Does it Pay to be Loyal?
An Empirical Analysis of Underwriting Relationships and Fees

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June 2004

ABSTRACT

We examine underwriting fees for repeat issuers of new securities to determine the relation between loyalty to an underwriting bank and the fees charged. For a sample of offers over the 1975-2001 period, we find that loyalty is associated with lower fees for common stock offers, consistent with valuable relationship capital being built through loyalty. For debt offers, however, we document the opposite pattern, consistent with relationship capital not being as valuable. For both offer types, firms that graduate to higher quality banks face lower fees. Firms that are more likely to be switching banks to improve analyst coverage face high fees for common stock offers, but not for debt offers.

JEL classification: G20, G24, L14

Keywords: Underwriting; Relationship capital; Firm loyalty

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We are grateful to Eric Anderson, Mihir Desai, Gene Fama, Pat Fishe, Paul Gompers, Michael Kollo, Raghuram Rajan, Tyler Shumway, Luigi Zingales, seminar participants at the Federal Reserve Bank of Chicago, University of Chicago, Harvard, University of Illinois at Urbana-Champaign, University of Iowa, University of Michigan, NYU, and Notre Dame University for helpful comments. We also thank Andy Wong for able research assistance. Tim Burch acknowledges financial support from a 2002 McLamore research grant at the University of Miami. Correspondence to: Timothy R. Burch, University of Miami Department of Finance, P.O. Box 248094, Coral Gables, FL 33149-6552, (305) 284-1509, (305) 284-4800 (fax), tburch@miami.edu (email), www.bus.miami.edu/~tburch (web).