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presented by ***Effi Benmelech***
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Judicial Efficiency and Financial Contracts: Evidence from a Natural Experiment*

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**** Preliminary and Incomplete ****

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Abstract

We exploit a 2004 credit reform in Brazil that simplified the selling of repossessed cars used as collateral for auto loans. We show that the legal change has led to loans with lower spreads, longer maturities, and higher leverage. The reform brought about an expansion of credit, enabling riskier low-income borrowers to obtain loans and purchase newer, more expensive cars. Although the credit reform improved access to credit, by expanding credit to riskier borrowers, it also led to increased incidences of default and repossession. In sum, we provide evidence on the consequences of a credit reform, highlighting the crucial role that collateral plays in credit markets.