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# Well-connected Short-sellers Pay Lower Loan Fees: a Market-wide Analysis\*

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## Abstract

High loan fees generate short-selling constraints and, therefore, reduce price efficiency. Despite the importance of loan fees, empirical evidence on their determinants is scarce. Using a market-wide deal-by-deal data set on the Brazilian equity lending market which uniquely identifies borrowers, brokers, and lenders, we are able to construct a proxy of search costs at the borrower-stock-day level. We find that—for the same stock, on the same day—borrowers with higher search costs pay significantly higher loan fees. Our results suggest that regulators should encourage the use of a centralized lending platform to reduce search costs in the lending market.

JEL Codes: G12, G14, D83

Keywords: loan fees, short-selling restrictions, search costs, equity lending market, opaque markets

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