Firm Life Cycle and Cost of Debt*

Abu Amin
Central Michigan University
amin1a@cmich.edu

Blake Bowler
Fisher School of Accounting
University of Florida
blake.bowler@warrington.ufl.edu

Mostafa Monzur Hasan
Macquarie University
mostafa.hasan@mq.edu.au

Gerald L. Lobo
C. T. Bauer College of Business
University of Houston
gjlobo@uh.edu

Jiří Trešl
University of Mannheim and CERGE-EI†
jtresl@mail.uni-mannheim.de

Abstract

This paper examines the relation between the corporate life cycle and lending spreads. Using a sample of 20,307 firm-loan observations spanning 5,076 publicly traded U.S. firms, we find that lending spreads follow a U-shape pattern across the life cycle phases. This pattern is in addition to the variation explained by typical controls. In a multivariate analysis, we find that firms in the introduction and decline phases pay lending spreads that are greater than firms in the mature phase (differences of 6 percent and 12 percent, respectively). We explore omitted variables bias and instrumental variable estimation in robustness testing and find that the U-shape pattern persists. Our findings are consistent with theoretical predictions regarding the relationship between the corporate life cycle and various lending risks.

Keywords: Firm life cycle; cost of debt; bank loans; risk.
JEL Classification: G32, M21

---

*We would like to thank Philip Brown, Demian Berchtold, Robert Durand, Adrian Cheung, Jan Hanousek, Anastasiya Shamshur, and Felix Chan for helpful comments and suggestions. We also thank the workshop participants at University of Western Australia, Central Michigan University, and Curtin University for comments and suggestions. The research is supported by GAČR grant No.16-20451S. The usual disclaimer applies.

† CERGE-EI, a joint workplace of Charles University and the Economics Institute of the Czech Academy of Sciences, Politickych veznu 7, P.O. Box 882, 111 21 Prague 1, Czech Republic.