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

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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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