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ABSTRACT

We show that firm demand-side factors are strong drivers of pro-cyclical refinancing behavior over the credit cycle using novel data from the Shared National Credit program. Firms are more likely to refinance early when credit conditions are good to keep the effective maturity of their loans long and hedge against having to refinance in tight credit conditions. High credit quality firms are better able to hedge, making their refinancing propensity *more* sensitive to credit cycles than less credit-worthy firms. There is a strong relationship between refinancing a loan, and *subsequent* growth in capital expenditure, especially when a loan is refinanced early.

JEL classification: G21, G31, G32
Key words: Liquidity risk, maturity management, loan refinancing

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