Discussion of:
Busy Bankruptcy Courts and the Cost of Credit
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Motivation

1) Does judicial efficiency affect the cost of financing?
2) How large are the welfare losses from judicial inefficiency?

- Obviously important questions, but hard to answer...

⇒ How to measure judicial efficiency?
   I would like to see more discussion of this in the paper

⇒ Cross-sectional correlation between loan terms and judicial efficiency might be driven by unobservables
e.g., poor areas have riskier firms and inefficient courts
Identification Challenge

- Caseload is positively correlated with loan spreads e.g., poor areas have riskier firms and worse courts
Empirical Strategy

- Introduction in 2005 of the BAPCPA
  - Bankruptcy Abuse Prevention and Consumer Protection Act made it harder for individuals to default
  - Sudden reduction of the caseload of US bankruptcy courts

- Judicial efficiency measured with the time-weighted number of cases filed per bankruptcy judge in a district
  - Data on cases from USTP but no 1-1 mapping with districts
  - Use (representative?) sample of 27 states with one district

- Exploit exposure to BAPCPA
  - Share of district non-business bankruptcies pre-BAPCPA
  - Positive relationship b/w share of non-business filings and subsequent drop in the caseload
  - Iverson (2016): reduced the time firms spent in court, repeated filings, and banks charge-offs for business lending
  - The share of consumer cases is “highly persistent and largely driven by the concentration of economic activity”
First Stage

- More non-business filings, larger drop in caseload
Results

- **Busy courts matter for the cost and maturity of credit**
  - ↓ of approx 2 work weeks per year for a bankruptcy judge
    ⇒ ↓ loan rates by 16 bps and ↑ loan maturities by 10%
  - Other aspects of the reform do not drive the results
  - Results not driven by easy credit from the 2007-08 crisis
  - Larger effects for borrowers with higher default risk and lower expected liquidation values.

- **The induced drop in caseload saved US non-fin. corporates at least $10 bn in interest payments per year**
  - Still room for improvement: the social costs of busy courts today are at least $740 million per year
  - Solution? Adding a few judgeships in key districts (with highest return to judges)
Drop in Caseload after BAPCPA

1) Great Recession blamed for the temporary effect
   ▶ More evidence needed

2) In the DiD the “Pre” is 04-05 and the “Post” is 06-07
   ▶ But policy passed in the Senate on March 10, 2005
   ▶ But the drop in caseload happens at the end of 2005
   ▶ “File to rush” before October likely affects the results
Treatment Across Firms

▶ Are all firms “treated” based on their headquarter bankruptcy district?
  - Firms can file for bankruptcy where they
    i) are incorporated
    ii) have their principal place of business
    iii) have an affiliate that filed for bankruptcy
  - Largest firms “shop” for districts (DL, NY)

▶ The exposure might be wrong for large firms
Aggregate Statements and Treatments Across Firms

- Analysis run on very large loans (syndicated loans)
  - Median borrower has more than $1 bn in assets
  - Average loan size is $208 million

→ Very hard to extrapolate and aggregate estimates
  - Elasticity of loan contract outcomes to court caseload considerably decreases with firm size
Theory Framework

- Efficient courts associated to higher recovery values
  - Time-constraint courts tend to be more friendly to debtor
  - BAPCPA makes courts less time constrained
  - Higher recovery rates for creditors

- Higher recovery values should be priced in loans
  - Especially for risky borrowers
  - What about other sources of funding (e.g., wholesale market funding)?

- More discussion of the post-BAPCPA equilibrium
  - Higher recovery values, lower loan rates
  - Bankruptcy more expensive
  - How do agents behave in the new equilibrium?
  - Characteristics of firms that file for bankruptcy?
  - Related to the seemingly temporary effect of BAPCPA
Conclusion

- Very important question
- More general than a bankruptcy/finance paper
- Careful discussion of identification challenges
- My comments:
  ▶ Discuss timing and threat from anticipatory effects
  ▶ Discuss how to measure “exposure” for large firms
  ▶ Discuss new equilibrium when computing social costs
  ▶ Discuss effects on other sources of funding