

Discussion to "The Collateral Channel and Bank Credit"

by Arun Gupta, Horacio Sapriza, Vladimir Yankov

Mauricio Larrain E.
University of los Andes, Chile

(1) Collateral data: good, but better exists

 Strength of paper explicitly distinguishing pledging from mere ownership of real estate

 Novelty claim should be qualified. Data only provide dummy for whether collateral is pledged and what type

 Calomiris et al. (2017, JFE) use loan-level data with appraisal value of collateral, by type (RE, inventory, etc.)

(2) Re-appraisal role is missing

Collateral channel implicitly assumes:

RE Prices
$$\uparrow \Rightarrow$$
 Collateral Value $\uparrow \Rightarrow$ Credit Supply \uparrow

Change in collateral value relies on collateral re-appraisal

How frequent are re-appraisals in the US?

In Chile, they are infrequent -> external validity

Endogeneity of real estate prices

Collateral channel:

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Local \ RE \ prices \, \uparrow \ \rightarrow \ Collateral \ value \, \uparrow \ \rightarrow \ Firm \ credit \, \uparrow
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• Identification problem:

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Local\ Boom \ \rightarrow \ RE\ prices \,\uparrow \ \rightarrow \ Collateral \,\uparrow \ \rightarrow \ Credit \,\uparrow
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 $\operatorname{Local} \operatorname{Boom} \ o \ \operatorname{More} \operatorname{credit} \operatorname{demand} \ o \ \operatorname{Credit} \uparrow$

Solution

Instrument for real estate prices:

$$Z \to \operatorname{RE}\operatorname{Prices} \uparrow \to \operatorname{Collateral} \uparrow \to \operatorname{Credit} \uparrow$$

• Where:

$$Z = (\text{Land Supply Inelasticity}_m) \times (\text{National Mortgage Rate Shock}_t)$$

Exclusion restriction: Z affects Y only through X

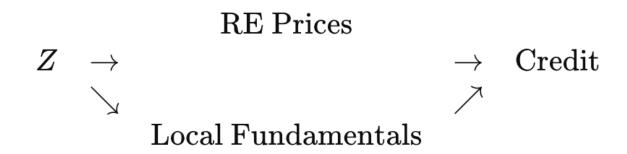
$$Z \to \mathrm{RE}\,\mathrm{Prices} \to \mathrm{Credit}$$

Mauricio Larrain

(3) Fundamentals, not collateral

- Inelastic cities (SF, NYC, Boston) are superstar cities ->
 productive firms, skilled workers, inflows of K/innovation
- Land scarcity reflects fundamentals: desirable locations; talent networks, finance, knowledge spillovers

More responsive to decline in national interest rates



Endogeneity of collateral choice

Firm growth prospects \rightarrow Pledge RE as collateral \rightarrow Credit \uparrow Firm growth prospects \rightarrow Credit demand $\uparrow \rightarrow$ Credit \uparrow

Instrument for collateral choice:

$$Z = \text{Court Efficiency}_m$$

 Court efficiency isn't just about repossessing collateral: it's a broad proxy for institutional quality

(4) Institutional quality, not collateral

 Regions with more efficient courts have better enforcement overall, stronger rule of law, property rights, lower corruption, deeper financial markets, etc.

 Each of these improves credit availability independently of collateral use

 So even if no one pledges collateral, firms in efficientcourt regions still get more credit because the whole financial and legal environment is stronger

(5) Aggregate effects too large

 37% of employment growth 2013-2019 attributed to collateral channel (original version)

- Employment grew 1.7% per year (18 MM jobs)
 - Demand-driven recovery: unemployment fell from 7.9% to 3.5% → 7 MM extra jobs (40% from absorbing slack)
 - Population growth 0.5% per year → explains 20% of total
 - Sectoral reallocation: 1/3 of jobs concentrated in health care, education, leisure → 20% of total
 - Productivity growth: 1% per year (weak) → 15–20% of total



Thanks!