

Comments on
Access to Collateral and Corporate Debt Structure:
Evidence from a Natural Experiment

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Motivation

- legal rights of creditor vs. borrower matter for financial & economic outcomes
- little rigorous empirical evidence at the micro-level that demonstrates mechanisms
- firm-level data from before & after a policy change allow us to study this
- clever double identification strategy

Idea

- Inefficient liquidation of firms versus an increased supply of credit
- with uncertain cash flows & unknown types, lender may liquidate the firm even if good type
- entrepreneur has private benefit b which makes continuation always profitable
- secured transactions law increases liquidation value
 - increased credit (supply)
 - higher risk of liquidation – lower demand for secured credit

Bankruptcy

- inefficient liquidation & multiple creditors
- a third party/judge to prevent “me-first” grabs
- provisions for seniority of claim affect the likelihood of inefficient liquidation
- an auction to realize the ex post value of the firm (Aghion et al.)

Inefficient liquidation?

- Does SARFAESI allow realization of ex post value of firm?
 - if multiple creditors, then requires consensus before liquidation
 - data on number of creditors in CMIE database?
 - perhaps, because lenders can auction the assets
 - but depends on the market for these assets (Longhofer & Peters)
 - banks in India complain they are unable to sell assets

Comments contd.

- Evidence that banks did liquidate collateral?
 - threat of liquidation vs. actual liquidation
 - some level of liquidation that keeps the threat alive
 - “first stage”
- private benefits b : side-payments to lenders to prevent liquidation?

Comments contd.

- Counterfactual/Welfare effects?
 - pre-SARFAESI: no liquidation – inefficient firms continued?
 - post-SARFAESI: liquidation – efficient firms liquidated?
 - do we know that secured debt goes down for the good type firms?
 - show effects by industry? past firm profitability?

Comments contd.

- 2004 weakening of law
 - do the effects reverse?
- GE effects? (Mookherjee & Lilienfeld-Toal)
 - if threshold of asset size above which liquidation occurs
 - smaller borrowers may also gain if it helps to build their tangible assets to this threshold
 - Prowess database: larger firms
- Interest payments: negative effect
 - shouldn't repayment of loans be improving?