Accepted Manuscript

How collateral laws shape lending and sectoral activity

Charles W. Calomiris , Mauricio Larrain , José Liberti ,
Jason Sturgess

PII: S0304-405X(16)30156-8
DOI: 10.1016/j.jfineco.2016.09.005
Reference: FINEC 2698

To appear in: *Journal of Financial Economics*

Received date: 5 October 2015
Revised date: 13 January 2016
Accepted date: 9 February 2016

Please cite this article as: Charles W. Calomiris , Mauricio Larrain , José Liberti , Jason Sturgess , How collateral laws shape lending and sectoral activity, *Journal of Financial Economics* (2016), doi: 10.1016/j.jfineco.2016.09.005

How collateral laws shape lending and sectoral activity*

Charles W. Calomiris [a,b], Mauricio Larrain [a,c *], José Liberti [d,e], and Jason Sturgess [d]

[a *]Columbia Business School, 3022 Broadway, Uris Hall, New York, NY 10027, United States

[b] National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138, United States

[c] Pontificia Universidad Católica de Chile School of Management, Avda. Vicuña Mackenna 4860, Santiago, Chile

[d] DePaul University, Driehaus College of Business, 1 E Jackson Boulevard, Chicago, IL 60604, United States

[e] Northwestern University, Kellogg School of Management, 2001 Sheridan Road, Evanston, IL 60208, United States

ABSTRACT

We demonstrate the central importance of creditors' ability to use movable assets as collateral (as distinct from immovable real estate) when borrowing from banks. Using a unique cross-country micro-level loan data set containing loan-to-value ratios for different assets, we find that loan-to-values of loans collateralized with movable assets are lower in countries with weak collateral laws, relative to immovable assets, and that lending is biased toward the use of immovable assets. Using sector-level data, we find that weak movable collateral laws create distortions in the allocation of resources that favor immovable-based production and investment. An analysis of Slovakia's collateral law reform confirms our findings.

JEL classification: G21, G30

Keywords: Movable collateral, Immovable collateral, Collateral laws, Creditor rights, Loan-to-value ratios

---

* We thank Emily Breza, Murillo Campello, Qianqian Du (discussant), Scott Frame (discussant), Todd Gormley, Li Jin (discussant), Martin Oehmke, Arito Ono (discussant), Tomasz Piskorski, Jacopo Ponticelli (discussant), Philip Strahan, Greg Udell, Paolo Volpin (discussant), Daniel Wolfenzon, Baozhong Yang (discussant), Zacharias Sautner (discussant), Stefan Zeume (discussant), a particularly helpful referee, and seminar participants at the European Bank for Reconstruction and Development (ERBD), Laboratoire d'Excellence Regulation Financière (LabEx ReFi), Columbia University-New York University Junior Corporate Finance Meeting, Columbia Business School, National Bureau of Economic Research Law and Economics Meeting, Centre for Economic Policy Research (CEPR) Workshop on Corporate Financing (Oxford, UK), Catolica Lisbon-Nova SBE (Lisbon, Portugal), Junior Faculty Roundtable at University of North Carolina at Chapel Hill, Symposium on Emerging Financial Markets (Columbia University, New York City), Federal Reserve Board, Mexico Autonomous Institute of Technology (ITAM) Finance Conference (Mexico City, Mexico), Money and Finance Research (MoFiR) Workshop on Banking (Kobe, Japan), University of New South Wales (Sydney, Australia), International Monetary Fund, China International Conference in Finance (Shenzhen, China), Catholic University of Chile, University of Chile, University Adolfo Ibañez, University Los Andes, Central Bank of Chile, European Finance Association Meeting (Vienna, Austria), American Finance Association (San Francisco, California), University of Manchester, Lancaster University, Duke University, Harvard University, and Boston College for helpful comments. Jason Lee provided excellent research assistance. We are grateful for funding from the Jerome A. Chazen Institute of International Business at Columbia Business School.

* Corresponding author. Tel.: +1 212 851 0175; fax: +1 212 316 9219.
Email address: mlarrain@columbia.edu