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## **The crisis as a wake-up call. Do banks increase screening and monitoring during a financial crisis?**

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# The strategic behavior of banks during a financial crisis: Evidence from the syndicated loan market

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## Abstract

We examine the strategic reaction of banks to the current global financial crisis. In particular, we test whether banks predominantly react by diversifying their loan portfolio or by stepping up their screening and monitoring. To this end we analyze information on nearly 17,000 syndicated loans that were granted to private borrowers in 60 countries over the period 2005-2008. We exploit the variation in lender and borrower characteristics to examine whether banks' risk-mitigating strategies differ across borrower types. Our results show that during a financial crisis arranging banks retain larger portions of loans and form more concentrated syndicates, reflecting an increased need to screen and monitor borrowers. During a crisis, agency problems are attenuated in syndicates that lend to repeat borrowers and that are composed by experienced arrangers.

**JEL Classification:** D82, G15, G21

**Keywords:** bank lending, financial crisis, asymmetric information, syndication

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## 1. Introduction

The period between 2001 and the first half of 2007 was a time of exceptionally high economic growth throughout large parts of the world. Risk perceptions came down rapidly and the global financial system was characterized by abundant liquidity. All of this changed with the outbreak of the global financial crisis in August 2007. The crisis has affected banks across the world through increased uncertainty about borrower quality and a concomitant decline in available bank funding.<sup>1</sup> Like in earlier crisis episodes, banks have reacted by reducing their lending (Ivashina and Scharfstein, 2008). According to the Dealogic Loan Analytics database that we use in this paper, global syndicated loan volumes fell by 41 per cent, to USD 2.9 trillion, in 2008.

We analyze whether banks not only reacted to the crisis by constraining their credit supply, but also by using complementary strategies to reduce the risk profile of their remaining credit portfolio. Banks will be hesitant to cut lending too drastically because terminating relationships with existing borrowers tends to be costly (Rajan, 1992; Ongena, 1999). They therefore likely look for other ways to reduce the risk profile of their balance sheet. We hypothesize that banks that aim to reduce credit risk during a crisis, in order to placate depositors and other financiers, can opt for either one of two strategies.

First, banks may decide to further diversify their loan portfolio. By spreading lending over more imperfectly correlated projects, aggregate credit risk may be reduced. This may make it easier for banks to keep funding themselves. Second, banks may opt to intensify their screening and monitoring to reduce the credit risk associated with individual loans. The first strategy implies that banks responded to the crisis by changing the composition of their lending while keeping their screening and monitoring efforts constant. The second strategy means that banks, given the composition of their loan portfolio, stepped up the screening and monitoring of individual customers.

To empirically test which – if any – of these two strategies banks predominantly used to mitigate the impact of the financial crisis on their balance sheet, we examine data on the syndicated loan market. Syndicated loans are large loans that are provided by a group of (investment) banks – the syndicate – to a single borrower.<sup>2</sup> This market is of particular interest for several reasons. First, syndicated loans are a major source of external finance for a wide variety of firms in both the developed world and in emerging markets (DTCC, 2008). Second, syndicated lending combines characteristics of public financing with those of more traditional bank lending (Boot, 2000). Like bond markets, there are several creditors involved in lending to a single borrower, but syndicate members still monitor borrowers as is typically the case in relationship lending. Third, in contrast with bilateral bank

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<sup>1</sup> The rise in credit risk led, for instance, to widening spreads between interest rates on secured and unsecured inter-bank loans (Taylor, 2008) and between yields on corporate bonds and risk-free government securities.

<sup>2</sup> For an extensive description of the syndicated loan market see Dennis and Mullineaux (2000).

lending, detailed information on syndicated loans is publicly available which allows us to control for various loan and borrower characteristics. Fourth, and most importantly, the structure of a syndicate can provide information about lending strategies of banks during a financial crisis.

The structure of a typical syndicate consists of two tiers of banks: arrangers and participant banks. The arrangers comprise the senior tier and negotiate the lending terms with the borrower. They are also mandated by the borrower to structure, organize, and market the loan. Although the arrangers usually retain a part of the loan on their own books, they sell most of it to the second, junior tier of syndicate members, the participants. These banks have a passive role: they buy a portion of the loan but are not involved in its organization. In this paper, we exploit the fact that both strategies we are interested in – diversification versus screening and monitoring – have very different implications for the optimal structure of lending syndicates during a crisis. We hypothesize that increased diversification during a crisis will result in more diffuse syndicates in which all syndicate members hold a smaller portion of each loan. In contrast, in case of increased screening and monitoring, lending syndicates will become more concentrated and arrangers will retain a larger portion of each loan.

We find that since the onset of the global financial crisis, arranging banks started to retain larger portions of syndicated loans and form more concentrated syndicates. This points to increased screening and monitoring of borrowers during the crisis. Smaller, more concentrated syndicates were formed in particular when credit risk is high and there is an increased need to contain agency problems, both within lending syndicates and between lenders and borrowers. Specifically, our results show that the need to contain agency problems during the crisis was less severe in case of repeat borrowers and when arrangers are experienced. In addition, in contrast to reputation, being rated by a credit rating agency does little to contain agency problems due to the financial crisis.

This paper contributes in several ways to the extant banking literature. First, we use data on a particular type of bank lending to provide novel insights into how banks respond to financial crises. There exists a considerable literature on the impact of financial crises on the amount of bank lending – see for instance Demirgüç-Kunt, Detragiache and Gupta (2006) – but empirical studies that explore the impact of crises on other forms of bank behavior are few and far between.

Second, we contribute to the growing literature on syndicated lending. Earlier papers have studied the structure of lending syndicates to analyze how banks deal with asymmetric information (Dennis and Mullineaux, 2000; Lee and Mullineaux, 2004; Sufi, 2007), with weak creditor rights (Esty and Megginson, 2003), and with the risk of strategic defaults (Preece and Mullineaux, 1996). We contribute to this literature by analyzing how the financial crisis and the associated increase in risk and uncertainty have impacted upon the structure of syndicates.

The remainder of this paper is structured as follows. Section 2 provides an overview of the literature and derives the hypotheses that we test in this paper. Section 3 then describes our data and empirical methodology, after which Section 4 explains our results. Section 5 concludes.

## **2. The financial crisis and strategic bank behavior: two hypotheses**

The global financial crisis quickly altered the benign business environment to which banks across the world had become accustomed in recent years. Banks needed to re-evaluate the credit risks in their loan portfolios as they faced financiers that were suddenly less willing to provide them with funds. These changes forced banks to readjust their strategies of dealing with credit risk and with the underlying information asymmetries vis-à-vis their borrowers.

Most of the banking literature on the impact of financial and economic crises deals with the influence of crises on the *amount* of bank lending. The seminal theoretical contribution by Holmström and Tirole (1997) shows how a deterioration of the quality of banks' corporate clients, a 'firm collateral squeeze' in their terminology, reduces the amount of deposits that banks can attract. The resulting decline in credit supply reduces the investments by bank-dependent firms. During an economic crisis the real or perceived quality of banks' loan portfolios will deteriorate and the financiers of banks – including depositors, other banks, and the commercial paper market – will demand a higher interest rate or even withdraw their funds. Credit and liquidity risks are thus closely intertwined: an increase in credit risk on the asset side of a bank's balance sheet may lead to a reduction in funding on the liability side. As a result, a bank will be forced to reduce its credit supply.

Calomiris and Wilson (2004) empirically study the causal link from increased credit risk via reduced bank funding to lower credit supply. The authors show that during the Great Depression of the 1930's New York-based banks were forced to substitute loans with riskless assets in order to prevent deposit withdrawals. Demirgüç-Kunt, Detragiache and Gupta (2006) find similar evidence for a broader country sample. In addition to limiting the risk of their asset portfolio, banks also often increase their capital buffer to further isolate depositors from loan risk (see Demirgüç-Kunt, Detragiache and Gupta, 2006 and the references therein). As a result of such 'deleveraging', aggregate bank lending tends to contract substantially during a financial crisis (De Haas and Van Lelyveld, 2006; 2009).

While there is thus considerable empirical evidence that banks reduce their credit supply during a financial crisis, we expect banks to also use complementary strategies to reduce risk. After all, reducing credit to existing customers, or selling existing loans, is costly if banks have invested in client relationships through gathering proprietary information (Rajan, 1992; Ongena, 1999) or through accepting loss-making transactions in the short-term in the expectation of establishing profitable relationships in the longer term (Boot, 1990). For these reasons, banks can be expected to try to limit

the reduction in lending as much as possible and to use complementary strategies to ensure that creditors keep funding them. In the remainder of this paper, we focus on two such strategies: increasing portfolio diversification and improving screening and monitoring. Both strategies have different implications for the optimal structure of lending syndicates. Hence, we can analyze changes in the structure of syndicates to empirically differentiate between these two hypothetical strategies and find out which one, if any, banks have predominantly used during the financial crisis.

The first strategy we consider is for banks to diversify their lending. Regardless of whether a bank decides to reduce the amount of lending during a crisis or not, it may choose to better diversify its (remaining) loan portfolio as a complementary risk-reduction strategy. Diversification across imperfectly correlated projects decreases aggregate portfolio risk (Markowitz, 1959; Hart and Jaffee, 1974), reduces the threat of insolvency, and hence makes it easier for banks to attract funding. This may be particularly important if the pre-crisis period has been characterized by large-scale bank lending to a small number of sectors – such as real estate, telecoms, or internet companies – in which ‘bubbles’ have developed. Increased diversification during the ensuing crisis then reflects the unwinding of excessive loan concentration during the pre-crisis period.

Winton (1999) shows theoretically that diversification may be most effective at intermediate levels of credit risk. When the risk of lending to individual firms or sectors is very low, the value of diversification in terms of reducing the probability of bank default is limited. When credit risk increases, diversification becomes more beneficial. However, at very high levels of loan-specific or sector-specific risks, diversification may increase rather than decrease the bank’s probability of default. This is the case because a downturn in just one or two sectors may lead to the default of the diversified bank, which is by definition exposed to more sectors. This positive link between diversification and the probability of bank failure may be particularly apparent when sector correlation is high, such as during a crisis. To the extent that Winton’s model has empirical validity, banks may thus have been hesitant to increase their diversification during the current crisis.

Empirical evidence on banks’ strategy vis-à-vis loan diversification during financial crises is limited, reflecting that detailed data on banks’ portfolio composition are generally scarce. Although Fanelli (2002) argues that Argentinean banks were not well-diversified prior to the 1999-2002 economic crisis, Bebczuk and Galindo (2008) show that Argentinean banks did not significantly change the diversification of their lending portfolios in reaction to the crisis. Acharya, Hasan and Saunders (2006) find that diversification does not necessarily lead to higher returns or less risk for banks.

In terms of syndicated bank lending, we expect that if the portfolio diversification strategy has been important, all syndicate members – both arrangers and participants – have reacted to the onset of the

financial crisis by spreading their lending over a larger number of (syndicated) loans.<sup>3</sup> Each syndicate member will have reduced the average syndicated loan share kept on its balance sheet. Keeping loan size equal, this implies an increase in the number of arrangers and participants per syndicate and thus less concentrated syndicates. Such effects will be particularly pronounced for opaque and risky borrowers.

The second strategy banks can use to contain credit risk during a financial crisis is to step up screening (Allen, 1990; Broecker, 1990) and monitoring (Diamond, 1984). This strategy focuses explicitly on the agency problems between banks and their financiers. It acknowledges that credit risk is not fully exogenous but depends on the bank's screening and monitoring effort. The strategy is in line with the earlier-mentioned model by Holmström and Tirole (1997) in which moral hazard behavior by firms deters uninformed investors (such as depositors) from financing firms directly. Instead, depositors put their money in banks, which can then finance and discipline firms on their behalf. However, since monitoring is costly, banks will be tempted to shirk as well. In order to overcome this second instance of moral hazard, banks need to inject some of their own capital into firms. Depositors are then reassured that neither banks nor firms shirk. This model fits well with the syndicated loan market: participants are essentially uninformed investors that rely on the screening and monitoring of arrangers. In order to convince participants that they do not shirk when monitoring, arrangers need to keep a portion of the syndicated loan on their own balance sheet. A larger retention rate then signals a greater commitment to monitor, as arrangers have more of their own money at stake. It may also signal that arrangers have thoroughly screened borrowers or have gained private information about them through previous lending relationships. Particularly in the case of opaque borrowers, arrangers will thus be inclined to retain a large part of the loan (Dennis and Mullineaux, 2000; Jones, Lang and Nigro, 2005; Sufi, 2007).

During the financial crisis the net pay-off of monitoring may have increased.<sup>4</sup> During the preceding boom years, the probability of firms actually defaulting was relatively low and most of the pay-off of monitoring (such as reduced shirking by firm management) benefited shareholders rather than creditors. During the crisis, as the proportion of borrowers with a high probability of default increased, the importance of monitoring rose as well. As a result of the crisis, participants may have started to worry more about arrangers giving them access to bad loans or ignoring their monitoring duties. Consequently, to the extent that increased screening and monitoring has been an important strategy of banks to cope with the crisis, this will be reflected in an increase in the loan share that

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<sup>3</sup> An important reason why banks participate in syndicated lending in the first place is that this allows them to spread large loans across several banks, allowing each bank to diversify its loan portfolio (Simons, 1993).

<sup>4</sup> When borrowers perform well, lending standards tend to be relaxed while they are tightened during a negative economic shock (Rajan, 1994). Berger and Udell (2004) also find evidence for cyclical lending standards.

arrangers jointly retain (either through more arrangers or through each arranger taking a larger stake).<sup>5</sup> Given a certain loan size and number of participants, increased screening and monitoring will also have resulted in more concentrated lending syndicates.<sup>6</sup>

**Table 1**  
**Expected impact of bank strategies on syndicate structure**

Bank strategy	Syndicate structure				
	No. Arrangers	No. Participants	Total share arrangers	Mean share arrangers	Concentration
Portfolio diversification	+	+	0	-	-
Screening and monitoring	0/+	0/-	+	+	+

Note: All impacts are conditional on loan size.

Table 1 summarizes the empirical implications of both strategies. Increased diversification of loan portfolios during the crisis (Strategy 1) should be reflected in an increase in the average syndicate size (number of arrangers and participants), a lower average share per syndicate member (both arrangers and participants), and consequently more diffuse syndicates. In contrast, a strategic response in the form of increased screening and monitoring (Strategy 2) will result in more concentrated syndicates due to an increased joint arranger share. In addition, one may expect an increase in the number of arrangers (as a way of increasing the share jointly held by the arrangers) and a decrease in participant numbers (increased agency problems make participants more hesitant to buy syndicated loans). In the remainder of this paper, we test which of these two strategies fits best with banks' actual behavior during the global financial crisis.

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<sup>5</sup> Increasing the number of arrangers could lead to duplication of monitoring efforts or, on the contrary, to free-riding among arrangers (Esty and Megginson, 2003). However, in most syndications an agent bank performs the practicalities of monitoring on behalf of all banks. To the extent that this effectively centralizes the monitoring process, adding more arrangers will be less of a problem.

<sup>6</sup> Small syndicates may also facilitate the restructuring process in case of default (Bolton and Scharfstein, 1996). Indeed, Lee and Mullineaux (2004) find that syndicates are smaller and more concentrated for riskier borrowers.



### 3. Data and methodology

#### 3.1 Data and summary statistics

We obtain our data from the Dealogic Loan Analytics database, which provides comprehensive market data on virtually all global syndicated loans. Our dataset contains detailed information on 16,918 syndicated loans to private borrowers in the United States, Western Europe, and a large number of emerging economies. Annex 1 contains more details on the geographical break-down of the dataset. All loans were signed between January 2005 and end-year 2008. Just over sixty per cent of the loans in our sample consist of multiple tranches. In those cases we compute weighted averages for our variables at the loan level, weighing each tranche by its amount. The tranches of a syndicated deal are negotiated at the same point in time and are part of one contract and as such should not be treated econometrically as individual observations (Sufi, 2007). By using the loan as the unit of observation we also prevent oversampling.

Our dataset includes information about the borrower (country of incorporation, industry, and credit rating), about the loan terms (maturity, volume, currency, spread, fee structure, and loan purpose), and about the structure of the syndicate (number of arrangers and participants). For a sub-sample of the data we also have information on the share of the loan held by each lender. Our initial data download consists of 22,725 loans. For each loan we check the availability of information on the identities of all syndicate members and only keep loans with complete and consistent information. We exclude project finance loans, loans to (quasi-) government entities, and loans where an international financial institution (such as the EBRD or the IFC) is a syndicate member. This data cleansing reduces our sample to 16,918 loans. For each loan we categorize all syndicate members as either arrangers or participant banks. We define arrangers as those financial institutions with the title of mandated lead arranger or book runner and classify all other syndicate members as participants.<sup>7,8</sup> Table 2 provides summary statistics for the variables that we use in the empirical analysis.

Our main independent variable is a crisis dummy that is ‘zero’ for syndicated loans signed between January 2005 and September 2007 and ‘one’ for loans signed during the crisis period, which we define as October 2007-December 2008 (the latter date is the cut-off date of our dataset). We let the crisis start in October 2007 rather than August 2007 to take into account that there is a time lag between starting loan negotiations and signing the deal. The negotiation and arrangement process

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<sup>7</sup> Book runners sell the loan to participants but are not involved in negotiations with the borrower.

<sup>8</sup> We believe this is the best way to distinguish between banks that are actively involved in the loan structuring and marketing and those that only provide funds. However, occasionally banks are given the title of mandated arranger or book runner due to the amount they provide, even though they do not do any arranging work.

takes on average almost eight weeks (Godlewski, 2008). Exactly a quarter of all observations concern loans signed during the crisis period; the remainder was signed pre-crisis.

While August 2007 is generally regarded as the start of the crisis, the negative impact of the crisis on financing conditions progressively increased during the following months. This means that our “early start” of the crisis is a conservative approach when estimating the impact of the crisis on bank behavior. Our results are robust to starting the crisis at a later point in time (January 2008 or mid-March 2008) and our results also remain the same when we start our pre-crisis period in January 2004 or January 2006 instead of January 2005 (results available from the authors upon request).

**Table 2**  
**Summary Statistics for Syndicated Loan Deals - Pre-Crisis and Crisis**

The table shows summary statistics for our sample of 16,918 syndicated loans signed between January 2005 and December 2008. The pre-crisis period starts January 2005 and ends October 2007, the crisis period includes the rest of the sample period.

	Pre-Crisis			Crisis		
	No.	Mean	St. Dev.	No.	Mean	St. Dev.
<i>Syndicated loan characteristics</i>						
Volume (US\$ million)	12652	641	1690	4265	565	1642
Maturity (years)	12190	4.74	2.37	4046	4.24	2.72
Loan is guaranteed	12653	0.03	0.18	4265	0.04	0.19
Loan is secured	12653	0.18	0.39	4265	0.12	0.33
Loan for refinancing purposes	12653	0.27	0.44	4265	0.16	0.37
Loan for acquisition purposes	12653	0.21	0.41	4265	0.20	0.40
Loan for general corporate purposes	12653	0.40	0.49	4265	0.48	0.50
<i>Syndicate structure characteristics</i>						
Number of arrangers	12652	2.87	2.30	4265	2.79	2.32
Number of participants	12562	4.41	5.94	4195	3.27	4.42
Total share held by arrangers	2665	0.55	0.27	757	0.63	0.28
Average share held by arrangers	2654	0.27	0.20	756	0.29	0.19
Concentration: share of five largest lenders	2665	0.78	0.24	757	0.84	0.21
Concentration: Herfindahl index	2665	0.24	0.18	757	0.27	0.18
<i>Borrower and lender characteristics</i>						
Borrower has credit rating	12653	0.32	0.46	4265	0.26	0.44
Times borrowed since 1980 at time of signing	12653	4.40	5.13	4265	4.24	4.88
Located in USA	12653	0.62	0.49	4265	0.62	0.48
Located in EU15	12653	0.28	0.45	4252	0.23	0.42
Located in emerging market	12653	0.10	0.30	4265	0.15	0.35
Average market share arrangers at time $t-1$	12652	1.63	1.85	4265	1.26	1.64

Before the crisis, the average loan amounts to USD 641 million and has an average maturity of four years and nine months. During the crisis, loans become on average 12 per cent smaller and the average maturity shortens by half a year. We create three dummy variables that single out loans with the purpose of refinancing an existing loan, acquiring a company (acquisition finance), or for general corporate purposes (such as working capital and trade finance). Before the crisis, 27 per cent of all

syndicated loans are meant to refinance existing loans. This percentage almost halves during the crisis. We also include two risk mitigant dummies. The first one indicates whether a loan is secured through collateral and the second one whether repayment is guaranteed by a third party. Pre-crisis only 3 per cent and 18 per cent of all loans are guaranteed by a third party or secured by collateral, respectively. During the crisis the percentage of secured loans drops by a third, suggesting banks moved away from more risky loans (which in general are secured).

As dependent variables we create a number of measures of loan syndicate structure. These include the number of arrangers, the number of participating banks, and the average share and the total share of the loan held by the arrangers. We measure the concentration of the syndicate by the Herfindahl-Hirschman Index (HHI), which is the sum of the squared loan shares held by all syndicate members, and by the combined loan share of the five largest syndicate members. The structure of the lending syndicate changes during the crisis.<sup>9</sup> While the average number of arrangers stays more or less the same, at just below three, the average number of participants declines from 4.4 to 3.3. The average percentage of the loan that the arrangers jointly retain increases by 15 per cent to 63 per cent and the average share kept by each individual arranger increases by 7 per cent to 29 per cent. Lending syndicates also become more concentrated. The share held by the five largest lenders increases by 8 per cent and the HHI by 13 per cent. Unfortunately, complete information on the distribution of the loan among the syndicate members is only available for a fifth of the sample (3,422 loans). The characteristics of the loans in the full sample and of those for which we have information on arranger shares and concentration ratios are, however, very similar. For instance, the difference in average loan amount is only USD 28 million and the difference in average maturity is about a week. The main difference between the two samples is that loans in the USA are underrepresented in the full information sub-sample while loans in Asia are somewhat overrepresented.

Finally, we create a set of borrower and lender variables that we use as independent variables. The first dummy variable captures whether the borrower is rated by a rating agency at the time of signing of the loan or not. In general, more information will be publicly available about rated borrowers. Pre-crisis about a third of all borrowers are rated. Surprisingly, the share of rated borrowers drops significantly during the crisis. We also create regional dummy variables that indicate whether the borrower is incorporated in the USA, the EU15, or in an emerging market. About 60 per cent of all borrowers are US firms. During the crisis there is a slight increase in the proportion of borrowers in emerging markets at the expense of the proportion of borrowers in Western Europe.

We also construct a variable that measures the reputation of borrowers. This variable equals the (log of the) number of previous syndicated loans that the borrower has raised successfully since 1980. We

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<sup>9</sup> Note that these are basic descriptive statistics where we do not correct for changes in loan size.

expect that information asymmetries between repeat borrowers and lenders are smaller than between first-time borrowers and lenders (Diamond, 1991). On average, the borrowers in our dataset had built up a history of just above four previous successful syndications since 1980.

Finally, we construct an arranger reputation variable that captures the experience and skills of the arranger group of a particular loan (Sufi, 2007; Goplan, Nanda and Yerramilli, 2007). Reputation can attenuate the information asymmetries between borrowers and lenders or between arrangers and participants (Gorton and Pennachi, 1995). Dennis and Mullineaux (2000) and Lee and Mullineaux (2004) find that arrangers with a long history of repeat transactions are able to sell off larger parts of the loan. We first calculate for each year the market share of the top 200 arrangers in the global syndication market. For a loan in year  $t$ , we then add the market shares in year  $t-1$  of all arrangers of that loan. For each syndicated loan we thus approximate the joint market share of all arrangers in the previous year. In case an arranger is not in the previous year's top 200, the market share for that arranger is set to zero. The joint market share of arrangers is a good proxy for their reputation since the financial press regularly publishes league tables in which the top arrangers – worldwide and for individual geographical regions – are ranked according to the total loan volume they arranged in the previous year. Higher rankings in league tables thus imply increased exposure and a better reputation in the financial community.

During the crisis the arranger reputation variable decreased sharply (23 per cent). This mainly reflects that a number of Japanese banks entered the global top 10 of arrangers for the first time in years, replacing some well-known Western institutions. These new arrivals in the league tables held smaller shares of the syndicated loan market during previous years – when they were not in the top 10 – and hence had built up less of a reputation through repeat transactions during the pre-crisis period.

### *3.2 Empirical methodology*

Throughout the paper we report regressions in which the dependent variable is one of our measures of syndicate structure: the number of arrangers, the number of participants, the total share held by the arrangers, the average share held by the arrangers, the share held by the five largest syndicate members, or the Herfindahl index.

To measure the impact of the crisis on syndicate structure, we use the crisis dummy as a stand-alone independent variable and in some cases also to create interaction terms. We also include a standard set of loan-specific and borrower-specific control variables that can be expected to influence the structure of syndicates. We experimented with sector dummies but these turned out to be mostly statistically insignificant and we thus exclude them to preserve degrees of freedom. However, including sector dummies does not change any of our results.

We estimate Tobit regressions since our dependent variables are either censored at one side (number of participants and arrangers) or on both sides (share variables). Throughout all tables the coefficients are marginal effects and all standard errors are heteroskedasticity robust and clustered at the borrower level. We obtain very similar results when clustering at the sector level and when using an OLS regression technique or – in the case of discrete and non-negative dependent variables like the number of arrangers or participants – a Poisson technique.

#### **4. The financial crisis and strategic bank behavior: empirical results**

##### *4.1 Main results*

Table 3 provides the results of our basic regression estimates to examine the impact of the global financial crisis on various measures of syndicate structure. The first two columns show regressions for the full sample with the number of arrangers and participants as dependent variables, respectively. Columns three to eight show regressions for the sub-sample for which we have information on the distribution of the loan among the lenders, which allows us to create the share and concentration variables. Columns three and four replicate the first two columns but now for the sub-sample only. The overall similarity between the results in the first two columns and those in columns three and four adds further confidence to our earlier conclusion (cf. Section 3.1) that there are no systematic differences between the loans in our full and in our partial sample.

Even when taking into account loan size and other control variables, our results indicate a clear decrease in the number of participants during the crisis of about 21 per cent of the pre-crisis mean. There is no significant change in the number of arrangers. Arrangers have reacted to the crisis by jointly retaining about 10 per cent more of each loan on their own balance sheet, while the average share retained increased with 6 per cent. The total loan share held by the top 5 lenders goes up by 8 per cent. As a result of the reduced number of participants and the increased retention rate of the arrangers, lending syndicates become during the crisis much more concentrated, as evidenced by the significant increase in the Herfindahl index (9 per cent).

**Table 3**  
**Impact of Crisis on Syndicate Structure**

This table shows the results of Tobit regressions estimating the impact of the crisis on the structure of loan syndicates. *Crisis* is a dummy which is one for the crisis period (October 2007 until December 2008) and zero for the pre-crisis period (January 2005-October 2007). *Volume* equals the log of the loan amount in dollars. *Maturity* is the log of the maturity of the loan in days. *Rated* is a dummy which is one if the borrower is rated. *Secured* is a dummy which are one if the loan is secured. *Guaranteed* is a dummy which is one if the loan is guaranteed. *Borrower reputation* equals (1 plus) the log of the number of previous syndicated loans the borrower raised between 1980 and the time of the current loan signing. *Arranger reputation* captures the joint market share of the arranger group prior to loan signing. *Refinancing*, *Acquisition* and *Corporate* are loan purpose dummies which are one if the main loan purpose is refinancing, acquisition or general corporate purpose, respectively. The omitted loan purpose group is "Other". *Sovereign rating* is the (numerical) rating of the country in which the borrower is located at time of signing (higher value implies lower risk). *USA* is a dummy which is one if the borrower is located in the United States. Full sample includes all loans. Partial sample includes only those loans for which the amount held by each syndicate member is available. Standard errors are heteroskedasticity robust and clustered by borrowing firm. All regressions include a constant and coefficients are marginal effects. Robust p-values appear in brackets and \*\*\*, \*\* and \* correspond to one, five and ten percent level of significance, respectively.

	Full Sample		Partial Sample					
	No. Arrangers	No. Participants	No. Arrangers	No. Participants	Total Share Held By Arrangers	Average Share Held By Arrangers	Total Share Held By Top 5 Lenders	Herfindahl Index
Crisis	0.024 [0.483]	-0.662*** [0.000]	0.144 [0.126]	-1.610*** [0.000]	0.089*** [0.000]	0.015** [0.016]	0.047*** [0.000]	0.022*** [0.000]
Volume	0.672*** [0.000]	0.740*** [0.000]	0.811*** [0.000]	1.306*** [0.000]	0.009* [0.062]	-0.057*** [0.000]	-0.100*** [0.000]	-0.052*** [0.000]
Maturity	0.052* [0.092]	-0.019 [0.784]	0.098 [0.157]	-0.087 [0.544]	-0.003 [0.749]	-0.010* [0.055]	-0.003 [0.631]	-0.002 [0.701]
Rated	0.501*** [0.000]	0.358*** [0.001]	0.865*** [0.000]	1.395*** [0.000]	0.009 [0.553]	-0.037*** [0.000]	-0.072*** [0.000]	-0.028*** [0.000]
Secured	-0.374*** [0.000]	-0.705*** [0.000]	-0.280*** [0.007]	-0.469** [0.033]	0.021 [0.164]	0.044*** [0.000]	0.042*** [0.000]	0.035*** [0.000]
Guaranteed	0.107 [0.370]	-0.089 [0.698]	-0.250 [0.135]	-0.727** [0.019]	-0.005 [0.810]	0.002 [0.834]	0.018 [0.181]	0.021* [0.055]
Borrower reputation	0.253*** [0.000]	0.372*** [0.000]	0.314*** [0.002]	0.332* [0.052]	0.003 [0.797]	-0.030 [0.000]	-0.030*** [0.000]	-0.026*** [0.000]
Arranger reputation	-0.187*** [0.000]	-0.042*** [0.006]	-0.124*** [0.002]	0.326*** [0.000]	-0.027*** [0.000]	-0.015*** [0.000]	-0.017*** [0.000]	-0.014*** [0.000]
Refinancing	0.568*** [0.000]	0.626*** [0.000]	0.907*** [0.000]	0.988*** [0.000]	0.000 [0.991]	-0.078*** [0.000]	-0.109*** [0.000]	-0.080*** [0.000]
Acquisition	0.197*** [0.000]	-0.335*** [0.008]	0.738*** [0.000]	-0.410 [0.231]	0.103*** [0.000]	-0.048*** [0.000]	-0.030* [0.059]	-0.038*** [0.000]
Corporate	0.259*** [0.000]	0.114 [0.321]	0.672*** [0.000]	0.857*** [0.000]	-0.020 [0.227]	-0.067*** [0.000]	-0.089 [0.000]	-0.070*** [0.000]
Sovereign rating	-0.073*** [0.000]	-0.141*** [0.000]	-0.043** [0.011]	-0.196*** [0.000]	0.007*** [0.002]	0.007*** [0.000]	0.011*** [0.000]	0.005*** [0.000]
USA	-0.192*** [0.000]	-0.865*** [0.000]	-0.732*** [0.000]	0.523** [0.038]	-0.092*** [0.000]	0.038*** [0.000]	0.020** [0.043]	0.028*** [0.000]
Observations	16000	16000	3113	3113	3113	3113	3113	3113
LR chi2	3913.671	1168.682	1026.153	780.568	212.756	1937.767	2544.139	1977.689
Log Likelihood	-32920.152	-43109.922	-6998.882	-8564.116	-1233.934	1635.609	-848.022	1943.493

When we compare these results with the theoretical predictions as summarized in Table 1, we see that they clearly point to a strategy of increased screening and monitoring. As participants largely depend on the arrangers for ex ante due diligence and ex post monitoring they need a credible commitment from the arrangers that they will not shirk. The fact that arranging banks keep more of the loan on their own balance sheets during the crisis suggest that (prospective) participants demand stronger

assurances that borrowers have been adequately screened and will be effectively monitored. To a certain extent the crisis thus partially reverses the typical pyramid structure of loan syndications, in which a small number of arrangers distributes a loan to a wide group of participants.

We argue that the increased retention rates by arrangers are not caused by an inability of arrangers to sell loans to (less liquid) participant banks, but that it results from the need to assuage agency problems between arrangers and potential participants. In other words, we interpret our results as evidence of a strategic decision by banks to intensify monitoring and screening of (prospective) borrowers. If our findings would just reflect a sudden reduction across the board in participants' willingness or ability to buy syndicated loans, we would expect to find many transactions in which arranging banks tried to reduce the loan volume during the syndication process. However, during the crisis the loan amount was scaled back in only 1 per cent of all transactions (compared to 0.2 per cent before the crisis).

This still leaves the possibility that arrangers decide to take on a larger portion of the loan than originally planned because, although selling down turns out to be difficult, arrangers might not want to renegotiate the loan with the borrower as this could harm their reputation and potentially lower future fee income. While this may have happened in some individual cases, it is hard to imagine this as an equilibrium outcome. The syndicated loan market is transparent and information on increased difficulties to sell down loans spreads easily through the market. An arranger might make the mistake to implicitly or explicitly underwrite a loan that turns out to be too large to sell down once, but likely not several times in a row. Instead, the next time the arranger will likely only agree to underwrite a smaller loan, perhaps with the option of increasing the loan amount if the loan would be oversubscribed. Indeed, our data show that during the crisis the loan amount was increased in 5 per cent of the cases. Furthermore, as we discuss in Section 4.2, the change in syndicate structure during the crisis has not been uniform but instead depends on the level of agency problems that are present.

Our various control variables tell an interesting story as well. Unsurprisingly, larger loans are distributed among larger syndicates as each lender needs to take account of exposure limits to individual borrowers. As a result, lending syndicates for large loans are on average less concentrated, which is in line with earlier findings by Lee and Mullineaux (2004) and Sufi (2007).

Next, we find that loans secured by collateral tend to be syndicated by smaller, more concentrated lending syndicates that consist of both a smaller number of arrangers and of participants. Whereas there are fewer arrangers, they each hold a bigger stake of the loan (there is no effect on the joint stake that the arrangers hold). These findings are in line with banks monitoring guaranteed and secured loans more intensely, presumably because lenders regard secured loans as *more* risky, notwithstanding the presence of collateral. This is consistent with Berger and Udell's (1990) observation that collateralized loans are more risky *ex ante* because they are granted to borrowers that

need more intense monitoring. Indeed, Barbosa and Ribeiro (2007) find that the presence of collateral leads to higher interest rate spreads on syndicated loans. Dennis and Mullineaux (2000) find that the retention rate of collateralized loans is higher so that incentives to monitor are less diluted.

The interpretation of our findings on secured loans is further strengthened by our finding on the impact of borrower ratings. While having a rating does not mean that a borrower is less risky per se, a rating implies that the borrower has been scrutinized by one or more rating agencies such as Moody's or Standard & Poor's. The results of this due diligence, in the form of the rating and the accompanying research notes, are publicly available. The information asymmetry between a lending syndicate and a rated borrower will thus be lower than between a lending syndicate and a non-rated borrower. In line with Lee and Mullineaux (2004) and Sufi (2007) we find that loans to rated borrowers tend to be granted by larger and less concentrated lending syndicates that consist of both more arrangers and more participants. Importantly, each arranger retains a smaller stake on its own balance sheet compared to non-rated borrowers. When information asymmetries are low, there is less need for arranger banks to retain a large part of the loan to convince participants that they sufficiently screen and monitor.

Next, we look at the impact of borrower and lender reputation.<sup>10</sup> We find that syndicated loans to repeat borrowers are granted by larger, less concentrated syndicates in which each individual arranger retains less of the loan. Repeat borrowers are thus perceived as less risky and loans to such reputable borrowers are plagued by fewer agency problems. As for lender reputation, we find that experienced and reputable arrangers are able to syndicate a loan with fewer arrangers and to a broader group of participants.<sup>11</sup> As with reputable borrowers, syndicates led by experienced arrangers are less concentrated and these arrangers, individually and jointly, need to retain less of each loan. Arranger reputation reduces agency problems within the lending syndicate.

Finally, we find a highly significant impact of the sovereign country rating where the borrower is based: loans to borrowers in riskier countries (a lower rating) are spread among more syndicate members. This likely reflects that both arrangers and participants have to abide by strict internal limits on aggregate country exposure. All else equal, banks will thus have a greater incentive to diversify a loan to a borrower in a risky country as in that case exposure limits will be more binding.

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<sup>10</sup> We measure borrower reputation as the log of the number of times that the borrower successfully raised a syndicated loan since 1980. We find similar results, when we measure borrower reputation through a dummy variable that indicates whether the borrower raised one or more loans during the preceding three or five years.

<sup>11</sup> The impact on the number of participants is negative in the full sample.



#### 4.2 The differentiated impact of the financial crisis on lending to various borrower types

The preceding section showed that banks reacted to the financial crisis by stepping up their screening and monitoring efforts, as reflected in smaller and more concentrated lending syndicates. We also found that when information asymmetries are relatively large, such as in the case of risky loans to unrated borrowers, banks tend to lend in small groups. We argued that this stresses the importance of overcoming agency problems. If this is indeed the underlying cause, one would expect that the onset of the global financial crisis has impacted upon different types of borrowers in different ways. To analyze this, we estimate a set of regressions in which we interact the crisis dummy with a number of variables that proxy for the importance of agency problems. Table 4 summarizes the results (control variables are included in all regressions but not shown for reasons of brevity).

**Table 4**  
**Information Asymmetry and Impact Crisis on Syndicate Structure**

This table presents evidence on how the impact of the crisis on loan syndicate structure depends on the level of information asymmetry between the borrower and the lenders. The crisis dummy is interacted with a number of variables capturing differences in information asymmetry. *Crisis* is a dummy which is one for the crisis period (October 2007 until December 2008) and zero for the pre-crisis period (January 2005-October 2007). *Rated* is a dummy which is one if the borrower is rated. *Borrower reputation* equals (1 plus) the log of the number of previous syndicated loans the borrower raised between 1980 and the time of the current loan signing. *Secured* is a dummy which is one if the loan is collateralised. *Arranger reputation* captures the joint market share of the arranger group in the year prior to loan signing. All regressions include the same control variables as the baseline model (Table 3). The sample includes only those loans for which the amount held by each syndicate member is available. The regressions are estimated using Tobit. Standard errors are heteroskedasticity robust and clustered by borrowing firm. All regressions include a constant. Coefficients are marginal effects. The robust p-values appear in brackets and \*\*\*, \*\* and \* correspond to one, five and ten percent level of significance respectively.

	Mean Share Held By Arrangers				Herfindahl Index			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
Crisis	0.017**	0.021**	0.022***	0.025***	0.022***	0.027***	0.024***	0.031***
	[0.024]	[0.033]	[0.001]	[0.002]	[0.000]	[0.000]	[0.000]	[0.000]
Crisis*Rated	-0.007				-0.007			
	[0.516]				[0.357]			
Crisis*Borrower rep.		-0.006				-0.010**		
		[0.195]				[0.022]		
Crisis*Secured			-0.039**				-0.018	
			[0.027]				[0.201]	
Crisis*Arranger rep.				-0.013***				-0.013***
				[0.008]				[0.000]
Observations	3113	3113	3113	3113	3113	3113	3113	3113
LR chi2	1941.64	1946.11	1950.26	1945.39	1998.19	1998.24	1991.03	2000.07
Log Likelihood	1635.77	1636.23	1639.23	1638.65	1943.89	1945.55	1944.73	1948.41

Table 4 replicates our earlier finding that lending syndicates became more concentrated and that arrangers started to retain larger loan shares during the crisis. This crisis impact holds for both rated and unrated borrowers: we do not find a significant coefficient for the interaction term of the crisis dummy and the rating dummy. So while we find evidence that a credit rating reduces agency

problems during normal economic times, we do not find any evidence of a differentiated impact of the crisis on rated versus unrated borrowers. For both types of borrowers, screening and monitoring by banks has become more important.

Second, we investigate whether there is a differentiated impact of the crisis on experienced borrowers that have built up a good reputation over the years. Interestingly, borrower reputation matters during the crisis: syndicated loans to repeat borrowers become less concentrated. Whereas having a credit rating does not shield borrowers from the impact of the crisis, having built up a reputation as a ‘good’ borrower over the years does help to contain the increase in information asymmetries between borrowers and lenders. What mattered most during the crisis was whether the borrower has been exposed to banks’ scrutiny during earlier syndications and not so much whether the borrower has been rated by an external rating agency.

Next, we find that during the crisis, compared to non-secured loans, collateralized loans see a significantly smaller increase in retention rates among arrangers. While monitoring and screening gain in importance during the crisis across the board, this is less the case for secured loans. So while collateral does not yield much protection to lenders in general, we find some evidence that collateralized loans suffered somewhat less from increased agency problems during the crisis than non-collateralized loans.

We also test whether there is a differentiated crisis impact across arrangers with a varying amount of reputation (measured as the market share in the syndicated loan market in the previous year). We find strong evidence that lender experience is particularly important during a financial crisis. Experienced arrangers need to increase their retention rate far less than competitors with a weaker market position and loans put together by these arrangers show a much smaller increase in concentration during the crisis. Clearly, lender reputation is a crucial mechanism to control agency problems within the lending group, in particular during episodes of financial turmoil.

#### *4.3 An alternative interpretation: moral hazard versus adverse selection*

Up till now we have interpreted our results as evidence of an increased need to screen and monitor borrowers during the crisis. Participants want to make sure that borrowers are adequately screened and monitored before agreeing to participate in a syndicate. Arrangers need to keep a larger share on their books as participants are concerned about *moral hazard* with respect to arrangers’ monitoring efforts. However, an alternative interpretation is also possible. It is possible that participants’ main worry is not so much that arrangers will not monitor sufficiently, but rather that because the arrangers have private information about the borrower, there will be scope for *adverse selection*. In this case arrangers do not keep a larger loan share to convince participants that they adequately monitor the

borrower, but to convince them that they do not only sell down the relatively risky loans. If this is the case, our results should not be interpreted as evidence that banks strategically react to the crisis by increasing monitoring and screening efforts.

In order to distinguish between these two possible explanations of our findings, we follow Sufi (2007) and measure the number of previous relationships between the arrangers and the particular borrower. We construct two *relationship* variables. The first one equals (1 plus) the log of the number of times (one or more of) the arranger(s) in the current loan structured a loan in the past for the same borrower. The second one is a dummy which is ‘one’ if at least one of the arrangers in the current loan structured a loan in the past for the same borrower and ‘zero’ otherwise. We add these variables (one at a time) to our baseline regression and interact them with our crisis dummy. We also continue to include our standard control variables, including the number of previous loans of the borrower as a proxy for the *general* level of information that is available in the market about the borrower.

If moral hazard on the part of the arrangers is driving our results, then the fact that the arrangers keep part of the loan reflects that both arrangers and participants have imperfect knowledge about the borrower and that the participants fear that the arrangers will not sufficiently monitor the borrower. In this case, we expect that if there have been previous lending relationships between the arrangers and the borrower, potential participants will be less worried: they know that the arrangers already know the borrower quite well and that subsequent monitoring is less crucial. This would translate into a negative coefficient for the *relationship* variable, as participants feel less need to force arrangers to retain a large portion of the loan themselves in order to prevent shirking.

In the second scenario, the existence of a previous relationship between the arrangers and the borrower implies that the arranger has an information advantage over the participants. Especially for these types of loans the arranger has then to signal to the participants that the loan is not risky. So in the adverse selection scenario, we would expect a positive coefficient for the *relationship* variable: in case of loans to previous clients, the arrangers will be forced to retain more of the loan and to form a more concentrated syndicate.

The results in Table 5 show that we can interpret our findings as evidence of increased monitoring and screening by banks during the crisis in order to reduce credit risk (other control variables are not shown for reasons of brevity). The relationship variable shows that in case of previous lending relationships between the same arrangers and a borrower, the arrangers need to retain less of the loan and the syndicate becomes more diffuse. In case of risky clients retention rates thus increase, and lending syndicates become more concentrated, because participants fear that arrangers will shirk when monitoring, not because they expect arrangers to sell bad loans. During the crisis the impact of previous relationships between the borrower and the same arrangers does not change, or becomes

even more negative, implying that the increased share retained by arrangers and the stronger concentration of the syndicate during the crisis is the result of moral hazard and not adverse selection.

**Table 5**  
**Adverse Selection versus Moral Hazard**

This table presents evidence on how the impact of the crisis on loan syndicate structure depends on the level of information asymmetry between the borrower and the lenders. The crisis dummy is interacted with a number of variables capturing differences in information asymmetry. *Crisis* is a dummy which is one for the crisis period (October 2007 until December 2008) and zero for the pre-crisis period (January 2005-October 2007). *Relationship* equals the log of the number of times the arranger(s) of the current loan structured a loan for the same borrower in the past. *Relationship (dummy)* is one if the arranger(s) in the current loan structured at least one loan in the past for the same borrower. All regressions include the same control variables as the baseline model (Table 3). The sample includes only those loans for which the amount held by each syndicate member is available. The regressions are estimated using Tobit. Standard errors are heteroskedasticity robust and clustered by borrowing firm. All regressions include a constant. Coefficients are marginal effects. The robust p-values appear in brackets and \*\*\*, \*\* and \* correspond to one, five and ten percent level of significance respectively.

	Mean Share Held By Arrangers		Herfindahl Index	
	(1)	(2)	(1)	(2)
Crisis	0.021** [0.013]	0.022** [0.034]	0.032*** [0.000]	0.031*** [0.000]
Crisis*Relationship	-0.007 [0.199]		-0.011** [0.022]	
Relationship	-0.017*** [0.001]		-0.014*** [0.003]	
Crisis*Relationship (dummy)		-0.008 [0.515]		-0.016 [0.134]
Relationship (dummy)		-0.019** [0.016]		-0.019** [0.010]
Observations	3113	3113	3113	3113
LR chi2	2131.986	2041.029	2230.646	2094.544
Log Likelihood	1643.113	1639.87	1952.632	1950.397

## 5. Conclusions

We use data on almost 17,000 syndicated loans to borrowers across 60 countries to examine how banks cope with a sudden increase in credit and liquidity risk during a financial crisis. Our results show that during the financial crisis banks did not opt for a strategy of loan portfolio diversification, but instead stepped up their screening and monitoring. During a crisis arranging banks retain larger portions of loans and form more concentrated syndicates, reflecting an increased need to contain agency problems, both within lending syndicates and between lending syndicates and borrowers. Importantly, we do not find an equal increase across the board in arrangers' retention rates – which could merely reflect liquidity constraints among potential participants – but instead show that the increase in retention rates is stronger when agency problems are larger. In particular, we show that both lender and borrower reputation are important mechanisms to control such agency problems and that this attenuating role of reputation has been particularly useful during the financial crisis.

Screening and monitoring intensity needed to increase less during the crisis in the case of repeat borrowers that had built up a good reputation during the pre-crisis years. Similarly, while agency problems increased between arrangers and participants as a result of the financial crisis, this was less of an issue in case of experienced arrangers with a strong market position. In contrast to reputation, having a rating by an official rating agency does little to stem the increase in agency problems due to the financial crisis. Lastly we find that our results mainly reflect participants' concerns about moral hazard with respect to arranger efforts and not about possible adverse selection problems.

Our results indicate that a credit rating has been of limited use to borrowers during the financial crisis. Instead, the only borrowers that were able to limit the increased scrutiny of lenders, and the reduced interest among participants banks, have been those that had built a reputation in the syndicated loan market during previous years. This is not to say that having a credit rating, and the associated transparency, is unimportant. We clearly find that agency problems are much smaller in the case of rated borrowers. During the crisis, however, what mattered most was whether the borrower had been (repeatedly) exposed to banks' own scrutiny during earlier syndications. In particular during periods of increased overall risk, banks clearly still rely more on their own judgment than on that of external rating agencies.

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## Annex 1

**Table A1**  
**Geographic distribution of the sample**

<b>Region</b>	<b>Country</b>	<b>Per cent</b>	<b>Region</b>	<b>Country</b>	<b>Per cent</b>
<b>USA</b>	United States of America	<b>61.96</b>	<b>Asia</b>	Papua New Guinea	0.01
				Laos	0.02
<b>EU 15</b>	Austria	0.18		Bangladesh	0.04
	Luxembourg	0.29		Sri Lanka	0.07
	Ireland	0.31		Pakistan	0.09
	Finland	0.36		Viet Nam	0.24
	Portugal	0.41		Philippines	0.25
	Denmark	0.43		Thailand	0.28
	Belgium	0.55		Indonesia	0.48
	Greece	0.58		Malaysia	0.50
	Sweden	0.72		China	1.71
	Netherlands	1.50		India	1.78
	Italy	2.49		<b>Total Asia</b>	<b>5.47</b>
	Germany	2.92	<b>Latin America</b>		
	Spain	3.50		Guatemala	0.01
	France	4.30		Uruguay	0.01
	United Kingdom	5.75		Honduras	0.02
	<b>Total EU 15</b>	<b>24.29</b>		El Salvador	0.02
<b>Transition countries</b>	Estonia	0.03		Costa Rica	0.03
	Georgia	0.04		Venezuela	0.05
	Serbia	0.04		Dominican Republic	0.07
	Lithuania	0.05		Colombia	0.08
	Slovakia	0.07		Argentina	0.15
	Belarus	0.11		Peru	0.15
	Bulgaria	0.14		Panama	0.19
	Latvia	0.14		Chile	0.39
	Slovenia	0.14		Mexico	0.76
	Azerbaijan	0.15		Brazil	0.87
	Croatia	0.16		<b>Total Latin America</b>	<b>2.80</b>
	Hungary	0.19			
	Czech Republic	0.21			
	Poland	0.24			
	Romania	0.26			
	Kazakhstan	0.51			
	Ukraine	0.60			
	Russian Federation	2.43			
	<b>Total transition countries</b>	<b>5.51</b>			