Economic Review

Do Adverse Oil Price Shocks Change Loan Contract Terms for Energy Firms?

by: Rajdeep Sengupta, W. Blake Marsh and David Rodziewicz

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Financing opportunities for energy firms tighten when oil prices fall, but some feel the crunch more than others.

While low oil prices may stimulate the U.S. economy overall, they can be disruptive to the domestic oil industry. A decline in prices may reduce oil firm revenues in the short run and increase uncertainty around future prices and earnings. These effects, in turn, may lower oil firms' creditworthiness, thereby reducing available financing for current operations and future investment.

Rajdeep Sengupta, W. Blake Marsh, and David Rodziewicz examine whether the relationship between energy firms' creditworthiness and loan prices changed after the 2014 oil price decline. They find that firms more closely involved in exploration and production were charged higher loan prices relative to other oil firms. In addition, they find that loan prices were even higher for exploration and production firms that did not have access to bond financing or that were refinancing existing loans. Overall, their results suggest credit conditions may not uniformly tighten across the oil industry after an adverse price shock.

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Authors

Rajdeep Sengupta

Senior Economist

Rajdeep Sengupta is a senior economist at the Federal Reserve Bank of Kansas City. He joined the Kansas City Fed in July 2013. His research areas are banking, financial intermediation and applied microeconomics. His most recent work focuses on lender competition and the subprime mortgage market. He received his Ph.D. from Vanderbilt University in 2006 and was an economist at the Federal Reserve Bank of St. Louis.

W. Blake Marsh

Senior Economist

Blake Marsh is a senior economist at the Federal Reserve Bank of Kansas City. He joined the Banking Research department in July 2016. His research areas are commercial bank regulation and financial intermediation. His current research examines commercial real estate lending, syndicated corporate lending, and financial innovation. Mr. Marsh holds a B.A. in economics from The George Washington University and M.A. and Ph.D. degrees from American University. He previously held positions at the Board of Governors of the Federal Reserve System and in the mortgage industry.

David Rodziewicz

Advanced Economics Specialist

David Rodziewicz is an advanced economics specialist at the Denver Branch of the Federal Reserve Bank of Kansas City. His research areas include energy and natural resource economics, regional economics, commodity markets, finance, and banking. He conducts regional and industry outreach in the Rocky Mountain West region (Colorado, Wyoming, and northern New Mexico). Rodziewicz also serves as the secretary for the Denver Branch Board of Directors and is responsible for briefing the Kansas City Fed's president – a member of the Federal Open Market Committee – on regional economic conditions and energy related issues.Prior to joining the Economic Research Department at the Bank in 2017, Rodziewicz was as an officer in the National Oceanic and Atmospheric Administration's Commissioned Officer Corps, where he served as a deck watch officer in Alaska and database manager in Colorado. Earlier in his career, he worked in the financial services industry as a stock analyst, covering real estate investment trusts (REITs). Rodziewicz holds a M.S. in Mineral and Energy Economics from Colorado School of Mines and a B.S. degree in Finance and Economics from University of Illinois.