Clarity or Confusion? ESG Information, Relationship Lending, and the Design of Bank Loan Contracts

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Abstract

This paper examines how ESG performance, ESG disagreement, and prior banking relationships affect the design of bank loan contracts. Using a large sample of syndicated loans, we analyze the impact of ESG-related information on both pricing and non-pricing terms, including loan spreads, maturity, collateral requirements, and syndication structure. We also examine whether prior lending relationships with lead arrangers moderate the effect of ESG performance on loan contract terms. The results show that firms with stronger ESG performance obtain more favorable loan conditions, including lower borrowing costs, longer maturities, and a lower likelihood of collateral requirements. These effects are stronger for relationship loans in the case of loan spreads and maturity, suggesting that ESG scores and relationship-based information act as complementary sources of information. In contrast, greater ESG disagreement is associated with higher loan spreads, shorter maturities, and larger lending syndicates, indicating that lenders respond to inconsistent ESG assessments by tightening contract terms and increasing risk sharing. Overall, the findings show that ESG performance acts as a signal of firm quality, whereas ESG disagreement represents a source of information risk, and that prior banking relationships shape how lenders incorporate ESG information into credit decisions.

Keywords: ESG performance; ESG disagreement; Relationship lending; Bank loan contracts; Sustainable finance.

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