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 $\rightarrow$ lower interest rate
Everything is possible and endogenous

• Easier enforcement $\rightarrow$ lower interest rate

• Safe project (unobserved) $\rightarrow$ more collateral (signal) $\rightarrow$ lower interest rate.
Everything is possible and endogenous

• Easier enforcement $\rightarrow$ lower interest rate

• Safe project (unobserved) $\rightarrow$ more collateral (signal) $\rightarrow$ lower interest rate.

• Unsafe project $\rightarrow$ high interest rate $\rightarrow$ moral hazard $\rightarrow$ more collateral
Setup: Floating Lien Loans in Sweden
Backed by Accounts Receivable
Excludes most real and financial assets

<table>
<thead>
<tr>
<th>Pre 2004</th>
<th>Post 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior claim</td>
<td>General claim</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>------------------</td>
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<tr>
<td>Floating lien borrowers</td>
<td>Untreated</td>
</tr>
<tr>
<td>Non-floating lien borrowers</td>
<td>Untreated</td>
</tr>
</tbody>
</table>

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