**"Are bank loans special? Not if banks compete"**

**(joint with Silvio Petriconi)**

**Abstract:**

We show that local market power is essential for banks' informational advantage in lending. We first confirm that James (1987)'s finding that bank loans are a ``special'' form of debt persists even 20 years later. In fact, there is a positive abnormal stock return when a firm obtains a bank loan, but a negative one when it issues a bond. However, the abnormal return to a loan decreases in US states that deregulate interstate branching, suggesting that competition induces banks to invest less in information acquisition. Moreover, bank competition matters more for informationally-sensitive borrowers (small firms and those with no access to the bond market) and for relationship-lending banks (small banks).