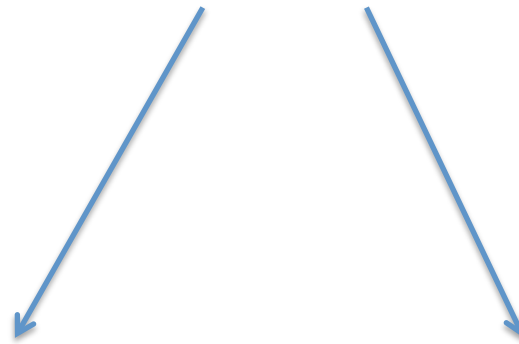


# Collateralization, Bank Loan Rates and Monitoring: Evidence from a Natural Experiment

Discussion

# How does collateral affect the debt contract?

Collateral

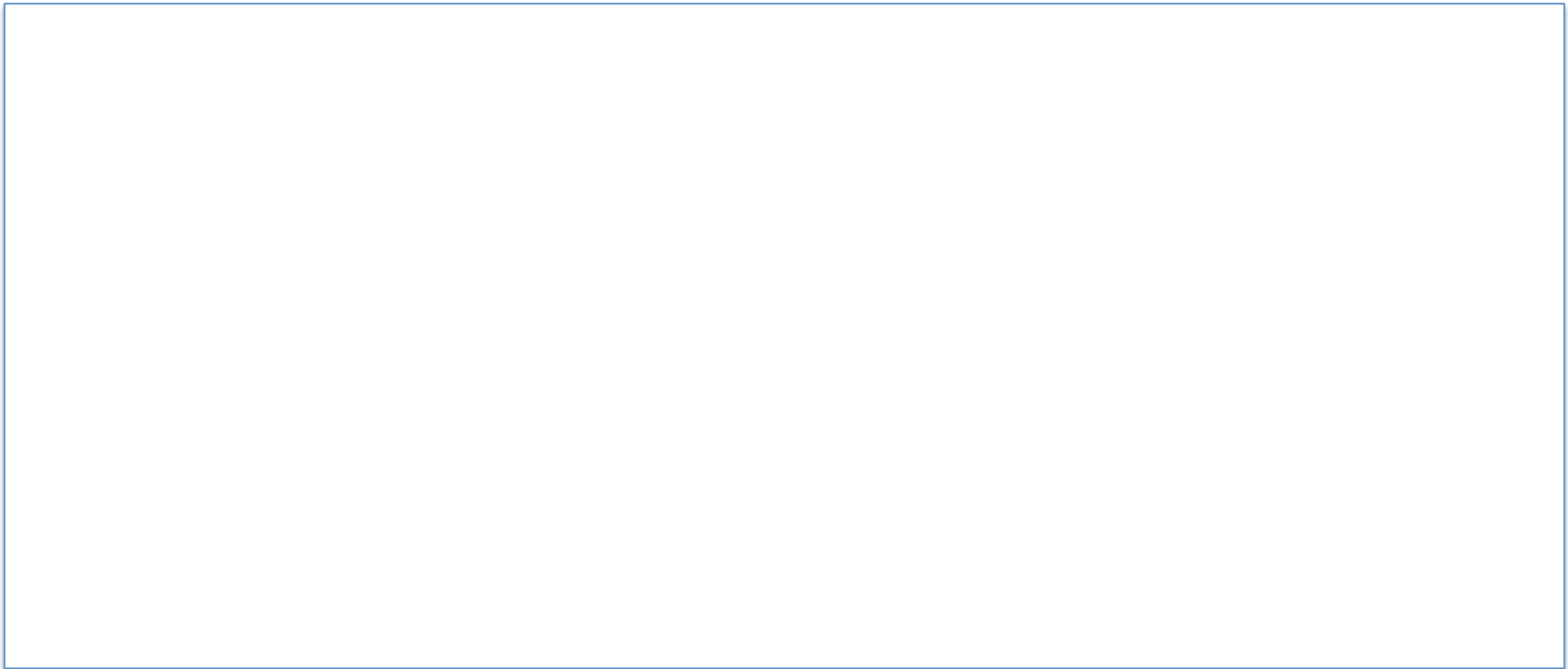


Enforcement (senior)

Reveal information

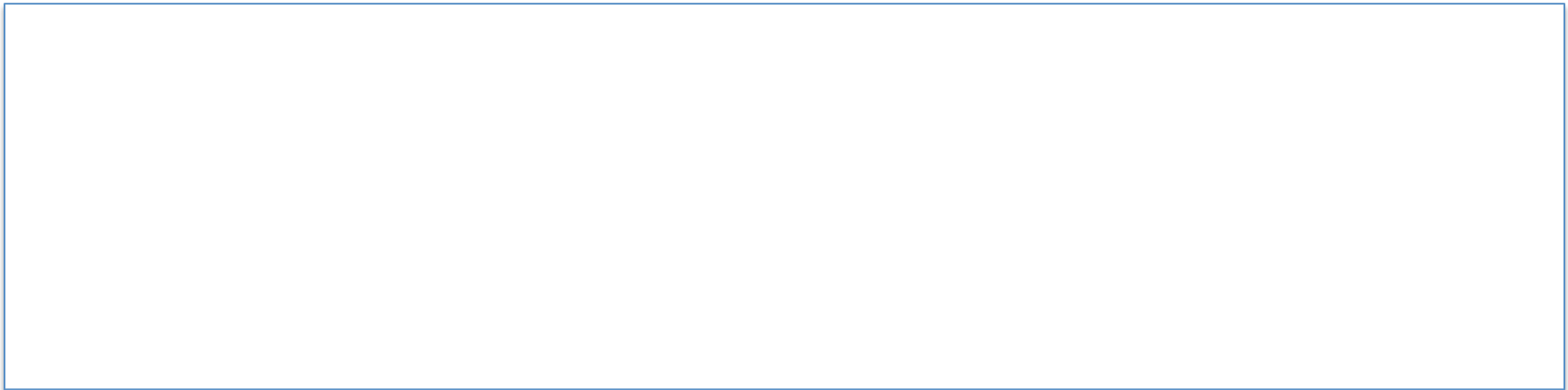
# Everything is possible and endogenous

- Easier enforcement  $\longrightarrow$  lower interest rate



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- Easier enforcement  $\longrightarrow$  lower interest rate
- Safe project (unobserved)  $\longrightarrow$  more collateral (signal)  $\longrightarrow$  lower interest rate.



# Everything is possible and endogenous

- Easier enforcement  $\longrightarrow$  lower interest rate
- Safe project (unobserved)  $\longrightarrow$  more collateral (signal)  $\longrightarrow$  lower interest rate.
- Unsafe project  $\longrightarrow$  high interest rate  $\longrightarrow$  moral hazard  $\longrightarrow$  more collateral

# Setup: Floating Lien Loans in Sweden

Backed by Accounts Receivable

Excludes most real and financial assets

Pre 2004	Post 2004
Senior claim	General claim

Groups	2003:01 -2003:12	2004:01-2005:03
Floating lien borrowers	Untreated	Treated
Non-floating lien borrowers	Untreated	Untreated

$$\beta_{diff} = \left[ i_{Tpost} - i_{Tpre} \right] - \left[ i_{Upost} - i_{Upre} \right]$$

# Main findings

- Collateral value fell
- Interest rate rose
- Less credit available



# Questions

- Why did the law change?
  - What else changed?
- How similar are the control and treatment groups?
- What happened at the extensive margin?
- What are the real effects