

Private Equity Sponsors, Law Firm Relationships, and Loan Contracts in Leveraged Buyouts

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Keywords: Leveraged Buyout; Private Equity; Loan Covenant; Law Firms; Agency Problems

JEL Classification: G21; G24; G32; G34; K22; L14

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1. Introduction

A central concern in the leveraged buyout (LBO) literature is whether high leverage incentivizes private equity (PE) sponsors to extract value from creditors (e.g., Cumming, Siegel, and Wright, 2007; Kaplan and Strömberg, 2009; Jenkinson, Kim, and Weisbach, 2023). Because loan covenants are the primary contractual mechanism through which creditors protect themselves, a key question is how PE sponsor involvement affects loan covenant design. In this paper, we shed light on a new channel through which PE sponsors shape LBO debt contracts: sponsors’ relationships with the law firms that represent lenders (i.e., lender law firms).¹

Transactional lawyers play a central role in loan contracting, although their impact in the process has received little attention in the finance literature. Lead banks typically delegate the drafting and much of the negotiation of a credit agreement (in particular, non-price provisions such as covenants) to their counsel, who bring specialized private knowledge of deal structures and market precedent accumulated through repeated transactions (e.g., Ryan, 2009; de Fontenay, 2015; Buccola and Hoffman, 2026), giving counsel meaningful discretion over contract terms. In LBOs, however, a controversial issue is that PE sponsors frequently influence which law firm represents the lenders, a practice known as the “designated lender counsel” (Hwang and Tuch, 2026).²

When the chosen lender law firm has ties to the PE sponsor and oftentimes depends on the sponsor for future deals, a core tension arises. The benign view is that familiarity between lender law firm and sponsor reduces information frictions in negotiation, producing more

¹Throughout the paper, we use the terms “lead bank,” “bank,” and “lender” interchangeably to denote the lead bank of a syndicated loan in a leveraged buyout transaction. Lender law firms are firms that advise the lead bank. These firms are also called “lender-side law firms,” but we use the terms “lender law firms” or “lender counsel” for conciseness.

²Also see, “A Growing Conflict in Wall St. Buyouts” in *The New York Times* (Jan. 4, 2016); “Law Firms in Focus as Leveraged Loan Docs Deteriorate” in *Reuters* (May 18, 2018); “Designated Lawyers Could Leave Lenders in the Lurch” in *Private Debt Investor* (July 1, 2019); “Private Lenders Lawyer Up as Unease Grows Over Appointed Counsel” in *Bloomberg* (July 5, 2022); “Why ‘Designated Counsel’ is the Most Problematic Issue in Corporate Law” in *Law.com* (Feb 28, 2023).

efficient contracting outcomes. Others, however, express concern that the use of sponsors’ relationship counsel may compromise the independence of legal advice provided to lenders: a law firm charged with safeguarding creditors may be reluctant to negotiate aggressively against the very sponsor on whom its future business depends (e.g., Coates, 2001; Polinsky and Rubinfeld, 2003; Susskind, 2008; de Fontenay, 2015).³ This concern can be salient in today’s leveraged lending market. Under the originate-to-distribute model, lead banks retain limited exposure to the loans they arrange (Billett, Elkamhi, Popov, and Pungaliya, 2016), while competing for PE sponsors’ deal mandates against rival banks and direct lenders. Banks may therefore have incentives to accommodate sponsors’ preferences, including their choice of counsel.

Using a sample of syndicated loans in U.S. public-to-private leveraged buyouts from 1995 to 2025, we provide the first systematic empirical evidence on how PE sponsors’ ties with lender law firms, referred to as the PE–lender law firm relationship, affect banks’ law firm choices and influence loan contracting outcomes. We measure this relationship as the share of the PE sponsor’s loan volume over the prior three years involving a given law firm. In our sample, close to half of loans involve lender law firms that have previously worked with the PE sponsor, underscoring the empirical relevance of this channel.

Our core findings are threefold. First, PE–lender law firm relationships strongly affect lender law firm selection. In a choice model following Corwin and Schultz (2005) and Kuhnen (2009), we find that stronger sponsor ties significantly increase the probability that a law firm is chosen as lender counsel. This finding suggests that PE sponsors significantly influence the selection of lenders’ law firms, echoing practitioner accounts of the designated lender counsel practice.

³The International Organization of Securities Commissions (IOSCO) also highlighted that the connection between PE sponsors and lender law firms potentially compromises the independence of legal advice received by lenders and thus harms creditors’ interests. See Consultation Report CR05/2023 (“Leveraged Loans and CLOs – Good Practices for Consideration.”) <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD746.pdf>

Turning to contract design, we find that stronger PE–lender law firm relationships are associated with a significantly lower likelihood of dividend/payout restrictions and with fewer maintenance, incurrence, and total covenants. The results remain robust and consistent after controlling for an extensive set of loan and borrower characteristics and fixed effects. The effects are also economically meaningful: a one-standard-deviation increase in the relationship measure reduces the total number of covenants by approximately 32% of a standard deviation. Consistent with differences in reputational concerns, the covenant-weakening effect is attenuated when the lender’s law firm or the lender itself commands greater market prominence.

We employ two identification strategies to address the potential endogeneity of PE–lender law firm relationships. In one test, we use the geographic distance between PE sponsors and law firms’ headquarters as an instrumental variable, building on research showing that proximity shapes law firm–client relationships (e.g., Henderson and Galanter, 2008; de Fontenay, 2016). In the first-stage regression, PE–lender law firm distance strongly predicts the PE–lender law firm relationship strength. At the same time, sponsors’ and law firms’ headquarters locations were generally established long before the current loan and are unlikely to affect its covenant design directly, except through their effect on the PE–law firm relationship. The second-stage regression shows that the impact of the PE–lender law firm relationship on covenants remains robust.

In another test, we implement a difference-in-differences (DiD) design around the January 4, 2016, publication of Andrew Ross Sorkin’s *New York Times* article “*A Growing Conflict in Wall St. Buyouts*,” which highlighted the designated counsel practice. We treat the article’s publication as an exogenous increase in public scrutiny of sponsor–law firm ties.⁴

⁴The Sorkin article appears to have been the first major public expose of the practice, although the practice itself predated the article and was likely known within the industry. This article generated substantial follow-up press coverage such as “A Private Equity Conflict Grows on Wall Street” in *Fortune* (Jan 5, 2016); “Private Equity Firms Muscling Lenders by Choosing and Paying for Their Lawyers” in *Nakedcapitalism* (Jan 5, 2016); “What is a Designated Lender Counsel” by Sulaiman Law Group; “Designated Lender Counsel in Private Equity Loans” in *Harvard Law School Forum* (Jan 19, 2016).

We find that PE sponsors with stronger pre-shock lender-law firm relationships reduced their reliance on relationship law firms after the shock, and the covenants in their post-shock loans tightened correspondingly. Together, these tests support the interpretation that our baseline results reflect sponsor influence on contract design rather than unobserved borrower fundamentals.

Second, we document an economic mechanism that sustains these arrangements: banks that accommodate a sponsor’s relationship law firm are significantly more likely to join the sponsor’s next loan syndicate. This pattern is consistent with reciprocal arrangements in which banks accept potentially compromised legal representation in exchange for continued access to the sponsor’s future deal flow (Fang, Ivashina, and Lerner, 2013; Jenkinson, Jones, and Suntheim, 2018).

Third, we show that the PE-lender law firm relationship carries real economic consequences that cut against the contracting efficiency interpretation. If using relationship counsel facilitates smoother execution or reflects superior borrower quality, loan spreads should decline. Instead, we find that stronger PE–lender law firm relationships are associated with higher loan spreads, suggesting that investors at least partially recognize the weakened credit protection. We also find that these loans exhibit higher ex post default and bankruptcy rates. Notably, the PE–lender law firm relationship remains a significant predictor of default even after controlling for spreads, suggesting that investors may not fully price the associated credit risks. The higher borrowing costs ultimately fall on the portfolio companies, representing a real agency cost of PE sponsors’ influence over lender counsel.

Taken together, our paper makes several contributions to the literature. First, we contribute to the leveraged buyout literature. A central question in this literature concerns the sources of value creation and, in particular, whether returns partly reflect wealth transfers from creditors (e.g., Marais, Schipper, and Smith, 1989; Warga and Welch, 1993; Harford and Kolasinski, 2014; Harford, Stanfield, and Zhang, 2019). Recent work emphasizes that PE sponsors may use their transactional expertise and bargaining power to extract

value from creditors (e.g., Badawi, Dyreng, de Fontenay, and Hills, 2022; Buccola and Nini, 2024; Ivashina and Vallee, 2025), although some argue that reputational considerations in repeated borrowing may mitigate these incentives (e.g., Demiroglu and James, 2010; Achleitner, Braun, Hinterramskogler, and Tappeiner, 2012; Malenko and Malenko, 2015; Huang, Ritter, and Zhang, 2016; Badoer, Emin, and James, 2024). We add to the debate by providing evidence for a new mechanism via which PE sponsors leverage their bargaining power to influence buyout debt contract design: the sponsor’s relationship with the lender’s legal counsel. This channel has real economic consequences beyond changes in contractual language: higher spreads and higher default and bankruptcy rates, indicating that the covenant erosion has substantive effects on borrower discipline and credit outcomes. These findings distinguish our mechanism from an alternative in which sponsor-connected counsel simply facilitates smoother execution.

Our paper also relates closely to the literature on how lending relationships shape loan contracting. Earlier studies find that repeated borrower–lender interactions are associated with larger loans, lower spreads, and fewer collateral requirements (e.g., Petersen and Rajan, 1994; Berger and Udell, 1995). With respect to covenants, Prilmeier (2017) documents an inverted U-shaped relation between borrower–lender relationship intensity and the number of financial covenants, while Billett, Elkamhi, Popov, and Pungaliya (2016) find that relationship lenders are more likely to originate covenant-lite loans.⁵ Bird, Ertan, Karolyi, and Ruchti (2022) show that relationship lenders are less likely to forbear following covenant violations, consistent with lender holdup (Rajan, 1992). In the LBO setting, Ivashina and Kovner (2011) document that PE sponsors who have stronger relationships with banks obtain loans with looser maximum-debt-to-EBITDA covenants. We extend this literature to the tie between PE sponsor and the lender’s legal counsel, a key third party with specialized knowledge of covenant language and meaningful discretion over contract drafting. Whereas

⁵Li, Lu, and Srinivasan (2019) observe that the covenant benefits (in terms of covenant intensity and restrictiveness) provided by relationship banks diminish during borrower distress.

prior studies emphasize how relationships can mitigate information frictions or create hold-up within direct borrower–lender and sponsor–lender relationships, we identify a distinct third-party agency channel through which sponsor ties may weaken lender counsel’s incentives to negotiate for creditor protections.

We also contribute to the law and finance literature on the role of legal institutions and intermediaries in capital markets.⁶ Prior studies suggest that lawyers can reduce transaction frictions by certifying deal quality (e.g., Kraakman, 1986) and leveraging their information advantages (Gilson, 1984; de Fontenay, 2015, 2016). Yet theory also argues that lawyers’ incentives can be distorted when they have business relationships with counterparties of the clients they represent, creating potential conflicts of interest (e.g., Coates, 2001; Polinsky and Rubinfeld, 2003; Susskind, 2008; de Fontenay, 2015). Our evidence demonstrates that such incentive distortions are economically meaningful in leveraged lending: when lender counsel has strong ties to the sponsor, creditor protection weakens. Our analysis also provides the first large-sample empirical evidence on the designated lender counsel practice in LBOs, complementing the recent qualitative account in Hwang and Tuch (2026), who document through practitioner interviews the incentive structures and professional norms that help sustain this practice.

2. Institutional Background and Hypothesis Development

2.1. Designated Counsel and Incentive Conflict in LBOs

Covenants determine creditors’ ability to monitor borrowers and intervene when performance deteriorates or when borrowers take specified actions. In leveraged lending, covenant terms are embedded in credit agreements through a detailed drafting and negotiation process

⁶See studies examining the role of law firms in mergers and acquisitions (Krishnan and Masulis, 2013), venture capital (Cumming, Nguyen, Pham, and Truong, 2023), and initial public offerings (Beatty and Welch, 1996; Moran and Pandes, 2019).

in which transactional lawyers play a critical role (de Fontenay, 2015; Buccola and Hoffman, 2026).

In practice, a lead counsel is hired to represent the lead bank. The lead counsel typically prepares the credit documents, assists in negotiating their provisions, and conducts the legal review of the transaction (Ryan, 2009). Transactional law firms affect bargaining outcomes because repeated participation in similar transactions gives them private information about market precedent and the acceptable frontier of contractual provisions that their banking clients do not fully observe (de Fontenay, 2015). This informational advantage gives counsel meaningful discretion over the specificity and strength of individual provisions—discretion that is difficult for the retaining bank to monitor in real time.

These structural features take on added significance in PE-sponsored deals. Practitioners have long noted the designated lender counsel practice in these deals, in which the PE sponsor steers the selection of the law firm representing the lender and typically pays the law firm’s legal fees. The designated law firm depends on the sponsor not only for the current engagement but also for future designations, which bring follow-on work across amendments, recapitalizations, and add-on acquisitions. Practitioners note that law firms perceived as negotiating too aggressively risk exclusion from future designations, a disciplinary mechanism they call the “penalty box” (Hwang and Tuch, 2026). The concern is therefore straightforward: a law firm representing the lead bank may be less willing to negotiate aggressively for creditor protections if doing so could jeopardize its relationship with the PE sponsor.

The counsel-side incentive problem is reinforced by the bank-side incentives that allow it to operate. In the leveraged loan market, private equity sponsors are frequent sources of deal flow for banks as well. Banks compete intensely for lead arranger mandates, which generate underwriting fees, league table credit, and cross-selling opportunities, so refusing a sponsor’s preferred counsel risks losing the deal to a more accommodating competitor. In addition, when the lead bank expects to distribute a substantial portion of the loan to syndicate participants and institutional investors, its incentive to insist on the strongest

possible creditor protections may be attenuated (Wang and Xia, 2014; Bord and Santos, 2015; Billett et al., 2016).

Reputational concerns among law firms and banks may provide some discipline. Law firms that consistently produce deficient documentation risk losing credibility with the broader lending market, and banks that repeatedly accept weak protections may face resistance from investors in syndication. However, several factors likely limit the effectiveness of these checks. For law firms, commercial reputation is built primarily with sponsors, the source of designations, so the reputational incentive to maintain sponsor goodwill may dominate the incentive to maintain credibility with lenders. For banks, reputational discipline would require that syndicate participants observe the quality of legal negotiation effort, but much of this effort is unobservable to parties outside the drafting process.⁷ Prior studies also point out that sponsors have reputational concerns (e.g., Malenko and Malenko, 2015). However, commonly used empirical measures of PE reputation such as market share can also proxy bargaining power, making it less straightforward to test it in our setting.

2.2. Hypothesis Development

Given the above discussion, we develop the following testable hypotheses. The first hypothesis relates to lender law firm selection. If PE sponsors influence lender counsel selection, then law firms with stronger prior ties to the sponsor should be more likely to be chosen as lender counsel in the sponsor’s future LBO financings.

H1: *A stronger prior relationship between a PE sponsor and a law firm increases the likelihood that the law firm is selected as lender counsel in the sponsor’s LBO loan transactions.*

This hypothesis tests whether the sponsor shapes counsel selection beyond what bank and law firm matching would predict. Under the null that lead banks independently select

⁷For example, a covenant carve-out that reflects a genuine market concession looks identical to one that reflects underinvestment in negotiation.

their counsel, sponsor-law firm ties should carry no incremental predictive power once deal characteristics and other factors are held constant.

The second hypothesis relates to loan contract design. A lender law firm with close sponsor ties may be less inclined to negotiate aggressively for protective provisions that the sponsor would prefer to avoid. We focus on provisions where legal drafting discretion is most consequential: loan covenants, including dividend and payment restrictions, financial maintenance, and incurrence covenants, whose inclusion and calibration are actively negotiated.

H2: *Stronger PE-lender law firm relationships are associated with fewer covenants.*

Whether the use of relationship counsel harms creditors, however, is not obvious ex ante. An alternative view holds that familiarity between counsel and sponsor reduces information frictions in negotiation, producing more efficient contracting without sacrificing creditor protection. Under this view, fewer covenants would reflect easier screening, more efficient monitoring, or more streamlined execution. Distinguishing between the conflict-of-interest channel and the efficiency channel is therefore critical to our analysis.

The third hypothesis concerns the incentives of lead banks to accept these arrangements. If accommodating a sponsor's preferred lender counsel helps preserve the bank's relationship with the sponsor, then banks that do so should be rewarded with future deal flow. This prediction follows from prior work showing that existing relationships affect the allocation of financial mandates among intermediaries (Yasuda, 2005) and extends it to a setting in which the accommodation is not over deal terms themselves but over a procedural input—counsel selection.

H3: *Banks that accommodate a sponsor's preferred lender counsel are more likely to be included in the sponsor's subsequent LBO transactions.*

The fourth hypothesis relates to economic consequences and speaks to the welfare implications. If relationship lender counsel simply reflects smoother execution or better screening, the associated loans should carry lower spreads and should not perform worse ex post. By contrast, if the counsel channel weakens creditor protection and this is recognized by in-

vestors, we would expect higher spreads ex ante as compensation for the weaker contractual position. If those weaker protections also have real effects on borrower discipline, the same loans should exhibit poorer credit performance ex post. We test both implications:

H4a: *Stronger PE-lender law firm relationships are associated with higher loan spreads ex ante.*

H4b: *Stronger PE-lender law firm relationships are associated with higher ex post default and bankruptcy rates.*

3. Data Sources and Sample Construction

3.1. Sample Construction

We collect a sample of loan tranches from the LSEG DealScan database. We include loan tranches used to finance leveraged buyouts, syndicated in the United States, denominated in US dollars, obtained by US firms with a single private equity sponsor, and issued between January 1, 1995, and March 31, 2025. We also require lender law firm information to be non-missing from DealScan.⁸ We obtain borrower financial information from Compustat (Chava and Roberts, 2008). We exclude loans to financial borrowers (SIC Code 6000-6999) and utility borrowers (SIC Code 4899-5000). Following the literature (e.g., Demiroglu and James, 2010; Guo, Hotchkiss, and Song, 2011; Shive and Forster, 2024), we also exclude loans with missing borrowers' financial information at the end of the fiscal year prior to the LBO transactions. Therefore, our sample consists of public-to-private buyout transactions. These criteria leave us with 650 loan tranches.⁹ Our final baseline regression sample uses 432 observations at the loan tranche level with all non-missing regression variables and

⁸To precisely determine the one-to-one relationship between the PE sponsor and the lender law firm, we retain loan tranches involving a single PE sponsor and a single lender law firm. Among the loan tranches for which lender law firm information is available, only a small portion (3%) involve multiple lender law firms.

⁹We also conduct a test using private-to-private transactions (i.e., borrowers cannot be matched with Compustat). Our main results remain qualitatively similar. However, in this sample we are no longer able to control for borrower financial characteristics, which can give rise to potential omitted variable bias. Therefore, for subsequent analyses, we focus on the public-to-private transaction sample.

various fixed effects, with some minor variations in sample size depending on the regression specification used.

3.2. Key Variable Definitions

We follow the relationship banking literature (e.g., Bharath, Dahiya, Saunders, and Srinivasan, 2007, 2011; Ivashina and Kovner, 2011; Zhang, Zhang, and Zhao, 2024) and construct two measures of the relationship between a PE sponsor and a lender-side law firm.¹⁰ Our main measure, *RelationAmt_PELaw*, is calculated as the total dollar amount of loan tranches sponsored by the PE sponsor j over the past three years that involved the current lender-side law firm l , including cases in which the law firm previously acted on either the lender or the borrower side, divided by the total dollar amount of loan tranches sponsored by PE firm j over the same period.¹¹ We also construct a count-based measure, *RelationCount_PELaw*, for robustness checks. In additional robustness tests, we control for the law firm’s relationship with the lead bank and the PE sponsor’s prior relationship with the lead lender.¹² Because interactions between PE sponsors and law firms, as well as those between lenders and law firms, likely extend beyond LBO loans to other sponsored loan tranches, we calculate these relationship measures using the full sample of sponsored loan tranches.

3.3. Summary Statistics

We present summary statistics for the key variables in the baseline regression sample of 432 LBO loan tranches in Table 1. The key independent variable, *RelationAmt_PELaw*, has a mean value of 0.18. The mean values of profitability and leverage for borrowers are

¹⁰To identify unique law firms and calculate relationships, we manually check the merger history of each law firm.

¹¹In unreported robustness checks, we construct our relationship measures using five-year windows, and our baseline results remain qualitatively unchanged.

¹²A lender is defined as the lead bank if it is reported in DealScan as the administrative agent. If no lender is reported as the administrative agent, we define a lender that acts as the agent, arranger, book-runner, lead arranger, lead bank, or lead manager as the lead bank by following Ivashina (2009); Zhang, Zhang, and Zhao (2024).

0.14 and 0.32, respectively. The mean value of the modified Z-score is 1.48. The mean value of total assets is \$5.49 billion. Regarding loan-specific variables, the average value of *All-in-Spread-Drawn* is 398.71 basis points. The average loan amount is \$367.58 million. *Secured Dum* has a mean value of 92.4%, indicating that most loans in this sample are secured. *Maturity* has an average value of 70.54 months or approximately 6 years. Finally, the *LoanDefault_4 Years* and *Bankruptcy_4 Years* dummies have mean values of 0.024 and 0.016, respectively, suggesting that 2.4% of loan tranches in our sample default within four years of the loan tranche’s active date, and 1.6% of borrowers file for bankruptcy within four years.

4. Regression Results

4.1. PE-Law Firm Relationship and Lender Law Firm Selection

In this section, we investigate whether a stronger prior relationship between a PE sponsor and a law firm increases the likelihood that the law firm will be selected as legal counsel representing the lender in the current LBO financing. Following the method of Corwin and Schultz (2005) and Kuhnen (2009), we estimate a model at the loan tranche-eligible law firm level to explain lender law firm selection. For each loan, we create a list of eligible law firms from which lenders may choose. We define an eligible law firm as one that has participated in a U.S. syndicated lending transaction (representing either the borrower or the lender) in the three years preceding the current loan tranche issuance. Since each loan has multiple eligible law firm candidates, the complete-control sample contains 215,285 observations at the loan tranche-eligible law firm level. Using this sample, we estimate a linear probability regression as specified in Equation (1):

$$\begin{aligned}
 LenderLawFirm_Selection_{ilbt} = & \alpha + \beta_1 RelationAmt_PELaw_{ijl,t-1} + \gamma' X_{i,t-1} \\
 & + \delta' L_i + \text{Fixed Effects} + \varepsilon_{ilbt}
 \end{aligned} \tag{1}$$

where i , j , l , t and b stand for loan tranche, PE sponsor, law firm, year, and bank, respectively. The dependent variable $LenderLawFirm_Selection_{ilbt}$ takes the value of one if an eligible law firm l is chosen by the lender b in the loan tranche i . $RelationAmt_PELaw_{ijl,t-1}$ measures the prior relationship between PE sponsor j and eligible law firm l over the three years preceding loan tranche i . In this selection analysis, the variable is measured for each eligible law firm in the candidate set, rather than only for the law firm ultimately selected as lender counsel. Borrower financial characteristics ($X_{i,t-1}$), including *Profitability*, *MTB* (Market-to-Book), *MZscore*, *Log(Total Assets)*, *Asset Turnover*, *Cash Holding*, and *Leverage*, are measured at the end of the fiscal year preceding the loan issuance. Loan-level characteristics (L_i) include *Log (All-in-Spread-Drawn)*, *Log (LoanAmt)*, *Secured Dum*, *Log (Maturity)*, and *Performance Dum*. We include the borrower’s industry, year, lender, law firm, and PE sponsor fixed effects. We also control for loan type fixed effects to account for differences between term loans and revolvers (e.g., Ivashina and Kovner, 2011; Berlin, Nini, and Yu, 2020).¹³¹⁴

The regression results are reported in Table 2. In Column (1), the coefficient on the variable $RelationAmt_PELaw$ is 1.022 and is statistically significant at the one percent level. This result suggests that, all else equal, a strong PE-lender law firm relationship is associated with a significantly higher likelihood of the eligible law firm being selected as the lender-side law firm. In Column (2), we further include borrower financial characteristics and loan term characteristics as controls. The coefficient on $RelationAmt_PELaw$ remains positive and statistically significant, with a magnitude of 1.050. These findings suggest that PE sponsor–lender law firm relationships play an important role in lender counsel selection, even after accounting for time-invariant lender characteristics, law firm characteristics, loan

¹³Berlin, Nini, and Yu (2020) show that, while term loans can go covenant-lite, revolving credit lines in the same package almost always retain traditional financial covenants, if any. Therefore, it is important to use both revolvers and term loans when we examine covenants.

¹⁴In additional robustness tests reported in Online Appendix Table OA2, the positive association between $RelationAmt_PELaw$ and lender counsel selection remains after controlling for alternative relationship channels: the current lender’s prior relationship with the lender-side law firm and the PE sponsor’s prior relationship with the current lender.

type differences, PE sponsor heterogeneity, borrower financial characteristics, and loan terms. The result is consistent with the designated lender counsel practice.

4.2. *PE-Lender Law Firm Relationship and Loan Covenant Structure: Baseline Results*

Since a law firm with a closer relationship with the PE sponsor is more likely to be chosen as the lender’s law firm, this naturally raises concerns about whether this law firm can still impartially represent the lender’s interests when negotiating with the PE sponsor. To empirically examine how the PE-lender law firm relationship affects loan covenant design, we estimate the following regression:

$$\begin{aligned} \text{Covenant}_i = & \alpha + \beta_1 \text{RelationAmt_PELaw}_{ijl,t-1} + \gamma' X_{i,t-1} \\ & + \delta' L_i + \text{Fixed Effects} + \varepsilon_i \end{aligned} \quad (2)$$

where i, j, l, t and b stand for loan tranche, PE sponsor, law firm, year, and bank, respectively. In the equation, the dependent variable is either *Dividend Restriction_{it}*, which is a dummy variable that takes one if there is a dividend restriction in the loan tranche i , and zero otherwise, or one of three covenant-count measures: *Number of Maintenance Covenants*, *Number of Incurrence Covenants*, or *Number of All Covenants* in the loan tranche i . Borrower financial characteristics ($X_{i,t-1}$), including *Profitability*, *MTB*, *MZscore*, *Log(Total Assets)*, *Asset Turnover*, *Cash Holding*, and *Leverage*, are measured at the end of the fiscal year preceding the loan issuance. Loan-level characteristics (L_i) include *Log (All-in-Spread-Drawn)*, *Log (LoanAmt)*, *Secured Dum*, *Log (Maturity)*, and *Performance Dum*. We also include the borrower’s industry, year, lender, law firm, loan type, and PE fixed effects. We report the adjusted within-R-squared to demonstrate that our model’s explanatory power is not attributable solely to the fixed effects (Breuer and deHaan, 2024).

We report the estimation results in Table 3. Column (1) examines the impact of the PE-lender law firm relationship on the likelihood of imposing dividend payout restrictions.

The coefficient on *RelationAmt_PELaw* is statistically significant and negative at the one percent level. Economically, a one-standard-deviation increase in *RelationAmt_PELaw* decreases the likelihood of imposing dividend restrictions by 11.68 percentage points (0.444×0.263). Columns (2) to (4) of Table 3 show the impact of the PE-lender law firm relationship on the number of different covenants. The coefficients on *RelationAmt_PELaw* are all negative and statistically significant across the columns. In Column (2), all else equal, a one-standard-deviation increase in *RelationAmt_PELaw* is associated with a reduction of 0.5 (1.907×0.263) in the number of maintenance covenants, which represents approximately 59% of the standard deviation of the dependent variable. In Column (3), the number of incurrence covenants decreases by 0.9 (or 24.8% of its standard deviation) with a one-standard-deviation increase in *RelationAmt_PELaw*. In Column (4), a one-standard-deviation increase in *RelationAmt_PELaw* leads to a decrease in the number of all covenants by 1.4 (or 32% of its standard deviation).^{15 16}

A potential concern with the above finding is that the PE-lender law firm relationship proxies for a PE sponsor’s overall experience/ability to find a strong law firm, rather than capturing a quid pro quo mechanism through which the PE-lender law firm relationship alters the law firm’s bargaining incentive. For example, PE sponsors that frequently use the same lender counsel may also be sponsors who do more deals. Although we have controlled for sponsor fixed effects, deal experience is still arguably time varying. To address this concern, we conduct a falsification test by replacing the PE-lender law firm relationship

¹⁵In additional robustness tests reported in Online Appendix Table OA3, we further control for two alternative relationship channels: the current lender’s prior relationship with the lender-side law firm and the PE sponsor’s prior relationship with the current lender. The coefficient on *RelationAmt_PELaw* remains negative and statistically significant across all covenant measures.

¹⁶The findings remain robust if we use the logarithmic forms of the number of all covenants as dependent variables for Columns (2) to (4). As a robustness check, we replace *RelationAmt_PELaw* with *RelationCount_PELaw*, a count-based measure of the prior relationship between PE sponsor j and the current lender-side law firm l . Specifically, *RelationCount_PELaw* is calculated as the number of loan tranches sponsored by PE sponsor j over the past three years in which law firm l was involved, either as lender counsel or borrower counsel, divided by the total number of loan tranches sponsored by PE sponsor j over the same three-year period. The baseline results on law firm selection and covenants are qualitatively similar. To save space, these results are not reported but are available upon request.

with a PE–borrower law firm relationship. Since PE–borrower law firm relationship intensity equally reflects the sponsor’s deal experience, if our main findings were driven by PE sponsor experience, we would expect the borrower-side relationship to have similar impacts on covenants. In contrast, we find no such effect: the PE–borrower law firm relationship has no significant impact on covenants (Table OA4).

4.3. PE-Lender Law Firm Relationship, Reputational Concern, and Covenant Design

In this section, we examine whether the impact of PE-law firm relationships varies with the reputational concerns of the law firm and lender. A law firm with a larger market share should face greater reputational costs and rely less heavily on a few major clients, potentially enabling it to alleviate the influence of PE sponsors on covenant design (Gilson and Mnookin, 1984; Schneyer, 1991; Krishnan and Masulis, 2013). We follow Krishnan and Masulis (2013) and construct the lender law firm market share, *MarketShare_Law*, defined as the total dollar volume of LBO loans represented by a given law firm over the previous three years divided by the total dollar volume of LBO loans in our sample during the same period. The estimation results are presented in Panel A of Table 4. The interactions between *MarketShare_Law* and the PE-lender law firm relationship in Columns (2) to (4) are all positive and statistically significant at the one percent level. The coefficient of the interaction term in Column (1) also has a positive sign, albeit insignificant. These results indicate that larger lender-side law firms alleviate the negative effect of PE–lender law firm relationships on covenant protection.

Next, we examine whether the impact of PE–lender law firm relationships on covenant design is attenuated by lender reputation. Following Rau (2000) and Bao and Edmans (2011), we measure the market share of lenders, *MarketShare_Lender*, as the total dollar volume of loans issued by a lender over the previous three years divided by the overall dollar volume of sponsored loans in our sample during the same period. We then include an interaction term between *RelationAmt_PELaw* and *MarketShare_Lender* in Equation (2). The estimation

results are reported in Panel B of Table 4. Across Columns (1) to (4), we observe that the coefficients on the interaction term are all positive and statistically significant. These positive interaction coefficients imply that stronger lender market prominence alleviates the influence of PE–lender law firm relationships on covenant weakening.

4.4. Addressing the Potential Endogeneity of PE-Lender Law Relationship

4.4.1. Two-Stage Least Squares (2SLS) Regression

In this section, we try to further address the potential endogeneity of the PE-lender law firm relationship. It is possible that unobserved factors affect both the covenant terms and the PE-lender law firm relationship, creating a classic omitted variable bias. For instance, it could be that a PE sponsor tends to recommend its relationship law firms in cases where the target companies are less risky. If so, it is the unobservable quality of the target firms that drives our results.

We first use an instrumental variable (IV) approach. The IV we use is the logarithm of one plus the distance (in kilometers) between the cities in which the PE sponsor and lender law firm are headquartered. Extensive research has demonstrated the crucial role of geographical distance in the development and maintenance of law firm–client relationships by improving communication efficiency (e.g., Henderson and Galanter, 2008; Henderson and Alderson, 2016; de Fontenay, 2016).¹⁷ We therefore expect a negative association between PE-lender law firm geographical distance and PE-lender law firm relationship. Our conversations with legal professionals suggest that, even though many law firms also have regional offices, the head office always has the law firm’s most senior and specialized lawyers. When a major high-profile deal such as a large LBO is involved, the lawyers at the head office are typically heavily

¹⁷To address concerns that the impact of geographic distance on PE-lender law firm relationships may have been further mitigated by virtual technologies in recent years, we used our pre-COVID sample to run the 2SLS regression. The results remain robust.

involved, if not leading the transaction.¹⁸ Furthermore, since PE/law firm headquarters-location decisions were made many years ago, when the organizations were founded, the geographical distance is unlikely to directly affect today’s covenant terms under negotiation through channels other than fostering a PE-lender law firm relationship.

We present the 2SLS regression in Table 5. Column (1) reports the first-stage regression results. The coefficient on the IV (*Distance_PELaw*) is negative and statistically significant at the one percent level, confirming that the farther away a PE sponsor is from a law firm, the weaker is the transaction relationship between the two. In the second-stage regressions reported in Columns (2) to (5), we show that the impacts of the instrumented measure of PE-lender law firm relationships on the dividend covenant dummy, the number of maintenance covenants, the number of incurrence covenants, and the total number of all covenants are broadly similar to the baseline results.¹⁹ The Cragg-Donald Wald F statistic rejects the null hypothesis of a weak instrument.

4.4.2. A Quasi-Natural Experiment

In another test, we exploit the publication of Andrew Ross Sorkin’s article “*A Growing Conflict in Wall St. Buyouts*” in *The New York Times* on January 4, 2016, as an exogenous shock to public awareness of the PE-lender law firm relationship. In this article, Sorkin, a highly influential financial journalist and co-anchor of CNBC’s *Squawk Box*, highlighted the “designated law firm” practice in the LBO loan market and raised concerns about potential creditor exploitation. The article triggered substantial follow-up press coverage and public

¹⁸For a key deal such as an LBO, the law firm would want to ensure that the best possible resources and expertise are brought to bear. Even if a regional office has some involvement, the head office would likely oversee the deal to ensure all aspects are handled with the highest level of competence. Lawyers from local offices may contribute local knowledge or handle certain aspects of the deal such as specific local jurisdictions or regulatory issues under the guidance of the head office team.

¹⁹Because lenders may be located in the same city as sponsors, such as New York City, *Distance_PELaw* could be correlated with lender-law firm relationships. In Table OA7, we demonstrate that the instrument is not systematically related to the lender-law firm relationship. This result helps alleviate the concern that the instrument affects covenant design indirectly through lender-law firm relationships, thereby further supporting the exclusion restriction.

debate. Because the publication was arguably unexpected and directly targeted this specific market practice, we use it as an exogenous shock that increases public scrutiny of this issue. We expect that rising public attention discourages the use of designated law firms, in particular among sponsors that had previously relied on designated law firms more often in their past transactions.

Specifically, we employ a difference-in-differences (DiD) framework to examine how the designated law firm practice changes and its impact on covenant terms before and after the January 4, 2016, news shock. We create two variables, *NYTShock* and *HighRelationship_Group*. *NYTShock* is a dummy variable that takes one if the loan tranche is issued after January 4, 2016, and zero otherwise. *HighRelationship_Group* is a dummy variable that takes a value of one if PE sponsor j belongs to the group of PE firms with stronger PE-lender law firm relationships prior to the shock, and zero otherwise. We classify a PE sponsor as having stronger PE-lender law firm relationships if the median of its pre-2016 *RelationAmt_PELaw* exceeds the median of *RelationAmt_PELaw* of all loan tranches issued pre-2016. We then create an interaction term, $NYTShock \times HighRelationship_Group$, to test whether PE sponsors with previously strong PE-lender law firm ties alter their behavior in covenant negotiations following the shock.

We report the estimation results in Table 6. We begin by validating our identification strategy by showing that the news shock decreases PE-lender law firm relationships. In Column (1), where the dependent variable is *RelationAmt_PELaw*, we find that the coefficient on the interaction term $NYTShock \times HighRelationship_Group$ is negative and statistically significant at the one percent level. This result suggests that PE sponsors with stronger pre-shock law firm relationships substantially reduced their reliance on relationship law firms after the shock.

In Columns (2) to (5), we estimate the shock's impacts on covenant restrictions. All coefficients on the interaction term $NYTShock \times HighRelationship_Group$ are positive and

significant.²⁰ These results imply that the post-shock decline in PE-lender law firm relationships among high-relationship sponsors is accompanied by relatively tighter covenant terms. In other words, the decline in the use of relationship law firms among these PE sponsors after the shock leads to a relative increase in covenants in their buyout loans, reaffirming our baseline findings.

4.5. PE-Lender Law Firm Relationship and Participation in the Sponsor's Next Deal

In this section, we shed light on one incentive for banks to agree to use a sponsor's relationship law firm: banks accept the relationship law firms of PE sponsors in exchange for subsequent business opportunities from the sponsors. Prior studies document similar reciprocal arrangements among financial market participants (e.g., Petersen and Rajan, 1994, 1995; Boot and Thakor, 1994, 2000; Fang, Ivashina, and Lerner, 2013). We estimate the following model to examine whether banks that use a PE sponsor's relationship law firm are more likely to be included in the next transaction of the PE sponsor:

$$\begin{aligned} \text{Next Lender Choice}_{ijb} = & \alpha + \beta_1 \text{RelationAmt_PELaw}_{ijl,t-1} \\ & + \text{Controls}_{ijlb,t-1} + \text{Fixed Effects} + \varepsilon_{ijb} \end{aligned} \quad (3)$$

where the dependent variable is *Next Lender Choice*_{ijb}, which takes a value of one if the lead bank *b* of the current loan *i* is in the syndicate (either as the lead bank or as a participant bank) of the same PE sponsor *j*'s next loan and zero otherwise.²¹ The main independent variable, *RelationAmt_PELaw*_{ijl,t-1}, measures the prior relationship between PE sponsor *j* and the lender law firm *l* in the current loan tranche. The regressions also

²⁰The difference-in-differences design passes the parallel-trends tests, which are reported in Table OA5.

²¹In the main specification, a sponsor's final observed deal and any deal with no observed subsequent deal are coded zero. In untabulated tests, we restrict the sample to observations with an observable subsequent sponsor deal (i.e., excluding these censored observations); the results are qualitatively unchanged.

include the same borrower and loan-level characteristics as in Equation (2), as well as the same set of fixed effects.

We report our estimation results in Table 7. In Column (1), the coefficient on *RelationAmt_PELaw* is positive and statistically significant at the one percent level. This finding indicates that a lead bank that uses a PE sponsor’s relationship law firm in the current LBO transaction is more likely to participate in this PE sponsor’s next deal, suggesting a reciprocal arrangement. Columns (2) and (3) further examine whether the future mandate benefit associated with using a sponsor’s relationship law firm depends on the extent to which the current loan contains weaker covenant protection. If the reciprocal arrangement interpretation is correct, the lead bank should be more likely to receive future business when the use of sponsor-connected lender counsel is indeed accompanied by looser covenant protection. In Column (2), we include the total number of covenants and its interaction with *RelationAmt_PELaw*. The coefficient on *RelationAmt_PELaw* remains positive and statistically significant, and the interaction term is negative but insignificant. In Column (3), we replace the continuous covenant measure with *High_Num_AllCovenants*, a dummy variable that equals one if the loan’s number of all covenants is above the 75th percentile of the sample distribution (i.e., the top quartile), and zero otherwise. The coefficient on *RelationAmt_PELaw* is still positive and statistically significant, and the interaction term between *RelationAmt_PELaw* and *High_Num_AllCovenants* is negative and statistically significant. This result suggests that lenders appear to be less likely to receive future mandates when they use a sponsor’s relationship law firm but do not accommodate the sponsor through looser covenant protection. This evidence is consistent with the reciprocal arrangement interpretation.

4.6. PE-Lender Law Firm Relationship and Economic Consequences

The next important question is how loan investors perceive PE-lender law firm ties and whether these relationships are associated with real outcomes. On the one hand, PE-lender

law firm relationships may proxy for unobservable PE sponsor experience, superior borrower quality, or more efficient contract negotiation. If so, we should expect to see lower loan spreads and no deterioration in ex post credit performance. On the other hand, if loan investors view the PE-lender law firm relationship as a manifestation of conflicts of interest that weaken creditor protections, they should demand higher spreads as compensation. Moreover, if the weakened covenant protection has real consequences for borrower discipline and creditor monitoring, these loans should also exhibit higher default and bankruptcy risk ex post.²²

Table 8 provides evidence consistent with the latter view. In Column (1), the dependent variable in the regression is *Log (All-in-Spread-Drawn)*. The result shows that loans with a closer PE-lender law firm relationship have higher spreads. Economically, a one-standard-deviation increase in PE-lender law firm relationship is associated with an increase in the loan spread equal to approximately 55.8% of its standard deviation. Evaluated at the average loan size (\$367.58 million) and assuming non-amortization, this corresponds to an approximate increase of \$3.87 million in the borrower’s annual interest expense. Columns (2) and (3) examine ex post credit outcomes. In Column (2), the dependent variable is *LoanDefault_4Years*, a dummy variable that equals one if the loan defaults within four years of the loan tranche’s active date, and zero otherwise. The coefficient on *RelationAmt_PELaw* is positive and statistically significant, indicating that loans involving stronger PE-lender law firm relationships are more likely to default within four years. Economically, a one-standard-deviation increase in *RelationAmt_PELaw* corresponds to a 9.5 percentage point increase in the likelihood of default within four years. In Column (3), the dependent variable is *Bankruptcy_4Years*, a dummy variable that equals one if the borrower files for bankruptcy within four years of the loan tranche’s active date, and zero otherwise. The coefficient on *RelationAmt_PELaw* is again positive and statistically significant. Economically, a one-

²²We obtain loan-level default information from PitchBook. Because PitchBook reports default information only for institutional tranches, the loan default analysis uses the subsample of term loans.

standard-deviation increase in *RelationAmt_PELaw* corresponds to a 7.1 percentage point increase in the likelihood of bankruptcy within four years. Notably, both columns control for *Log(All-in-Spread-Drawn)*, suggesting that PE-lender law firm relationships contain information about subsequent credit deterioration that is not fully captured by ex ante loan pricing.²³

These findings do not support the view that sponsor-connected lender counsel enhances contracting efficiency or reflects better borrower fundamentals. Instead, the higher spreads demanded by loan investors are more consistent with investors recognizing the potential credit risk arising from PE sponsors' influence over lender counsel and the associated weakening of covenant protection. At the same time, the positive association with subsequent default and bankruptcy suggests that ex ante pricing may not fully compensate investors for the elevated credit risk associated with these loans.

5. Conclusion

How PE sponsors shape debt contracting in LBOs and affect creditor interests is a key question in the buyout literature. In this paper, we document that PE sponsors have significant influence over lender law firm selection and that relationships between PE sponsors and lender-side law firms have important implications for loan covenant design. Specifically, we find that stronger PE-lender law firm relationships predict a lower likelihood of including dividend restrictions and fewer maintenance, incurrence, and total covenants. These findings are robust when we instrument the relationship using geographic distance between PE sponsors and law firms and when we use a difference-in-differences design that exploits an exogenous increase in public scrutiny of designated counsel arrangements.

²³We also conduct robustness checks by excluding loan tranches issued after 2021 from the regressions in Columns (2) and (3) of Table 8. This adjustment ensures that each loan tranche has at least four years of post-issuance observation, allowing us to assess the effect of PE-lender law firm relationships on the likelihood of default and bankruptcy within four years. The estimation results remain qualitatively unchanged after imposing this restriction.

We further show that loan investors appear to demand compensation for these potential conflicts through wider spreads. However, the PE-lender law firm relationship remains a significant predictor of ex post default and bankruptcy even after controlling for spreads, suggesting that the ex ante loan pricing may not fully capture the credit risk embedded in weakened covenants. Ultimately, the higher borrowing costs are borne by the underlying portfolio companies, implying a real economic cost.

Taken together, our results shed light on conflicts of interest in the designated counsel arrangements and their real effects on contracting outcomes. Our findings also reveal an agency problem on the part of lead banks in today's buyout loan market. Lead banks increasingly depend on PE sponsors for deal flow and, under the originate-to-distribute model, retain limited exposure to the loans they originate. These incentives may make banks more willing to cede control over the designation of lender counsel. Our paper suggests that policies or regulations that better align lead banks' interests with those of loan investors and strengthen the independence of lender counsel could have meaningful welfare implications for credit markets.

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Table 1. Summary Statistics

This table presents the descriptive statistics of the variables used in the analysis. It includes the number of observations (N), mean, standard deviation (SD), and the percentile values (p1, p25, p50, p75, p99) for each variable. The variables include PE-lender law firm relationship (*RelationAmt_PELaw*). In addition, we have borrower financial information (*Profitability*; *MTB*; *MZscore*; *Log (Total Assets)*; *Total Assets (\$billion)*; *Asset Turnover*; *Cash Holding*; *Leverage*; *Bankruptcy_4 Years*) and loan terms (*Log (All-in-Spread-Drawn)*; *All-in-Spread-Drawn (bps)*; *Log (LoanAmt)*; *LoanAmt (\$million)*; *Secured Dum*; *Log (Maturity)*; *Maturity (Months)*; *Performance Dum*; *Dividend Restriction*; *Number of Maintenance Covenants*; *Number of Incurrence Covenants*; *Number of All Covenants*). In addition, we have a term-loan-tranche-level variable (*LoanDefault_4 Years*). The detailed definitions of variables are provided in Appendix A.

Variables	N	Mean	SD	p1	p25	p50	p75	p99
<i>RelationAmt_PELaw</i>	432	0.178	0.263	0.000	0.000	0.000	0.266	1.000
<i>Profitability</i>	432	0.135	0.086	-0.036	0.092	0.119	0.170	0.496
<i>MTB</i>	432	1.450	0.874	0.401	0.940	1.150	1.775	5.325
<i>MZscore</i>	432	1.476	1.418	-5.520	0.715	1.408	2.319	4.780
<i>Log (Total Assets)</i>	432	7.308	1.385	4.526	6.298	7.241	7.984	11.196
<i>Total Assets (\$billion)</i>	432	5.489	19.108	0.092	0.544	1.396	2.935	72.861
<i>Asset Turnover</i>	432	1.068	0.756	0.138	0.565	0.852	1.302	3.962
<i>Cash Holding</i>	432	0.121	0.140	0.000	0.026	0.074	0.152	0.705
<i>Leverage</i>	432	0.319	0.239	0.000	0.110	0.289	0.474	0.933
<i>Log (All-in-Spread-Drawn)</i>	432	5.879	0.473	4.828	5.521	5.927	6.215	6.830
<i>All-in-Spread-Drawn (bps)</i>	432	398.711	189.044	125.000	250.000	375.000	500.000	925.000
<i>Log (LoanAmt)</i>	432	5.177	1.300	2.303	4.317	5.254	6.215	7.456
<i>LoanAmt (\$million)</i>	432	367.579	443.244	10.000	75.000	191.250	500.000	1730.000
<i>Secured Dum</i>	432	0.924	0.266	0.000	1.000	1.000	1.000	1.000
<i>Log (Maturity)</i>	432	4.207	0.373	2.485	4.094	4.277	4.431	4.564
<i>Maturity (Months)</i>	432	70.544	16.846	12.000	60.000	72.000	84.000	96.000
<i>Performance Dum</i>	432	0.222	0.416	0.000	0.000	0.000	0.000	1.000
<i>Dividend Restriction</i>	432	0.312	0.464	0.000	0.000	0.000	1.000	1.000
<i>Number of Maintenance Covenants</i>	432	0.530	0.845	0.000	0.000	0.000	1.000	3.000
<i>Number of Incurrence Covenants</i>	432	2.426	3.649	0.000	0.000	0.000	5.000	10.000
<i>Number of All Covenants</i>	432	2.956	4.389	0.000	0.000	0.000	6.000	12.000
<i>LoanDefault_4 Years</i>	247	0.024	0.154	0.000	0.000	0.000	0.000	1.000
<i>Bankruptcy_4 Years</i>	432	0.016	0.126	0.000	0.000	0.000	0.000	1.000
<i>High_RelationAmt_LenderLaw</i>	432	0.512	0.500	0.000	0.000	1.000	1.000	1.000

Table 2. PE-Lender Law Firm Relationship and Lender Law Firm Selection

This table presents the results from OLS regression models examining the influence of relationships between PE firms and law firms on the selection of lender law firms. The dependent variable, *LenderLawFirm_Selection*, is a dummy that takes the value of one if an eligible law firm l is selected as the lender law firm in loan tranche i , and zero otherwise. The main variable of interest is the prior relationship between the PE sponsor j and law firm l (*RelationAmt_PELaw*) in loan tranche i . Control variables include *Profitability*, *MTB*, *MZscore*, *Log (Total Assets)*, *Asset Turnover*, *Cash Holding*, *Leverage*, *Log (All-in-Spread-Drawn)*, *Log (LoanAmt)*, and *Log (Maturity)*. We also include dummy variables for *Secured Dum* and *Performance Dum*. Each regression model includes fixed effects for industry, year, lender, law firm, loan type, and PE Standard errors are clustered at the tranche level and are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) <i>LenderLawFirm_Selection</i>	(2) <i>LenderLawFirm_Selection</i>
<i>RelationAmt_PELaw</i>	1.022*** (0.119)	1.050*** (0.144)
<i>Profitability</i>		-0.308* (0.160)
<i>MTB</i>		0.038 (0.027)
<i>MZscore</i>		-0.025* (0.014)
<i>Log (Total Assets)</i>		-0.037*** (0.011)
<i>Asset Turnover</i>		-0.040* (0.023)
<i>Cash Holding</i>		-0.179 (0.149)
<i>Leverage</i>		-0.055 (0.077)
<i>Log (All-in-Spread-Drawn)</i>		-0.018*** (0.006)
<i>Log (LoanAmt)</i>		-0.006** (0.002)
<i>Secured Dum</i>		-0.030** (0.013)
<i>Log (Maturity)</i>		0.005 (0.008)
<i>Performance Dum</i>		0.012* (0.007)
Observations	319,551	215,285
Adjusted Within R-squared	0.006	0.006
Fixed Effects	YES	YES

Table 3. PE-Lender Law Firm Relationship and Loan Covenants

This table displays the estimation results from OLS regression analyses investigating the effect of PE-Lender law firm relationships on the likelihood of imposing dividend restrictions and the number of different covenants in credit agreements. Columns (1) to (4) are four different models specified with the dependent variables being *Dividend Restriction*, *The Number of Maintenance Covenants*, *The Number of Incurrence Covenants*, and *The Number of All Covenants*, respectively. The independent variable is the prior relationship between the PE sponsor j and lender law firm l (*RelationAmt_PELaw*) in loan tranche i . The models also control for borrower characteristics including *Profitability*, *MTB*, *MZscore*, *Log (Total Assets)*, *Asset Turnover*, *Cash Holding*, and *Leverage*. We also control for loan characteristics including *Log (All-in-Spread-Drawn)*, *Log (LoanAmt)*, *Secured Dum*, *Log (Maturity)*, and *Performance Dum*. Each regression model includes fixed effects for industry, year, lender, law firm, loan type, and PE. Standard errors, clustered at the PE sponsor level, are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) <i>Dividend Restriction</i>	(2) <i>The Number of Maintenance Covenants</i>	(3) <i>The Number of Incurrence Covenants</i>	(4) <i>The Number of All Covenants</i>
<i>RelationAmt_PELaw</i>	-0.444* (0.260)	-1.907*** (0.689)	-3.434*** (0.818)	-5.341*** (1.469)
<i>Profitability</i>	3.909*** (0.882)	7.451*** (2.249)	27.817*** (2.770)	35.268*** (4.905)
<i>MTB</i>	0.314 (0.223)	1.391** (0.575)	2.277*** (0.692)	3.668*** (1.241)
<i>MZscore</i>	-0.240*** (0.082)	-0.433** (0.215)	-1.923*** (0.259)	-2.356*** (0.463)
<i>Log (Total Assets)</i>	-0.075 (0.050)	0.030 (0.130)	0.272** (0.122)	0.303 (0.236)
<i>Asset Turnover</i>	0.527** (0.235)	1.823*** (0.634)	6.066*** (0.648)	7.889*** (1.226)
<i>Cash Holding</i>	0.640 (0.876)	-0.907 (2.316)	2.766 (2.610)	1.858 (4.827)
<i>Leverage</i>	3.102*** (0.330)	3.531*** (0.662)	11.462*** (0.717)	14.993*** (1.334)
<i>Log (All-in-Spread-Drawn)</i>	-0.002 (0.006)	-0.027 (0.033)	-0.059 (0.101)	-0.086 (0.133)
<i>Log (LoanAmt)</i>	-0.008 (0.005)	-0.016 (0.013)	-0.028 (0.022)	-0.044 (0.031)
<i>Secured Dum</i>	-0.036* (0.020)	-0.026 (0.070)	0.096 (0.159)	0.070 (0.218)
<i>Log (Maturity)</i>	0.020 (0.016)	0.071 (0.078)	0.223 (0.216)	0.294 (0.286)
<i>Performance Dum</i>	0.024* (0.013)	0.118** (0.053)	0.133 (0.118)	0.251* (0.144)
Observations	432	432	432	432
Adjusted Within R-squared	0.883	0.545	0.825	0.827
Fixed Effects	YES	YES	YES	YES

Table 4. Market Prominence and the Impact of PE-Lender Law Firm Relationship on Covenants

This table examines whether the impact of PE-Lender law firm relationships on various types of covenant restrictions is mitigated by the market prominence of the lender's law firm (Panel A) and lender (Panel B). Columns (1) to (4) represent four different models, each specified with different dependent variables: *Dividend Restriction*, *The Number of Maintenance Covenants*, *The Number of Incurrence Covenants*, and *The Number of All Covenants*. The independent variable of interest is the interaction term *RelationAmt_PELaw*×*MarketShare_Law* in Panel A and *RelationAmt_PELaw*×*MarketShare_Lender* in Panel B. *MarketShare_Law* is defined as the market share of a lender law firm, calculated by dividing the total dollar volume of LBO loans handled by the lender law firm over the past three years by the overall dollar volume of LBO loans in our sample during the same period. *MarketShare_Lender* is defined as the market share of a lender, calculated by dividing the total dollar volume of loans issued by the lender over the past three years by the overall dollar volume of LBO loans in our sample during the same period. Both market share variables are expressed on a 0–100 percentage scale, such that a value of 10 denotes a 10% market share. Accordingly, the coefficient on each interaction term measures the change in the marginal effect of the PE-Lender law firm relationship on covenant restrictions associated with a one-percentage-point increase in the corresponding market share. The models control for firm characteristics such as profitability, market to book ratio (*MTB*), modified Z score (*MZscore*), firm size (*Log (Total Assets)*), asset turnover ratio (*Asset Turnover*), cash holding ratio (*Cash Holding*), and leverage. We also control for loan-level characteristics, including *Log (All-in-Spread-Drawn)*, *Log (LoanAmt)*, *Log (Maturity)*, and dummy variables for secured loans (*Secured Dum*) and performance pricing (*Performance Dum*). Each regression model includes fixed effects for industry, year, lender, law firm, loan type, and PE. Standard errors, clustered at the PE sponsor level, are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) <i>Dividend Restriction</i>	(2) <i>The Number of Maintenance Covenants</i>	(3) <i>The Number of Incurrence Covenants</i>	(4) <i>The Number of All Covenants</i>
Panel A: Market Prominence of the Lender's Law Firm				
<i>RelationAmt_PELaw</i>	-0.819 (0.611)	-5.284*** (1.194)	-9.790*** (1.866)	-15.074*** (2.972)
<i>RelationAmt_PELaw</i> × <i>MarketShare_Law</i>	0.016 (0.022)	0.137*** (0.042)	0.253*** (0.068)	0.390*** (0.106)
<i>MarketShare_Law</i>	0.015 (0.026)	0.022 (0.041)	-0.092 (0.059)	-0.070 (0.100)
Observations	427	427	427	427
Adjusted Within R-squared	0.896	0.630	0.843	0.863
Controls	YES	YES	YES	YES
Fixed Effects	YES	YES	YES	YES
Panel B: Market Prominence of the Lender				
<i>RelationAmt_PELaw</i>	-2.940** (1.370)	-6.108*** (1.578)	-8.811*** (3.025)	-14.919*** (4.433)
<i>RelationAmt_PELaw</i> × <i>MarketShare_Lender</i>	0.284** (0.139)	0.498*** (0.164)	0.624* (0.345)	1.123** (0.492)
<i>MarketShare_Lender</i>	-0.048 (0.037)	-0.026 (0.042)	-0.071 (0.095)	-0.097 (0.135)
Observations	432	432	432	432
Adjusted Within R-squared	0.926	0.636	0.839	0.862
Controls	YES	YES	YES	YES
Fixed Effects	YES	YES	YES	YES

Table 5. Two-Stage Least Squares (2SLS) Regression

This table reports the results of a 2SLS regression analysis that evaluates the impact of prior relationships between PE firms and lender law firms on various loan contract covenants. The first column presents the first-stage result, where *Distance_PELaw* is the logarithm of one plus the distance (in kilometers) between the PE sponsor's headquarters and the lender law firm's headquarters. The subsequent columns present the second-stage analyses, where the variable of interest is *RelationAmt_PELaw*. Definitions of the control variables can be found in Appendix A. Fixed effects for industry, year, lender, law firm, loan type, and PE are included. Standard errors are clustered at the PE sponsor level and are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) <i>RelationAmt_ PELaw</i>	(2) <i>Dividend Restriction</i>	(3) <i>The Number of Maintenance Covenants</i>	(4) <i>The Number of Incurrence Covenants</i>	(5) <i>The Number of All Covenants</i>
<i>Distance_PELaw</i>	-0.858*** (0.156)				
<i>RelationAmt_PELaw</i>		-1.673** (0.705)	-5.308*** (1.167)	-5.720*** (1.363)	-11.027*** (2.445)
<i>Profitability</i>	2.316*** (0.289)	5.712*** (0.975)	12.437*** (2.219)	31.169*** (2.815)	43.606*** (4.814)
<i>MTB</i>	0.398*** (0.090)	0.450* (0.267)	1.766** (0.710)	2.529*** (0.761)	4.295*** (1.434)
<i>MZscore</i>	0.053 (0.080)	-0.130 (0.168)	-0.130 (0.456)	-1.719*** (0.367)	-1.849** (0.814)
<i>Log (Total Assets)</i>	0.326*** (0.072)	0.048 (0.100)	0.370 (0.226)	0.501** (0.203)	0.870** (0.415)
<i>Asset Turnover</i>	0.469** (0.191)	0.753** (0.319)	2.449*** (0.848)	6.487*** (0.753)	8.935*** (1.531)
<i>Cash Holding</i>	-1.065* (0.580)	0.247 (1.371)	-1.994 (3.732)	2.035 (3.379)	0.041 (6.997)
<i>Leverage</i>	-1.136*** (0.318)	2.733*** (0.533)	2.509** (1.056)	10.775*** (1.129)	13.283*** (2.169)
<i>Log (All-in-Spread-Drawn)</i>	0.011 (0.008)	0.016 (0.014)	0.021 (0.051)	-0.027 (0.108)	-0.006 (0.153)
<i>Log (LoanAmt)</i>	0.001 (0.001)	-0.002 (0.002)	0.002 (0.011)	-0.016 (0.019)	-0.014 (0.025)
<i>Secured Dum</i>	-0.002 (0.004)	-0.019* (0.011)	0.021 (0.070)	0.128 (0.164)	0.149 (0.226)
<i>Log (Maturity)</i>	-0.011 (0.009)	0.003 (0.018)	0.022 (0.091)	0.190 (0.224)	0.212 (0.308)
<i>Performance Dum</i>	-0.007 (0.005)	-0.001 (0.012)	0.049 (0.041)	0.087 (0.110)	0.136 (0.114)
Observations	432	432	432	432	432
Cragg-Donald Wald F statistic		126.866	126.866	126.866	126.866
Kleibergen-Paap rk Wald F statistic		30.142	30.142	30.142	30.142
Fixed Effects	YES	YES	YES	YES	YES

Table 6. New York Times Article as an Exogenous Shock

This table shows the impact of *NYTShock*, an exogenous shock marked by the New York Times article on January 4, 2016, on PE-Lender Law Firm relationships and loan contract covenants. *NYTShock* is a dummy variable set to one for loan tranches activated after this date. *HighRelationship_Group* is another dummy variable that equals one for PE sponsors with stronger PE-Lender Law Firm relationships prior to the shock, and zero otherwise. The table assesses the interaction between *NYTShock* and *HighRelationship_Group*, controlling for firm and loan characteristics with fixed effects for industry, lender, law firm, and loan type. Standard errors are clustered at the PE sponsor level and are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) <i>RelationAmt_ PELaw</i>	(2) <i>Dividend Restriction</i>	(3) <i>The Number of Mainte- nance Covenants</i>	(4) <i>The Number of Incurrence Covenants</i>	(5) <i>The Number of All Covenants</i>
<i>NYTShock</i> × <i>HighRelationship_Group</i>	-0.403*** (0.152)	0.549*** (0.168)	0.842*** (0.243)	2.083* (1.228)	2.925** (1.428)
<i>HighRelationship_Group</i>	0.165*** (0.051)	-0.348*** (0.097)	-0.680*** (0.157)	-2.012** (0.806)	-2.692*** (0.943)
<i>NYTShock</i>	0.441*** (0.144)	-0.397*** (0.146)	-0.673*** (0.158)	-2.339** (1.013)	-3.012** (1.142)
<i>Profitability</i>	-0.101 (0.300)	0.328 (0.657)	-0.365 (1.291)	1.907 (5.276)	1.542 (6.428)
<i>MTB</i>	0.013 (0.025)	-0.012 (0.050)	0.068 (0.096)	0.091 (0.401)	0.159 (0.484)
<i>MZscore</i>	0.019 (0.019)	0.012 (0.038)	-0.029 (0.060)	-0.074 (0.261)	-0.103 (0.316)
<i>Log (Total Assets)</i>	0.002 (0.015)	-0.055** (0.023)	-0.141*** (0.043)	-0.503*** (0.137)	-0.645*** (0.174)
<i>Asset Turnover</i>	-0.006 (0.034)	-0.067 (0.074)	0.042 (0.117)	-0.686 (0.600)	-0.644 (0.700)
<i>Cash Holding</i>	0.068 (0.168)	0.774** (0.359)	1.644** (0.696)	6.466** (3.063)	8.111** (3.728)
<i>Leverage</i>	0.034 (0.099)	0.338* (0.202)	0.740** (0.336)	2.273 (1.492)	3.013* (1.791)
<i>Log (All-in-Spread-Drawn)</i>	-0.013 (0.033)	-0.141** (0.062)	-0.272*** (0.091)	-1.138** (0.456)	-1.410** (0.536)
<i>Log (LoanAmt)</i>	0.006 (0.012)	0.020 (0.022)	-0.063* (0.036)	-0.062 (0.162)	-0.126 (0.195)
<i>Secured Dum</i>	0.101* (0.060)	-0.058 (0.070)	-0.096 (0.106)	-0.042 (0.354)	-0.138 (0.442)
<i>Log (Maturity)</i>	-0.094** (0.039)	0.037 (0.070)	0.095 (0.084)	0.354 (0.361)	0.450 (0.423)
<i>Performance Dum</i>	-0.021 (0.044)	0.359*** (0.056)	0.504*** (0.119)	2.450*** (0.438)	2.954*** (0.532)
Observations	432	432	432	432	432
Adjusted Within R-squared	0.259	0.328	0.392	0.339	0.359
Fixed Effects	YES	YES	YES	YES	YES

Table 7. Likelihood of Lead Banks Receiving Next Deals from PE Sponsor

This table displays the estimation results for the impact of PE-Lender Law Firm relationships on the selection of a lender for the PE's next deal. The dependent variable, *Next Lender Choice*, is a dummy variable that is assigned a value of one if the current deal's lead bank b appears, as either a lead bank or a participant bank in the same PE sponsor's next syndicated loan. Column (1) reports the baseline specification. Column (2) adds *Number of All Covenants* and its interaction with *RelationAmt_PELaw*. Column (3) replaces the continuous measure with *High_Num_AllCovenants* and its interaction with *RelationAmt_PELaw*; *High_Num_AllCovenants* is a dummy equal to one if the loan's total covenant count is at or above the 75th percentile of the sample distribution (i.e., the top quartile), and zero otherwise. Definitions of the control variables can be found in Appendix A. Each specification controls for fixed effects across industry, year, lender, law firm, loan type, and PE to account for potential confounding factors. Standard errors are clustered at the PE sponsor level and are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) <i>Next Lender Choice</i>	(2) <i>Next Lender Choice</i>	(3) <i>Next Lender Choice</i>
<i>RelationAmt_PELaw</i>	1.368*** (0.358)	1.461*** (0.515)	0.552*** (0.199)
<i>Number of All Covenants</i>		0.024 (0.016)	
<i>RelationAmt_PELaw</i> $\times$ <i>The Number of All Covenants</i>		-0.019 (0.106)	
<i>High_Num_AllCovenants</i>			-0.002 (0.047)
<i>RelationAmt_PELaw</i> $\times$ <i>High_Num_AllCovenants</i>			-1.199*** (0.233)
<i>Profitability</i>	-3.251** (1.313)	-3.782 (3.484)	-1.903 (1.149)
<i>MTB</i>	-0.363 (0.397)	-0.396 (0.723)	-0.161 (0.337)
<i>MZscore</i>	-0.215* (0.122)	-0.159 (0.150)	-0.169** (0.075)
<i>Log (Total Assets)</i>	-0.280*** (0.077)	-0.268 (0.198)	-0.080 (0.073)
<i>Asset Turnover</i>	-1.341*** (0.437)	-1.437 (1.034)	-0.788* (0.402)
<i>Cash Holding</i>	1.861 (1.569)	1.728 (2.337)	1.732 (1.214)
<i>Leverage</i>	-0.040 (0.656)	-0.342 (0.628)	-0.598 (0.527)
<i>Log (All-in-Spread-Drawn)</i>	0.009 (0.012)	0.011 (0.014)	0.012 (0.012)
<i>Log (LoanAmt)</i>	0.008 (0.005)	0.009* (0.005)	0.007 (0.005)
<i>Secured Dum</i>	0.004 (0.012)	-0.001 (0.013)	-0.007 (0.015)
<i>Log (Maturity)</i>	-0.017 (0.019)	-0.024 (0.022)	-0.039* (0.021)
<i>Performance Dum</i>	-0.001 (0.019)	-0.003 (0.008)	0.013 (0.015)
Observations	432	432	432
Adjusted Within R-squared	0.621	0.621	0.758
Fixed Effects	YES	YES	YES

Table 8. PE-Lender Law Firm Relationship and Economic Consequences

This table reports the results from OLS regression models that investigate how relationships between PE firms and lender-side law firms affect loan spreads and ex post credit risk. The dependent variable in Column (1) is the logarithm of loan spreads, *Log (All-in-Spread-Drawn)*. In Columns (2) and (3), the dependent variables are loan default and borrower bankruptcy, respectively. *LoanDefault_4Years* is a dummy variable that takes a value of one if the loan defaults within four years after the loan tranche's active date, and zero otherwise. *Bankruptcy_4Years* is a dummy variable that takes a value of one if the borrower files for bankruptcy within four years after the loan tranche's active date, and zero otherwise. The independent variable of interest is the prior relationship between PE sponsor j and lender-side law firm l , *RelationAmt_PELaw*, for loan tranche i . Definitions of the control variables are provided in Appendix A. Industry, year, lender, law firm, loan type, and PE fixed effects are included in all specifications. Standard errors are clustered at the PE sponsor level and are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) <i>Log (All-in-Spread-Drawn)</i>	(2) <i>LoanDefault_4Years</i>	(3) <i>Bankruptcy_4Years</i>
<i>RelationAmt_PELaw</i>	1.003** (0.399)	0.360* (0.216)	0.270*** (0.067)
<i>Profitability</i>	-2.407** (1.190)	0.894 (0.985)	0.730*** (0.149)
<i>MTB</i>	-0.021 (0.231)	-0.080 (0.091)	-0.178*** (0.029)
<i>MZscore</i>	-0.095** (0.036)	0.036 (0.096)	-0.001 (0.013)
<i>Log (Total Assets)</i>	-0.203*** (0.052)	-0.132*** (0.031)	-0.106*** (0.013)
<i>Asset Turnover</i>	-0.045 (0.284)	-0.403** (0.164)	-0.382*** (0.036)
<i>Cash Holding</i>	0.482 (0.836)	0.416 (0.796)	0.842*** (0.112)
<i>Leverage</i>	0.167 (0.450)	-0.136 (0.590)	0.074* (0.042)
<i>Log (All-in-Spread-Drawn)</i>		0.081 (0.149)	0.040 (0.052)
<i>Log (LoanAmt)</i>	-0.124*** (0.034)	0.015 (0.031)	0.004 (0.006)
<i>Secured Dum</i>	-0.105 (0.074)	-0.005 (0.036)	-0.006 (0.008)
<i>Log (Maturity)</i>	0.135 (0.131)	-0.023 (0.057)	0.008 (0.011)
<i>Performance Dum</i>	-0.039 (0.076)	0.031 (0.058)	0.008 (0.009)
Observations	432	247	432
Adjusted Within R-squared	0.185	0.101	0.128
Fixed Effects	YES	YES	YES

Appendix A. Main Variable Definitions

Variable	Definition	Source
<i>RelationAmt_PELaw</i>	This ratio is calculated as the total amount of loan tranches sponsored by sponsor j in collaboration with the current lender-side law firm l (previously acting on either the lender or borrower side), divided by the total amount of loan tranches that the PE firm j sponsored over the past three years.	DealScan
<i>High_RelationAmt_LenderLaw</i>	An indicator variable equal to one if the ratio of the total amount of loan tranches issued by lender b in cooperation with the current lender-side law firm l over the past three years (previously acting on either the lender or borrower side), divided by the total amount of loan tranches issued by lender b over the past three years, is above its sample median value, and zero otherwise.	DealScan
<i>High_RelationAmt_PELender</i>	An indicator variable equal to one if the ratio of the total amount of loan tranches sponsored by PE sponsor j in cooperation with lender b over the past three years to the total amount of loan tranches sponsored by PE sponsor j over the past three years is above its sample median value, and zero otherwise.	DealScan
<i>RelationAmt_PEBorrowerLaw</i>	This ratio is calculated as the total amount of loan tranches sponsored by sponsor j in collaboration with the current borrower-side law firm l (previously acting on either the lender or borrower side), divided by the total amount of loan tranches that the PE firm j sponsored over the past three years.	DealScan
<i>Profitability</i>	EBITDA divided by total assets	Compustat
<i>MTB</i>	The market value divided by the book value	Compustat
<i>MZscore</i>	This variable is a modified Altman Z-score that excludes leverage, which is calculated based on $(1.2 \times \text{Working Capital} + 1.4 \times \text{Retained Earnings} + 3.3 \times \text{EBIT} + 0.999 \times \text{Sales})$ divided by total assets following Graham, Lemmon, and Schallheim (1998).	Compustat
<i>Log (Total Assets)</i>	The logarithm of total assets	Compustat
<i>Asset Turnover</i>	Total sales divided by total assets	Compustat
<i>Cash Holding</i>	Cash and cash equivalents divided by total assets.	Compustat

Appendix A (cont.). Main Variable Definitions

Variable	Definition	Source
<i>Leverage</i>	The total debt divided by total assets	Compustat
<i>Log (All-in-Spread-Drawn)</i>	The logarithm of AISD	DealScan
<i>Log (LoanAmt)</i>	The logarithm of loan amount	DealScan
<i>Secured Dum</i>	A dummy variable that equals one if the loan is secured by collateral.	DealScan
<i>Log (Maturity)</i>	The logarithm of the tranche maturity	DealScan
<i>Performance Dum</i>	A dummy variable that equals one if a loan has performance-based pricing associated with it.	DealScan
<i>Dividend Restriction</i>	Restrictions on payment of dividends as stipulated in the credit agreement	DealScan
<i>The Number of Maintenance Covenants</i>	The number of maintenance covenants including debt to cash flow, tangible net worth, interest coverage ratio, leverage ratio, net worth, fixed charge coverage ratio, debt service coverage ratio, senior debt to cash flow, cash interest coverage ratio, current ratio, debt to tangible net worth, debt to equity ratio, and loan to value ratio.	DealScan
<i>The Number of Incurrence Covenants</i>	The number of incurrence covenants including asset sales sweep, equity issuance sweep, debt issuance sweep, excess cash flow sweep, insurance proceeds sweep, dividend restriction, percentage of net income, percentage of excess cash flow, required lenders, term changes, collateral release, and capex.	DealScan
<i>The Number of All Covenants</i>	The total number of maintenance covenants plus incurrence covenants.	DealScan
<i>LoanDefault_4Years</i>	A dummy variable equal to one if the borrower defaults within four years after the loan tranche's active date, and zero otherwise.	PitchBook
<i>Bankruptcy_4Years</i>	A dummy variable that takes the value of one if the borrower files for bankruptcy within four years after the loan tranche's active date, and zero otherwise.	PitchBook

Private Equity Sponsors, Law Firm Relationships, and Loan Contracts in Leveraged Buyouts

Online Appendix

This section provides descriptions of several robustness checks.

Additional Controls for Alternative Relationship Channels

This section reports additional robustness tests for the two baseline results reported in Tables 2 and 3. Online Appendix Table OA2 corresponds to Table 2 and examines whether the positive association between *RelationAmt_PELaw* and lender-side law firm selection remains after controlling for alternative relationship channels, including the current lender's prior relationship with the lender-side law firm and the PE sponsor's prior relationship with the current lender. The coefficient on *RelationAmt_PELaw* remains positive and statistically significant, suggesting that the effect of PE–lender law firm relationships on lender counsel selection is not driven by these alternative relationship channels. Online Appendix Table OA3 corresponds to Table 3 and conducts a similar robustness test for loan covenant outcomes. After controlling for the same alternative relationship channels, the coefficient on *RelationAmt_PELaw* remains negative and statistically significant across covenant measures. This evidence suggests that the covenant-weakening effect of PE–lender law firm relationships is not driven by the current lender's relationship with the law firm or by the PE sponsor's relationship with the current lender.

Tests for Parallel Trends

In Table 6, we apply a DiD model to examine the effect of the NYT article as an exogenous shock. In this section, we conduct a test for the parallel-trends assumption. Specifically, we create four variables to examine the effects surrounding the event date, January 4, 2016. The first variable, $yr2014 \times HighRelationship_Group$, is an interaction term linking a dummy variable $yr2014$ (assigned a value of one if a tranche's active date falls in 2014 and zero otherwise) and the dummy variable $HighRelationship_Group$. The second variable, $yr2013 \times HighRelationship_Group$, is an interaction term linking a dummy variable $yr2013$ (assigned a value of one if a tranche's active date falls in 2013) and the dummy variable $HighRelationship_Group$. The third variable, $yr2012before \times HighRelationship_Group$, is an interaction term linking a dummy variable $yr2012before$ (assigned a value of one if a tranche's active date falls in 2012 or before 2012 and zero otherwise) and the dummy variable $HighRelationship_Group$. The fourth variable, $NYTShock2016 \times HighRelationship_Group$, is an interaction term linking a dummy variable $NYTShock2016$ (it takes the value of one if the loan tranche's active date falls after January 4, 2016, and within the year 2016, and zero otherwise) and the dummy variable $HighRelationship_Group$. Then we create similar interaction terms for years 2017, 2018, 2019, and years after 2020. To capture the dynamic effects in the post-event period, we further construct similar interaction terms for $yr2017 \times HighRelationship_Group$, $yr2018 \times HighRelationship_Group$, $yr2019 \times HighRelationship_Group$, and $yr2020after \times HighRelationship_Group$.

Table OA5 presents the regression results. Column (1) reports the estimates for the dependent variable $RelationAmt_PELaw$. The year 2015 is omitted from the regression and serves as the baseline year. The coefficients on $yr2012before \times HighRelationship_Group$, $yr2013 \times HighRelationship_Group$, and $yr2014 \times HighRelationship_Group$ are statistically insignificant, suggesting no systematic differences between the treatment and control groups prior to the event. This confirms that the parallel-trends assumption holds. The coefficient on $NYTShock2016 \times HighRelationship_Group$ is negative and statistically significant, indicat-

ing that the treatment effect emerges after the event. The coefficients capturing the dynamic effects in the post-event period remain significant in some cases, although their magnitudes and significance levels gradually decline over time, suggesting that the treatment effect weakens in later years.

Column (2) shows that there is no significant pre-event difference in dividend restrictions between the treatment and control groups, while the post-event interaction terms are generally positive, consistent with tighter covenant protection after the decline in PE–lender law firm relationships. Columns (3) to (5) yield similar findings using other covenant measures.

Tests Using Alternative Fixed Effects

In Table OA6, we estimate Equation (2) using alternative fixed-effect specifications and report the results. Panel A includes industry, year, lender, and loan type fixed effects. Panel B further adds PE sponsor fixed effects. Panel C includes industry, year, lender, law firm, and loan type fixed effects. Across these alternative specifications, the coefficients on *RelationAmt_PELaw* remain negative in all columns and are statistically significant in most specifications. These results confirm that our original findings on the influence of PE–lender law firm relationships on loan covenants are not driven by the use of high-dimensional fixed effects or by the absorption of variation through the baseline fixed-effect structure.

Tests of the Impact of PE-Lender Law Firm Relationship on LBO Transaction Leverage

In Table OA8, we examine whether *RelationAmt_PELaw* is associated with LBO transaction leverage. The dependent variable is *Loan Amount/EBITDA* and *Loan Amount/Total Assets* in each column, respectively. The coefficient on *RelationAmt_PELaw* is positive and statistically significant in Column (1). In Column (2), the coefficient remains positive and statistically significant after including the full set of controls and fixed effects. These re-

sults suggest that stronger PE–lender law firm relationships are associated with higher LBO transaction leverage.

Table OA1. Correlation Matrix

This table displays the correlation matrix with the correlation coefficients between the selected variables. The detailed definitions of each variable are provided in Appendix A. Significance levels are denoted with *** for $p < 0.01$, ** for $p < 0.05$, and * for $p < 0.10$.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<i>RelationAmt_PELaw</i>	1.000								
<i>Profitability</i>	-0.114**	1.000							
<i>MTB</i>	0.038	0.419***	1.000						
<i>MZscore</i>	-0.101**	0.438***	0.062	1.000					
<i>Log (Total Assets)</i>	0.142***	-0.039	-0.094*	0.058	1.000				
<i>Total Assets (\$billion)</i>	0.129***	-0.013	-0.011	0.009	0.589***	1.000			
<i>Asset Turnover</i>	-0.106**	0.226***	-0.079	0.593***	-0.113**	-0.067	1.000		
<i>Cash Holding</i>	0.050	0.066	0.465***	0.046	-0.187***	0.011	-0.133***	1.000	
<i>Leverage</i>	0.172***	0.096**	-0.193***	-0.201***	0.175***	0.032	0.077	-0.466***	1.000
<i>Log (All-in-Spread-Drawn)</i>	0.052	-0.056	0.074	-0.113**	0.032	0.050	-0.003	0.141***	-0.013
<i>All-in-Spread-Drawn (bps)</i>	0.060	-0.072	0.076	-0.115**	0.033	0.030	-0.009	0.134***	-0.013
<i>Log (LoanAmt)</i>	0.151***	0.001	-0.029	0.010	0.280***	0.123**	-0.083*	-0.052	0.083*
<i>LoanAmt (\$million)</i>	0.149***	-0.006	-0.024	0.008	0.335***	0.177***	-0.083*	-0.020	0.077
<i>Secured Dum</i>	-0.132***	0.059	-0.139***	0.010	-0.132***	-0.029	0.073	-0.006	0.033
<i>Log (Maturity)</i>	-0.097**	0.026	0.073	-0.039	-0.092*	-0.009	-0.018	0.050	-0.061
<i>Maturity (Months)</i>	-0.070	0.010	0.066	-0.051	-0.079	-0.027	-0.031	0.061	-0.059
<i>Performance Dum</i>	-0.124**	-0.022	-0.090*	0.043	-0.071	-0.053	0.039	-0.066	-0.048

Table OA1 (cont.). Correlation Matrix

	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
<i>Log (All-in-Spread-Drawn)</i>	1.000							
<i>All-in-Spread-Drawn (bps)</i>	0.963***	1.000						
<i>Log (LoanAmt)</i>	-0.081*	-0.058	1.000					
<i>LoanAmt (\$million)</i>	-0.097**	-0.098**	0.839***	1.000				
<i>Secured Dum</i>	-0.027	-0.039	-0.001	-0.028	1.000			
<i>Log (Maturity)</i>	0.015	0.015	0.008	-0.010	0.376***	1.000		
<i>Maturity (Months)</i>	0.137***	0.156***	0.130***	0.078	0.382***	0.944***	1.000	
<i>Performance Dum</i>	-0.387***	-0.354***	-0.018	-0.019	0.049	0.020	-0.029	1.000

Table OA2. Robustness Test: PE–Lender Law Firm Relationships and Lender-Side Law Firm Selection

This table presents a robustness test for the baseline lender-side law firm selection results reported in Table 2. We augment the baseline specification by controlling for two additional relationship measures: *High_RelationAmt_LenderLaw* and *High_RelationAmt_PELender*. *High_RelationAmt_LenderLaw* is a dummy variable that takes a value of one if the prior relationship between the current lender and law firm *l* is above the sample median, and zero otherwise. *High_RelationAmt_PELender* is a dummy variable that takes a value of one if the prior relationship between PE sponsor *j* and the current lender is above the sample median, and zero otherwise. The dependent variable, *LenderLawFirm_Selection*, is a dummy variable that takes a value of one if law firm *l* is selected as the lender-side law firm in loan tranche *i*, and zero otherwise. The main independent variable of interest is the prior relationship between PE sponsor *j* and law firm *l*, *RelationAmt_PELaw*, in loan tranche *i*. Column (1) adds lender–law-firm ties, Column (2) adds PE–lender ties, and Column (3) includes both. Control variables include *Profitability*, *MTB*, *MZscore*, *firm size (Log (Total Assets))*, *Asset Turnover*, *Cash Holding*, *Leverage*, *Log (All-in-Spread-Drawn)*, *Log (LoanAmt)*, *Secured Dum*, *Log (Maturity)*, and *Performance Dum*. Definitions of all variables are provided in Appendix A. Industry, year, lender, law firm, loan type, and PE fixed effects are included in all specifications. Standard errors are clustered at the tranche level and are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) <i>LenderLawFirm_ Selection</i>	(2) <i>LenderLawFirm_ Selection</i>	(3) <i>LenderLawFirm_ Selection</i>
<i>RelationAmt_PELaw</i>	0.945*** (0.144)	1.050*** (0.144)	0.945*** (0.144)
<i>High_RelationAmt_LenderLaw</i>	0.041*** (0.004)		0.041*** (0.004)
<i>High_RelationAmt_PELender</i>		-0.000** (0.000)	-0.000*** (0.000)
<i>Profitability</i>	-0.120 (0.409)	-0.211 (0.160)	0.556 (0.395)
<i>MTB</i>	0.090 (0.060)	0.021 (0.025)	-0.025 (0.061)
<i>MZscore</i>	0.051* (0.030)	-0.042*** (0.015)	-0.068* (0.036)
<i>Log (Total Assets)</i>	-0.062** (0.027)	-0.020 (0.013)	0.054 (0.035)
<i>Asset Turnover</i>	-0.116** (0.053)	-0.013 (0.028)	0.076 (0.062)
<i>Cash Holding</i>	-0.788** (0.357)	-0.034 (0.142)	0.224 (0.386)
<i>Leverage</i>	0.255 (0.226)	-0.125 (0.081)	-0.227 (0.226)
<i>Log (All-in-Spread-Drawn)</i>	-0.017 (0.018)	-0.019*** (0.006)	-0.021 (0.016)
<i>Log (LoanAmt)</i>	-0.008 (0.006)	-0.006** (0.002)	-0.008 (0.005)
<i>Secured Dum</i>	0.065 (0.039)	-0.031** (0.013)	0.059* (0.035)
<i>Log (Maturity)</i>	-0.017 (0.017)	0.005 (0.007)	-0.019 (0.016)
<i>Performance Dum</i>	-0.017 (0.018)	0.015** (0.007)	-0.000 (0.015)
Observations	215,285	215,285	215,285
Adjusted Within R-squared	0.017	0.006	0.017
Fixed Effects	YES	YES	YES

Table OA3. Robustness Test: PE–Lender Law Firm Relationships and Loan Covenants

This table presents a robustness test for the covenant protection results reported in Table 3. We augment the baseline specification by controlling for two additional relationship measures: *High_RelationAmt_LenderLaw* and *High_RelationAmt_PELender*. The dependent variables are Dividend Restriction in Column (1), The Number of Maintenance Covenants in Column (2), The Number of Incurrence Covenants in Column (3), and The Number of All Covenants in Column (4). The main independent variable of interest is the prior relationship between PE sponsor j and law firm l , *RelationAmt_PELaw*, in loan tranche i . *High_RelationAmt_LenderLaw* is a dummy variable that takes a value of one if the prior relationship between the current lender and law firm l is above the sample median, and zero otherwise. *High_RelationAmt_PELender* is a dummy variable that takes a value of one if the prior relationship between PE sponsor j and the current lender is above the sample median, and zero otherwise. Control variables include *Profitability*, *MTB*, *MZscore*, firm size (*Log (Total Assets)*), *Asset Turnover*, *Cash Holding*, *Leverage*, *Log(All-in-Spread-Drawn)*, *Log(LoanAmt)*, *Secured Dum*, *Log (Maturity)*, and *Performance Dum*. Definitions of all variables are provided in Appendix A. Industry, year, lender, law firm, loan type, and PE fixed effects are included in all specifications. Standard errors are clustered at the PE sponsor level and are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) <i>Dividend Restriction</i>	(2) <i>The Number of Maintenance Covenants</i>	(3) <i>The Number of Incurrence Covenants</i>	(4) <i>The Number of All Covenants</i>
<i>RelationAmt_PELaw</i>	-1.009*** (0.246)	-2.604*** (0.743)	-3.943*** (0.957)	-6.546*** (1.663)
<i>High_RelationAmt_LenderLaw</i>	-0.828** (0.324)	-1.078 (0.837)	-0.826 (1.120)	-1.905 (1.941)
<i>High_RelationAmt_PELender</i>	-0.461*** (0.126)	-0.074 (0.313)	0.269 (0.421)	0.195 (0.705)
<i>Profitability</i>	10.123*** (1.988)	13.111** (5.160)	30.645*** (7.238)	43.756*** (12.189)
<i>MTB</i>	0.478** (0.188)	1.555*** (0.479)	2.373*** (0.617)	3.928*** (1.060)
<i>MZscore</i>	-0.863*** (0.202)	-0.852 (0.520)	-2.000*** (0.718)	-2.852** (1.211)
<i>Log (Total Assets)</i>	0.404*** (0.152)	0.482 (0.404)	0.512 (0.530)	0.995 (0.919)
<i>Asset Turnover</i>	1.947*** (0.492)	3.170** (1.281)	6.786*** (1.731)	9.956*** (2.945)
<i>Cash Holding</i>	2.211*** (0.744)	-0.308 (2.076)	2.328 (2.322)	2.020 (4.316)
<i>Leverage</i>	1.943*** (0.381)	2.789*** (1.024)	11.370*** (1.272)	14.160*** (2.272)
<i>Log (All-in-Spread-Drawn)</i>	-0.009* (0.005)	-0.050 (0.036)	-0.085 (0.110)	-0.135 (0.143)
<i>Log (LoanAmt)</i>	-0.004* (0.002)	-0.014 (0.012)	-0.030 (0.023)	-0.044 (0.031)
<i>Secured Dum</i>	-0.013* (0.007)	0.002 (0.057)	0.117 (0.151)	0.120 (0.198)
<i>Log (Maturity)</i>	-0.003 (0.006)	0.066 (0.073)	0.235 (0.219)	0.301 (0.284)
<i>Performance Dum</i>	0.014* (0.007)	0.078 (0.047)	0.085 (0.107)	0.162 (0.121)
Observations	432	432	432	432
Adjusted Within R-squared	0.941	0.574	0.830	0.839
Fixed Effects	YES	YES	YES	YES

Table OA4. Falsification Test: PE–Borrower Law Firm Relationships and Loan Covenants

This table reports falsification tests in which the key explanatory variable is replaced with measures of PE–borrower law firm relationships. *RelationAmt_PEBorrowerLaw* captures the intensity of prior transactions between the PE sponsor and the borrower-side law firm. The dependent variables follow Table 3 and include indicators for dividend restrictions, the number of maintenance covenants, the number of incurrence covenants, and the total number of covenants. All control variables and fixed effects are identical to those used in Table 3. Each regression model includes fixed effects for industry, year, lender, law firm, loan type, and PE. Standard errors are clustered at the PE sponsor level and are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

VARIABLES	(1) <i>Dividend Restriction</i>	(2) <i>The Number of Maintenance Covenants</i>	(3) <i>The Number of Incurrence Covenants</i>	(4) <i>The Number of All Covenants</i>
<i>RelationAmt_PEBorrowerLaw</i>	-0.189 (0.128)	-0.270 (0.231)	-0.331 (0.346)	-0.600 (0.567)
<i>Profitability</i>	2.748*** (0.712)	3.925** (1.813)	21.887*** (2.362)	25.811*** (4.056)
<i>MTB</i>	0.169 (0.183)	1.042** (0.461)	1.729*** (0.585)	2.772*** (1.003)
<i>MZscore</i>	-0.249*** (0.053)	-0.560*** (0.137)	-2.176*** (0.263)	-2.735*** (0.384)
<i>Log (Total Assets)</i>	-0.161*** (0.048)	-0.220** (0.104)	-0.144 (0.126)	-0.364* (0.208)
<i>Asset Turnover</i>	0.311 (0.229)	1.280** (0.596)	5.198*** (0.759)	6.478*** (1.276)
<i>Cash Holding</i>	1.245** (0.606)	0.365 (1.581)	4.676** (2.150)	5.040 (3.469)
<i>Leverage</i>	3.399*** (0.289)	4.339*** (0.722)	12.781*** (0.797)	17.120*** (1.485)
<i>Log (All-in-Spread-Drawn)</i>	-0.009 (0.009)	-0.055 (0.035)	-0.110 (0.098)	-0.165 (0.130)
<i>Log (LoanAmt)</i>	-0.010 (0.007)	-0.026 (0.017)	-0.046* (0.027)	-0.072* (0.040)
<i>Secured Dum</i>	-0.040* (0.023)	-0.050 (0.075)	0.052 (0.160)	0.002 (0.224)
<i>Log (Maturity)</i>	0.028 (0.022)	0.100 (0.083)	0.275 (0.211)	0.375 (0.284)
<i>Performance Dum</i>	0.033* (0.018)	0.157** (0.064)	0.203 (0.132)	0.359** (0.173)
Observations	432	432	432	432
Adjusted Within R-squared	0.880	0.486	0.791	0.779
Fixed Effects	YES	YES	YES	YES

Table OA5. Parallel-Trends Test

This table presents parallel-trends tests for the exogenous-shock analysis in Table 6. *HighRelationship_Group* is a dummy variable that takes a value of one for PE sponsors with stronger PE-Lender Law Firm relationships. *yr2012before* is assigned a value of one if a tranche's active date falls in 2012 or before 2012 and zero otherwise. *yr2013* is assigned a value of one if a tranche's active date falls in 2013 and zero otherwise. *yr2014* is assigned a value of one if a tranche's active date falls in 2014 and zero otherwise. *yr2017* is assigned a value of one if a tranche's active date falls in 2017 and zero otherwise. *yr2018* is assigned a value of one if a tranche's active date falls in 2018 and zero otherwise. *yr2019* is assigned a value of one if a tranche's active date falls in 2019 and zero otherwise. *yr2020after* is assigned a value of one if a tranche's active date falls in 2020 or after 2020 and zero otherwise. Additionally, *NYTShock2016* is a dummy variable that takes the value of one if the loan tranche's active date falls after January 4, 2016, and within the year 2016, and zero otherwise. The year 2015 is omitted from the regression and serves as the baseline year. Fixed effects for industry, lender, law firm, and loan type are included in all specifications. Standard errors are clustered at the PE sponsor level and are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) <i>RelationAmt_ PELaw</i>	(2) <i>Dividend Restriction</i>	(3) <i>The Number of Mainte- nance Covenants</i>	(4) <i>The Number of Incurrence Covenants</i>	(5) <i>The Number of All Covenants</i>
<i>yr2012before</i> × <i>HighRelationship_Group</i>	-0.121 (0.078)	0.264 (0.298)	0.451 (0.677)	2.468 (2.157)	2.920 (2.760)
<i>yr2013</i> × <i>HighRelationship_Group</i>	-0.020 (0.136)	-0.001 (0.385)	-0.031 (0.759)	0.201 (2.610)	0.169 (3.285)
<i>yr2014</i> × <i>HighRelationship_Group</i>	0.004 (0.152)	-0.122 (0.336)	-0.273 (0.734)	-0.141 (2.455)	-0.413 (3.095)
<i>NYTShock2016</i> × <i>HighRelationship_Group</i>	-0.537*** (0.172)	0.912*** (0.333)	1.055* (0.610)	4.097* (2.407)	5.152* (2.948)
<i>yr2017</i> × <i>HighRelationship_Group</i>	-0.562*** (0.164)	0.663** (0.297)	1.567** (0.654)	4.416** (2.209)	5.983** (2.781)
<i>yr2018</i> × <i>HighRelationship_Group</i>	-0.142 (0.192)	0.675* (0.358)	1.170* (0.698)	3.875 (2.575)	5.046 (3.188)
<i>yr2019</i> × <i>HighRelationship_Group</i>	-0.481** (0.206)	0.485 (0.335)	0.943 (0.704)	3.670 (2.477)	4.614 (3.063)
<i>yr2020after</i> × <i>HighRelationship_Group</i>	-0.807*** (0.198)	0.185 (0.359)	1.232 (0.778)	1.988 (2.735)	3.219 (3.421)
<i>HighRelationship_Group</i>	0.236*** (0.077)	-0.489 (0.307)	-0.970 (0.680)	-3.625 (2.282)	-4.595 (2.896)
<i>NYTShock</i>	0.388** (0.150)	-0.439*** (0.139)	-0.714*** (0.162)	-2.577** (1.008)	-3.291*** (1.141)

Table OA5 (cont.). Parallel-Trends Test

	(1) <i>RelationAmt_ PELaw</i>	(2) <i>Dividend Restriction</i>	(3) <i>The Number of Maintenance Covenants</i>	(4) <i>The Number of Incurrence Covenants</i>	(5) <i>The Number of All Covenants</i>
<i>Profitability</i>	0.048 (0.352)	0.275 (0.804)	-1.102 (1.397)	-0.114 (5.877)	-1.216 (7.132)
<i>MTB</i>	0.015 (0.026)	-0.030 (0.055)	0.087 (0.093)	0.077 (0.440)	0.163 (0.524)
<i>MZscore</i>	0.030* (0.015)	0.011 (0.041)	-0.035 (0.056)	-0.102 (0.266)	-0.137 (0.319)
<i>Log (Total Assets)</i>	0.010 (0.018)	-0.032 (0.028)	-0.120*** (0.045)	-0.368** (0.157)	-0.487** (0.192)
<i>Asset Turnover</i>	-0.039 (0.032)	-0.078 (0.077)	0.070 (0.120)	-0.657 (0.617)	-0.587 (0.720)
<i>Cash Holding</i>	0.112 (0.197)	0.851* (0.432)	1.795** (0.721)	7.119** (3.414)	8.914** (4.102)
<i>Leverage</i>	0.076 (0.088)	0.348* (0.204)	0.745* (0.383)	2.232 (1.631)	2.977 (1.983)
<i>Log (All-in-Spread-Drawn)</i>	-0.018 (0.033)	-0.092 (0.066)	-0.183** (0.088)	-0.748* (0.444)	-0.932* (0.521)
<i>Log (LoanAmt)</i>	0.005 (0.012)	0.023 (0.023)	-0.050 (0.037)	-0.015 (0.176)	-0.065 (0.211)
<i>Secured Dum</i>	0.086 (0.056)	-0.022 (0.065)	-0.063 (0.096)	0.092 (0.376)	0.029 (0.459)
<i>Log (Maturity)</i>	-0.104** (0.047)	0.040 (0.070)	0.097 (0.085)	0.362 (0.366)	0.459 (0.437)
<i>Performance Dum</i>	0.004 (0.044)	0.322*** (0.056)	0.460*** (0.110)	2.231*** (0.401)	2.690*** (0.481)
Observations	432	432	432	432	432
Adjusted Within R-squared	0.348	0.367	0.420	0.363	0.384
Fixed Effects	YES	YES	YES	YES	YES

Table OA6. The Impact of PE-Lender Law Firm Relationships on Covenants with Alternative Fixed Effects

This table reports results examining the effect of PE-lender law firm relationships on various loan covenants under alternative fixed-effect specifications. The dependent variables are Dividend Restriction in Column (1), The Number of Maintenance Covenants in Column (2), The Number of Incurrence Covenants in Column (3), and The Number of All Covenants in Column (4). The main independent variable of interest is the prior relationship between PE sponsor j and lender-side law firm l , *RelationAmt_PELaw*, in loan tranche i . Panel A includes industry, year, lender, and loan type fixed effects. Panel B additionally includes PE fixed effects. Panel C includes industry, year, lender, law firm, and loan type fixed effects. Control variables are the same as those used in Table 3. Standard errors are clustered at the PE sponsor level and are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Industry FE, Year FE, Lender FE, Loan type FE				
	(1) <i>Dividend Restriction</i>	(2) <i>The Number of Maintenance Covenants</i>	(3) <i>The Number of Incurrence Covenants</i>	(4) <i>The Number of All Covenants</i>
<i>RelationAmt_PELaw</i>	-0.124 (0.122)	-0.352*** (0.123)	-1.251* (0.652)	-1.603** (0.723)
Observations	443	432	432	432
Adjusted Within R-squared	0.205	0.250	0.225	0.237
Controls	YES	YES	YES	YES
Fixed Effects	YES	YES	YES	YES
Panel B: Industry FE, Year FE, Lender FE, Loan type FE, PE FE				
<i>RelationAmt_PELaw</i>	-0.466*** (0.160)	-0.554* (0.284)	-3.274*** (0.664)	-3.828*** (0.857)
Observations	443	432	432	432
Adjusted Within R-squared	0.677	0.516	0.806	0.785
Controls	YES	YES	YES	YES
Fixed Effects	YES	YES	YES	YES
Panel C: Industry FE, Year FE, Lender FE, Law firm FE, Loan type FE				
<i>RelationAmt_PELaw</i>	-0.134 (0.140)	-0.474** (0.204)	-1.399* (0.778)	-1.872** (0.938)
Observations	443	432	432	432
Adjusted Within R-squared	0.152	0.181	0.153	0.161
Controls	YES	YES	YES	YES
Fixed Effects	YES	YES	YES	YES

Table OA7. The Impact of PE-Lender Law Firm Geographic Distance on Lender-Lender Law Firm Relationship

This table examines whether the geographic distance between PE sponsor headquarters and lender-side law firm headquarters, *Distance_PELaw*, is associated with the strength of the relationship between the current lender and the lender-side law firm. The dependent variable, *High_RelationAmt_LenderLaw*, is a dummy variable that takes a value of one if the prior relationship between the current lender and law firm l is above the sample median, and zero otherwise. Column (2) further controls for *High_RelationAmt_PELender*, a dummy variable that takes a value of one if the prior relationship between PE sponsor j and the current lender is above the sample median, and zero otherwise. Firm-level control variables include *Profitability*, *MTB*, *MZscore*, *Log(Total Assets)*, *Asset Turnover*, *Cash Holding*, and *Leverage*. Loan-level control variables include *Log(All-in-Spread-Drawn)*, *Log(LoanAmt)*, *Secured Dum*, *Log (Maturity)*, and *Performance Dum*. Definitions of all variables are provided in Appendix A. Industry, year, lender, law firm, loan type, and PE fixed effects are included in all specifications. Standard errors are clustered at the PE sponsor level and are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) <i>High_RelationAmt_LenderLaw</i>	(2) <i>High_RelationAmt_LenderLaw</i>
<i>Distance_PELaw</i>	-0.051 (0.262)	0.035 (0.362)
<i>High_RelationAmt_PELender</i>		-0.366*** (0.114)
Observations	432	432
Adjusted Within R-squared	0.714	0.791
Controls	YES	YES
Fixed Effects	YES	YES

Table OA8. The Impact of PE-Lender Law Firm Relationships on LBO Leverage

This table reports the results from OLS regression models that investigate the impact of PE-lender law firm relationships on LBO leverage. The dependent variables are *Loan Amount/EBITDA* in Column (1) and *Loan Amount/Total Assets* in Column (2). The independent variable of interest is the prior relationship between the PE sponsor j and lender law firm l (*RelationAmt_PELaw*) in loan tranche i . Firm-level control variables include *Profitability*, *MTB*, *MZscore*, *Log (Total Assets)*, *Asset Turnover*, and *Cash Holding*. Loan-level control variables include *Log (All-in-Spread-Drawn)*, *Secured Dum*, *Log (Maturity)*, and *Performance Dum*. Definitions of the control variables can be found in Appendix A. Fixed effects for industry, year, lender, law firm, loan type, and PE are included in all specifications. Standard errors are clustered at the PE sponsor level and are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) <i>Loan Amount/EBITDA</i>	(2) <i>Loan Amount/Total Assets</i>
<i>RelationAmt_PELaw</i>	11.828** (5.132)	0.381* (0.192)
Observations	432	432
Adjusted Within R-squared	0.071	0.121
Controls	YES	YES
Fixed Effects	YES	YES

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