

Discussion

Creditor's Protection and Bank Loans:  
Market Power and Bankruptcy Reform's Effects

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# The paper

- ▶ Bank loans are incomplete contracts that have to be accompanied by bankruptcy law.
  - ▶ The authors study loan pricing around a change in bankruptcy law in Brazil in 2005.
  - ▶ They find that interest rates of loans affected by the new law decrease more than rates of unaffected loans after its introduction.
  - ▶ Rates decrease more, the more competitive the respective loan market is.
- ⇒ Interesting paper, well written, lots of robustness!

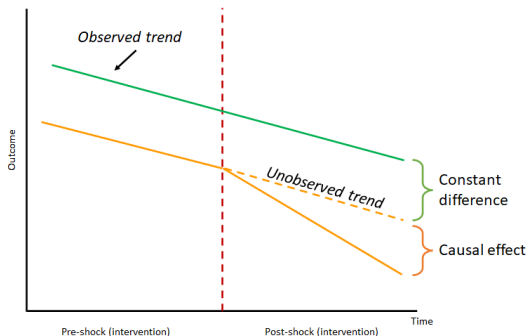
# Comment 1

How comparable are  
**corporate** and **consumer**  
credit?



## Comment 1: DID identifying assumptions

- 1) Exogeneity
- 2) Parallel Trends: The outcome variable (interest rates) grew on similar paths before the shock (reform).



- ▶ How do interest rates of consumer and corporate lending behave before and after the reform?

# Comment 1: Treatment and control group

- ▶ Ideal control group: Firm lending of the same type, same risk, same collateral which are miraculously exempt from the law.
- ▶ Your choice: Consumer lending of the same type, same risk, but without collateral.
- ⇒ Can you use collateralized consumer lending?
- ⇒ Do you have variation across corporate loans in how much they are affected by the new law?

Table 3: Markets or Credit Types

Description	Number
Overdraft - Consumers	1
Leasing and Goods Financing - Consumers	2
Vehicle Financing - Consumers	3
Loans and Other Credit Types - Consumers	4
Working Capital; Overdraft and Supplier Financing - Firms	5
Commercial Papers Discount - Firms	6
Leasing and Goods Financing - Firms	7
Vehicle Financing - Firms	8
Loans and Other Credit Types - Firms	9
Trade Finance: Import and Export - Firms	10

## Comment 2: Methodology - fine tuning

- 1) Add more explanatory variables (raise  $R^2$ )
- 2) Within-Bank estimation
  - Banks might sort into specific markets.
  - Include bank fixed effects when measuring competition at the regional(-portfolio) level.
- 3) Stay at the borrower-level, in the best case with additional firm information
  - Borrowers might sort into specific banks.
  - Estimate at the borrower-level with more homogeneous groups.

## ... further comments for the authors

- ▶ I find it confusing that your “treatment intensity” (aka competition measure) varies across control and treatment group, i.e. you might simply capture that concentration (HHI) is higher in corporate than in consumer markets.
- ▶ I do not understand how you can estimate macro variables when including time fixed effects. Where does the variation come from?
- ▶ Tables 12, 14, 18 do not report number of observations.
- ▶ I would try clustering standard errors. I would expect SE to be serially correlated within banks.
- ▶ I find model 4 most convincing. The discussion on outlier removal is very detailed and convincing, however, distracting from your main point. Therefore, I'd move it as a robustness/appendix only.
- ▶ Interesting Placebo tests. You might also consider to collapse the time dimension (see solution IV.C. in [Bertrand et al., 2000](#)).