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Does bank loan supply affect the supply of equity capital? Evidence from new share issuance and withdrawal

Mikael C. Bergbrant , Daniel Bradley , Delroy M. Hunter

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**Does bank loan supply affect the supply of equity capital?
Evidence from new share issuance and withdrawal**

Mikael C. Bergbrant
Department of Economics and Finance
Tobin College of Business
St. John's University
Queens, NY 11439
Tel: (813) 447-6288
E-mail: bergbram@stjohns.edu

Daniel Bradley
Department of Finance
Muma College of Business
University of South Florida
Tampa, FL 33620
Tel: (813) 974-6326
E-mail: danbradley@usf.edu

Delroy M. Hunter
Department of Finance
Muma College of Business
University of South Florida
Tampa, FL 33620
Tel: (813) 974-6319
E-mail: dhunter2@usf.edu

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We examine the hypothesis that fluctuations in the aggregate supply of bank loans influence the supply of new equity capital. Using residual lending standards as a clean measure of aggregate loan supply and a VAR framework to aid identification, we find that a one-standard-deviation shock to lending standards results in 15% fewer IPOs. Shocks elicit strong responses from IPO-firms that are highly dependent on external capital and increase the number of withdrawals, strengthening the interpretation that the above is driven by changes in the supply of equity. Our results suggest that credit conditions are important to a well-functioning IPO market.

Keywords: IPO volume, IPO withdrawal, credit constraints

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