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This paper presents two versions of a spatial competition model for the banking sector. The first version, describes a framework that follows closely Salops spatial competition model. This version is modified in the second part by introducing the loan market and default risk probabilities for credit. Both theoretical approaches are analyzed empirically for the Colombian data, covering the period 1996-2005. Our results allow us to construct a deviation of the observed number of branches from an optimal number of branches for the banking system throughout the period of study. The deviation indicates that in the last years the number of branches is below the optimum which suggest that political measures should focus in increasing the number of branches in the country. Additionally, we found empirical evidence of market separability between the loan and deposit markets, and finally, we were able to determine the signs of the relations between credit collateral, payment probability and interest rates.

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