The Unforeseen Impact: IPOs and Worsening Performance in Local Residential Mortgage Markets

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March 19, 2025

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Acknowledgments

We acknowledge helpful comments from several anonymous journal referees, Alexandr Akimov, Alla Koblyakova, Brent Ambrose, Akmalia Ariff, Yiran Niu, Eva Steiner, Yonglin Wang, and participants of the 2023 Asian Finance Association Annual Conference, 2023 AsRES-GCREC Joint International Real Estate Conference, and 2024 AsRES-GCREC & AREUEA Joint International Real Estate Conference.

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Abstract

This study examines the potential linkages between corporate public listing activities and the performance of local residential mortgage markets, using a dataset of 1,100 IPOs in the U.S. from 2000 to 2018. While existing literature suggests that IPOs may generate positive spillover effects, such as stimulating local businesses and housing markets, we find an unexpected negative correlation between long-term IPO activity and the average performance (particularly foreclosure rates and 90-day delinquency rates) of local mortgage loans. We explore several potential explanations for this relationship and find little evidence to support the hypothesis that it is driven by the post-IPO rising housing costs, exit of wealthier borrowers from the mortgage market due to welfare changes, or cashing out of home equity by local residents to finance their increased stock market participation. However, we do find that IPO activity is positively associated with the local loan-to-household ratio and the median OLTV ratio. Additionally, the negative correlation between IPO size and loan performance is stronger when excluding MSAs that are home to the headquarters of largest mortgage lenders that have nationwide operations. The relationship remains after we control for degree of banking restrictions on household loans. Our findings suggest a potential "counter-cyclical" shift in lending quality, similar to trends identified in banking literature, where lenders may relax lending standards or reduce the quality of borrower assessments during business upswings following IPOs.

JEL classification: R30, G21, R20

Keywords: initial public offering; mortgage; capital market; counter-cyclical

1. Introduction

IPO markets and residential mortgage markets are both vital components in capital markets, catering to the needs of business entities and households, respectively. Regions witnessing active initial public offerings frequently undergo surges in housing prices, business expansions, and overall economic improvements. These are all influential to the dynamics of mortgage loan markets. Nevertheless, academic studies addressing the direct and/or indirect interplays between these two capital markets are scare, which may be attributed to the inherent division across two fields – corporate finance and residential mortgage. Connecting these two domains presents a unique intersection that has yet to receive scholarly exploration.

Our study addresses this research gap by investigating the potential linkages between long-term IPO activity and the performance of local residential mortgage markets. Using a dataset of 1,100 IPOs in the U.S. from 2000 to 2018, we find evidence that after a notable increase in local long-term IPO activity, mortgage market health indicators tend to decline. Specifically, foreclosure rates and 90-day delinquency rates increase, with most of these effects concentrated in the 2010–2018 period. We explore several potential channels for this negative relationship between IPO activity and mortgage performance and find that the most likely mechanism is a decline in lending standards that coincides with improved economic conditions following surges in local IPO activity.

Existing literature has explored the connections between public listing activities and local economic indicators, including employment growth, revenue growth, and business establishments (such as Kenney, et al., 2012, Babina, et al., 2017, Borisov, et al., 2021 and Cornaggia, et al., 2024). Albeit with some inconsistencies in findings, majority of these studies demonstrate a positive association of IPOs to the growth of local business and employment. More recently, several papers have shed light on the relationships between IPO activities and local housing market characteristics, particularly housing price movements. These include the works of Butler, Fauver and Spyridopoulos (2019), Nguyen, Staer and Yang (2022), and Hartman-Glaser, Thibodeau and Yoshida (2023). Most of them reveal associations between IPOs and the escalation of housing prices.

In spite of these studies, to the best of our knowledge, there has been a notable absence of research examining the connections between public listing markets and local mortgage loan markets. In fact, even research linking stock markets to mortgage markets has been quite scarce. Among the sporadic studies, Titman and Tsyplakov (2010) have observed that commercial mortgage loans originated by institutions experiencing significant stock underperformance just before loan originations tend to have higher default rates compared to other commercial mortgage loans with similar characteristics. They argue that these underperforming originators may have less incentive to meticulously assess the credit risk of prospective borrowers. Additionally, Chen and Stafford (2022) discovered that families facing mortgage payment difficulties were more inclined to exit the stock market, and mortgage-related challenges acted as a deterrent, preventing households from entering the stock market as new participants. Our paper seeks to fill the research gap by undertaking a pioneering investigation into the relationships between IPO activities and local residential mortgage market performance (with a focus on the local foreclosure rate and 90-day delinquency rate). Furthermore, we aim to explore the potential mechanisms that contribute to the formation of these relationships.

Mortgage loan performance is a pivotal aspect of any mortgage market, and the risk of underperformance in residential mortgages has been widely examined in real estate and mortgage literature.[1] Jones and Sirmans (2015) provide a comprehensive review of mortgage literature, summarizing a range of factors that influence mortgage underperformance. These include loan characteristics (such as initial LTV, current LTV, loan amount, and probability of negative equity), trigger events (like unemployment and divorce rates), borrower characteristics (credit score, payment-to-income ratio, age, etc.), local housing market conditions (house price appreciation and volatility), and broader macroeconomic conditions (interest rate spreads and volatility).

[1] Mortgage underperformance, particularly in the form of foreclosures, proves not only financially burdensome for homeowners and lenders (McCarthy et al., 2013; Focardi, 2002) but also triggers a cascade of consequences for local households and the economy at large. These repercussions include diminished capital expenditure investments in residential properties (Li, 2016), negative spillovers affecting neighborhood stability and community well-being (Baxter and Lauria, 2000; Lin, Rosenblatt and Yao, 2009), impacts on the corresponding property values of neighborhoods (Immergluck and Smith, 2006), increased local tax delinquencies (Simons, Quercia and Maric, 1998), and alterations in the effective interest rates received by lenders (Kahn and Yavas, 1994).

Mortgage underperformance was exemplified notably during the subprime crisis, marked by a surge in defaults and foreclosures. Research has identified a strong correlation between this crisis and the widespread use of risky alternative mortgage products, such as interest-only loans and negative amortization loans (LaCour-Little and Yang, 2010). Additionally, the relaxation of underwriting standards, including reduced loan documentation requirements, has been linked to the rise in mortgage underperformance (Courchane, Kiefer, and Zorn, 2015; LaCour-Little and Yang, 2013), particularly during the "easy loan period" from 2000 to 2007, leading up to the subprime crisis.[2] All of these credit supply-side factors can impact mortgage loan performance by influencing key borrower metrics such as credit score, income, payment-to-income ratio, initial LTV, and other performance determinants outlined by Jones and Sirmans (2015).

IPO activities may exert influence on local residential mortgage loan performance through multiple channels, including the housing price channel, wealth channel, stock market channel and business channel. Most of these channels may lead to nuanced outcomes.

(1) Housing price channel: This relates to the positive impact of IPOs on local housing price appreciation, a key determinant of mortgage performance highlighted by Jones and Sirmans (2015). This impact is well-documented in the literature and receives supports from our study, as we will elaborate later. The effects through this channel are multifaceted. On one hand, rising housing prices can improve mortgage loan performance by reducing borrowers' incentives for equity-driven strategic defaults (LaCour-Little and Yang, 2010) or by lowering the risk of productivity drops among borrowers (Bernstein et al., 2021), a phenomenon we term the "equity appreciation effect". On the other hand, research by Ong et al. (2006) and Eriksen et al. (2013) suggests that premiums paid on home purchases above fair market value can increase mortgage loan costs for borrowers, raising foreclosure risks and worsening loan performance – a dynamic we term the "cost inflation effect". However, our findings contradict this latter effect: housing

[2] Studies also find other causes for mortgage underperformance, including insufficient participation in government mortgage programs (Passmore and Sherlund, 2021), information disadvantage of geographically diversified lenders and their corresponding difficulty in screening borrowers (Louskina and Strahan, 2011), house purchase price premium paid on top of the fair market value (Ong, et al., 2006), and impatience in selling houses by investors (Fisher and Lambie-Hanson, 2012).

price appreciation appears to mitigate, rather than exacerbate, local mortgage underperformance. [3]

(2) Wealth channel: This pertains to the wealth changes experienced by IPO stockholders, who often experience positive wealth shocks after selling their shares in the secondary market, particularly following lock-up expiration dates. These wealth gains stimulate additional demand for local housing, driving up prices (Hartman-Glaser et al., 2023; Nguyen et al., 2022), thereby reducing strategic default risk – a component of the "equity appreciation effect" within the housing price channel. Moreover, these wealth shocks lower financially-driven default risks among wealthier borrowers, an effect we term the "wealth shock effect". Positive wealth shocks can increase borrower income and lower the payment-to-income ratio, both of which are key mortgage performance determinants summarized in Jones and Sirmans (2015).

However, wealthier IPO stockholders may reduce their financial dependence on mortgages, potentially lowering the average quality of mortgage borrowers – a phenomenon we call the "rich retreat effect". As found in studies such as Amromin et al. (2007), despite the tax-saving benefits of mortgage loans, a significant portion of households choose to prepay or reduce their mortgage debt when they have increased cash, willingly forgoing these tax benefits due to their aversion to carrying debt. Of course, this does not apply to all households or individuals. For instance, some affluent individuals do not necessarily withdraw from mortgage markets after experiencing wealth shocks. A report titled "Zuckerberg's 1% Mortgage: Why Does a Billionaire Need a Loan?" published by CNBC on July 18, 2012,[4] illustrates that wealthy individuals may still opt for mortgages rather than cash purchases, and may also invest in second homes or investment properties. In line with this, as we will demonstrate later, the proportion of mortgage loans for non-

[3] One possible justification is that the cost inflation effect is based on two key assumptions when local housing prices rise: (1) for behavioral reasons, homebuyers suddenly struggle to determine which homes they can afford, and (2) the proceeds from homes sold do not match the costs of homes purchased, particularly since many buyers are not first-time homeowners. However, both of these assumptions are questionable.

[4] See article titled "Zuckerberg's 1% Mortgage: Why Does a Billionaire Need a Loan?" by Schuyler Velasco (of the Christian Science Monitor) at *CNBC* on July 18, 2012, available from Zuckerberg's 1% Mortgage: Why Does a Billionaire Need a Loan? (cnbc.com).

owner-occupied properties (typically owned by wealthy investors) tends to increase, rather than decrease, following local IPO activity, opposite to the prediction from the "rich retreat effect".

(3) Stock market channel: A recent study by Jiang, et al. (2024) finds that increased local IPO activity boosts stock market participation. If IPOs trigger a market frenzy, individuals may excessively extract home equity or borrow aggressively, potentially leading to poor mortgage performance – a phenomenon we refer to as the "cash out effect". This aligns with Mian and Sufi's (2011) finding that borrowing against rising home equity accounted for a significant portion of the increase in U.S. household leverage from 2002 to 2006 and the subsequent rise in defaults from 2006 to 2008. This effect can lead to a high original loan-to-value ratio or a high current loan-to-value ratio, both key factors in mortgage underperformance, as highlighted by Jones and Sirmans (2015). However, our study finds no evidence supporting this effect: long-term stock market performance influences neither mortgage market performance nor the IPO-mortgage performance relationship.

(4) Business channel: This is associated with the impacts of IPOs on local mortgage markets through their broader positive effects on local business growth, as documented in existing literature.[5] Increased local business activity and corresponding employment growth often improve the financial situations of local borrowers, reducing defaults and foreclosures – a dynamic we term the "business booming effect". This effect can result in higher borrower incomes and lower unemployment rates, both of which are major drivers for better mortgage performance, as identified by Jones and Sirmans (2015).

However, economic booms and flourishing loan markets can paradoxically lead to poorer loan performance due to lenders' counter-cyclical information production and lending standards. Research shows that during economic downturns, banks tend to invest more in information

[5] For example, see the studies by Kenney et al. (2012), Butler et al. (2019), and Borisov et al. (2021). However, Babina et al. (2017) and Cornaggia et al. (2024) report that IPOs may lead to a decline in local employment and business establishments. This can happen when "wealthier" employees of IPO firms leave or when these firms crowd out other local businesses. Nonetheless, our analysis, presented later in our paper, supports a generally positive relationship between IPO activities and local GMP growth. It is important to note that this relationship could also be due to the opposite causality. For instance, Gao et al. (2013) find that venture capital funds are more likely to exit financed firms via IPOs during economic booms, while they tend to favor mergers and acquisitions during downturns. To show the impact of IPOs on mortgage loan performance beyond local business cycles, our loan performance analyses do account for local economic conditions, as detailed later in the paper.

acquisition, enforce stricter lending standards, and spend more time on loan origination – practices that enhance the predictability of default. In contrast, during economic booms, banks may relax their standards to remain competitive or become overly optimistic about new lending opportunities, a phenomenon we term the "counter-cyclical lending quality effect".[6] This effect can lead to higher initial LTV ratios as well as lower borrowers' credit scores and incomes, all of which are factors contributing to mortgage underperformance, as summarized by Jones and Sirmans (2015).

In summary, IPOs, often occurring during economic booms and further fueling local business and housing markets, may paradoxically lead to worsened local mortgage market performance through these complex channels.

Our research also contributes to the line of studies on the relationships between public firms and their headquarters' locations. While firms going public may expand their businesses across MSAs, states, or even countries, they retain a notable influence on the investment portfolio choices of investors and households at their headquarters, who are inclined to own and trade local stocks (see, for example, Pirinsky and Wang, 2006, and Branikas, et al., 2020). On the other hand, headquarters locations also influence public firms' decisions, such as capital structure choices (Gao, et al., 2011). Additionally, companies in certain industries tend to cluster geographically to leverage the positive externalities of proximity (Marshall, 1980, and Hartman-Glaser, et al., 2023). Our study augments this evidence by illustrating how IPOs impact residential mortgage market performance in their headquarters' MSAs.

In this study, we investigate the potential effects of IPO activities on local residential mortgage market performance through the various channels discussed above, and determine whether the overall positive impacts of IPOs outweigh or are overshadowed by their negative effects on local mortgage market performance. Using a comprehensive sample of 1,100 U.S. IPOs from 2000 to 2018, we find a generally negative association between long-term IPO activities and local

[6] This line of research includes studies by Howes and Weitzner (2022), Rodano et al. (2018), Dell'Ariccia et al. (2012), Lisowsky et al. (2017), Becker et al. (2020), Dell'Ariccia and Marquez (2006), Kraft and Jankov (2005), Fahlenbrach et al. (2018), Zurek (2022), and others. Interestingly, Goetzmann et al. (2012) report that housing price appreciation, which typically occurs during economic booms, also leads to an increase in loan applications and subprime loan approval rates from lenders. This aligns with the "counter-cyclical lending quality effect", suggesting that the business channel is intertwined with the housing price channel.

mortgage market performance, particularly when latter is assessed by local foreclosure rates or 90-day delinquency rates.

This unexpected association is not simply a byproduct of concurrent booming housing markets, as it stays when isolating influences from local housing price movements. Additionally, it is unlikely to be driven by welfare changes associated with IPOs, as indicated by the observed increase in the local non-owner-occupied loan ratio following IPOs. Furthermore, it is not likely due to the local residents' cashing out of home equity to finance increased stock market participation triggered by IPOs either, given that long-term stock market returns show no impacts on mortgage underperformances after we control for local IPO activity. Interestingly, we find IPO variables positively correlated with the local mortgage loan-to-household ratio and the median OLTV (original loan-to-value). Moreover, the negative correlation between IPO size and mortgage performance is generally stronger when excluding MSAs that host national leading lenders, and these lenders operate on a nationwide scale and are less likely to be influenced by local events. Finally, we find that the relation remains after we control for degree of banking restrictions on household loans. These findings suggest a potential "counter-cyclical" change in lending quality after IPOs, similar to trends identified in banking literature, where lenders adopt more lenient lending standards or produce lower-quality borrower information during economic booms.

We analyze the relationships between IPO activities and local mortgage loan market performance not only over the full sample period from 2000 to 2018 but also across various sub-periods, including the easy loan period, recession period, and rebound period. This approach helps mitigate the potential influences of changes in mortgage regulations across different periods on our results. Additionally, for each of these samples, we control for MSA, year, and quarter fixed effects to further minimize disturbances arising from potential cross-area or cross-time variations in mortgage policies or regulations, as we will elaborate on later.

The subsequent sections of the paper are structured as follows: we introduce our data sources, research hypotheses, and methodologies in the upcoming section. Following that, the third section presents descriptive statistics, while the fourth section unfolds our primary regression results. Finally, the paper concludes in the fifth section.

2. Data, Hypotheses and Methodologies

2.1. Data

This empirical study uses data from various sources. At the MSA level, we employ: (1) residential mortgage market data from CoreLogic; (2) quarterly Housing Price Indices from FHFA (Federal Housing Finance Agency); and (3) economic variables from Moody's Analytics. At the IPO/firm level, we use: (1) IPO data from Kenney-Patton database, SDC (Securities Data Company) and Jay Ritter IPO Data website; and (2) company information from COMPUSTAT. At the national level, we use: (1) Federal Reserve Economic Data; and (2) stock market data.

One of our primary databases, the CoreLogic Market Trend database, provides quarterly MSA-level mortgage market information. This includes details such as the total mortgage loan count, the count of loans with special performance statuses (including foreclosure, pre-foreclosure, 90-day delinquency, REO, and auction), the count of non-owner occupancy loans, and the MSA-median OLTV (that is, original LTV ratio) of mortgage loans. The database covers 39 MSAs across the United States, including major urban areas like New York-Jersey City-White Plains (NY-NJ), Los Angeles-Long Beach-Glendale (CA), Chicago-Naperville-Arlington Heights (IL), Boston (MA) and San Francisco – Redwood City – South San Francisco (CA), among others. Unfortunately, due to data limitation, this mortgage market data does not cover three important IPO hosting cities: San Jose, Houston and Philadelphia.

In alignment with Nguyen, et al. (2022), we compile IPO data from diverse sources, with a primary focus on the emerging growth IPO database built by Martin Kenney and Donald Patton. This comprehensive database offers detailed information for each IPO, including the company's business address, offering price, the number of shares publicly offered, and the number of shares outstanding post-offering. We then incorporate additional information about the offering dates by referring to Jay Ritter's IPO database, the COMPUSTAT North America database, and the SDC Platinum database for Global New Issue. These result in an IPO-level dataset comprising 1,100 IPOs listed in the U.S. during years 2000 to 2018, from firms headquartered in the 39 MSAs covered by the CoreLogic Market Trend Database.

Next, we consolidate IPO information at the MSA level and integrate it into our mortgage market dataset. Specifically, for each MSA in every quarter, we measure IPO activities of firms headquartered within the MSA by the total number of IPOs issued, and their total values (referred to as IPO sizes). We calculate the value of each IPO by multiplying the IPO price by the total number of shares outstanding after the offering.

As in Nguyen, et al. (2022), our analyses are based on scale-adjusted IPO variables, which are raw IPO variables divided by the population of the MSA in the current quarter, to control for the size of the local economy. Given our main interest in the effects of long-term IPO activity on local residential mortgage loan performance, to explore issues including if IPOs affect the lenders' loan origination qualities, we focus on local long-term scale adjusted IPO variables, including accumulated scaled-adjusted IPO number and IPO size (value) for IPOs occur in each MSA during recent 5, 7, 10 and 12 years. Our MSA-level mortgage market performance data do not provide average loan age information, so we use these various time windows to match varied possible average loan ages, as such that these IPO variables can be comprehensive enough to reflect the loan IPO activity at loan origination times.

Furthermore, in our regressions analyzing local mortgage market performance and other mortgage market characteristics, we include the MSA unemployment rate and/or population growth rate to account for local economic fluctuations. More importantly, we incorporate the GMP growth rate into regressions. This not only helps control for local economic conditions but also allows us to segregate any IPO-specific impacts on mortgage market performance from the impacts from the general business booms.

Additionally, we include three variables in the mortgage market regressions to account for capital market conditions: (1) Mortgage Rate (30-Year) – the average loan rate for 30-year fixed-rate mortgages in the United States, not seasonally adjusted; (2) Yield Curve Slope – the ratio of the 10-year Treasury bond rate to the 2-year Treasury note rate; and (3) S&P 500 Return – the annualized change rate of the S&P 500 index. In regressions involving variables that are not directly related to the mortgage market (such as the annual GMP growth rate), we replace the 30-year mortgage rate with the 3-month T-bill rate to control for the level of interest rates. The

information on the mortgage rate, yield curve and T-bill rate comes from the Federal Reserve Economic Data.

Note that in testing the "cash out effect" of IPOs via the stock market channel in affecting loan performance, we including the long-term S&P 500 Return in the mortgage performance regressions. Moreover, in the tests related to mortgage lending (for instance, the regression for local loan-to-household ratio and that for the OLTV ratio) as well as in a robustness test of our main result, we also control for the long-term average bank tightening rate. Bank tightening rate is the net percentage of US domestic banks tightening standard on household loans, weighted by banks outstanding loan balances (not seasonally adjusted), and the data also comes from the Federal Reserve Economic Data. This will help us detect if the roles of IPOs (in affecting lending qualities) remain after we control for national banking sector lending standard changes.

2.2. Hypotheses and Methodologies

As previously mentioned, our study aims to investigate the potential correlations between long-term IPO activities and the performances of mortgage loan markets in areas hosting IPO firms' headquarters. Moreover, we seek to elucidate the underlying mechanisms driving these correlations.

To start our analysis, we develop regressions in which each MSA mortgage market performance variable is regressed on a specific scaled IPO variable measured over a particular term. This regression is carried out while incorporating controls for proxies for local economic dynamics, such as the GMP growth rate, and the MSA-level unemployment rate and/or population growth rate. By including these proxies, we aim to ensure that any observed effects of long-term IPO activities in the regression results are not confounded by concurrent local economic changes. The sign and significance of the coefficient associated with the scale-adjusted IPO variable in the regression serve as a means to test various hypothesized channels and/or effects mentioned earlier. Denoting *i* as the MSA indicator, our regression model is expressed as follows:

$$M_{i,q} = \alpha + \beta I_{i,t} + \sum_{k=1}^{K} \gamma_k F_{i,k,q} + \sum_{j=1}^{J} \theta_j C_{j,q} + \delta_{i,q}, \quad (1)$$

where q is the quarter index; $M_{i,q}$ is the $i-$th MSA's mortgage market performance variable at quarter q; $I_{i,t}$ is one of the local long-term IPO variables mentioned earlier for the $i-$th MSA during time window t, and t can be the most recent 5, 7, 10 or 12 years (that is, quarter q-19, q-27, q-39, or q-47, respectively, to current quarter); $F_{i,k,q}$ is the $k-$th local economic variable of the $i-$th MSA, with $k = 1, 2, \ldots K$; and $C_{j,q}$ is the $j-$th national capital market variables, with $j = 1, 2, \ldots J$. In addition, α is a constant, β, γ_k and θ_j are coefficients, and $\delta_{i,q}$ is the error term. The coefficient of the scaled local IPO activity measurement, β, indicates an association between local IPO activities and mortgage loan market performance through a specific channel and/or effect. To deal with the possible heteroskedasticity and/or auto-correlations in our dataset, we use Generalized Least Squares (GLS) estimation to compute coefficients. In addition, to account for any potential correlation within the same MSA or that during the same quarter, we adjust the standard errors with two-way clustering by MSAs and quarter counts. This results in a total of 39 MSA clusters, as well as 76 quarter clusters accounted for across our 19-year sample period. Furthermore, we incorporate MSA, year, and quarter fixed effects in our model, to mitigate potential influences from cross-time and/or cross-area differences in national and/or local mortgage sector regulations on our results.[7] The regression model is structured to test the following hypothesis:

[Hypothesis 1: for IPO-loan performance relationship] The level of local long-term IPO activity, measured by various long-term IPO variables, exacerbates mortgage market underperformance, as shown in the mortgage market underperformance regression following Equation (1).

When mortgage market performance is assessed using underperformance variables such as the foreclosure rate and the 90-day delinquency rate, Hypothesis 1 predicts that the coefficient β for the local IPO variable will be positive. As we will demonstrate later, this prediction is supported

[7] To mitigate the potential confounding effect of local economic changes on IPO activities, several studies, such as Borisov et al. (2021) and Cornaggia et al. (2024), investigate the impact of IPOs on local economic growth by comparing firms that successfully completed IPOs with those that withdrew. Similarly, Bernstein (2015) employs this method to analyze the effects of IPOs on firms' innovation strategies. Other research, such as Butler et al. (2019) and Nguyen et al. (2022), employ a matching-sample approach based on zipcode or MSA characteristics to compare local economic changes in areas with IPOs to similar areas without IPOs. However, due to limitations in our data on IPO withdrawals and the small sample size (only 39 MSAs), we are unable to perform comparable analyses. Instead, we address this issue by including local economic variables, along with MSA, year, and quarter fixed effects, in our regressions.

by the majority of the IPO variables we examine, indicating that Hypothesis 1 is generally confirmed by our data. Building on this, we also develop several extended hypotheses to test the potential channels that may explain the positive relationship between IPO activities and local mortgage underperformance: the housing price channel, wealth channel, stock market channel and business channel.

The housing price channel is via IPOs' influence on local housing price movements. We will explore whether the relationships between long-term IPOs and mortgage performance primarily stem from the influences of IPO activities on local housing markets, particularly housing prices, rather than through direct effects on the local mortgage market itself. Studies such as Nguyen, et al. (2022) have identified a positive correlation between IPOs and local housing price growths, which also receive supports from our data as we will report later. Correspondingly, as mentioned earlier, while rising housing prices may diminish the incentive for equity-driven strategic defaults on mortgages, and/or increase borrowers' work productivities and hence their availabilities to pay mortgages ("equity appreciation effect"), they could also elevate financial-driven default risks due to increased housing costs ("cost inflation effect"). The latter may drive for a positive relation between IPOs (which positively affect local housing price growths) and local mortgage underperformances.

To test this channel, we design a two-stage regression method. In the first stage, we regress a local mortgage market performance variable on the local housing price change rate:

$$M_{i,q} = \mu + \theta R_{i,q} + \epsilon_{i,q} \,, \tag{2}$$

where q is still the quarter index; $M_{i,q}$ is the $i-$th MSA's mortgage market performance variable at quarter q; and $R_{i,q}$ is the $i-$th MSA's annualized housing price change rate, measured by the year-over-year change rate of FHFA HPI Indice for this MSA at quarter q. Additionally, μ is a constant, θ is a coefficient, and $\epsilon_{i,q}$ is the error term. Once more, we employ GLS estimation to derive coefficients, controlling for MSA, year and quarter fixed effects, and our standard errors are adjusted with two-way clustering by MSAs and quarter counts. In the second stage, we re-estimate the regression outlined in Equation (1). However, the dependent variable in this stage is now the residual obtained from the first-stage regression. This residual reflects mortgage

performance disentangled from the influence of local housing price changes. This two-stage regression method is employed to test the following hypothesis:

[Hypothesis 2: for housing price channel] The results that mortgage underperformance worsens with increasing local long-term IPO activity as demonstrated in the single-stage regression in Equation (1) and predicated by Hypothesis 1, are further supported in the two-stage regressions.

The results in supporting of Hypothesis 1 might reflect the influence of IPOs on mortgage performance through their effect on housing prices, if local housing prices increase after IPOs, and the cost inflation effect dominates the equity appreciation effect. However, if the positive relations between IPOs and local mortgage market underperformance persist or even strengthen after controlling for housing price changes in the two-stage regressions, it would suggest a potential impact of IPOs on mortgage markets outside of the housing price channel.

Next, we investigate whether the findings for Hypothesis 1 are driven by the alternate wealth channel. As previously mentioned, wealth effects can have dual consequences. On one hand, owners of IPO stocks may experience positive wealth shocks when selling their IPO stocks in the secondary market post lock-up expiration, thereby reducing their financially-driven defaults ("wealth shock effect"). On the other hand, after the lock-up periods expire, IPO stock owners may experience reduced financial needs and diminish reliance on mortgage markets. This decreased dependence might negatively impact the average quality of mortgage loan borrowers and, consequently, overall loan market performance ("rich retreat effect"). If the latter effect outweighs the former, and this predominantly explains why IPOs are associated with worsened mortgage market performance as posited in Hypothesis 1, then the findings can be attributed largely to the indirect effect of IPOs on loan performance via their impact on local residents' wealth. To test this, we propose a method involving estimating a regression similar to Equation (1) but with the dependent variable as the fraction of non-owner occupancy loans in local residential mortgage loans. We analyze both the immediate and long-term effects of IPOs on this fraction by influencing borrowers' wealth, and test the following hypothesis:

[Hypothesis 3: for wealth channel] The fraction of non-owner occupancy loans in the mortgage market increases with the level of local IPO activity, as indicated by various (short-term and long-term) local IPO variables.

This regression helps us analyze the relations between the proportion of non-owner occupancy loans in mortgage portfolios and local IPO activity levels. If the results align with the predictions of Hypothesis 3, it suggests that the positive correlation between IPOs and mortgage market underperformance (consistent with Hypothesis 1) is unlikely to be primarily driven by wealth effects. These non-owner occupancy loans are more likely to be taken by wealthier borrowers, whose presence among borrowers is unlikely to increase the overall default risk in the local mortgage market. Therefore, if their proportion in mortgage portfolios eventually increases rather than decreases following IPOs, the wealth changes should not attribute to the negative IPO – mortgage performance relations predicted by Hypothesis 1.

We then assess whether the positive relationship between local long-term IPO activity and mortgage market underperformance, as stated in Hypothesis 1, is driven by another alternative stock market channel. As previously noted, increased local IPO activity has been shown to enhance stock market participation, potentially triggering a "cash out effect". In this scenario, households may take on excessive debt through initial mortgage originations or refinancings to finance stock market investments, resulting in poorer loan performance. If this effect exists, the risk of mortgage market underperformance is higher when the stock market is stronger at the time of loan origination or refinancing.

Accordingly, we re-estimate the loan underperformance regression based on Equation (1), incorporating the long-term annualized S&P 500 index return over a period (e.g., the recent 5, 7, 10 or 12 years) that aligns with the term used for the long-term IPO variables. Since we are incorporating this long-term stock market return into the regression, we replace a previously included but correlated variable – the annualized S&P 500 index return measured in the current quarter. If the long-term stock market return variable does not have a positive impact in this regression, the cash-out effect is unlikely to hold. Conversely, even if it does have a positive impact, but the IPO variables remain significant in the regression, it suggests that the cash-out

effect may not be the sole explanation for the influence of IPOs on local mortgage loan performance. Accordingly, we will test the following hypothesis:

[Hypothesis 4: for stock market channel] The finding that mortgage underperformance worsens with increasing local long-term IPO activity, as demonstrated in the regression in Equation (1) and predicted by Hypothesis 1, persists even after we control for the long-term stock market return, which does not exhibit a significantly positive effect in the regression.

Finally, we investigate whether the finding for Hypothesis 1 is driven by factors related to the business channel. As discussed earlier, IPOs can improve local mortgage performance by stimulating local business growth, thereby enhancing the financial conditions of local borrowers ("business booming effect"). However, they could also lead to relaxed lending standards, which may worsen mortgage performance ("counter-cyclical lending quality effect"). If the latter effect outweighs the former, it could explain the positive association between IPOs and local mortgage underperformance.

Our MSA-level residential mortgage market data include the total number of mortgage loans, total number of households, MSA median OLTV ratio, and other relevant variables. Unfortunately, due to data limitations, we lack information on average loan ages which could otherwise have helped us track the corresponding average origination time of loans existing in an MSA during each quarter. With this constraint, we develop four tests to indirectly assess the possible impacts of IPO activity on mortgage lending quality or easiness. In the first test, we use the ratio between total mortgage loan number to household number, that is, the loan to household ratio, to reflect the degree of lending expansion, which can be related to lending easiness. We develop a regression model similar to Equation (1), but with the loan-to-household ratio as the dependent variable. We want to examine if IPO activity can insert immediate and long-term effects on this ratio, by testing the following hypothesis:

[Hypothesis 5-1: for the counter-cyclical lending quality effect of the business channel] The MSA loan-to-household ratio increases with the level of local IPO activity, as reflected by various (short-term and long-term) local IPO variables.

Since our CoreLogic mortgage loan market data starts from 2000, this test can help explore if IPOs lead to easier loan origination since 2000, but cannot expose any IPO-loan origination quality relation before 2000, while a significant portion of the loans in our data might be originated before 2000, especially those loans included in the easy loan period. As a result, this test is more relevant for the study of IPO effects on the performance of loans that existed in the crisis and rebound periods.

In our second indirect test on the counter-cyclical lending quality effect, we examine the relationship between long-term IPO activities and the median OLTV of local loans. We assume that if this effect is present and dominant, IPO activities at the loan origination time may lead to higher OLTV ratios. We develop a regression model similar to Equation (1), but with the MSA median OLTV ratio as the dependent variable, and test the following hypothesis:

[Hypothesis 5-2: for the counter-cyclical lending quality effect of the business channel] The MSA median OLTV increases with the level of local IPO activity, as reflected by local long-term IPO variables.

To further investigate the same effect, we also conduct a third indirect test by excluding data observations from MSAs where the largest national residential mortgage lenders are headquartered. These lenders operate nationwide and are, therefore, theoretically less influenced by local business events including IPOs in their headquarters' cities. If lenders do influence the positive relations between IPO activities and local mortgage underperformance, excluding these MSAs may strength the observed relations.

These leading lenders include Wells Fargo, JP Morgan Chase, Bank of America, U.S. Bank Home Mortgage, Quick Loans (formerly Rocket Mortgage), Flagstar, Provident Funding Associates, LoanDepot, Caliber Home Loans (formerly Newrez), and United Wholesale Mortgage. These institutions are headquartered in eight different MSAs, six of which are present in our data sample: New York-Jersey City-White Plains (NY-NJ), San Francisco-Redwood City-South San Francisco (CA), Detroit-Dearborn-Livonia (MI), Minneapolis-St. Paul-Bloomington (MN-WI), Anaheim-Santa Ana-Irvine (CA), and Charlotte-Concord-Gastonia (NC-SC).

We will re-estimate the mortgage performance regression from Equation (1), excluding observations from these six MSAs, to test the following hypothesis:

[Hypothesis 5-3: for the counter-cyclical lending quality effect of the business channel] The results showing that mortgage underperformance worsens with increasing local long-term IPO activity, as demonstrated in the regression based on Equation (1) and predicted by Hypothesis 1, become even stronger when observations from the six MSAs that host largest mortgage lenders are excluded.

Evidence supporting this hypothesis would provide indirect support for the "counter-cyclical lending quality effect". If IPO activities do worsen local mortgage loan performance by leading to lower lending standards or quality, the relationship should be stronger when excluding MSAs that host national leading lenders, because these lenders operate nationwide and are therefore less likely to be influenced by IPO activities or other local business conditions in their headquarters' cities.

Our final test of the counter-cyclical lending quality effect is a robustness check. We aim to determine whether the negative impact of long-term IPO activity on local mortgage loan performance (as predicted in Hypothesis 1) persists when we control for proxies of bank lending constraints at the time of loan origination. If IPO occurrences coincide with a loosening of bank lending constraints for households, their observed effects could be superficial and may diminish once these constraints are controlled for in the mortgage performance regressions. However, data on bank lending constraints are scarce. The best proxy available is a quarterly national-level variable, *bank tightening rate*. This variable represents the net percentage of domestic banks tightening standards on household loans, weighted by banks' outstanding loan balances. It is reported in the Senior Loan Officer Survey of Federal Reserve Economic Data. We incorporate the long-term average bank tightening rate into the mortgage loan performance regressions based on Equation (1), ensuring that its timeframe aligns with that of the IPO variable. This alignment enhances the variable's ability to reflect banking sector lending constraints at the time of IPO occurrences and mortgage loan originations. We test the following hypothesis:

[Hypothesis 5-4: for the counter-cyclical lending quality effect of the business channel] The finding that mortgage underperformance worsens with increasing local long-term IPO activity, as

demonstrated in the regression in Equation (1) and predicted by Hypothesis 1, persists even after we control for the bank lending constraint variable – the long-term average bank tightening rate.

If our empirical analyses confirm all the predictions of Hypotheses 2, 3, 4, and 5, it suggests that the positive association between IPOs and local mortgage loan underperformance is unlikely to be primarily driven by the effects of IPOs on local housing prices, wealth, or cash-out for stock market investment. Instead, it is more likely attributable to the "counter-cyclical lending quality effect", in which lenders adopt more lenient lending standards or generate lower-quality borrower information during business booms following IPOs. Since our mortgage market performance regressions control for year and quarter fixed effects, the observed relationships between IPOs and mortgage performance are unlikely to be explained by temporal variations in nationwide mortgage policies and regulations. Additionally, by accounting for MSA fixed effects, these regressions indicate that the relationships are not merely due to differences in local mortgage policies and regulations across regions.

3. Descriptive Statistics

As mentioned earlier, our IPO data comes mainly from the database of emerging growth IPOs assembled by Martin Kenney and Donald Patton, with additional IPO information from the SDC database, Jay Ritter's IPO database and COMPUSTAT. We excluded IPOs from foreign firms and those not headquartered in any of the 39 MSAs included in the CoreLogic Market Trend database. This process yielded a sample of 1,100 U.S. emerging growth IPOs issued during the years 2000 to 2018. Subsequently, we aggregated this IPO data to the MSA level for each quarter of our study period, generating a panel dataset comprising 2,964 MSA-quarter observations. The definitions of our key variables are provided in the Appendix. Figure 1 illustrates the cross-year distribution of IPOs in our full sample as compared to that in Jay Ritter's IPO database. Although the latter includes more IPOs, both datasets show generally analogous time trends.

< Insert Figure 1 about here>

Table 1 provides more details of our descriptive statistic results. Panel A presents the summary statistics for the major variables across the full sample. It reveals significant variations in variables over time and/or across different MSAs. For example, among mortgage market underperformance measures, the foreclosure rate is 1.71% by mean, yet it exhibits a wide range from 0.04% to 19.11%. Similarly, the 90-day delinquency rate is 3.88% by mean, spanning from 0.09% to 27.80%. The proportion of non-owner occupancy loans in the total mortgage loans averages 8.85%, varying between 1.08% and 30.00%. The scaled IPO variables also exhibit wide-ranging fluctuations. This heterogeneity is further exhibited by the substantial standard deviations of these variables.

< Insert Table 1 about here>

In our sample, the national-level variables have time-series data, reflecting the dynamic market conditions from 2000 to 2018. For instance, the annual change rate of the S&P 500 index averages at 5.26%, with a significant volatility ranging from -40.09% to 35.96%. The 3-month T-bill rate is 1.61% by mean, ranging between 0.01% and 6.02%. The loan rate for the 30-year fixed-rate mortgage (non-seasonally adjusted) is 5.27% by mean, varying from 3.34% to 8.20%. Furthermore, the yield curve slope has an average of 2.996, with a range from 0.940 to 8.210.

In addition to analyzing our panel data in the full sample period, we are also interested in the data characteristics during different sub-periods. Their results are displayed in Panel B. The first sub-period includes the observations from 2000 (the starting year of our sample) to 2007, and it forms the "Easy Loan" subsample. As mentioned earlier, this period is marked by a relaxation in U.S. mortgage market underwriting standards, such as the adoption of low-documentation loans, in response to public policy initiatives aimed at increasing homeownership; and this relaxation is argued to have contributed to heightened mortgage loan risk and the subsequent subprime crisis. As anticipated, Panel B demonstrates a significantly faster growth rate in the mortgage loan number during this period of lenient lending compared to the overall sample period, with an annualized growth rate of 3.73% versus 0.51%. This was paralleled by a more pronounced appreciation in housing market values, with an annualized housing price growth rate of 8.81% compared to 4.42%. With the housing markets booming, mortgage market performance was substantially better than in the full sample period, as evidenced by the lower average foreclosure

rate (0.56% vs. 1.71%) and the lower average 90-day delinquency rate (1.43% vs. 3.88%). However, the rapidly increasing housing price also results in reduced housing affordability, with the average affordability index dropping to 112.49 from 138.33. The data of IPO variables suggest a generally more vibrant IPO market during this period than in the full sample period.

Another important sub-period is the Great Recession of 2007-2009, a critical phase where the U.S. mortgage market plunged into a severe crisis, starting with the subprime market collapse. Note that this period was overlapped with the easy loan period during 2007, a transition year still under lenient lending standards which triggered the crash in the subprime market. The data of this period constitutes the "Recession" subsample. As shown in Panel B, this period experienced a downturn in mortgage loan growth and a worsening in mortgage performance compared to the easy loan period. On average, the foreclosure rate increased to 1.98% from 0.56%, the pre-foreclosure rate rose to 0.46% from 0.10%, and the 90-day delinquency rate escalated to 4.87% from 1.43%. However, housing markets became more affordable, with the average affordability index increasing to 125.20 compared to the each loan period's average of 112.49. As expected, IPO markets were markedly less active during this timeframe than in the easy loan period and the full sample period.

The last column of Panel B presents the statistical outcomes for the "Rebound" subsample. This phase is from 2010 to 2018 (the ending year of our sample), and marked by a more pronounced decrease in mortgage loan number than the recession period, with a loan count growth rate of -1.82% compared to -0.99%. Additionally, this period generally experienced even poorer mortgage loan performance than the recession period, as evidenced by higher rates of foreclosure (2.55% vs. 1.98%) and 90-day delinquency (5.56% vs. 4.87%). Despite these challenges, housing markets during this time became significantly more affordable, with the average affordability index as 161.41 versus 125.20. This period also recorded the highest average proportion of non-owner occupancy loans, likely due to lower market prices making it more accessible for investors. Meanwhile, there was a strong surge in the stock market, with the S&P 500 index growing by over 13% per year on average, which in turn spurred a rapid recovery in the IPO markets.

Figure 2 illustrates the contrasts among different subperiods. The findings presented in Table 1 and Figure 2 suggest that the Great Recession had a detrimental effect on mortgage performance

and impeded the pace of mortgage loan originations, with these impacts lingering into the rebound period. On the other hand, the recession also enhanced housing affordability. As the prevalence of bad loans diminished, there was a gradual correction in the housing markets, which increasingly attracted investors.

< Insert Figure 2 about here>

Finally, we analyze the distribution of IPOs across MSAs, with the results presented in Panel C of Table 1. During our sample period, 24 of the 39 MSAs hosted IPO firms. The top four MSAs for IPO activity, based on various measures such as the number of IPOs, total IPO value, and value held by insiders [8], are San Francisco–Redwood City–South San Francisco (CA), Boston (MA), New York–Jersey City–White Plains (NY-NJ), and Los Angeles–Long Beach–Glendale (CA). These four MSAs account for around 55% to 62% of all IPO activity across the 24 MSAs, depending on the measurement used, suggesting the geographic concentration of IPOs. Chicago–Naperville–Arlington Heights (IL) follows in terms of IPO value, while San Diego–Carlsbad (CA) ranks next in terms of the number of IPOs. Notably, a significant proportion of IPO value across all MSAs – 80% ($665.94 billion out of $834.49 billion) – belongs to insiders. This demonstrates the substantial welfare gains insiders, including employees, may experience from IPOs.

4. Regression Results

In this section, we present the results of our panel-data GLS regressions, which analyze the mortgage loan market performance in relation to IPO activities, and test the predictions in the five hypotheses mentioned earlier.

4.1. Mortgage Market Performance Measurements

[8] Insiders include executives, other employees, venture capitalists, and other parties restricted from selling their IPO shares until the end of the "lock-up" period (typically 90 or 180 days after the insurance). These IPO insider value variables provide insights into insiders' wealth changes upon and after their sales of IPO stocks. To estimate the number of insiders' shares to compute IPO internal size, we adopt the approach in Field and Hanka (2001), by subtracting the number of shares sold to the public from the number of shares outstanding after the offering.

We evaluate the performance of local mortgage market by a range of measurements at the MSA level, including: (1) foreclosure rate, or, the proportion of loans entering foreclosure processes; (2) 90-day delinquency rate, or, the proportion of loans with payment delinquencies of 90 days or more; (3) pre-foreclosure rate, or, the proportion of loans in pre-foreclosure status; (4) REO ratio, or, the proportion of loans for Real Estate Owned (REO) properties, namely properties owned by lenders due to unsuccessful sales during foreclosure auctions following payment defaults; and (5) auction ratio, or, the proportion of loans for properties going through auctions. These ratios are inversely related to the average performance of local mortgage loans, with higher magnitudes of these ratios corresponding to worse performance in local mortgage loan portfolios. As shown in Panel B of Table 1, the full-sample medians for these variables are 1.71%, 3.88%, 0.23%, 0.33%, and 0.11%, respectively. Our analysis focuses on the foreclosure rate and the 90-day delinquency rate, as they account for a significant portion of underperforming mortgage loans, 27.32% and 61.98%, respectively.

4.2. IPOs and Mortgage Market Performance – Benchmark Results

We start our analysis with single-stage regressions as per Equation (1), in order to explore the relationships between IPO activities and these mortgage market performance indicators while disregarding the potential influence of local housing price movements and other factors. The findings of this analysis are detailed in Table 2.

< Insert Table 2 about here>

As mentioned earlier, to account for the scale of the local economy, we normalize the IPO variables (such as the number of IPOs and their sizes) by the population of the respective MSA for the corresponding quarter. These population-adjusted IPO variables serve as the key explanatory variables in our regression analyses. However, due to the high correlation among these variables, we employ multiple specifications for the regression analysis of every mortgage market performance variable, with each specification including only one of the IPO variables to avoid multicollinearity and make the analysis reasonably focused.

First, we report the detailed results from the foreclosure rate regressions using the full sample data. As displayed in Panel A of Table 2, model specifications (1) to (4) include scaled IPO numbers from various timeframes: an aggregate of the recent five, seven, ten and twelve years. Specifications (5) to (8) include scaled IPO size (value) variables of these four time windows.[9] We analyze these diverse long-term timeframes to align with different loan ages, allowing for a more comprehensive examination of the potential impacts of IPOs on loan originations.

In each model specification, we incorporate the 1-year lagged GMP annual growth rate and the MSA unemployment rate to account for local economic conditions,[10] alongside three capital-market control variables: the average loan rate of the 30-year fixed rate mortgage, the yield curve slope, and the S&P 500 return. The influences of these control variables remain consistent across all model specifications. It is intuitive to observe that the foreclosure rate tends to increase with a slower GMP growth and/or a higher unemployment rate.

Our regressions indicate that all IPO variables, except for the recent 12-year IPO number, are positively associated with the local mortgage market foreclosure rate, with a consistent significance level of 1%. For instance, in regression specification (1), we include the recent 5-year IPO number as one of the explanatory variables. This variable has a positive coefficient 0.656 at the 1% significance level. Similar results can be found in other specifications except Specification (4). These findings suggest that mortgage market performance tends to be weaker in areas with a higher frequency of IPO issuances or a larger total IPO volume over various long-term timeframes.

Employing various measurements for mortgage market performance, as depicted in Panel B of Table 2, we observe that IPO activities in the varied long-term periods, regardless of if measured via IPO numbers or IPO sizes – generally intensify the mortgage loan underperformance. This is

[9] To maintain conciseness in the table presentations, we do not display t-statistics or p-values for the coefficients. Instead, we indicate statistical significance using the symbols ***, **, and * for the 1%, 5%, and 10% significance levels, respectively.

[10] Due to data availability on the unemployment rate, including this variable in our regressions results in a noticeable reduction in the number of observations. However, the missing data primarily pertain to MSA-quarters without IPO activity, minimizing their impact on our results.

especially true when the underperformance is measured by foreclosure rate, 90-day delinquency rate, REO loan ratio or auction loan ratio, with most findings being significant at the 1% level.

Among these underperformance variables, the 90-day delinquency rate is most sensitive to IPO variables, closely followed by the foreclosure rate. For example, the coefficients for the recent 5-year IPO number are 1.086 for the 90-day delinquency rate and 0.656 for the foreclosure rate, both at the 1% significance level. In contrast, the coefficients are merely 0.211 and 0.078 for the REO ratio and auction ratio, respective, albeit that both are significant at the 1% level. The coefficient of the pre-foreclosure rate is as low as 0.045 and significant only at 10%. Similarly, when examining the impact of the recent 5-year IPO size, the coefficients are 5.44 for the 90-day delinquency rate and 3.55 for the foreclosure rate, as compared to 1.29 for the REO ratio and 0.18 for the auction ratio, all significant at the 1% level except the coefficient for the auction ratio (which is significant at 10%). The coefficient of the pre-foreclosure rate is, however, insignificant. In essence, IPO activities generally bring a negative externality to local mortgage markets by worsening mortgage loan market performance. This effect is particularly pronounced for the foreclosure rate and delinquency rate, with the latter possibly inserting a cascading effect on the future foreclosure rate. These findings do provide strong supports for the predictions in Hypothesis 1.

To further explore these relationships and their underlying rationales, we analyze the loan underperformance regressions across different periods, with the findings from the foreclosure rate and 90-day delinquency rate regressions highlighted in Panel C of Table 2. We find that the relations mentioned earlier are the strongest for the rebound period, while noticeably weaker or even reversed for the easy loan period and recession period. For instance, for the coefficient of the recent 5-year IPO number, in the foreclosure rate regression and the 90-day delinquency rate regression, it is 3.871 and 4.828, respectively, both significant at 1% for the rebound period, while only 0.106 and 0.423 for the easy loan period albeit still significant at 1%. For the recession period, the coefficient of this IPO variable is significant (at 5%) in only the foreclosure regression with a magnitude of 2.897, while insignificant in the 90-day delinquency rate regression. For the coefficient of the recent 5-year IPO size, it is 10.10 and 14.70 in the two regressions, both significant at 1% for the rebound period, while insignificant or negative in the two regressions for the easy loan period and recession period.

4.3. Influences from the Housing Price Channel

Our previous findings were derived without isolating the impact of local housing price movements. As noted earlier, existing literature indicates that IPO activities have a significant influence on local housing markets, suggesting that the relationship we identified between IPOs and mortgage market performance may largely arise from IPO-driven housing price fluctuations. To check if this is the case, we estimate a GLS regression of the annualized local housing price change rates, with the explanatory variables including an IPO variable and other independent variables in Equation (1). In addition, we also include the 1-year, 2-year and 3-year lagged terms of the dependent variable as the explanatory variables, to control for the time-serial correlations in the housing price movements reported in the real estate literature (Case and Shiller, 1989, Titman, et al., 2014, and so on). Since IPO activities may have both immediate and gradual effects on housing price movements, we include variables that capture IPO activity over both the long term (such as the recent five or seven years) and the short term (such as the last quarter or two quarters ago). The results are presented in Table 3.

< Insert Table 3 about here >

According to Table 3, the housing price change rate is following time-serial correlations with a short-term (1-year) momentum and long-term (2-year and 3-year) reversals, in line with the findings in the literature. In addition, as expected, it increases in the local population growth and recent GMP growth. With these and other factors controlled, it also shows to be impacted by a few local IPO variables. For instance, the coefficient of the 1-quarter lagged IPO number is 7.223 which is significant at 5%, and the coefficient of the 2-quarter lagged IPO number is 6.687 which is significant at 1%. These demonstrate that the frequency of IPOs has short-term positive effects on the local housing price growth, in line with the findings in the literature (such as Nguyen, et al., 2022). Interestingly, one long-term IPO variable, the recent 7-year IPO size, has a negative coefficient that is significant at 5%, suggesting that the impact of IPOs on accelerating local housing price appreciation is relatively short-lived.

Given these impacts of IPOs on local housing price movements, it is a valid concern that the negative relations between IPOs and local mortgage market performances displayed in Table 2,

might be largely driven by the effects of IPOs on local housing price changes. To address this concern, we adopt a two-stage regression approach mentioned earlier. In the first stage, we estimate a regression of the mortgage underperformance variable against the local housing price change rate, as outlined in Equation (2). The second stage is the regression of the residual from the first-stage regression. This residual represents the aspect of mortgage loan underperformance that cannot be attributed to changes in housing prices. At this stage, we examine the relationship between this residual and explanatory variables including an IPO variable and the control variables used in Table 2. Throughout both stages, we control for MSA, year, and quarter dummies and account for potential correlations within the same MSA or time period by using two-way clustered standard errors (MSA and quarter count). The results of this two-stage regression process are detailed in Table 4, offering us a more nuanced understanding of the interplay between IPO activities, housing price dynamics, and mortgage market performance.

< Insert Table 4 about here >

Panel A displays the two-stage foreclosure rate regression results using the full sample. In the first-stage regression, we observe a noteworthy negative correlation between local housing price fluctuations and foreclosure rates. As previously discussed, high housing prices may help prevent equity – driven strategic defaults and declining-work-productivity related financial-driven defaults ("equity appreciation effect"), but may also raise high-housing-cost related financial-driven defaults ("cost inflation effect"). The negative relationship between housing price changes and foreclosure rates demonstrated in Panel A suggests that the former effect outweighs the latter. Connecting this to the finding in Table 3 that IPO numbers are positively correlated to near future housing price appreciations, we can imply that housing price appreciations after IPOs tend to reduce (rather than increasing) the foreclosure rate, therefore housing price changes cannot explain the positive relations between IPOs and the foreclosure rate.

As a confirmation to this implication, transitioning to the second stage, the impact of IPO variables are generally consistent with the results from the single-stage regression reported in Panel A of Table 2. The coefficients for all eight IPO number variables are positive and significant at the 1% level. Moreover, some of these coefficients are larger in magnitudes and/or more significant than those in Panel A of Table 2. For instance, the coefficient of the recent 5-year IPO number is 0.802

(as versus 0.656, although both significant at 1%), and the coefficient of the recent 12-year IPO number is 0.149 and significant at 1% (as versus insignificant).

In summary, the findings in Panel A align with the predictions of Hypothesis 2, suggesting that the negative relationship between IPOs and mortgage market performance (Hypothesis 1) is evident also in the two-stage regressions, just as in the single-stage regressions. This two-stage approach provides a clearer picture on the impact of IPO activities on mortgage market performance that is beyond their indirect effects via influencing housing market dynamics.

The results are generally consistent when alternative measurements for mortgage loan underperformance are employed, as outlined in Panel B. Essentially, after excluding aspects of mortgage performance potentially related to housing price changes, residual mortgage underperformance continues to exhibit a significant positive correlation with all IPO variables when the underperformance is measured by the foreclosure rate or the 90-day delinquency rate. The relation is also shown from 7 out of 8 IPO variables when the underperformance is measured by the REO loan ratio or auction loan ratio. Similar as in Table 2, the effects are much weaker or absent when mortgage underperformance is measured by the pre-foreclosure rate. Overall the results reinforce our main findings in Table 2, as well as affirming the implication of Hypothesis 2: IPOs worsen mortgage market performance not through their impact on local housing prices.

We also re-estimate the foreclosure rate regression and the 90-day delinquency rate regression using the two-stage regression method with data from various subsamples of the full sample. The results, detailed in Panel C, are generally consistent with the subsample regression results reported in Table 2. Once again, the relationships observed for the full sample are the strongest for the rebound period, while generally much weaker for the easy loan and recession periods.

4.4. Influences from the Wealth Channel

Next, we explore whether the negative relationship between IPOs and mortgage performance is primarily influenced by the wealth channel. As previously discussed, after the expiration of IPO lock-up periods, the insider owners of IPO stocks may undergo wealth shocks upon selling IPO shares, thereby increasing their housing demands and reducing their risk of equity – driven strategic default and financial – driven default ("wealth shock effect"). Meanwhile, they may

decrease their financial needs and reliance on mortgage markets, potentially negatively impacting the average quality of mortgage loan borrowers and, consequently, overall loan market performance ("rich retreat effect"). To make the wealth channel a driver for the negative relationship between IPOs and local mortgage market performance, the "rich retreat effect" should be present and outweigh the "wealth shock effect". To examine the presence of the "rich retreat effect", we investigate whether IPO activities indeed diminish the fraction of non-owner occupancy loans in all mortgage loans. Non-owner occupied properties are typically investment properties owned by wealthy individuals; thus, if these investors exit the mortgage markets post-IPO, the proportion of non-owner occupancy loans should decrease, opposite to the predictions of Hypothesis 3.

Since insiders of IPO stocks are typically allowed to sell their shares 90 or 180 days after issuance, we examine the effects of IPOs over both the short term (such as the last quarter or two quarters ago) and the long term (such as the recent five or seven years).

Again, we start the analysis using the full-sample data, with findings presented in Panel A of Table 5. As illustrated in this panel, the coefficients of local IPO variables in 7 out of 8 regression specifications are positive and significant (at 1% for two, 5% for three, and 10% for two IPO variables). These positive correlations between IPO variables and the fraction of non-owner occupancy loans align with the predictions of Hypothesis 3 and can be attributed to several factors. Firstly, the anticipated short-term and cumulative long-term economic growth associated with IPO activities may stimulate more speculative or investment-driven housing demands than consumption-oriented demands, potentially resulting in a higher proportion of non-owner occupancy loans in local mortgage markets. Another possible explanation is the effect of IPO activities on local housing market affordability. If IPOs contribute to housing market price increases that outpace household welfare growth, housing affordability may decline. This could impact house consumers more significantly than investors, who are typically less financially constrained, thereby leading to an increase in the fraction of non-owner occupied houses and corresponding non-owner occupancy loans.

< Insert Table 5 about here>

In an unreported additional test, we examine the effects of IPO stocks held by insiders, with the IPO variables lagged by one quarter, two quarters, as well as over the past five and seven years. Interestingly, we find that the coefficients of the four insiders' IPO stock value variables are all positive and greater than 18. They are also all significant at the 1-5% level. This finding suggests that when IPO activities influence the proportion of non-owner occupancy loans, this change is closely related to the wealth increases among insiders (who own IPO stocks). In other words, if IPOs do indeed attract more investment than consumption in the housing markets, it appears that these insiders are important contributors to this shift.

Panel B of Table 5 presents a comparison of regression results across different sub-periods. Impressively, the positive association between IPO numbers and the non-owner occupancy loan fraction is noticeably more significant for data from the easy loan period and the rebound period, while it is absent or even reversed for the recession period. For instance, the coefficient of the recent 5-year IPO number is 1.410 for the easy loan period and 1.662 for the rebound period, both significant at 1%. However, this relationship is statistically insignificant for the recession period. It is logical to attribute the surge in housing prices driven by IPO activities during the easy loan period and rebound period as a trigger for an increased investor presence among homebuyers.

Our findings of the general positive relation between IPOs and the non-owner occupancy loan fraction are opposite to the justification based on the "rich retreat effect" of the wealth channel discussed earlier. Based on the rich retreat effect, the non-owner occupancy loan fraction would have declined (instead of increasing) after IPOs. As explained earlier, some rich people may not necessarily retreat from the mortgage markets when facing positive wealth shocks. They may not always prefer cash purchases, and additionally, they may still purchase second homes, buy investment homes, etc.

4.5. Influences from the Stock Market Channel

We now examine whether the positive relationship between local long-term IPO activity and mortgage market underperformance is driven by the stock market channel. Increased local IPO activity may prompt households to cash out home equity from their mortgages to fund greater stock market participation, leading to excessive borrowing and mortgage underperformance.

To test this, we re-estimate the loan underperformance regression from Equation (1), incorporating the long-term annualized S&P 500 index return over a matching period (e.g., the recent 5, 7, 10, or 12 years) used for the long-term IPO variables. For example, if the regression includes the recent 5-year IPO number (or size) as the IPO variable, we also include the recent 5-year annualized S&P 500 return as a control variable. Similarly, if the regression includes the recent 12-year IPO number (or size), we include the corresponding 12-year annualized S&P 500 return. If the stock market channel explains the positive relationship between IPO activity and mortgage market underperformance, we expect the long-term stock market return to play a positive role in the regression while weakening the effects of IPO variables. The results are presented in Table 6.

< Insert Table 6 about here>

Panel A of this table presents regression results for the foreclosure rate using the full sample. The findings align with the predictions of Hypothesis 4. After incorporating the long-term stock market return, the effects of IPO variables remain highly consistent with those in Panel A of Table 2. Again, all eight IPO variables – except the recent 12-year local IPO number – are positive and significant at the 1% level, with coefficient magnitudes closely matching those in Table 2. For example, the coefficient for the recent 5-year IPO number is 0.652 (compared to 0.656), while the coefficient for the recent 12-year IPO size remains 3.4, identical to the earlier result. Meanwhile, the long-term S&P 500 return remains consistently insignificant across all regression specifications. These findings contradict the stock market channel explanation for the relationship between IPO activity and mortgage performance.

We also re-estimate the foreclosure rate and 90-day delinquency rate regressions using both the full sample and various subsamples, controlling for long-term stock market returns. As shown in Panel B, the results remain largely consistent with those in Table 2, while the long-term stock market returns are mostly insignificant. Note that during the easy loan period, these returns are statistically significant at the 1% level, but their coefficients are close to zero, indicating no meaningful economic impact. These findings further challenge the hypothesized cash-out effect via the stock market channel in explaining the IPO-mortgage performance relationship.

In summary, our regression results generally support the predictions in Hypotheses 2, 3 and 4, indicating that the positive IPO – mortgage underperformance relation (supporting Hypothesis 1) is not driven by housing price changes, wealth changes or cashing out for stock market after IPOs, leaving room for the fourth possible justification – a possibility of the "counter-cyclical" lending quality change found in the banking literature, with lenders adopting lenient lending standards or producing lower-quality borrower information during business booms followed by IPOs. The tests for this justification are presented in the following section.

4.6. Influences from the Business Channel

As discussed earlier, IPO activity can impact local mortgage performance through two opposing effects within the business channel: the "business booming effect" and the "counter-cyclical lending standard effect". Our corresponding tests are summarized below.

Business Booming Effect

The "business booming effect" is based on the assumption that IPOs can stimulate local business growth. To test this, we regress the annual GMP growth rate on various IPO-related variables and other explanatory factors. These additional explanatory variables include 1-year and 2-year lagged GMP growth rates (to account for potential time serial correlations in GMP changes), the annual population growth rate of the MSA (to control for shifts in local economic or demographic conditions), and capital market variables such as the 3-month Treasury bill interest rate, the yield curve, and the annual change rate of the S&P 500 index. The IPO variables include the number or size of local IPOs in the current quarter, as well as those from one quarter earlier, two quarters earlier, the recent five years, and the recent seven years. This allows us to analyze both the immediate and long-term effects of IPOs on local business growth. The full-sample results are reported in Table 7.

< Insert Table 7 about here>

In this table, six out of ten IPO variables show positive effects on GMP growth. For instance, the 2-quarter lagged local IPO number is significant at the 1% level, with a coefficient of 3.661. The recent 7-year local IPO number is significant at the 5% level, with a coefficient of 0.527.

Additionally, the coefficients of the current quarter and 1-quarter lagged local IPO sizes, as well as those of the recent 5-year IPO number and size, are all positive and significant at the 10% level. These findings align with many previous studies, which suggest that IPOs can boost local business activity and employment, supporting the "business booming effect" assumption. However, this effect would likely lead to improvements rather than deterioration in the local mortgage market, and thus cannot explain the previously observed negative relationship between IPO activity and local mortgage market performance.

Counter-Cyclical Lending Standard Effect

We now conduct tests for Hypotheses 5-1, 5-2, 5-3 and 5-4 to seek evidence for the "counter-cyclical lending standard effect", which may explain the negative relationship between IPOs and local mortgage performance.

Loan to Household Ratio

We first test Hypothesis 5-1, that is, the MSA loan-to-household ratio increases with the level of local IPO activity, where the ratio can reflect the degree of lending expansion and indicate the lending easiness. We regress the MSA loan-to-household ratio on various local IPO variables while controlling for MSA-level economic factors, such as the unemployment rate, population growth rate, and one-year lagged annual GMP growth rate. Additionally, we account for capital market variables, including the 30-year fixed-rate mortgage loan rate, the yield curve, and the annual change rate of the S&P 500 index. Moreover, we control for the average bank tightening rate during the period corresponding to the IPO variable's timeframe, which serves as a proxy for bank lending constraints at the time of the IPO and loan origination. The IPO variables include both short-term and long-term measures of IPO number and size, as we aim to assess whether IPOs have immediate and lasting impacts on the scaled volume of local mortgage lending. This is our first indirect test for the counter-cyclical lending standard effect. If this effect is significant, we would expect that increased IPO activity could lead to larger scaled volume of mortgage lending.

The regression results using the full sample data are presented in Panel A of Table 8. Six out of eight IPO variables show positive effects on the MSA loan-to-household ratio, and their

coefficients are consistently significant at the 1% level. These include all four IPO number variables and two long-term IPO size variables. Among them, the 1-quarter lagged, 2-quarter lagged, recent 5-year and recent 7-year IPO numbers have coefficients 6.720, 5.950, 1.696 and 0.838, respectively. The recent 5-year and recent 7-year IPO sizes have coefficients of 10.230 and 12.680, receptively. These findings provide strong supports for the predictions of Hypothesis 5-1.

< Insert Table 8 about here>

Panel B of Table 8 compares regression results across different sub-periods. Interestingly, we find the strongest support for Hypothesis 5-1 from the rebound period, where the same six IPO variables are with positive coefficients that are significant at the 1% or 5% level. In the easy loan period, four IPO number variables show significantly positive effects. However, during the crisis period, none of the IPO variables play any significantly positive role.

As mentioned earlier, since our CoreLogic mortgage loan market data begins in 2000, this test allows us to examine whether IPOs have been associated with easier loan lending since 2000 but does not capture any relationship between IPOs and loan origination quality before 2000 – particularly for loans in the easy loan subsample. Therefore, our results are more relevant for studying the counter-cyclical lending quality effects of IPOs on local mortgage loan performance during the crisis and rebound periods.

The findings in Panel B do suggest that the scaled number of loans originated during the easy loan period can be positively influenced by the frequency of recent or long-term local IPO activities. This may help explain the surge in loan foreclosures during the later periods including the crisis and rebound periods. Although this loan number – IPO relation disappeared during the crisis period – likely due to reduced IPO activity or stricter lending regulations – it has reemerged, even more strongly, in the rebound period. This is a concerning trend, as it could signal future loan underperformance.

OLTV

To test Hypothesis 5-2 – namely, that the MSA median OLTV increases with local IPO activity – We regress the MSA median OLTV on various local long-term IPO variables, controlling for factors such as the one-year lagged annual GMP growth rate, the local MSA unemployment rate, and relevant capital market variables. Additionally, we also include the average bank tightening rate during the period corresponding to the IPO variable's timeframe, again as a proxy for bank lending constraints at the time of the IPO and loan origination. This serves as our second indirect test of the counter-cyclical lending standard effect. If this effect is significant, we would expect that increased IPO activity could lead to higher median OLTVs.

Panel A of Table 9 presents the regression results using the full sample data. All four IPO number variables exhibit positive effects on the MSA median OLTV ratio, with a consistent significance level of 1%. Their respective coefficients are 1.318, 1.637, 2.092, and 2.760 for the recent 5-year, 7-year, 10-year, and 12-year IPO numbers. Additionally, the recent 7-year and 10-year IPO size variables also have significantly positive coefficients. With six out of eight long-term IPO variables showing significantly positive impacts on the MSA median OLTV ratio, the findings in Panel A largely support the predictions of Hypothesis 5-2.

< Insert Table 9 about here>

Panel B of Table 9 compares regression results across different sub-periods. In both the recession and rebound periods, we find quite strong support for Hypothesis 5-2, as six out of eight long-term IPO variables exhibit significant positive effects on the local median OLTV ratio. These findings suggest that the lenient lending practices following IPOs (likely starting from the easy loan period) could have contributed to mortgage loan market risks and performance, which later became evident in both the recession and rebound periods.

Excluding MSAs that Host Largest Lenders

We perform our third indirect test for the counter-cyclical lending quality effect by re-estimating the mortgage performance regression from Equation (1), but excluding observations from six MSAs that host the largest national residential mortgage loan lenders. We aim to determine whether this exclusion strengthens the positive relationship between IPO activities and local

mortgage underperformance, as predicted by Hypothesis 5-3. The results, along with comparisons to those in Table 2 (which is based on observations from all 39 MSAs), are summarized in Table 10.

< Insert Table 10 about here>

Panel A reports the foreclosure rate regression results after excluding the six MSAs from the full sample. The findings show that six of the eight IPO variables exhibit significant positive effects on the local residential mortgage foreclosure rate, with five at the 1% significance level and one at the 5% level. To assess the impact of excluding these MSAs, we compare the results from the full sample with and without them. Panel B highlights these comparisons for both the foreclosure rate regressions and the 90-day delinquency rate regressions.

Interestingly, when the six MSAs are excluded, the positive effects of local IPO number variables (in model specifications 1, 2, 3, and 4) generally weaken in terms of coefficient magnitudes and significance levels. In contrast, the positive effects of local IPO size variables (in model specifications 5, 6, 7, and 8) become substantially stronger. For instance, in the 90-day delinquency rate regressions, the coefficients for the recent 5-year, 7-year, 10-year, and 12-year IPO sizes are 7.93, 10.36, 9.75, and 5.44, respectively – compared to 5.44, 8.30, 8.37, and 5.36 – and remain significant at the 1% level.

Our results with IPO size variables do support the prediction in Hypothesis 5-3 that the positive relationships between IPO activities and local mortgage underperformance strengthen when the six MSAs are excluded. This provides another piece of indirect evidence for the "counter-cyclical lending quality effect". National leading lenders conduct business nationwide and are therefore less likely to be influenced by IPO activities or other business dynamics in their headquarters. Consequently, if lenders do influence the positive relationship between IPO activities and local mortgage loan underperformance, excluding the MSAs where these leading lenders are headquartered may strengthen the observed relationship.

Control for Lending Constraints

Finally, we test Hypothesis 5-4, which examines whether the negative impact of long-term IPO activity on local mortgage loan performance persists after controlling for proxies of bank lending constraints at the time of loan origination. This test evaluates whether the observed effects of IPOs on loan performance are merely superficial – arising from their coincidence with periods of loosening bank lending constraints. If this is the case, the IPO effects should weaken when we control for the level of lending constraints. This serves as our fourth indirect test of the "counter-cyclical lending quality effect" of IPOs. To conduct this analysis, we re-estimate the loan underperformance regression from Equation (1), adding in the cross-time average bank tightening rate during the period corresponding to the IPO variable's timeframe, a proxy for bank lending constraints at the time of the IPO and loan origination. The results are presented in Table 11.

< Insert Table 11 about here>

As shown in Panel A of this table, the foreclosure rate regression results using the full sample support the predictions of Hypothesis 5-4. After incorporating the average bank tightening rate, the effects of IPO variables remain highly consistent with those in Panel A of Table 2. Once again, all eight IPO variables – except for the recent 12-year local IPO number – exhibit positive and significant effects at the 1% level, with coefficient magnitudes closely aligning with those in Table 2. Interestingly, the average bank tightening rate itself does not show any significant impact in the regressions.

We also re-estimate the foreclosure rate and 90-day delinquency rate regressions using both the full sample and various subsamples, controlling for the average bank tightening rate. As shown in Panel B, the results remain largely consistent with those in Table 2, while the average bank tightening rate remains mostly insignificant. These findings reinforce the robustness of the IPO-mortgage performance relationship, suggesting that it is not merely a superficial outcome of IPO occurrences coinciding with a loosening of bank lending constraints for households.

In summary, our findings broadly support Hypotheses 5-1, 5-2, 5-3, and 5-4, providing indirect evidence for the "counter-cyclical lending standard effect", which may help explain the negative relationship between IPO activity and local mortgage performance.

Our results suggest that the negative impact of IPOs on mortgage performance, driven by the "counter-cyclical lending standard effect", outweighs potential positive effects such as the "wealth shock effect" through the wealth channel, the "business booming effect" through the business channel, and the "equity appreciation effect" through the housing price channel. Several factors may explain this. The positive wealth shock effect, which reduces financially driven defaults, may primarily benefit IPO-firm insiders and thus have a limited overall impact. Meanwhile, the business booming and pricing effects, which improve employment, income, and equity stability, may inadvertently lead to looser mortgage origination standards, resulting in long-term negative consequences for loan performance.

4.7. Economic Significance

We now want to assess the economic impact of the relationship between IPO activity and mortgage market performance outlined above. Given the complexity of quantifying this relationship using two-stage regression results, our analysis primarily relies on the single-stage regression findings from Table 2. These results offer a comprehensive perspective on the effects of IPO activities on local mortgage performance, including both direct effects and indirect effects through channels such as the housing price channel.

For instance, let's consider the recent 5-year IPO number. From Panel B, with our full sample, a one standard deviation increase in this variable, as specified in model specification (4), yields a noteworthy impact. It can elevate the local mortgage foreclosure rate by 0.291% in the current quarter, representing 35.294% of the sample median foreclosure rate (0.824%), and 12.236% of the sample standard deviation of foreclosure rate (2.377%). Following a similar analysis, a one standard deviation increase in the recent 5-year IPO number also results in an increase of 19.428% for the 90-day delinquency rate, 13.471% for the pre-foreclosure rate, 51.419% for the REO ratio, and 53.689% for the auction ratio, from their respective full-sample medians. These translate to 12.132%, 7.224%, 21.249% and 17.525% of the standard deviation for the 90-day delinquency rate, pre-foreclosure rate, REO ratio, and auction ratio, respectively. These statistics indicate significant adverse effects of IPOs on the local mortgage market performance.

We can further measure the economic significance of IPO activities' effects on local mortgage market performance during specific sub-periods, based on the regression results in Panel C of Table 2. We find that, in alignment with the pattern of statistical significance of IPO effects, their economic impact is generally more pronounced during the rebound period than in the easy loan or recession period. For example, with the rebound period, a one standard deviation increase in the recent 5-year IPO number can lead to a 65.061% increase in the foreclosure rate and a 29.569% increase in the 90-day delinquency rate from their respective full-sample medians. In contrast, these figures are only 11.697% and 19.019% for the easy loan period. Our analyses employing alternative regression specifications for mortgage loan underperformance also reveal substantial economic significance. These findings collectively suggest that IPO activities play a significant role in influencing local mortgage market performance.

5. Conclusions

This paper presents a pioneering investigation into the potential interplay between firms' initial public offering activities and the performance of the mortgage loan market in MSAs where these firms are headquartered. Using a dataset covering 1100 U.S. IPOs from firms headquartered in 39 U.S. MSAs during the period of 2000-2018, we explore the relationships between the long-term IPO activities and local mortgage loan market performance, with the latter measured based on varied performance indicators. We also examine several hypothesized mechanisms underlying these relationships, including indirect pathways via IPOs' influence on local housing prices, residents' wealth, cashing out behaviors, as well as business environment factors such as local mortgage lending quality.

Our analysis discloses an unexpected negative externality of IPOs via contributing to the deterioration of local mortgage market performance, particularly reflected by the inflated local foreclosure rate and 90-day delinquency rate. This effect is more pronounced during the rebound period following the 2007-2009 Great Recession. Interestingly, this negative externality is stronger when we isolate the impacts of housing price changes resulting from IPOs, as post-IPO housing price increases tend to mitigate (instead of worsening) mortgage loan underperformance. Additionally, we observe a correlation between long-term IPO activities and an increase in the

proportion of non-owner occupancy loans in local mortgage portfolios, contrary to the hypothesis that IPOs exacerbate local mortgage performance due to a wealth effect – wherein residents, enriched by IPOs, withdraw from mortgage markets, thereby reducing the average quality of local mortgage loan borrowers. Furthermore, the relationship between long-term IPO activity and loan underperformance remains persistent even after controlling for long-term stock market returns. This challenges the hypothesis that IPOs drive cash-outs from mortgage markets to chase stock market gains, leading to excessive borrowing and subsequent loan underperformance.

We do find that most IPO variables are positively associated with the MSA loan-to-household ratio and the median OLTV ratio of local mortgage loans. Moreover, the negative correlation between IPO sizes and the average performance of local loans are generally stronger, when we exclude MSAs that host national leading lenders (which have nation-wide business and are least likely to be influenced by local events). The relationship between IPO activity and mortgage underperformance remains robust even after we control for lending constraints in the banking sector. These findings suggest a potential alignment of the IPO – mortgage performance relation with the "counter-cyclical" lending quality changes identified in banking literature.

Our study implies that major business events, such as IPOs, can significantly impact their local business environments.

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Appendix: Variable definitions

Variable	Definition
Year	Observation year
Loan count growth rate	Mortgage-loan-number annual change rate
Foreclosure rate	Fraction of mortgage loans with foreclosure
90-day delinquency rate	Fraction of mortgage loans with 90 or more days of delinquency
Pre-foreclosure rate	Fraction of mortgage loans with pre-foreclosure
REO loan ratio	Fraction of mortgage loans with REO
Auction loan ratio	Fraction of mortgage loans with auction
Non-owner occupancy loan ratio	Fraction of mortgage loans for non-owner occupied houses
Loan-to-household ratio	MSA mortgage loan number to household number ratio
OLTV	MSA median original loan to value ratio
Price growth rate	Annualized FHFA housing price index change rate
GMP growth rate	GMP annual change rate
Population growth rate	MSA population annual change rate
Unemployment rate (%)	MSA unemployment rate
Affordability	MSA housing affordability index
IPO number (per thousand)	Number of IPOs per capita
IPO size ($100 Million)	Value of IPOs per capita (based on stock price at the IPO date)
SP500 return (%)	S&P 500 index annual change rate
3-month T-Bill rate (%)	3-month Treasury Bill interest rate
30-year mortgage rate (%)	Average loan rate of the 30-year fixed rate mortgage in the U.S., not seasonally adjusted
Yield curve	Ratio of the 10-year Treasury bond rate to the 2-year Treasury note rate
Bank tightening rate (%)	Net percentage of domestic banks tightening standards on household loans (that is, percentage of banks tightening lending standards - percentage of banks easing lending standards), weighted by banks' outstanding loan balances, not seasonally adjusted

Table 1 Summary statistics

[Panel A] Full sample (with quarterly observations)

Variable	N	Mean	Median	Minimum	Maximum	Std Dev
Year	2964	2009	2009	2000	2018	5
Loan count growth rate	2808	0.51%	-0.58%	-18.90%	21.91%	5.10%
Foreclosure rate	2964	1.71%	0.82%	0.04%	19.11%	2.38%
90-day delinquency rate	2964	3.88%	2.48%	0.09%	27.80%	3.97%
Pre-foreclosure rate	2683	0.23%	0.15%	0.00%	2.93%	0.28%
REO loan ratio	2956	0.33%	0.18%	0.00%	5.29%	0.44%
Auction loan ratio	2959	0.11%	0.06%	0.00%	4.79%	0.20%
Non-owner occupancy loan ratio	2964	8.85%	8.21%	1.08%	30.00%	3.86%
Loan-to-household ratio	2964	32.60%	28.38%	2.19%	280.44%	38.19%
OLTV	2183	88.22%	90.00%	75.00%	99.80%	6.32%
Price growth rate	2960	4.42%	4.97%	-35.22%	44.02%	8.59%
GMP growth rate	2925	4.13%	4.39%	-9.46%	16.33%	3.08%
Population growth rate	2954	0.96%	0.85%	-0.86%	5.56%	0.89%
Unemployment rate (%)	1444	6.0017	5.3700	1.6000	16.3300	2.2720
Affordability	2964	138.3256	129.9600	36.3400	373.8900	58.6324
IPO number (per thousand)	2964	0.0001	0.0000	0.0000	0.0055	0.0003
IPO size ($100 Million)	2964	0.5285	0.0000	0.0000	149.9542	3.7371
Recent 5-year IPO number (per thousand)	2964	0.0025	0.0008	0.0000	0.0415	0.0044
Recent 5-year IPO size ($100 Million)	2964	11.5366	1.6751	0.0000	285.9663	28.5517
SP500 return (%)	2964	5.2599	8.8750	-40.0900	35.9600	15.7174
3-month T-Bill rate (%)	2964	1.6095	0.9850	0.0100	6.0200	1.8094
30-year mortgage rate (%)	2964	5.2672	5.0850	3.3400	8.2000	1.2883
Yield curve	2964	2.9963	2.1000	0.9400	8.2100	2.1999
Recent 5-year SP500 return (%)	2964	5.5033	5.2250	-6.1000	24.2800	7.6830
Recent 5-year average bank tightening rate (%)	2964	7.1276	5.9000	-14.3000	33.8000	14.8561

[Panel B] Subperiod comparisons

Variable	Full Sample (2000-2018)	Easy Loan (2000-2007)	Recession (2007-2009)	Rebound (2010-2018)
	Mean	Mean	Mean	Mean
Year	2009	2004	2008	2014
Loan count growth rate	0.51%	3.73%	-0.99%	-1.82%
Foreclosure rate	1.71%	0.56%	1.98%	2.55%
90-day delinquency rate	3.88%	1.43%	4.87%	5.56%
Pre-foreclosure rate	0.23%	0.10%	0.46%	0.25%
REO loan ratio	0.33%	0.16%	0.64%	0.38%
Auction loan ratio	0.11%	0.06%	0.16%	0.14%
Non-owner occupancy loan ratio	8.85%	8.22%	8.47%	9.68%
Loan-to-household ratio	32.60%	33.87%	35.41%	30.89%
OLTV	88.22%	88.47%	88.83%	87.55%
Price growth rate	4.42%	8.81%	-6.27%	3.50%
GMP growth rate	4.13%	5.24%	1.08%	4.20%
Population growth rate	0.96%	1.01%	0.94%	0.93%
Unemployment rate (%)	6.002	4.816	6.652	6.670
Affordability	138.33	112.49	125.20	161.41
IPO number (per thousand)	0.000092	0.000122	0.000045	0.000083
IPO size ($100 Million)	0.5285	0.5134	0.1837	0.6472
Recent 5-year IPO number (per thousand)	0.0025	0.0037	0.0021	0.0015
Recent 5-year IPO size ($100 Million)	11.5366	13.1745	9.1070	10.6631
SP500 return (%)	5.260	2.488	-8.448	13.151
3-month T-Bill rate (%)	1.609	3.181	1.961	0.401
30-year mortgage rate (%)	5.267	6.491	5.817	4.115
Yield curve	2.996	1.459	2.060	4.458
Recent 5-year SP500 return (%)	5.5033	4.82	3.38	7.13
Recent 5-year average bank tightening rate (%)	7.1276	4.59	13.55	6.47
Number of observations	1444-2964	608-1248	228-468	684-1404

[Panel C] Distribution of IPOs across MSAs

MSA Name	Number of IPOs	Rank of Number of IPOs	Total Value of IPOs ($Billion)	Rank of Total Value of IPOs	Value of IPOs Held by Insiders ($Billion)	Rank of Value of IPOs Held by Insiders
San Francisco-Redwood City-South San Francisco, CA	230	1	261.30	1	216.30	1
Boston, MA	172	2	84.08	3	67.85	3
New York-Jersey City-White Plains, NY-NJ	132	3	102.30	2	78.51	2
Los Angeles-Long Beach-Glendale, CA	85	4	64.40	4	50.25	4
San Diego-Carlsbad, CA	75	5	29.17	9	22.30	10
Washington-Arlington-Alexandria, DC-VA-MD-WV	59	6	35.04	7	26.12	7
Dallas-Plano-Irving, TX	45	7	41.23	6	30.90	6
Seattle-Bellevue-Everett, WA	44	8	27.47	10	22.94	9
Chicago-Naperville-Arlington Heights, IL	43	9	45.04	5	38.08	5
Minneapolis-St. Paul-Bloomington, MN-WI	32	10	9.95	15	7.48	15
Denver-Aurora-Lakewood, CO	30	11	29.61	8	23.17	8
Atlanta-Sandy Springs-Roswell, GA	28	12	17.49	13	13.67	13
Miami-Miami Beach-Kendall, FL	22	13	7.77	16	5.93	16
Bridgeport-Stamford-Norwalk, CT	18	14	20.57	12	14.77	12
Phoenix-Mesa-Scottsdale, AZ	18	14	16.52	14	13.38	14
Las Vegas-Henderson-Paradise, NV	13	16	21.01	11	18.53	11
Detroit-Dearborn-Livonia, MI	11	17	3.33	20	2.28	20
New Haven-Milford, CT	9	18	3.41	19	2.51	19
Tampa-St. Petersburg-Clearwater, FL	9	18	3.52	18	2.77	18
Portland-Vancouver-Hillsboro, OR-WA	8	20	1.75	23	1.30	23
Trenton, NJ	7	21	3.07	21	2.26	21
Charlotte-Concord-Gastonia, NC-SC	6	22	2.41	22	1.46	22
Cleveland-Elyria, OH	3	23	3.87	17	3.05	17
Allentown-Bethlehem-Easton, PA-NJ	1	24	0.17	24	0.12	24
Total	1100		834.49		665.94	

In this table, we report the summary statistics of the full sample (in Panel A) and its subsamples (in Panel B), as well as the distribution of IPOs among MSAs in our full sample (in Panel C). The "Full Sample" includes observations for 2000-2018. The "Easy Loan" subsample includes observations for 2000-2007. The "Recession" subsample includes obsservations for 2007-2009. The "Rebound" subsample includes observations for 2010-2018.

Table 2 IPO activities and local residential mortgage market performance

[Panel A] Regression of the MSA-level foreclosure rate for the full sample

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Recent 5-year IPO number	0.656 ***							
Recent 7-year IPO number		0.430 ***						
Recent 10-year IPO number			0.176 ***					
Recent 12-year IPO number				0.022				
Recent 5-year IPO size					3.550 ***			
Recent 7-year IPO size						5.230 ***		
Recent 10-year IPO size							5.660 ***	
Recent 12-year IPO size								3.400 ***
1-year lagged GMP growth rate	-0.115 ***	-0.116 ***	-0.115 ***	-0.114 ***	-0.116 ***	-0.118 ***	-0.117 ***	-0.115 ***
Unemployment rate	0.004 ***	0.004 ***	0.004 ***	0.004 ***	0.004 ***	0.004 ***	0.004 ***	0.004 ***
30-year mortgage rate	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Yield curve	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
SP500 return	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Constant	0.005	0.005	0.008	0.012	0.012	0.010	0.009	0.011
Observations	1,443	1,443	1,443	1,443	1,443	1,443	1,443	1,443
R-squared	0.6698	0.6684	0.6665	0.6657	0.6676	0.6706	0.6709	0.6673
MSA, year and quarter FE	YES	YES	YES	YES	YES	YES	YES	YES
Clustering by MSA and quarter_count	YES	YES	YES	YES	YES	YES	YES	YES

[Panel B] Highlights of mortgage market performance regression results by underperformed loan categories for the full sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
IPO variable	Recent 5-year IPO number	Recent 7-year IPO number	Recent 10-year IPO number	Recent 12-year IPO number	Recent 5-year IPO size	Recent 7-year IPO size	Recent 10-year IPO size	Recent 12-year IPO size
Foreclosure rate	0.656 ***	0.430 ***	0.176 ***	0.022	3.550 ***	5.230 ***	5.660 ***	3.400 ***
90-day delinquency rate	1.086 ***	0.790 ***	0.304 ***	0.007	5.440 ***	8.300 ***	8.370 ***	5.360 ***
Pre-foreclosure rate	0.045 *	0.010	-0.040	-0.027	-0.050	0.010	-0.380	0.120
REO loan ratio	0.211 ***	0.167 ***	0.041 **	-0.002	1.290 ***	1.420 ***	0.780 ***	0.680 ***
Auction loan ratio	0.078 ***	0.079 ***	0.058 ***	0.053 ***	0.180 *	0.320 ***	0.290 ***	0.250 ***

[Panel C] Highlights of mortgage market performance regression results by underperformed loan categories for subsamples

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
IPO variable	Recent 5-year IPO number	Recent 7-year IPO number	Recent 10-year IPO number	Recent 12-year IPO number	Recent 5-year IPO size	Recent 7-year IPO size	Recent 10-year IPO size	Recent 12-year IPO size
Easy loan subsample								
Foreclosure rate	0.106 ***	0.138 ***	0.111 ***	0.057	0.380	0.430	-2.260 ***	-2.930 ***
90-day delinquency rate	0.423 ***	0.569 ***	0.514 ***	0.478 ***	-0.190	-0.820	-9.480 ***	-12.200 ***
Recession subsample								
Foreclosure rate	2.897 **	2.097 ***	-0.102	-0.198	0.670	19.240 *	13.870 ***	-12.970
90-day delinquency rate	3.025	4.165 ***	0.516	0.436	-47.260 **	38.090 *	20.290 **	12.730
Rebound subsample								
Foreclosure rate	3.781 ***	3.465 ***	3.214 ***	0.451	10.100 ***	12.560 ***	12.770 ***	11.940 ***
90-day delinquency rate	4.828 ***	4.416 ***	4.155 ***	-0.103	14.700 ***	19.170 ***	19.620 ***	19.570 ***

In this table, Panel A reports coefficient estimates for the GLS regressions of the MSA-level residential mortgage foreclosure rate of the full sample (which includes observations for 2000-2018) for several scale-adjusted local IPO activity variables and controls. Scale-adjusted IPO variables equal IPO activity variables divided by the population of the MSA in current quarter. In model specifications (1) to (4), coefficients of IPO variables have been divided by 1000. In model specifications (5) to (8), coefficients of IPO variables have been multiplied by 100000. Variables are defined in the Appendix. Panel B reports the coefficients of IPO variables in regressions similar as regressions in Panel A but using different loan underperformance measurements including foreclosure rate, 90-day delinquency rate, pre-foreclosure rate, REO loan ratio and auction loan ratio. Panel C reports the coefficients of IPO variables in regressions of the foreclosure rate and the 90 day delinquency rate similar as those reported in Panel B but for different subperiods, the "easy loan" period, "recession" period, and "rebound" period. The "easy loan" subsample includes observations for 2000-2007. The "recession" subsample includes observations for 2007-2009. The "rebound" subsample includes observations for 2010-2018. The regressions employ MSA, year fixed effect and quarter fixed effect, along with double clustering on the MSA and quarter count. The stars denote the statistical significance: * significant at 10%; ** significant at 5%; *** significant at 1 %.

Table 3 IPO activities and local housing price changes

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1-quarter lagged IPO number	7.223 **							
2-quarter lagged IPO number		6.687 ***						
Recent 5-year IPO number			-0.191					
Recent 7-year IPO number				-0.145				
1-quarter lagged IPO size					27.770			
2-quarter lagged IPO size						19.970		
Recent 5-year IPO size							-5.550	
Recent 7-year IPO size								-6.830 **
1-year lagged price growth rate	0.626 ***	0.625 ***	0.626 ***	0.626 ***	0.627 ***	0.626 ***	0.626 ***	0.625 ***
2-year lagged price growth rate	-0.174 ***	-0.173 ***	-0.175 ***	-0.175 ***	-0.175 ***	-0.174 ***	-0.174 ***	-0.175 ***
3-year lagged price growth rate	-0.114 ***	-0.114 ***	-0.112 ***	-0.112 ***	-0.113 ***	-0.113 ***	-0.111 ***	-0.110 ***
Population growth rate	1.174 ***	1.173 ***	1.175 ***	1.171 ***	1.161 ***	1.167 ***	1.213 ***	1.203 ***
1-year lagged GMP growth rate	0.183 ***	0.184 ***	0.187 ***	0.188 ***	0.184 ***	0.184 ***	0.189 ***	0.192 ***
30-year mortgage rate	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.002
Yield curve	-0.001	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002
SP500 return	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***
Constant	0.029	0.027	0.030	0.030	0.029	0.029	0.029	0.030
Observations	2,953	2,953	2,953	2,953	2,953	2,953	2,953	2,953
R-squared	0.7986	0.7986	0.7981	0.7981	0.7984	0.7982	0.7983	0.7984
MSA, year and quarter FE	YES	YES	YES	YES	YES	YES	YES	YES
Clustering by MSA and quarter_count	YES	YES	YES	YES	YES	YES	YES	YES

This table reports coefficient estimates for the GLS regressions of the annualized MSA housing price change rate using varied samples for several scale-adjusted local IPO activity variables and controls. The dependent variable is *price growth rate* , or, the annualized FHFA housing price index change rate at current quarter. Scale-adjusted IPO variables equal IPO activity variables divided by the population of the MSA in current quarter. In Specifications (1) to (4), the coefficients of IPO number variables have been divided by 1000. In specifications (5) to (8), the coefficients of IPO size variables have been multiplied by 100000. Variables are defined in the Appendix. The regressions employ MSA, year fixed effect and quarter fixed effect, along with double clustering on the MSA and quarter count. The stars denote the statistical significance: * significant at 10%; ** significant at 5%; *** significant at 1 %.

Table 4 IPO activities and local residential mortgage market performance (two-stage approach, to isolate the impact from housing price changes)

[Panel A] Foreclosure rate regression results

Stage 1 - Regression of MSA-level foreclosure rate for the full sample

VARIABLES	Foreclosure rate
Price growth rate	-0.100 ***
Constant	0.039 ***
Observations	2,959
R-squared	0.6613
MSA, year and quarter FE	YES
Clustering by MSA and quarter_count	YES

Stage 2 - Regressions of the residual foreclosure rate (generated from the stage 1 regression) for the full sample

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Recent 5-year IPO number	0.802 ***							
Recent 7-year IPO number		0.579 ***						
Recent 10-year IPO number			0.311 ***					
Recent 12-year IPO number				0.149 ***				
Recent 5-year IPO size					2.710 ***			
Recent 7-year IPO size						3.690 ***		
Recent 10-year IPO size							4.650 ***	
Recent 12-year IPO size								2.430 ***
1-year lagged GMP growth rate	-0.070 ***	-0.071 ***	-0.070 ***	-0.069 ***	-0.069 ***	-0.070 ***	-0.070 ***	-0.068 ***
Unemployment rate	0.002 ***	0.002 ***	0.002 ***	0.002 ***	0.002 ***	0.002 ***	0.002 ***	0.002 ***
30-year mortgage rate	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
Yield curve	0.002	0.002	0.002	0.001	0.001	0.001	0.001	0.001
SP500 return	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Constant	-0.006	-0.006	-0.004	0.000	0.003	0.002	0.001	0.003
Observations	1,441	1,441	1,441	1,441	1,441	1,441	1,441	1,441
R-squared	0.0673	0.0638	0.0563	0.0507	0.0521	0.0562	0.0593	0.0513
MSA, year and quarter FE	YES	YES	YES	YES	YES	YES	YES	YES
Clustering by MSA and quarter_count	YES	YES	YES	YES	YES	YES	YES	YES

[Panel B] Highlights of mortgage market performance regression (stage-2) results by underperformed loan categories for the full sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
IPO variable	Recent 5-year IPO number	Recent 7-year IPO number	Recent 10-year IPO number	Recent 12-year IPO number	Recent 5- year IPO size	Recent 7-year IPO size	Recent 10-year IPO size	Recent 12-year IPO size
Foreclosure rate	0.802 ***	0.579 ***	0.311 ***	0.149 ***	2.710 ***	3.690 ***	4.650 ***	2.430 ***
90-day delinquency rate	1.347 ***	1.052 ***	0.544 ***	0.235 ***	3.980 ***	5.620 ***	6.640 ***	3.710 ***
Pre-foreclosure rate	0.047 *	0.015	-0.031	-0.018	-0.160	-0.190	-0.500 **	0.030
REO loan ratio	0.243 ***	0.197 ***	0.069 ***	0.025	1.120 ***	1.110 ***	0.580 ***	0.500 ***
Auction loan ratio	0.085 ***	0.087 ***	0.065 ***	0.059 ***	0.130	0.250 ***	0.240 ***	0.210 ***

[Panel C] Highlights of mortgage market performance regression (stage-2) results by underperformed loan categories for the subsamples

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
IPO variable	Recent 5-year IPO number	Recent 7-year IPO number	Recent 10-year IPO number	Recent 12-year IPO number	Recent 5- year IPO size	Recent 7-year IPO size	Recent 10-year IPO size	Recent 12-year IPO size
<u>Easy loan subsample</u>								
Foreclosure rate	0.167 ***	0.191 ***	0.165 ***	0.125 ***	0.590	0.090	-3.270 ***	-4.170 ***
90-day delinquency rate	0.550 ***	0.679 ***	0.627 ***	0.620 ***	0.240	-1.520	-11.560 ***	-14.760 ***
<u>Recession subsample</u>								
Foreclosure rate	2.639 *	2.025 ***	0.131	-0.483	3.680	18.050 *	17.280 ***	-12.870
90-day delinquency rate	2.579	4.042 ***	0.917	-0.056	-42.070	36.040 *	26.170 **	12.900
<u>Rebound subsample</u>								
Foreclosure rate	3.697 ***	3.469 ***	3.023 ***	0.584 *	10.780 ***	11.570 ***	12.290 ***	11.150 ***
90-day delinquency rate	4.654 ***	4.418 ***	3.774 ***	0.183	16.090 ***	17.140 ***	18.660 ***	17.970 ***

In this table, Panel A reports coefficient estimates for the two-stage GLS regressions of the MSA-level residential mortgage foreclosure rate of the full sample (which includes observations for 2000-2018). In the first stage, the dependent variable is the local foreclosure rate, and the explanatory variable is price growth rate, or, the annualized FHFA housing price index change rate at current quarter. In the second stage, the dependent variable is the residual from the first-stage regression, and explanatory variables include local IPO variables and control variables. Scale-adjusted IPO variables equal IPO activity variables divided by the population of the MSA in current quarter. In model specifications (1) to (4), coefficients of IPO variables have been divided by 1000. In model specifications (5) to (8), coefficients of IPO variables have been multiplied by 100000. Variables are defined in the Appendix. Panel B reports the coefficients of IPO variables in the second-stage regressions similar as those second-stage regressions in Panel A but using different loan underperformance measurements including foreclosure rate, 90-day delinquency rate, pre-foreclosure rate, REO loan ratio and auction loan ratio. Panel C reports the coefficients of IPO variables in the second-stage regressions of the foreclosure rate and the 90 day delinquency rate similar as those second-stage regressions in Panel B but for different subperiods, the "easy loan" period, "recession" period, and "rebound" period. The "easy loan" subsample includes observations for 2000-2007. The "recession" subsample includes observations for 2007-2009. The "rebound" subsample includes observations for 2010-2018. The regressions employ MSA, year fixed effect and quarter fixed effect, along with double clustering on the MSA and quarter count. The stars denote the statistical significance: * significant at 10%; ** significant at 5%; *** significant at 1 %.

Table 5 IPO activities and the fraction of non-owner occupancy loans in local residential mortgage loans

[Panel A] Regression of the MSA-level fraction of non-owner occupancy loans for the full sample

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Iponuml1qa	3.375 *							
Iponuml2qa		2.583 *						
Iponum5a			0.549 **					
Iponum7a				-0.002				
Iposizetotl1qa					17.820 **			
Iposizetotl2qa						17.740 **		
Iposizetot5a							15.420 ***	
Iposizetot7a								15.690 ***
1-year lagged GMP growth rate	-0.124 ***	-0.123 ***	-0.128 ***	-0.122 ***	-0.124 ***	-0.125 ***	-0.135 ***	-0.140 ***
Unemployment rate	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	0.000	0.000
Population growth rate	-0.659 ***	-0.663 ***	-0.600 ***	-0.666 ***	-0.680 ***	-0.678 ***	-0.658 ***	-0.596 ***
30-year mortgage rate	0.008 ***	0.008 ***	0.008 ***	0.008 ***	0.008 ***	0.008 ***	0.008 ***	0.008 ***
Yield curve	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002
SP500 return	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***
Constant	0.009	0.009	0.005	0.011	0.010	0.010	0.005	0.003
Observations	1,437	1,437	1,437	1,437	1,437	1,437	1,437	1,437
R-squared	0.7645	0.7642	0.7646	0.7635	0.7645	0.7645	0.7770	0.7802
MSA, year and quarter FE	YES	YES	YES	YES	YES	YES	YES	YES
Clustering by MSA and quarter_count	YES	YES	YES	YES	YES	YES	YES	YES

[Panel B] Highlights of non-owner occupancy loan fraction regressions for different samples

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
IPO variable	Iponum-l1qa	Iponum-l2qa	Iponum5a	Iponum7a	Iposizetot-l1qa	Iposizetot-l2qa	Iposizetot5a	Iposizetot7a
Full (2000-2018)	3.375 *	2.583 *	0.549 **	-0.002	17.820 **	17.740 **	15.420 ***	15.690 ***
Easy Loan (2000-2007)	2.679 *	2.459	1.410 ***	1.255 ***	12.280	17.420	20.220 ***	23.310 ***
Recession (2007-2009)	1.175	-1.549	-2.489	-0.805	-42.080	-63.080 **	-31.040	-25.130
Rebound (2010-2018)	2.853	-1.682	1.662 ***	1.184 **	5.310	-1.050	8.820 ***	9.380 ***

In this table, Panel A reports coefficient estimates for the GLS regressions of the fraction of non-owner occupancy loans in the MSA residential mortgage loans of the full sample (which includes observations for 2000-2018) for several scale-adjusted local IPO activity variables and controls. Scale-adjusted IPO variables equal IPO activity variables divided by the population of the MSA in current quarter. In model specifications (1) to (4), coefficients of IPO variables have been divided by 1000. In model specifications (5) to (8), coefficients of IPO variables have been multiplied by 100000. Variables are defined in the Appendix. Panel B reports the coefficients of IPO variables in regressions similar as regressions in Panel A but for different subperiods. The "easy loan" subsample includes observations for 2000-2007. The "recession" subsample includes observations for 2007-2009. The "rebound" subsample includes observations for 2010-2018. The regressions employ MSA, year fixed effect and quarter fixed effect, along with double clustering on the MSA and quarter count. The stars denote the statistical significance: * significant at 10%; ** significant at 5%; *** significant at 1 %.

Table 6 IPO activities and local residential mortgage market performance - with long-term stock market return controlled

[Panel A] Regression of the MSA-level foreclosure rate for the full sample

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Recent 5-year IPO number	0.652 ***							
Recent 7-year IPO number		0.428 ***						
Recent 10-year IPO number			0.171 ***					
Recent 12-year IPO number				0.020				
Recent 5-year IPO size					3.550 ***			
Recent 7-year IPO size						5.220 ***		
Recent 10-year IPO size							5.670 ***	
Recent 12-year IPO size								3.400 ***
1-year lagged GMP growth rate	-0.114 ***	-0.116 ***	-0.115 ***	-0.113 ***	-0.115 ***	-0.118 ***	-0.117 ***	-0.114 ***
Unemployment rate	0.004 ***	0.004 ***	0.004 ***	0.004 ***	0.004 ***	0.004 ***	0.004 ***	0.004 ***
30-year mortgage rate	-0.001	-0.001	0.000	0.000	-0.001	0.000	0.000	0.000
Yield curve	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
SP500 return for matching period	0.000	0.000	0.000	0.000	0.000	0.000	0.001	0.000
Constant	0.005	0.004	-0.001	0.010	0.012	0.010	-0.001	0.008
Observations	1,443	1,443	1,443	1,443	1,443	1,443	1,443	1,443
R-squared	0.6698	0.6686	0.6667	0.6657	0.6676	0.6708	0.6713	0.6673
MSA, year and quarter FE	YES	YES	YES	YES	YES	YES	YES	YES
Clustering by MSA and quarter_count	YES	YES	YES	YES	YES	YES	YES	YES

[Panel B] Highlights of mortgage market performance regression results by underperformed loan categories for the full sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
IPO variable	Recent 5-year IPO number	Recent 7-year IPO number	Recent 10-year IPO number	Recent 12-year IPO number	Recent 5-year IPO size	Recent 7-year IPO size	Recent 10-year IPO size	Recent 12-year IPO size	SP500 return of matching period (average)
Full sample									
Foreclosure rate	0.652 ***	0.428 ***	0.171 ***	0.020	3.550 ***	5.220 ***	5.670 ***	3.400 ***	0.000
90-day delinquency rate	1.082 ***	0.782 ***	0.294 ***	0.002	5.460 ***	8.290 ***	8.350 ***	5.370 ***	0.001
Easy loan subsample									
Foreclosure rate	0.095 ***	0.136 ***	0.109 ***	0.057	0.360	0.440	-2.270 ***	-2.940 ***	0.000 ***
90-day delinquency rate	0.402 ***	0.565 ***	0.507 ***	0.476 ***	-0.240	-0.810	-9.520 ***	-12.240 ***	0.001 ***
Recession subsample									
Foreclosure rate	2.942 **	2.092 ***	-0.076	-0.214	1.160	18.900 *	14.170 ***	-13.380	0.000
90-day delinquency rate	3.017	4.156 ***	0.537	0.418	1.160	37.710 *	20.420 **	12.300	0.000
Rebound subsample									
Foreclosure rate	3.816 ***	3.479 ***	3.279 ***	0.446	10.180 ***	12.550 ***	12.830 ***	11.970 ***	0.000
90-day delinquency rate	4.876 ***	4.420 ***	4.254 ***	-0.106	14.860 ***	19.160 ***	19.740 ***	19.610 ***	0.000

In this table, Panel A reports coefficient estimates for the GLS regressions of the MSA-level residential mortgage foreclosure rate of the full sample (which includes observations for 2000-2018) for several scale-adjusted local IPO activity variables and controls. Scale-adjusted IPO variables equal IPO activity variables divided by the population of the MSA in current quarter. In Specifications (1) to (4), the coefficients of IPO number variables have been divided by 1000. In specifications (5) to (8), the coefficients of IPO size variables have been multiplied by 100000. *SP 500 return for matching period* represents the percentage change in the S&P 500 index over the recent 5, 7, 10, and 12 years for specifications (1) to (4) and (5) to (8), respectively. Definitions of other variables can be found in the Appendix. Panel B reports the coefficients of IPO variables and the cross-specification average coefficient of *SP500 return for matching period* in regressions of the foreclosure rate and the 90 day delinquency rate for the sample period and its different subperiods, the "easy loan" period, "recession" period, and "rebound" period. The "easy loan" subsample includes observations for 2000-2007. The "recession" subsample includes observations for 2007-2009. The "rebound" subsample includes observations for 2010-2018. The regressions employ MSA, year fixed effect and quarter fixed effect, along with double clustering on the MSA and quarter count. The stars denote the statistical significance: * significant at 10%; ** significant at 5%; *** significant at 1 %.

Table 7 IPO activities and GMP growth

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Current-quarter IPO number	2.526									
1-quarter lagged IPO number		2.437								
2-quarter lagged IPO number			3.661 ***							
Recent 5-year IPO number				0.389 *						
Recent 7-year IPO number					0.527 **					
Current-quarter IPO size						20.320 *				
1-quarter lagged IPO size							13.460 *			
2-quarter lagged IPO size								12.830		
Recent 5-year IPO size									2.850 *	
Recent 7-year IPO size										0.890
1-year lagged GMP growth rate	0.122 ***	0.121 ***	0.121 ***	0.120 ***	0.034	0.122 ***	0.121 ***	0.120 ***	0.120 ***	0.043
2-year lagged GMP growth rate	-0.037	-0.037	-0.035	-0.038	-0.006 ***	-0.036	-0.037	-0.036	-0.039	-0.006 ***
1-year lagged population growth rate	0.986 ***	0.989 ***	0.985 ***	0.997 ***	1.238 ***	0.979 ***	0.983 ***	0.983 ***	0.977 ***	1.130 ***
3-month T-Bill rate	0.006 ***	0.006 ***	0.005 ***	0.006 ***	-0.004 *	0.006 ***	0.006 ***	0.006 ***	0.006 ***	-0.004 *
Yield curve	0.001 **	0.001 **	0.001 **	0.001 **	0.001	0.001 **	0.001 **	0.001 **	0.001 **	0.001
SP500 return	0.001 ***	0.001 ***	0.001 ***	0.001 ***	0.001 ***	0.001 ***	0.001 ***	0.001 ***	0.001 ***	0.001 ***
Constant	0.010	0.010	0.010	0.009	0.100 ***	0.011	0.010	0.010	0.011	0.110 ***
Observations	2,924	2,924	2,924	2,924	2,924	2,924	2,924	2,924	2,924	2,924
R-squared	0.5652	0.5652	0.5660	0.5655	0.6108	0.5656	0.5653	0.5652	0.5652	0.6087
MSA, year and quarter FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Clustering by MSA and quarter_count	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES

This table reports coefficient estimates for the GLS regressions of the GMP annual growth rate of the full sample (which includes observations for 2000-2018) for several scale-adjusted local IPO activity variables and controls. Scale-adjusted IPO variables equal IPO activity variables divided by the population of the MSA in current quarter. In model specifications (1) to (5), coefficients of IPO variables have been divided by 1000. In model specifications (6) to (10), coefficients of IPO variables have been multiplied by 100000. Variables are defined in the Appendix. The regressions employ MSA, year fixed effect and quarter fixed effect, along with double clustering on the MSA and quarter count. The stars denote the statistical significance: * significant at 10%; ** significant at 5%; *** significant at 1 %.

Table 8 IPO activities and local loan-to-household ratio

[Panel A] Regression of the MSA-level loan-to-household ratio for the full sample

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1-quarter lagged IPO number	6.720 ***							
2-quarter lagged IPO number		5.950 ***						
Recent 5-year IPO number			1.696 ***					
Recent 7-year IPO number				0.838 ***				
1-quarter lagged IPO size					10.660			
2-quarter lagged IPO size						0.940		
Recent 5-year IPO size							10.230 ***	
Recent 7-year IPO size								12.680 ***
1-year lagged GMP growth rate	-0.033	-0.032	-0.046 *	-0.047 *	-0.029	-0.029	-0.037	-0.046 *
Unemployment rate	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.001
Population growth rate	-0.291 **	-0.305 **	-0.115	-0.116	-0.313 **	-0.311 **	-0.310 **	-0.235 *
30-year mortgage rate	-0.004 **	-0.004 **	-0.005 **	-0.004 *	-0.004 *	-0.004 **	-0.004 **	-0.004 *
Yield curve	0.001	0.001	0.001	0.001 *	0.001	0.001	0.001	0.002 **
SP500 return	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Bank tightening rate for matching	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-0.001 **
Constant	0.385 ***	0.369 ***	0.373 ***	0.373 ***	0.389 ***	0.392 ***	0.387 ***	0.381 ***
Observations	1,437	1,437	1,437	1,437	1,437	1,437	1,437	1,437
R-squared	0.9738	0.9738	0.9745	0.9738	0.9734	0.9734	0.9741	0.9747
MSA, year and quarter FE	YES	YES	YES	YES	YES	YES	YES	YES
Clustering by MSA and quarter_count	YES	YES	YES	YES	YES	YES	YES	YES

[Panel B] Highlights of MSA-level loan-to-household ratio regressions for different samples

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
IPO variable	1-quarter lagged IPO number	2-quarter lagged IPO number	Recent 5-year IPO number	Recent 7-year IPO number	1-quarter lagged IPO size	2-quarter lagged IPO size	Recent 5-year IPO size	Recent 7-year IPO size
Full (2000-2018)	6.720 ***	5.950 ***	1.696 ***	0.838 ***	10.660	0.940	10.230 ***	12.680 ***
Easy Loan (2000-2007)	6.301 ***	6.061 ***	2.161 ***	1.708 ***	10.760	-10.490	3.920	9.200
Recession (2007-2009)	-1.682	1.109	-1.106 *	-1.277	-16.550	-0.530	0.170	-14.590
Rebound (2010-2018)	4.067 **	4.043 **	2.421 ***	3.295 ***	-1.020	-1.750	8.300 ***	12.850 ***

In this table, Panel A reports coefficient estimates for the GLS regressions of the MSA-median local residential mortgage loan-to-household ratio of the full sample (which includes observations for 2000-2018) for several scale-adjusted local IPO activity variables and controls. Scale-adjusted IPO variables equal IPO activity variables divided by the population of the MSA in current quarter. In model specifications (1) to (4), coefficients of IPO variables have been divided by 1000. In model specifications (5) to (8), coefficients of IPO variables have been multiplied by 100000. *Bank tightening rate for matching period* represents the cross-time average net percentage of US domestic banks tightening standards on household loans over the last quarter, 2-quarter earlier, recent 5-year and recent 7-year for specifications (1) to (4) and (5) to (8), respectively. Definitions of other variables can be found in the Appendix. Panel B reports the coefficients of IPO variables in regressions similar as regressions in Panel A but for different periods. The "easy loan" subsample includes observations for 2000-2007. The "recession" subsample includes observations for 2007-2009. The "rebound" subsample includes observations for 2010-2018. The "early rebound" subsample includes observations for 2010-2013. The regressions employ MSA, year fixed effect and quarter fixed effect, along with double clustering on the MSA and quarter count. The stars denote the statistical significance: * significant at 10%; ** significant at 5%; *** significant at 1 %.

Table 9 IPO activities and OLTV (original loan to value ratio) of local residential mortgage loans

[Panel A] Regression of the MSA-level OLTV for the full sample

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Recent 5-year IPO number	1.318 ***							
Recent 7-year IPO number		1.637 ***						
Recent 10-year IPO number			2.092 ***					
Recent 12-year IPO number				2.760 ***				
Recent 5-year IPO size					-3.300			
Recent 7-year IPO size						4.760 *		
Recent 10-year IPO size							7.760 **	
Recent 12-year IPO size								2.020
1-year lagged GMP growth rate	0.007	-0.003	-0.041	-0.037	0.013	0.007	-0.015	-0.017
Unemployment rate	0.006 ***	0.006 ***	0.002 *	0.001	0.006 ***	0.007 ***	0.005 ***	0.004 ***
30-year mortgage rate	0.001	0.002	0.003	0.002	0.001	0.003	0.003	0.002
Yield curve	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
SP500 return	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Bank tightening rate for matching period	0.000	-0.002 *	-0.001	0.001	0.000	-0.002 **	-0.001	-0.001
Constant	0.810 ***	0.789 ***	0.787 ***	0.759 ***	0.827 ***	0.814 ***	0.804 ***	0.806 ***
Observations	1,063	1,063	968	816	1,063	1,063	968	816
R-squared	0.7433	0.7498	0.7730	0.7725	0.7394	0.7407	0.7541	0.7427
MSA, year and quarter FE	YES	YES	YES	YES	YES	YES	YES	YES
Clustering by MSA and quarter_count	YES	YES	YES	YES	YES	YES	YES	YES

[Panel B] Highlights of MSA-level OLTV regressions for different samples

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
IPO variable	Recent 5-year IPO number	Recent 7-year IPO number	Recent 10-year IPO number	Recent 12-year IPO number	Recent 5-year IPO size	Recent 7-year IPO size	Recent 10-year IPO size	Recent 12-year IPO size
Full (2000-2018)	1.318 ***	1.637 ***	2.092 ***	2.760 ***	-3.300	4.760 *	7.760 **	2.020
Easy Loan (2000-2007)	-1.624 ***	-1.025 ***	-1.098 ***	-0.883	-18.160 ***	-3.370	3.450	11.800
Recession (2007-2009)	4.492	4.270 *	6.741 ***	4.634 ***	2.520	84.340 **	47.910 *	166.590 ***
Rebound (2010-2018)	4.970 ***	0.542	2.243	-1.237 **	11.600 ***	8.690 ***	9.260 ***	2.670

In this table, Panel A reports coefficient estimates for the GLS regressions of the MSA-median OLTV (original loan to value ratio) of residential mortgage loans of the full sample (which includes observations for 2000-2018) for several scale-adjusted local IPO activity variables and controls. Scale-adjusted IPO variables equal IPO activity variables divided by the population of the MSA in current quarter. In model specifications (1) to (4), coefficients of IPO variables have been divided by 1000. In model specifications (5) to (8), coefficients of IPO variables have been multiplied by 100000. *Bank tightening rate for matching period* represents the cross-time average net percentage of US domestic banks tightening standards on household loans over the recent 5, 7, 10, and 12 years for specifications (1) to (4) and (5) to (8), respectively. Definitions of other variables can be found in the Appendix. Panel B reports the coefficients of IPO variables in regressions similar as regressions in Panel A but for different periods. The "easy loan" subsample includes observations for 2000-2007. The "recession" subsample includes observations for 2007-2009. The "rebound" subsample includes observations for 2010-2018. The "early rebound" subsample includes observations for 2010-2013. The regressions employ MSA, year fixed effect and quarter fixed effect, along with double clustering on the MSA and quarter count. The stars denote the statistical significance: * significant at 10%; ** significant at 5%; *** significant at 1 %.

Table 10 IPO activities and local residential mortgage market performance - excluding 6 MSAs that host national-leading lenders

[Panel A] Regression of MSA-level foreclosure rate with 6 MSAs excluded from the full sample

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Recent 5-year IPO number	0.659 ***							
Recent 7-year IPO number		0.260 **						
Recent 10-year IPO number			0.027					
Recent 12-year IPO number				-0.039				
Recent 5-year IPO size					7.230 ***			
Recent 7-year IPO size						8.180 ***		
Recent 10-year IPO size							7.350 ***	
Recent 12-year IPO size								3.480 ***
1-year lagged GMP growth rate	-0.114 ***	-0.114 ***	-0.113 ***	-0.114 ***	-0.113 ***	-0.112 ***	-0.109 ***	-0.111 ***
Unemployment rate	0.005 ***	0.005 ***	0.005 ***	0.005 ***	0.005 ***	0.005 ***	0.005 ***	0.005 ***
30-year mortgage rate	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Yield curve	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
SP500 return	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Constant	0.002	0.005	0.009	0.002	0.006	0.006	0.004	0.007
Observations	1,291	1,291	1,291	1,291	1,291	1,291	1,291	1,291
R-squared	0.6777	0.6761	0.6755	0.6755	0.6788	0.6802	0.6793	0.6763
MSA, year and quarter FE	YES	YES	YES	YES	YES	YES	YES	YES
Clustering by MSA and quarter_count	YES	YES	YES	YES	YES	YES	YES	YES

[Panel B] Highlights of full-sample mortgage market performance regression results: compared to results when the 6 MSAs are excluded

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
IPO variable	Recent 5-year IPO number	Recent 7-year IPO number	Recent 10-year IPO number	Recent 12-year IPO number	Recent 5-year IPO size	Recent 7-year IPO size	Recent 10-year IPO size	Recent 12-year IPO size
Foreclosure rate								
full sample	0.656 ***	0.430 ***	0.176 ***	0.022	3.550 ***	5.230 ***	5.660 ***	3.400 ***
6 MSAs excluded	0.659 ***	0.260 **	0.027	-0.039	7.230 ***	8.180 ***	7.350 ***	3.480 ***
90-day delinquency rate								
full sample	1.086 ***	0.790 ***	0.304 ***	0.007	5.440 ***	8.300 ***	8.370 ***	5.360 ***
6 MSAs excluded	0.806 ***	0.356 **	0.048	-0.062	7.930 ***	10.360 ***	9.750 ***	5.440 ***

In this table, Panel A reports coefficient estimates for the GLS regressions of the MSA-level residential mortgage foreclosure rate of the full sample (which includes observations for 2000-2018) but excluding 6 MSAs for several scale-adjusted local IPO activity variables and controls. These 6 MSAs host the national-leading residential mortgage loan lenders in our sample period, and they include New York-Jersey City-White Plains (NY-NJ), San Francisco-Redwood City-South San Francisco (CA), Detroit-Dearborn-Livonia (MI), Minneapolis-St. Paul-Bloomington (MN-WI), Anaheim-Santa Ana-Irvine (CA) and Charlotte-Concord-Gastonia (NC-SC). Scale-adjusted IPO variables equal IPO activity variables divided by the population of the MSA in current quarter. In model specifications (1) to (4), coefficients of IPO variables have been divided by 1000. In model specifications (5) to (8), coefficients of IPO variables have been multiplied by 100000. Variables are defined in the Appendix. Panel B reports the coefficients of IPO variables in regressions of the foreclosure rate and the 90 day delinquency rate similar as those reported in Panel A but for different samples, the full sample and its subsample that excludes these 6 MSAs. The regressions employ MSA, year fixed effect and quarter fixed effect, along with double clustering on the MSA and quarter count. The stars denote the statistical significance: * significant at 10%; ** significant at 5%; *** significant at 1 %.

Table 11 IPO activities and local residential mortgage market performance - with national bank lending situation controlled

[Panel A] Regression of the MSA-level foreclosure rate for the full sample

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Recent 5-year IPO number	0.665 ***							
Recent 7-year IPO number		0.428 ***						
Recent 10-year IPO number			0.183 **					
Recent 12-year IPO number				-0.062				
Recent 5-year IPO size					3.540 ***			
Recent 7-year IPO size						5.240 ***		
Recent 10-year IPO size							6.000 ***	
Recent 12-year IPO size								4.400 ***
1-year lagged GMP growth rate	0.116 ***	0.116 ***	-0.129 ***	-0.117 ***	0.117 ***	0.118 ***	-0.131 ***	-0.120 ***
Unemployment rate	0.004 ***	0.004 ***	0.004 ***	0.005 ***	0.004 ***	0.004 ***	0.004 ***	0.005 ***
30-year mortgage rate	0.000	0.000	0.000	-0.001	0.000	0.000	0.000	-0.001
Yield curve	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
SP500 return	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Bank tightening rate for matching period	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Constant	0.004	0.005	0.007	0.017	0.011	0.009	0.005	0.012
Observations	1,443	1,443	1,348	1,196	1,443	1,443	1,348	1,196
R-squared	0.8122	0.8112	0.8116	0.8179	0.8097	0.8123	0.8156	0.8200
MSA, year and quarter FE	YES	YES	YES	YES	YES	YES	YES	YES
Clustering by MSA and quarter_count	YES	YES	YES	YES	YES	YES	YES	YES

[Panel B] Highlights of mortgage market performance regression results by underperformed loan categories for subsamples

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
IPO variable	Recent 5-year IPO number	Recent 7-year IPO number	Recent 10-year IPO number	Recent 12-year IPO number	Recent 5-year IPO size	Recent 7-year IPO size	Recent 10-year IPO size	Recent 12-year IPO size
Full sample								
Foreclosure rate	0.665 ***	0.428 ***	0.183 **	-0.062	3.540 ***	5.240 ***	6.000 ***	4.400 ***
90-day delinquency rate	1.103 ***	0.790 ***	0.259 **	-0.300 ***	5.430 ***	8.310 ***	9.100 ***	7.710 ***
Easy loan subsample								
Foreclosure rate	0.105 ***	0.133 ***	0.065 *	-0.046	0.390	0.360	-2.400 ***	-1.950 **
90-day delinquency rate	0.421 ***	0.558 ***	0.461 ***	0.247	-0.170	-0.990	-10.450 ***	-11.560 ***
Recession subsample								
Foreclosure rate	2.884 **	2.179 ***	-0.102	-0.189	0.530	19.680 *	13.820 ***	-12.690
90-day delinquency rate	3.060	4.179 ***	0.516	0.479	-47.200 **	37.350 *	20.520 **	13.910
Rebound subsample								
Foreclosure rate	3.838 ***	3.494 ***	3.354 ***	0.427	10.210 ***	12.610 ***	12.970 ***	11.960 ***
90-day delinquency rate	4.888 ***	4.447 ***	4.319 ***	-0.124	14.820 ***	19.210 ***	19.860 ***	19.580 ***

In this table, Panel A reports coefficient estimates for the GLS regressions of the MSA-level residential mortgage foreclosure rate of the full sample (which includes observations for 2000-2018) for several scale-adjusted local IPO activity variables and controls. Scale-adjusted IPO variables equal IPO activity variables divided by the population of the MSA in current quarter. In Specifications (1) to (4), the coefficients of IPO number variables have been divided by 1000. In specifications (5) to (8), the coefficients of IPO size variables have been multiplied by 100000. *Bank tightening rate for matching period* represents the cross-time average net percentage of US domestic banks tightening standards on household loans over the recent 5, 7, 10, and 12 years for specifications (1) to (4) and (5) to (8), respectively. Definitions of other variables can be found in the Appendix. Panel B reports the coefficients of IPO variables in regressions of the foreclosure rate and the 90 day delinquency rate for the sample period and its different subperiods, the "easy loan" period, "recession" period, and "rebound" period. The "easy loan" subsample includes observations for 2000-2007. The "recession" subsample includes observations for 2007-2009. The "rebound" subsample includes observations for 2010-2018. The regressions employ MSA, year fixed effect and quarter fixed effect, along with double clustering on the MSA and quarter count. The stars denote the statistical significance: * significant at 10%; ** significant at 5%; *** significant at 1 %.

Figure 1 Number of IPOs by Year

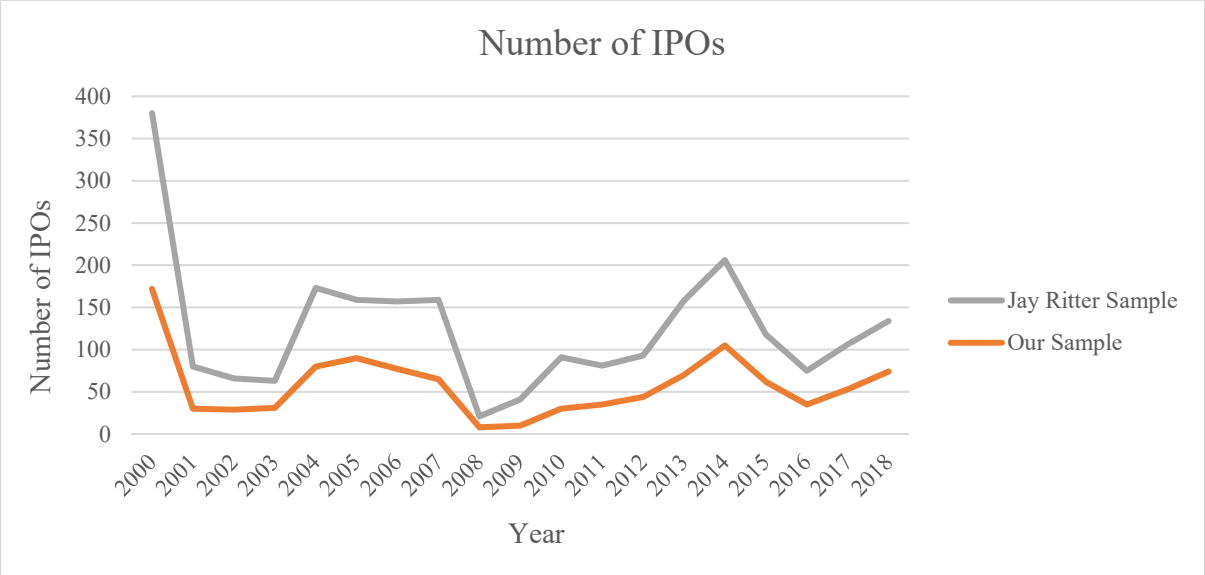
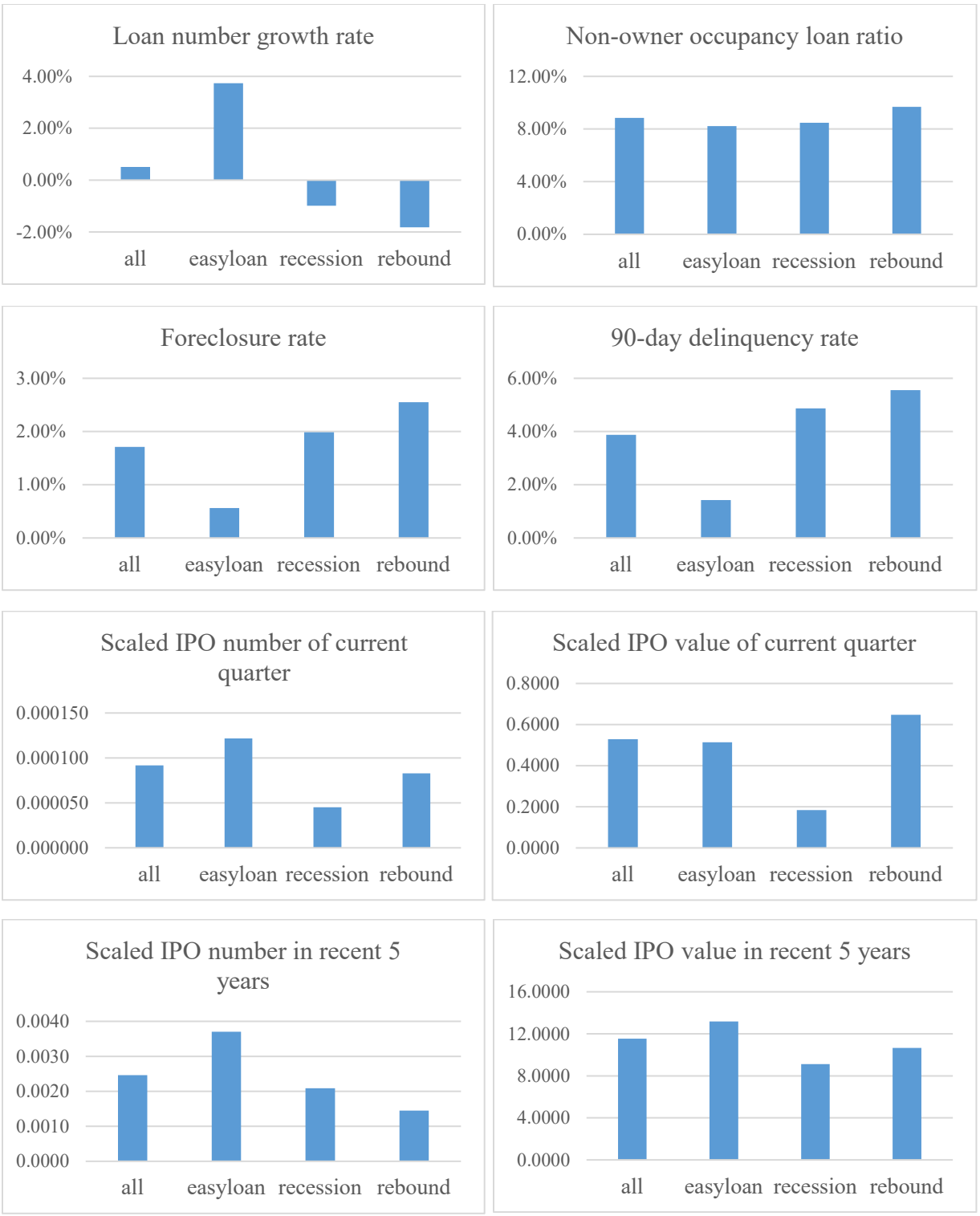


Figure 2 Major variables by sample means



This figure illustrates of the means of major variables of varied samples. Here, “all” is the full sample with observations for 2000-2018, “easy loan” is the Easy Loan subsample with data for 2000-2007, “recession” is the Recession subsample with data for 2007-2009, and “rebound” is the Rebound subsample with data for 2010-2018.