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The certification value of private debt renegotiation and the design of financial contracts Empirical evidence from Europe

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financial contracts
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Abstract

By using a sample of bank loan renegotiations by European firms, I show that the renegotiation of financial contracts bears a certification value, while deeply changing the contractual features of the loan over time, to the benefit of shareholders. I find that amendments to financial covenants and to loan amounts increase the cumulative abnormal returns of a borrowing firm by 10% to 15%. Early and less frequent renegotiations of bilateral loans with short maturities also imply a positive stock market reaction. Amendments signaling the early accrual of new and positive information allow increasing firm value.

JEL classification: G14, G20

Keywords: renegotiation, financial contracts, bank loans, certification, shareholder value, event studies, Europe

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