

Family Succession and Cost of Bank Loans: Evidence from China

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Abstract : This study examines the effect of family succession on the cost of bank loans and non-price contractual terms. We use a unique dataset from China and find that lending banks are likely to charge high-interest rates and offer tight contractual terms, such as loan maturity and collateral requirement, for family succession firms. These findings indicate that information and default risks may arise after subsequent family successions. We also find that family succession firms can reduce the cost of bank loans by hiring top-tier auditors to enhance financial reporting credibility. This finding suggests that professional and high-quality auditors can provide extremely valuable services to family succession firms.

Keywords : family succession, cost of bank loans, loan contract terms, top-tier auditor

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