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ABSTRACT

We study the dispersion of interest rates on commercial loans granted by banks to Colombian manufacturing firms between 2005 and 2013. Dispersion can be caused by two types of firm heterogeneity. Firms can differ in their ability to negotiate interest rate or firms can differ in how costly it is to provide a loan to them. We document the extent of interest rate dispersion and characterize the impact of borrowers', banks' and market characteristics on dispersion. Reduce-form regressions show that, on average, firms with less-than impeccable credit history and firms that are loyal to their banks, pay on equilibrium higher interest rates. Using quantile regressions, we find that, conditional on rates being high, a marginal increase on the firm's revenue is associated with higher interest rates. Finally, we evaluate the impact that the market structure has on the level and variation of interest rates on commercial loans, taking advantage of a wave of mergers that took place between 2006-2008.