-0.234	0.186		
<i>Existence of S&P credit ratings</i>	(11)	-0.139	0.154	0.503	0.373	-0.140	0.147	0.022	0.136	-0.249	-0.310	
<i>Cash slack</i>	(12)	0.015	-0.009	-0.010	-0.052	0.001	0.024	-0.009	0.083	0.146	0.096	-0.068
<i>Employee concern</i>	(13)	-0.089	0.115	0.344	0.085	-0.102	0.043	-0.052	0.102	-0.105	-0.106	0.170
<i>Industry munificence</i>	(14)	0.059	-0.014	-0.100	0.070	0.042	0.032	0.069	0.199	0.031	-0.004	-0.010
<i>Industry uncertainty</i>	(15)	0.095	0.028	-0.140	0.048	-0.063	-0.026	-0.033	0.142	0.010	-0.064	-0.016
<i>Industry concentration</i>	(16)	-0.055	0.019	0.102	-0.094	-0.033	0.057	-0.015	-0.261	-0.011	0.042	0.026
<i>Loan maturity</i>	(17)	0.102	-0.095	-0.091	0.116	-0.055	0.026	0.056	0.014	-0.062	-0.042	0.079
<i>Loan size</i>	(18)	-0.412	0.283	0.671	0.105	-0.026	0.385	0.142	0.172	-0.209	-0.122	0.475
<i>Number of participating banks</i>	(19)	-0.304	0.140	0.448	0.066	-0.068	0.368	0.114	0.069	-0.172	-0.091	0.344
<i>Performance pricing</i>	(20)	-0.126	-0.002	-0.013	-0.145	0.032	0.136	0.091	-0.030	0.010	0.110	-0.071
<i>Bank size</i>	(21)	-0.256	0.117	0.334	0.024	0.038	0.214	0.120	-0.019	-0.175	-0.028	0.260
<i>Bank market share</i>	(22)	-0.180	0.114	0.284	0.005	0.023	0.159	0.076	-0.028	-0.121	-0.020	0.174
<i>Foreign bank</i>	(23)	0.108	-0.034	-0.060	0.088	-0.052	-0.034	-0.053	0.085	0.022	-0.047	0.037
<i>State GDP growth rate</i>	(24)	-0.290	-0.043	0.004	-0.089	0.148	0.179	0.089	0.029	0.011	0.098	0.059
<i>State unemployment rate</i>	(25)	0.372	0.042	-0.027	0.129	-0.183	-0.269	-0.074	0.019	-0.007	-0.121	-0.075
<i>State union coverage</i>	(26)	-0.063	0.032	0.047	-0.046	0.079	-0.031	-0.083	-0.286	0.042	0.027	-0.038
<i>Term spread</i>	(27)	0.362	0.009	-0.083	0.113	-0.155	-0.221	-0.069	0.035	0.030	-0.107	-0.069
<i>Credit spread</i>	(28)	0.289	0.040	-0.049	0.036	-0.120	-0.186	-0.054	0.047	0.034	-0.032	-0.110
<i>Long-term institutional ownership</i>	(29)	0.066	-0.067	-0.007	0.042	-0.166	-0.032	-0.085	-0.075	-0.063	-0.048	-0.013
<i>Supplier trust</i>	(30)	0.038	-0.024	-0.034	-0.041	0.004	0.006	0.027	0.020	0.017	0.011	-0.039
<i>Prior firm-bank relation</i>	(31)	-0.152	0.051	0.084	-0.053	0.000	0.105	0.047	0.024	-0.012	0.041	-0.004
<i>Bank social capital</i>	(32)	-0.171	0.117	0.246	0.049	0.023	0.094	0.072	-0.001	-0.058	-0.033	0.195

		(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
<i>Employee concern</i>	(13)	0.062										
<i>Industry munificence</i>	(14)	-0.104	-0.087									
<i>Industry uncertainty</i>	(15)	0.030	-0.070	0.528								
<i>Industry concentration</i>	(16)	0.103	0.048	-0.138	0.087							
<i>Loan maturity</i>	(17)	0.001	-0.066	0.027	0.010	-0.023						
<i>Loan size</i>	(18)	-0.073	0.196	0.030	-0.038	-0.040	0.089					
<i>Number of participating banks</i>	(19)	-0.057	0.095	0.005	-0.015	0.006	0.208	0.578				
<i>Performance pricing</i>	(20)	0.011	-0.057	0.018	0.012	0.003	0.090	0.057	0.248			
<i>Bank size</i>	(21)	-0.064	0.089	-0.030	-0.046	0.031	0.107	0.359	0.347	0.032		
<i>Bank market share</i>	(22)	-0.049	0.083	-0.069	-0.035	0.019	0.056	0.301	0.292	-0.002	0.824	
<i>Foreign bank</i>	(23)	0.043	-0.034	0.038	0.033	-0.020	-0.022	-0.052	-0.103	-0.080	-0.195	-0.226
<i>State GDP growth rate</i>	(24)	0.004	-0.070	0.107	0.012	-0.052	0.084	0.047	0.034	0.086	0.073	-0.081
<i>State unemployment rate</i>	(25)	0.024	0.067	-0.087	0.007	0.033	-0.101	-0.082	-0.080	-0.095	-0.120	0.038
<i>State union coverage</i>	(26)	-0.047	0.019	-0.155	-0.134	0.055	-0.024	-0.003	0.007	-0.040	0.008	0.047
<i>Term spread</i>	(27)	0.053	-0.014	0.000	0.080	0.026	-0.173	-0.123	-0.056	-0.058	-0.203	-0.057
<i>Credit spread</i>	(28)	0.012	0.076	0.091	-0.067	0.006	-0.169	-0.097	-0.128	-0.025	-0.094	-0.050
<i>Long-term institutional ownership</i>	(29)	-0.004	0.005	-0.046	-0.063	0.046	0.058	-0.026	0.040	0.054	0.061	0.050
<i>Supplier trust</i>	(30)	0.020	-0.022	0.027	0.007	-0.041	0.003	-0.035	-0.015	-0.028	0.004	0.005
<i>Prior firm–bank relation</i>	(31)	0.008	0.007	-0.001	-0.028	-0.046	-0.088	0.144	0.158	0.095	0.123	0.150
<i>Bank social capital</i>	(32)	-0.067	0.067	-0.025	-0.033	0.009	0.035	0.224	0.085	-0.047	0.204	0.130

		(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)
<i>State GDP growth rate</i>	(24)	0.002									
<i>State unemployment rate</i>	(25)	0.033	-0.740								
<i>State union coverage</i>	(26)	-0.065	-0.163	0.146							
<i>Term spread</i>	(27)	0.027	-0.588	0.658	0.022						
<i>Credit spread</i>	(28)	0.029	-0.273	0.363	-0.016	0.297					
<i>Long-term institutional ownership</i>	(29)	-0.042	0.008	-0.025	-0.013	-0.089	0.070				
<i>Supplier trust</i>	(30)	-0.013	0.004	-0.014	-0.037	0.007	0.048	-0.020			
<i>Prior firm–bank relation</i>	(31)	-0.030	0.026	-0.031	-0.015	-0.006	0.035	0.019	0.002		
<i>Bank social capital</i>	(32)	-0.088	0.043	-0.094	0.138	-0.099	-0.131	-0.018	-0.053	-0.037	

Note: All variables are defined in Appendix A. Pearson correlations that are significant at the 5% level are reported in boldface.