



# Are the Borrowing Costs of Large Financial Firms Unusual?

*Federal Reserve Board*

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Estimates of investor expectations of government support of large financial firms are often based on large financial firms' lower borrowing costs relative to smaller financial firms. Using pricing data on credit default swaps (CDS) and corporate bonds over the period 2004 to 2013, however, we find that the CDS and bond spreads of financial firms are no more sensitive to borrower size than the spreads of non-financial firms. Outside of the financial crisis period, spreads are more sensitive to borrower size in several non-financial industries. We find that size-related differences in spreads are partially driven by higher liquidity and recovery rates of larger borrowers. Prior to the financial crisis, we also find that financial firms exhibited generally lower spreads that were less sensitive to size than spreads for several other industries. Our results suggest that estimates of implicit government guarantees to financial firms may overemphasize size-related borrowing cost differentials. However, our analysis also suggests that, prior to the financial crisis, investor expectations of government support, or generally reduced risk perceptions, may have reduced borrowing costs for the financial industry as a whole.

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