Loan Guarantees and Credit Supply
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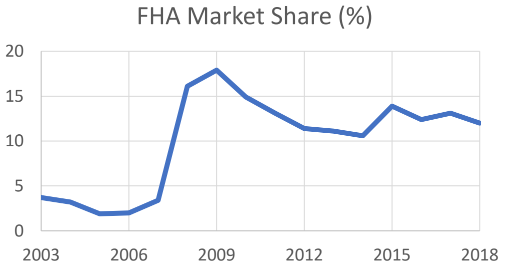
Summary

- **Question:** how much does SBA lending respond to loan guarantee generosity?
- **Approach:** exploit notches in SBA guarantee generosity:
  - Generosity discontinuously decreases for loans above $150k
  - Amount of lender bunching at threshold identifies sensitivity of lending to guarantee
- **Key Result:** loan size grows $19k per 1% point rise in expected guarantee rate
  - At the threshold, this corresponds to a $1.5k increase in ex post returns
  - Huge response!
- **Comments:** interpretation and directions for future research

Lending With Government Guarantees

- Gov't guarantees exist for many types of loans:
  - Growing: FHA mortgage loans
  - Declining: FFEL student loans
  - Small Business Administration (SBA)
  - Implicit guarantees for Freddie & Fannie



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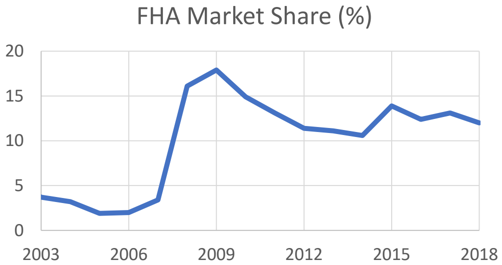

- President Obama ended FFEL in 2009, arguing "we're giving lenders billions of dollars in wasteful subsidies...taxpayers are paying banks a premium to act as middlemen"

- Was President Obama right? What about other guarantee programs?

Big Picture – Are Guarantees Welfare Enhancing?

- With complete markets, social insurance only induces (socially costly) moral hazard
- When markets are incomplete, there's a role for social insurance to enhance welfare
  - Unemployment (Chetty, 2008)
  - Consumer bankruptcy (Dávila, 2019; Indarte, 2019)
- Are guarantees just "wasteful" subsidies or do they actually increase lending?
  - First-order question for assessing whether guarantees can enhance welfare

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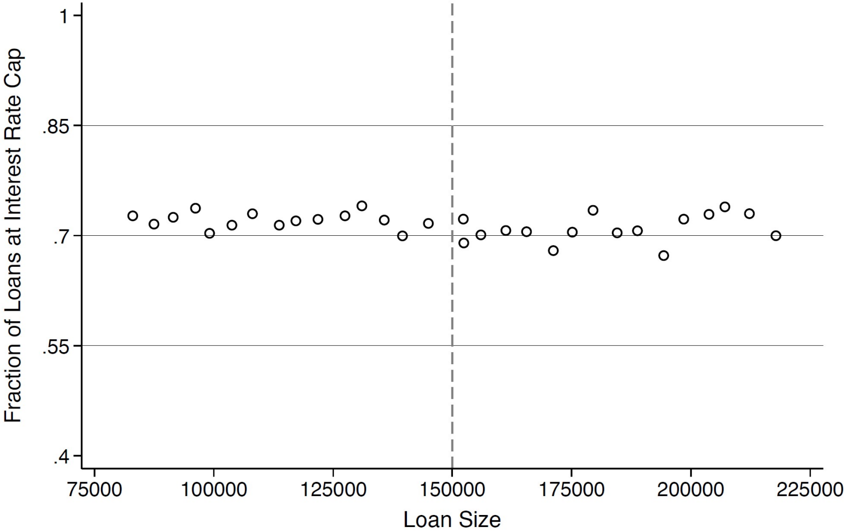
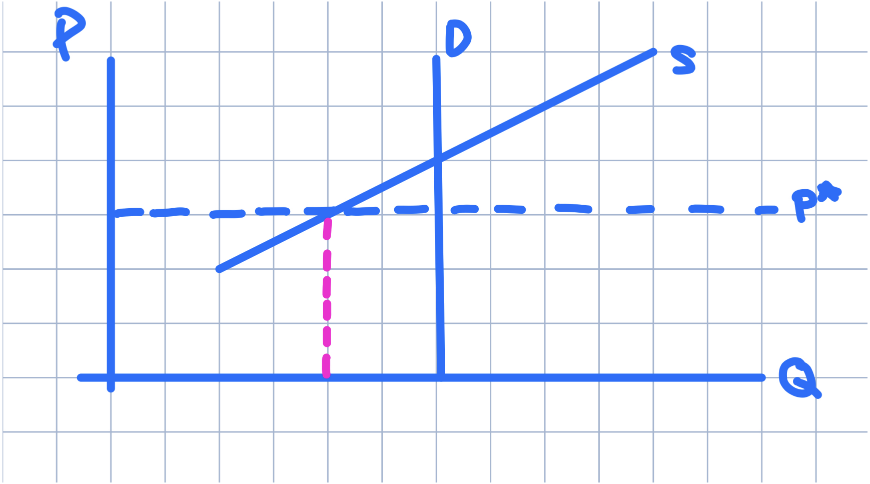
- Are guarantees just "wasteful" subsidies or do they actually increase lending?
  - First-order question for assessing whether guarantees can enhance welfare
- Can we find a sufficient statistic for the optimal loan guarantee?
- Can we decompose the lending response into moral hazard vs. liquidity/insurance?
  - Or the value of these programs accruing to banks vs. borrowers?

Rate Cap Binds for Many Borrowers



Comment: Impact on Lending can be Asymmetric w/ Rationing



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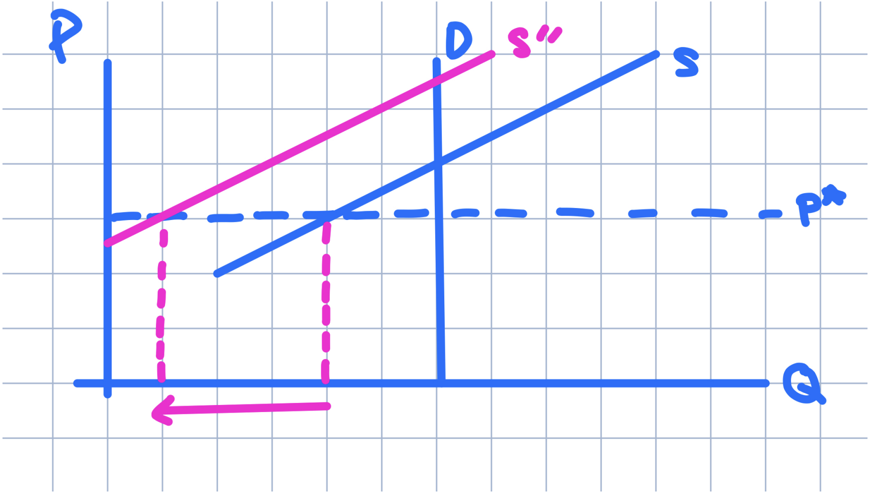

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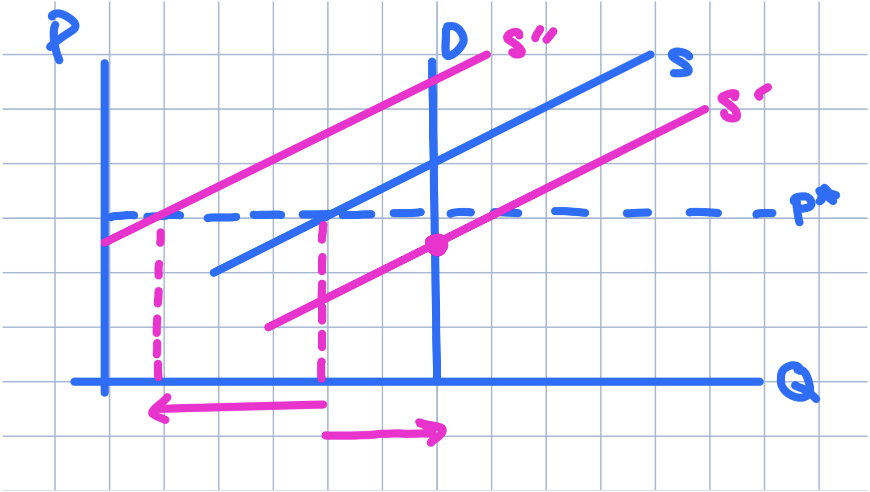

Comment: Going from Micro to Macro (1/3)

- Does aggregate lending change?
  - Guarantee could incentivize lenders to shift funds towards SBA, away from other loans

- **Paper test:** find elasticities similar for high/low-SBA lenders
  - Might expect low-SBA to be more elastic if they're substituting
  - Challenge: high/low-SBA can differ in many dimensions

Comment: Going from Micro to Macro (2/3)

- Would be more direct to test if guarantees crowd out lending
  - I.e. do guarantees lower non-SBA lending?
- **Alternative test:**
  - Treatment-intensity DID comparing non-SBA lending pre/post-2009
  - 2009-2010: guarantee increased to 90% on both sides
  - Suggested measure of intensity: pre-policy SBA-share
  - May want to restrict to low-moderate SBA-intensive banks
- Econometric trade-offs:
  - Identification not as clean as bunching
  - Potentially more statistical power

Comment: Going from Micro to Macro (3/3)

- Notches, as implemented are distortionary
  - Increasing guarantees for smaller loans can reduce aggregate lending
  - Especially possible if the response is mainly along the intensive margin
- An "overall" guarantee is more likely to increase aggregate lending
  - If elasticity is similar at other loan levels, estimate informative about an "overall" guarantee
- Big part of contribution is policy implications: this would be a useful clarification

Conclusion

- Excellent paper!
- Clever and convincing empirical strategy
- New empirical evidence on an important policy that's proven difficult to study
- Helps set the stage for future work