Analysis of Loan Covenants

Abstract

We for the first time ever provide evidence on loan covenants usage by the Indian banks based on primary loan data over a period from 2002 to 2011, using a two stage least squares method with five instrumental variables, and actual number of accounting based covenants in a loan contract. Our analyses of the primary data shows banks in India put more emphasis on severe non-accounting based covenants contrary to the proposition of costly contracting hypothesis. We find contradictory results in the relationship between accounting based covenants and loan category, profitability, leverage, firm size and issue of securities. We find that firm size and issue of securities have a positive relation, leverage has a negative relation, and loan category and profitability have an insignificant relation with accounting based covenants. Our study looks at non-accounting based covenants in much more greater details and find that materiality; firm-size;

We empirically evidenced the debt covenant hypothesis
loan proposal in the Indian banks at the loan inception s
used by the banks for approval of their loanswith pr
resubmission of loan proposals at the time of approval
earnings after management methodology and t-test stati
this study implies that borrowers in self-interest will
inception stage of a loan to get the loans approved. The
with respect to resubmitted loan proposal which are ap
defaulted accounts belonging to the resubmitted group de

We empirically evidenced the debt equity hypothesis a
using six variables of D/E based on popular lite