Multiple Lenders, Temporary Debt Restructuring, and Firm Performance: Evidence from Contract-Level Data*

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Abstract

This paper empirically examines the cause and consequence of private debt restructurings out of court. Using unique contract-level data accounting for Japanese bank loans, we employ probit and multinomial logit estimations to study how demand and approval of debt restructuring are determined, as well as under what conditions one specific form of debt restructuring—temporary debt restructuring—is utilized. The results of our estimations show, first, that the demand of debt restructuring is systematically associated with firm characteristics and the relation-specific characteristics. Second, debt restructurings are more likely to take a "temporary" form when the number of lender banks is larger. Using propensity score matching difference-in-difference estimation, we further find that the performance of firms experiencing temporary debt restructuring significantly deteriorates in comparison with that of firms experiencing non-temporary debt restructuring. Furthermore, such pattern is more likely to be observed when lender banks have weaker balance sheet conditions. These results imply that temporary debt restructuring during our sample period was mainly used as de facto evergreening lending, which ended up deteriorating borrower creditworthiness.

Keywords: Debt restructuring; Number of banks; Firm performance; Evergreening lending
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