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Collateral, debt capacity, and corporate investment: Evidence from a natural experiment

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Abstract

This paper examines how a shock to collateral value influences firms' debt capacities and investments. Using a source of exogenous variation in collateral value provided by the land market collapse in Japan, I find that collateral has a statistically and economically significant impact on corporate investments. I also provide direct evidence on the workings of such a collateral channel. Exploiting a unique dataset of matched bank-firm lending, I show that firms with greater collateral losses are less likely to sustain their banking relationships and tend to obtain a smaller amount of bank credit.



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JEL classifications

G31; G32

Keywords

Collateral; Investment; Financial constraints; Bubbles; Cost of external financing

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