

The Use of Collateral in the Argentine Banking System

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Abstract

This paper addresses in detail, for first time, the use of collateral in the Argentine banking system by exploiting the informative richness of the borrowers database at the Central Bank (Central de Deudores del Banco Central), focusing on the loans to companies for which accounting information is available over the 2001-2005 period. After reviewing the theoretical and empirical literature, as well as the benefits and costs of pledging collateral, the microeconomic determinants of the probability of posting collateral and of the percentage of guaranteed debt are investigated. The results from annual regressions support the traditional view that banks require more guarantees from riskier debtors. In particular, the probability of using guarantees increases with the tangibility of assets and the number of credit relationships, and it lowers with the size of the borrower and the proportion of short-term credit. The same variables, except for the number of credit relationships, also explain the percentage of debt collateralized. Surprisingly, we do not find a significant correlation of guarantees with the return on assets nor the loan performing status. Some variables were significant only in some years –which is justifiable at the light of the changing macroeconomic conditions throughout the period-, but anyway they were highly significant in cross-section exercises, namely: the ratio of banking debt and that of total liabilities to total assets exert a positive effect on the use of guarantees, whereas the percentage of credit from foreign (public) banks has a negative (positive) impact.

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