

# **Executive Loans**

By

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# **Executive Loans**

## **Abstract**

This paper analyzes the characteristics and impact of loans made to executives for purposes of stock purchase, funding of options exercised and relocation. We find that loans made to assist executives in purchasing stock or exercising options tend to be larger and have higher interest rates than relocation loans. On the other hand, all loans are issued at below-market interest rates. We also find evidence that loans made for the purpose of purchasing stock or exercising options result in an increase in executive stock ownership. When looking at managers as a whole, a loan that enables a manager to buy 100 shares of stock results in an eight-share increase in ownership. However, the relation between ownership changes and stock purchase loans is one-to-one for low ownership managers.

# Executive Loans

## 1. Introduction

In the 1990s, personal loans to executives became a popular management recruitment and retention tool for many companies. According to New York compensation consultants William M. Mercer, Inc., nearly 25 percent of major public companies now give loans to executives (Leonhardt, 2002), up from 14 percent in 1999 and 8.4 percent in 1994 (Lublin, 2001). The practice is even more prevalent in Silicon Valley, where it is estimated that close to one-half of the 150 largest companies offer loans to executives (Schwanhausser and Davis, 2002). These loans are most often made to assist executives in buying homes or stock.

The benefits to these loans are clear. Stock loans can help to solve the problem of aligning managers' interests with those of shareholders by allowing them to increase their holdings of the company's stock. In addition, the loans offer tax advantages to executives. For example, when stock options are exercised, the holder must pay income taxes on the difference between the option's exercise price and the share price at time of exercise. However, if executives buy shares with borrowed money instead of receiving options, the profit is considered an investment gain and is taxed at the capital gains rate.

While the loans do provide benefits, these same loans have costs too. When used to buy stock, non-recourse loans give managers incentives to pursue risky strategies when the stock price is falling. They also drain corporate cash reserves, sometimes when it is needed the most. Finally, the loans can keep shareholders from knowing when executives are effectively selling shares in their own company. For example, Enron lent Kenneth Lay \$81 million in 2001. Lay would borrow from a company-sponsored personal line of credit in the morning, and sell stock

later in the day to repay the loan. Because it was used to repay a loan, the stock sale didn't have to be reported under regular insider trading rules (Kranhold and Schroeder, 2002).

Technically, disposing of stock by using it to pay off loans has the same end result as selling the stock: managerial ownership decreases. Legally, it differs in two ways. First, until recently, normal sales of stock by a company insider had to be disclosed within ten days following the month in which the sale was made<sup>1</sup>. However, transactions between the issuer and its officers are exempt from Section 16b of the Securities Exchange Act. Consequently, the return of stock to a company to repay a loan does not need to be disclosed until 45 days following the end of the fiscal year. Second, SEC rule 10b-5 promulgated under the Securities Exchange Act of 1934 imposes a duty on insiders to disclose material non-public information or refrain from trading. As such, 10b-5 bars insiders from trading in their own company's stock when they possess material non-public information. However, this rule does not apply if the individual on the other side of the trade has the same information.

In addition to loans from their companies, many executives use margin loans from brokers, secured by their personal stock holdings, to buy shares not only in their own company, but in other companies as well. These loans enable managers to diversify without selling shares, which would send a negative signal to investors and would make executives liable for capital gains taxes. The SEC does not require disclosure of margin loans unless the insider owns more than five percent of the company's stock and there is a "material" change in their holdings. Consequently, these loans often remain undisclosed unless the executive runs into financial trouble, or the company guarantees the loan.

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<sup>1</sup> On July 30, 2002 the Sarbanes-Oxley Act of 2002 was enacted. Section 403(a) of the Act amends Section 16 to require that insider trades be disclosed before the end of the second business day following the date of the transaction. In Release 34-46421, pursuant to the Sarbanes-Oxley Act, the SEC adopted amendments to the existing rules under the Exchange Act. These amendments conform those rules to the requirements of the Sarbanes-Oxley Act.

After numerous embarrassing disclosures, lawsuits, and accusations of fraud and corporate waste involving loans that hastened the departures of officers and directors, however, many companies began rethinking the wisdom of providing low or interest-free loans to their executives (Lublin, 2001). In April 2002, the SEC proposed a new rule requiring companies to disclose in an 8-K report the details of any executive loans in which shares of stock are pledged as collateral. Subsequent to this, New York prosecutors began to investigate allegations that Tyco lent money to executives for the purpose of investing in expensive artwork (Cohen and Maremont, 2002). More recently, the Sarbanes-Oxley Act of 2002 makes it unlawful for any public company to provide loans to its executive officers and directors. This Act contains a few narrow exemptions, including consumer credit loans made to executives on market terms in the ordinary course of the company's consumer credit business. Another exemption applies to banks that are already covered by Federal Reserve regulations on insider loans.

We collect a sample of 2,018 person-year observations from 70 companies that loaned money to their executives between 1996 and 2000. We first provide an analysis of the details of these loans, including the amount of the loan, the term, interest rate, purpose, and whether the loan is collateralized or forgivable. The alleged purpose of many of these loans is to help managers to purchase stock and/or exercise options, thereby increasing managerial ownership and aligning managerial incentives with those of shareholders. Consequently, we also examine whether these loans accomplish their purported objective.

We find that the characteristics of the loans depend on the purpose for which it was made. Loans made to buy homes or assist in relocation tend to be offered at below market interest rates and are usually secured by real assets, such as the property bought with the loan. On average, loans made to assist executives in purchasing stock or exercising options are more

than twice as large as relocation loans. They are generally secured by the stock purchased with the loan or received on exercise of the options and have higher interest rates than relocation loans.

We also find evidence that loans made for the purpose of purchasing stock or exercising options do result in an increase in executive stock ownership. For managers as a whole, the magnitude of this increase is small, relative to the value of the loan. A loan that enables a manager to buy 100 shares of stock increases managerial ownership by only eight shares. For low ownership managers, this relation is stronger. These results call into question the wisdom of these loans, and whether there is a more efficient way to align managers' interests with those of stockholders. Not surprisingly, loans made for other purposes do not appear to increase managerial ownership.

The two papers most similar to ours in spirit are Ofek and Yermack (2000) and Core and Larcker (2002). Ofek and Yermack (2000) examine whether stock-based compensation increases managerial ownership. Their findings depend on prior managerial ownership. They find that managers with low prior ownership do not sell shares after receiving new options, whereas high ownership managers do. On the other hand, when executives exercise options to acquire stock, nearly all the shares are sold regardless of prior ownership. Overall, equity compensation appears to improve the incentive levels of managers with low ownership.

Core and Larcker (2002) examine a sample of firms that adopt target ownership plans. They find that managerial ownership increases in the two years following the adoption of the plan. They also find improvements in performance concurrent with the ownership increases.

The remainder of this paper is organized as follows. Section 2 provides a description of our data and methodology. The results are presented in Section 3, while Section 4 concludes.

## 2. Data and Methodology

We begin by using Lexis Nexis to search a variety of keywords in firms' proxy statements and 10-Ks for evidence of personal loans to executives. We find a total of 309 firms that offer loans to executives. Seventy of the 309 firms have data available on Standard and Poor's ExecuComp database. For these firms, we collect compensation data from Execucomp from 1996 to 2000. For these years, we then collect (for each executive listed on Execucomp) detailed data from the firms' annual reports and proxy statements on the characteristics of any outstanding loans. We also collect data on the executives' years of tenure with the company. We end up with a total of 2,018 person-year observations for these firms, 700 of which are observations from executives with outstanding loans in that year. Since current disclosure of information on company loans is limited, our methodology ensures that we have a sample of firms who do lend money to executives and who report the details of these loans. It also provides us a comparison sample of executives *in the same firms* who do not have loans outstanding. This comparison sample should provide a perfect control sample since it automatically controls for firm characteristics.<sup>2</sup>

We also collect data on a variety of prevailing interest rates during the years of our sample. We collect monthly averages of 30-year mortgage rates from the Federal Home Loan Mortgage Corporation (Freddie Mac), broker call money rates from the Wall Street Journal, three-month LIBOR rates from the Federal National Mortgage Association (Fannie Mae), and federal funds and prime rates from the Federal Reserve of New York. We use these rates as

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<sup>2</sup> We considered matching our sample to a sample of firms that do not offer loans to executives. However, it is not clear that companies are always forthcoming about these loans. For example, Microsoft recently reported that it had forgiven a previously undisclosed \$15 million loan to former President and COO Rick Belluzo (Wall Street Journal, September 9, 2002, p. B6). As a result, matching to firms for which we could find no evidence of a loan could result in matching to firms that simply do not disclose these loans.

benchmarks for whether the interest rates on executive loans are at or below prevailing interest rates.

Following Ofek and Yermack (2000), we collect data from Execucomp on shares owned by the executive at the end of the year, stock options awarded during the year, options exercised during the year, options outstanding at the end of the year, and the dollar value of restricted stock awarded during the year. We estimate the number of restricted shares awarded by dividing the dollar value granted by the year-end stock price. We exclude “reload” options from our analysis. All share quantities are adjusted for stock splits so that variables are stated in common 2000 units. For firms with unusually large changes in share variables on a split-adjusted basis, we verify the Execucomp data.

We calculate changes in ownership by subtracting the prior year’s ownership from year-end ownership. As discussed in Ofek and Yermack (2000), a timing problem exists because companies report stock ownership as of the date of the proxy statement, which is due 45 days after the fiscal year-end. Thus we calculate yearly changes in ownership based on dates several months after the fiscal year-end. Ofek and Yermack test the importance of this timing difference by repeating their analysis on a three-year cumulative basis, and their results are virtually unchanged.

Stock ownership is defined in the Execucomp database as shares held directly, including restricted shares, but excluding options (whether exercisable or unexercisable). In contrast, the SEC definition of ownership requires that companies report beneficial ownership including options exercisable within 60 days. As a result of Execucomp’s definition, stock ownership should rise one-for-one during years in which executives are granted restricted stock or exercise options, but should exhibit no change when executives receive option grants.

### **3. Results**

Table 1 examines the frequency distribution of stock-based compensation awards and loans. For our sample of 2,018 person-year observations, more than four-fifths of executives receive option awards in a given year and approximately one-third exercise options. Restricted stock is awarded during approximately one-fourth of our person-years. These numbers are slightly higher than those reported by Ofek and Yermack (2000) for the 1993-1995 period. Finally, approximately one-third of executives have loans outstanding in a given year.

#### *3.1 Executive Loans*

The three most commonly reported purposes for executive stock loans are (1) to assist executives in purchasing shares of stock (stock purchase loans), (2) to help executives to exercise options and pay the taxes associated with option exercise (option exercise loans), and (3) to buy homes and help in relocation (relocation loans). Approximately 39 percent of the loans in our sample are stock purchase loans. An additional 28 percent are option exercise loans, while 11 percent are relocation loans. For 22 percent of the loans in our sample, there is no stated purpose. Table 2 presents descriptive statistics on the different types of executive loans.

Panel A of Table 2 examines the characteristics of stock purchase loans. The mean (median) amount loaned to executives to purchase stock is \$2,518,010 (\$508,682). Sixty-four percent of these loans are secured by stock in the company while less than one percent are secured by real assets. The principal is forgiven in 12.6 percent of the loans, while only interest is forgiven in an additional 10.2 percent of the cases. The median term of the loan is five years. The average interest rate on the loans is 6.1 percent, which is 1.1 percentage points below the

broker call money rate and 2.3 percentage points below the prime rate during the same time period. The below market interest rate translates into a \$63,307 average yearly cost of the loan to the company or 9.17 percent of the executive's total compensation. The corresponding yearly gain to the executive is a lower \$31,236 or 4.95 percent of his/her compensation.<sup>3</sup>

Panel B of Table 2 examines the characteristics of the option exercise loans. The mean (median) amount loaned to executives to exercise options is \$1,718,825 (\$388,000). Seventy-nine percent of these loans are secured by stock in the company, while another 1.3 percent are secured by other assets. The principal is forgiven in 6.9 percent of the loans, while only interest is forgiven in 2.9 percent of the cases. The median loan is made for a term of five years. The average interest rate on the loans is 6.2 percent which is also 1.1 percentage points below the broker call money rate and 2.3 percentage points below the prime rate during the same time period. Option exercise loans appear to be offered at interest rates similar to those on stock loans. However, the dollar value of the loan is smaller and they are more likely to be secured but less likely to be forgiven. Because of the lower dollar value of the loan, both the cost to the company and gain to the executive are smaller in this case than in stock loans. Specifically, the average yearly cost of the loan to the company is \$42,752 or 4.31 percent of the executive's total compensation. The corresponding yearly gain to the executive is \$21,347 or 1.81 percent of his/her compensation.

Panel C examines the characteristics of the relocation loans. Relocation loans tend to be smaller than stock purchase and option exercise loans, with the mean (median) amount loaned to executives equal to \$769,189 (\$288,750). Unlike the other loans, only 6.7 percent of these loans are secured by stock in the company, while 75 percent are secured by other assets. The principal

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<sup>3</sup> The cost to the company is measured as the difference between the prime rate and the interest rate on the loan, times the loan amount. The gain to the executive is measured as the difference between the broker call money rate (30-year mortgage rate for relocation loans) and the interest rate on the loan, times the loan amount.

is forgiven in 11 percent of the loans, while only interest is forgiven in 2.2 percent of the cases. The median loan is made for a term of five years. The average interest rate on the loans is 3.9 percent, which is 3.6 percentage points below the 30-year mortgage rate and 4.5 percentage points below the prime rate during the same time period. This lower interest rate appears to be due to the number of relocation loans that are offered interest-free. The average yearly cost of the loan to the company is \$42,752 or 4.31 percent of the executive's total compensation. The corresponding yearly gain to the executive is \$21,347 or 1.81 percent of his/her compensation.

Panel D examines the characteristics of the loans with no stated purpose. The mean (median) amount loaned to executives is \$755,904 (\$218,150). Fifty-four percent of these loans are secured by stock in the company, while ten percent are secured by real assets. The principal is forgiven in 17 percent of the loans, while only interest is forgiven in 4.2 percent of the cases. The median loan is made for a term of four years. The average interest rate on the loans is 5.5 percent which is 2.0 percentage points below the mortgage rate and 1.6 percentage points below the call money rate during the same time period. Although the dollar amount loaned is similar to the relocation loans, the interest rates and collateralization terms are more like the stock purchase and options exercise loans. The average yearly cost of the loan to the company is \$27,498 or 4.91 percent of the executive's total compensation. The corresponding yearly gain to the executive is \$18,245 or 3.27 percent of his/her compensation.

Although we have 2,018 person-years of data from Execucomp and data on 862 loans within these person-years, in order to calculate changes in ownership, we need two consecutive years of ownership data. We need two consecutive years of ownership for our tests since we are attempting to relate changes in ownership with loans granted to executives. This leaves us with 1,469 person-years of data for which we have ownership changes. There are 712 loans during

these person-years. We recalculate the loan statistics in Table 2 for these 712 loans. The results are virtually identical.<sup>4</sup>

### *3.2 Executive Compensation and Share Ownership*

Table 3 provides details on executive stock-based compensation and share ownership for the 1,469 person-year observations for which we have ownership changes. The first columns show details on the number of shares owned or received in the form of new stock options awards or restricted stock grants, or received upon exercise of previously granted options. The last columns show the percentage of shares owned or received, relative to common shares outstanding. Mean stock ownership is about 1,991,730 shares, or 1 percent of shares outstanding. Median values are only 88,660 shares, or 0.09 percent of shares outstanding. Mean (median) option holdings are 1,164,230 (366,880) shares, or 0.72 percent (0.35 percent) of shares outstanding. The average executive receives option grants of 265,180 shares, or 0.18 percent of shares outstanding, and exercises 154,970 shares, or 0.07 percent of shares outstanding. In contrast, the average amount of restricted stock granted is equal to \$228,500, or approximately 10,520 shares or 0.01 percent of shares outstanding. The average annual change in stock ownership is  $-0.02$  percent of shares outstanding.

A comparison of executive compensation and share ownership between officers who receive loans and those who do not indicates that executives with loans receive a greater fraction of stock-based compensation than executives without loans. Options granted, options exercised, and options outstanding as a percentage of shares outstanding are all significantly higher for executives with loans versus those without. The number of shares of restricted stock granted is

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<sup>4</sup> We also analyze whether the loan characteristics differ for CEOs versus other executives and new hires versus executives already in place. We find no statistically significant differences across the various groups.

also higher for executives with loans, although the fraction of restricted stock granted relative to shares outstanding is not. Likewise, the number of shares owned by executives with loans is significantly less than executives without loans, but as a fraction of shares outstanding, they are not significantly different. Finally, there is no significant difference in the yearly change in shares outstanding between the two groups, although on average the executives with loans increase their ownership while those without loans decrease their ownership.

### *3.3 Multivariate Analysis*

In this section, we test whether loans given to executives by their companies accomplish their intended purpose to align managers' incentives with those of shareholders by increasing managerial ownership. We regress changes in ownership on the number of new options awarded, the number of options exercised, and the number of restricted shares granted (all as a fraction of shares outstanding). We also include in the regressions the firms' stock return during the year, since managers concerned about diversification should be more likely to sell after stock price increases, and the number of years the executive has been with the firm (years tenure). Finally, we include variables intended to capture whether or not the executive has any loans outstanding.

Table 4 examines the changes in executive stock ownership as a function of stock-based compensation awards and loans. The first regression indicates that changes in managerial ownership are positively related to the number of options exercised and to the number of restricted shares awarded. Our coefficient on restricted stock awarded is similar to that found in Ofek and Yermack (2000) for low ownership individuals. Our coefficient on options exercised, however, is much higher than their result for either low ownership or high ownership individuals.

In fact, we cannot reject that this coefficient is equal to one. The coefficient on options awarded is negative, but not significantly different from zero. The coefficient on the stock return during the year is not significant.<sup>5</sup> The coefficient on the tenure variable is also not significantly different from zero. Finally, we include a dummy variable equal to one if the manager has any company-provided loans in that year. The coefficient on this variable is not significantly different from zero.

In regression 2, we include the same control variables. In this specification, we now include a dummy variable equal to one if the manager is provided with a new stock purchase loan in that year. This variable is positive and significant, indicating that stock purchase loans do result in an increase in managerial ownership. However, the economic significance of this coefficient is marginal.

In regression 3, we add variables that capture both the type of loan received by the executive and the loan amount. For each person-year observation, stock loan amount is equal to the dollar value of all stock purchase loans, divided by the fiscal year-end stock price, divided by the number of common shares outstanding. This variable is intended to capture the fraction of shares outstanding that the executive purchased with the loan. Option loan amount, relocation loan amount, and other loan amount are similarly defined. Note that for options loan amount, we would ideally like to divide the loan amount by the exercise price of the options purchased with the loan. This would provide an estimate of the number of shares received at option exercise as a result of the loan. Since this data is not available, however, we cannot calculate this. In this specification, we also add dummy variables equal to one if (a) the executive receives a new stock

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<sup>5</sup> In similar regressions, we include the stock return in the prior year. Although we lose observations due to data unavailability, in this regression the coefficient on stock return is negative and significant. This is consistent with good performance leading managers to want to diversify, and thus selling stock. The coefficients on the other variables do not change significantly.

loan in that year, and (b) the stock loan is secured by shares of common stock. The coefficients on the control variables are similar to those in the previous specifications, although the coefficient on options exercised is significantly different from one. The coefficient on the stock loan amount and option loan amount are positive and significant. The coefficient on the stock loan amount indicates that for every share purchased through a stock loan, ownership increases by 0.08 shares. The coefficient on the option loan amount is more difficult to interpret, since we do not know the number of shares received at options exercise. Even after controlling for the amount of the stock purchase loan, the coefficient on the new stock loan dummy is positive and significant.

#### *3.4 High versus low managerial ownership.*

Ofek and Yermack (2000) show that the effect of equity compensation on the incentive levels of managers depends on ownership. Consequently, we repeat our analysis after controlling for ownership. As in Ofek and Yermack, we segment the data into subsamples based on whether an executive owns as many shares at the beginning of the year as awarded in new grants of stock options and restricted stock during the year. The results are shown in Table 5.

We find that for high ownership individuals, ownership increases on a one-for-one basis with restricted stock awards. There is no significant relation between ownership changes and options granted or exercised. Low ownership individuals increase their ownership after receiving restricted stock and exercising options. However, their ownership decreases after options are granted. In contrast, Ofek and Yermack (2000) find that managers with low prior ownership do not sell shares after receiving new options, whereas high ownership managers do. They also find that when executives exercise options to acquire stock, nearly all of the shares are

sold, regardless of ownership. We also find that while high ownership individuals increase ownership slightly after receiving stock purchase loans, low ownership individuals increase ownership on almost a one-to-one basis after stock purchase loans. Low ownership managers also increase ownership in the presence of option exercise loans. Thus while our results differ in the details from Ofek and Yermack, they are similar in spirit: we both find that the incentives of low ownership managers improve more than those of high ownership individuals in the presence of equity-based compensation.

#### **4. Conclusion**

In the past year, in the wake of numerous accounting scandals, loans made to executives by their companies have come under increased scrutiny. We examine the characteristics of these loans, and find that the characteristics depend on the purpose for which the loan was made. Loans made to buy homes or assist in relocation tend to be offered at below market interest rates and are usually secured by real assets. Loans made to assist executives in purchasing stock or exercising options tend to be larger than relocation loans. They are often secured by stock and have higher interest rates.

We also find evidence that loans made for the purpose of purchasing stock or exercising options result in an increase in executive stock ownership. When looking at managers as a whole, the magnitude of this increase is small, however, relative to the value of the loan made. A loan that enables a manager to buy 100 shares of stock results in only an 8-share increase in ownership. For low ownership managers, however, the relation between ownership changes and stock purchase loans is almost one-for-one. Our results call into question the wisdom of these

loans, especially for managers for whom ownership levels are not problematic, and whether there is a more efficient way to align managers' interests with those of stockholders.

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**Table 1**

Descriptive statistics on the frequency of stock-based compensation awards and loans for a panel of executives in 70 firms between 1996 and 2000. The sample includes 2,018 person-year observations and is drawn from Standard and Poor's Execucomp database. Column 2 lists the fraction of person-year observations during which executives receive new stock options awards, exercise previously granted options, receive restricted stock awards, and receive loans for the entire sample. Columns 3 and 4 provide frequencies for person-years in which executives do not/do have loans.

	All executives	Without Loans	With Loans
Number of Observations	2,018	1,318	700
Percentage of all executives with			
New options awarded	80.6	77.9	85.6
Options exercised	33.9	32.3	37.0
Restricted stock awarded	25.7	24.1	28.7
Loans	34.7	0.0	100.0

**Table 2**

Table 2 presents descriptive statistics on the sample of 862 executive loans. Secured by stock (assets) is the fraction of loans that are secured by the executive's common stock (real assets). Principal (interest) forgiven is the fraction of loans in which the principal amount of the loan (interest only) is forgiven by the company. Fed funds spread is the difference between the interest rate on the loan and the average federal funds rate during the year of the loan. Libor spread is the difference between the interest rate on the loan and the average three-month LIBOR rate during the year of the loan. Prime spread is the difference between the interest rate on the loan and the average prime rate during the year of the loan. Cost is equal to the amount of the loan times the difference between the prime rate and the loan interest rate. Gain is equal to the amount of the loan times the difference between the broker call money rate (or mortgage rate for relocation loans) and the loan interest rate.

**Panel A: Stock Purchase Loans (N=334)**

	<b>Mean</b>	<b>Median</b>		<b>Mean</b>	<b>Median</b>
Loan Amount (000 \$)	2,518.010	508.682	Interest rate	6.057	5.910
Secured by stock	0.636	1.000	Loan term (in years)	5.553	5.000
Secured by assets	0.007	0.000	Prime spread	-2.300	-2.442
Principal forgiven	0.126	0.000	Mortgage rate spread	-1.479	-1.592
Interest forgiven	0.102	0.000	Call money rate spread	-1.074	-1.208
Cost (000 \$)	63.307	12.192	Cost/total compensation	0.0917	0.0245
Gain (000 \$)	31.236	5.033	Gain/total compensation	0.0495	0.0096

**Panel B: Option exercise Loans (N=245)**

	<b>Mean</b>	<b>Median</b>		<b>Mean</b>	<b>Median</b>
Loan Amount (000 \$)	1,718.825	388.000	Interest rate	6.181	6.237
Secured by stock	0.788	1.000	Loan term (in years)	5.114	5.000
Secured by assets	0.013	0.000	Prime spread	-2.298	-2.209
Principal forgiven	0.069	0.000	Mortgage rate spread	-1.357	-1.255
Interest forgiven	0.029	0.000	Call money rate spread	-1.082	-0.986
Cost (000 \$)	42.752	7.192	Cost/total compensation	0.0431	0.0117
Gain (000 \$)	21.347	1.698	Gain/total compensation	0.0181	0.0023

**Panel C: Relocation Loans (N=91)**

	<b>Mean</b>	<b>Median</b>		<b>Mean</b>	<b>Median</b>
Loan Amount (000 \$)	769.189	288.750	Interest rate	3.910	4.520
Secured by stock	0.067	0.000	Loan term (in years)	6.193	5.000
Secured by assets	0.753	1.000	Prime spread	-4.483	-4.043
Principal forgiven	0.110	0.000	Mortgage rate spread	-3.597	-2.646
Interest forgiven	0.022	0.000	Call money rate spread	-3.255	-2.783
Cost (000 \$)	31.658	12.406	Cost/total compensation	0.0379	0.0231
Gain (000 \$)	24.657	8.758	Gain/total compensation	0.0295	0.0145

**Panel D: Other Loans (N=192)**

	<b>Mean</b>	<b>Median</b>		<b>Mean</b>	<b>Median</b>
Loan Amount (000 \$)	755.904	218.095	Interest rate	5.520	5.830
Secured by stock	0.537	1.000	Loan term (in years)	3.672	4.000
Secured by assets	0.101	0.000	Prime spread	-2.876	-2.441
Principal forgiven	0.169	0.000	Mortgage rate spread	-2.014	-1.533
Interest forgiven	0.042	0.000	Call money rate spread	-1.649	-1.191
Cost (000 \$)	27.498	4.852	Cost/total compensation	0.0491	0.0110
Gain (000 \$)	18.245	1.390	Gain/total compensation	0.0327	0.0023

**Table 3**

Descriptive statistics on executive compensation and share ownership for a panel of executives in 70 firms between 1996 and 2000. The sample includes 1,469 person-year observations for which changes in ownership are available and is drawn from Standard and Poor's Execucomp database. Panel A presents descriptive statistics for the entire sample. Panel B (C) presents statistics for executives who do not (do) receive loans. The left-hand side of the table provides data on the number of shares owned. The right-hand side provides data on shares owned as a percentage of shares outstanding. T-test is the p-value of a test of the differences in the means between the executives without loans and those with loans.

	<b>Number of shares</b>			<b>Number of shares / shares outstanding</b>		
	<b>(000s)</b>					
<b>All Executives</b>						
<b>N = 1,469</b>	<b>Mean</b>	<b>Median</b>		<b>Mean</b>	<b>Median</b>	
Total Options Granted	317.05	70.13		0.190	0.062	
Non-reload options granted	265.18	70.00		0.185	0.059	
Options exercised	154.97	0.00		0.074	0.000	
Options Outstanding	1164.23	366.88		0.724	0.352	
Restricted stock granted	10.52	0.00		0.008	0.000	
Shares owned	1991.73	88.66		0.999	0.089	
Change in ownership	-43.14	1.45		-0.016	0.001	
<b>Executives without loans</b>						
<b>N = 899</b>	<b>Mean</b>	<b>Median</b>		<b>Mean</b>	<b>Median</b>	
Total Options Granted	317.85	60.00		0.155	0.047	
Non-reload options granted	264.24	60.00		0.152	0.047	
Options exercised	169.62	0.00		0.055	0.000	
Options Outstanding	1237.95	347.40		0.617	0.293	
Restricted stock granted	7.71	0.00		0.007	0.000	
Shares owned	2770.45	66.76		0.966	0.052	
Change in ownership	-81.26	0.50		-0.041	0.000	
<b>Executives with loans</b>						
<b>N = 570</b>	<b>Mean</b>	<b>Median</b>	<b>t-test</b>	<b>Mean</b>	<b>Median</b>	<b>t-test</b>
Total Options Granted	317.99	91.65	0.998	0.245	0.091	0.001
Non-reload options granted	269.05	84.85	0.902	0.237	0.087	0.001
Options exercised	146.44	0.00	0.589	0.104	0.000	0.013
Options Outstanding	1062.95	400.00	0.162	0.891	0.441	0.000
Restricted stock granted	14.92	0.00	0.013	0.009	0.000	0.558
Shares owned	766.97	159.47	0.000	1.048	0.160	0.647
Change in ownership	6.14	6.40	0.172	0.021	0.006	0.151

**Table 4**  
**Annual Changes in Shares Owned**

Ordinary least squares regressions of changes in executive stock ownership as a function of stock-based compensation awards. The dependent variable is the increase in the number of shares held by the executive divided by total shares outstanding. New options awarded, options exercised, and restricted shares awarded are also measured as a fraction of shares outstanding. Loan is a dummy variable equal to one if the executive has a loan outstanding in that year, and zero otherwise. Heteroskedasticity-consistent p-values are in parentheses.

		(1)	(2)	(3)
Intercept		-0.001 (0.012)	-0.001 (0.006)	-0.001 (0.050)
New options awarded	$H_0 = 0$	-0.114 (0.131)	-0.108 (0.163)	-0.108 (0.110)
Options exercised	$H_0 = 1$	0.700 (0.000)	0.709 (0.000)	0.642 <sup>b</sup> (0.000)
Restricted shares awarded	$H_0 = 1$	1.088 (0.000)	1.085 (0.001)	1.022 (0.000)
Stock return during the year		-0.000 (0.979)	0.000 (0.932)	0.000 (0.686)
Loan		0.000 (0.287)		
Years tenure		-0.000 (0.489)	-0.000 (0.463)	-0.000 (0.609)
Stock Loan Amount				0.079 (0.000)
Option Loan Amount				0.548 (0.040)
Relocation Loan Amount				0.169 (0.685)
Other Loan Amount				-0.045 (0.549)
New Stock Loan dummy			0.002 (0.000)	0.002 (0.077)
Secured Stock Loan dummy				-0.000 (0.398)
Adjusted R <sup>2</sup>		0.070	0.072	0.076

<sup>a,b,c</sup> denote significant differences from one at the 1, 5, and 10 percent levels, respectively, if  $H_0 = 1$ .

**Table 5****Annual Changes in Shares Owned for High and Low Ownership Managers**

Ordinary least squares regressions of changes in executive stock ownership as a function of stock-based compensation awards. The dependent variable is the increase in the number of shares held by the executive divided by total shares outstanding. New options awarded, options exercised, and restricted shares awarded are also measured as a fraction of shares outstanding. Loan is a dummy variable equal to one if the executive has a loan outstanding in that year, and zero otherwise. Years tenure is the number of years the executive has worked for the company.

Heteroskedasticity-consistent p-values are in parentheses.

		High Ownership	Low Ownership
Intercept		-0.001 (0.074)	-0.000 (0.525)
New options awarded	$H_0 = 0$	-0.208 (0.296)	-0.119 (0.003)
Options exercised	$H_0 = 1$	0.196 <sup>a</sup> (0.254)	0.636 <sup>a</sup> (0.000)
Restricted shares awarded	$H_0 = 1$	1.041 (0.000)	0.686 (0.031)
Stock return during the year		0.000 (0.563)	0.000 (0.896)
Years tenure		0.000 (0.758)	0.000 (0.936)
Stock Loan Amount		0.080 (0.000)	0.928 (0.000)
Option Loan Amount		0.316 (0.188)	1.483 (0.000)
Relocation Loan Amount		0.860 (0.672)	0.085 (0.126)
Other Loan Amount		-0.029 (0.654)	-0.489 (0.355)
New Stock Loan dummy		0.002 (0.402)	0.001 (0.221)
Secured Stock Loan dummy		-0.000 (0.740)	-0.000 (0.985)
Adjusted R <sup>2</sup>		0.011	0.777

<sup>a,b,c</sup> denote significant differences from one at the 1, 5, and 10 percent levels, respectively, if  $H_0 = 1$ .