Abstract:

We study whether and how corporate loan securitization through collateralized loan obligations (CLOs) has changed the nature of bank lending relationship. We use a large dataset of CLO collaterals to identify securitized loans and the relationship lenders. We show that even if a relationship lender securitizes a past loan, it continues to gain future lending business from the same borrower. The new loans from this securitization-funded relationship lender, when compared to loans from a traditional relationship lender, have fewer covenants, smaller amount of revolvers at higher costs, and larger amount of institutional term loans at lower costs. In addition, the new loans from these lenders are also more likely to be securitized. Our results suggest that lending relationship is impaired as securitization weakens monitoring efforts and reduces the information advantage of relationship banks. Yet, these lenders seem to be able to keep their relationship borrowers with their access to structured credit markets. Overall, our findings indicate that benefits of securitization coexist with its costs in relationship lending.