Intellectual Property as Loan Collateral

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Abstract

This paper investigates the use of intellectual property (IP) as business loan collateral and studies how a key characteristic of IP, incomplete information, determines collateralization. We are first to examine different IP types (trademarks, patents, and designs) used as loan collateral, drawing on previously undisclosed information about IP pledges in France combined with granular firm- and IP-level data for the years 1995-2018. We document a large positive effect of IP pledges on firms' use of debt and subsequent real economic activities, highlighting their potential for IP-holding firms.

Moreover, we show that the publication of IP rights causally enhances its pledgeability by reducing uncertainty about the validity and scope of IP. We exploit the launch of online repositories at the French IP office in 2006 as an exogenous source of variation in the relevance of IP publication for trademarks but not for patents, which were insulated from the administrative change by secrecy regulations.

Our analyses show that more complete information enhance the post-publication probability of IP collateralization. Results are particularly strong for more informationally opaque borrowers as well as firms that face stronger and more geographically dispersed competition. Overall, we provide novel evidence on the ability of formal IP rights to enhance access to finance by mitigating information costs.