Market reactions when zero-leverage firms obtain bank finance

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Certificate of original authorship

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

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Abstract

Prior studies of bank loan announcements depict significant capital market reactions. More recent evidence however, fails to identify such reactions (Fields *et al.* 2006, Maskara & Mullineaux 2011). In this study, I consider market reactions to loan initiations where the borrower has no prior record of bank lending. Zero-leverage firms are firms that have zero outstanding short-term or long-term debt in their capital structure (Strebulaev & Yang 2013). Using a unique hand collected sample of bank loan announcements for Australian Mining Development Stage entities, I find that both initial bank loans and subsequent bank loans attract significant market reactions. Further, I produce evidence consistent with announcements of such loans reducing information asymmetry which I proxy for with bid-ask spreads and trading volume. My final analysis examines evidence of bank specialisation. I find that borrowers from the industry leader in terms of loan origination (Macquarie Bank) in this sector exhibit stronger abnormal returns.

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