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Customer Risk and Corporate Financial Policy: Evidence from Receivables Securitization

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ABSTRACT

The risk of customers affects corporate financial policy by limiting the ability of firms to securitize customer receivables. We find that firms with riskier receivables, based on the credit risk and diversification of the firms' principal customers, have lower financing capacity and lower leverage in their asset-backed securitizations. Because securitizations are designed to create a very safe claim by separating the risk of the securitized assets from the risk of the originating firms, increases in the risk of the receivables directly inhibit originating firms' ability to securitize assets and indirectly inhibit the originating firms' access to external finance. The study highlights a novel link between the financing of supplier firms and the financial health of their customers and shows how an increase in risk can limit access to external capital.

Key words: capital structure, asset backed securitization, customer-supplier relationship, special purpose entity

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