

The Impact of Lender Competition on Small Business Loan Pricing: Evidence from the SBA 7(a) Program

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Discussion by

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Summary

- Question
 - How does subsidized lending competition affect loan terms?
- Approach
 - Exploit rich data on SBA lending and merger-induced changes in HHI
- Key Results
 - Document statistics on market for SBA lending
 - Competition in SBA lending lowers spreads
 - Less competition → \$5 Billion in savings
- Comments
 - Disrupted Relationships
 - Size Effect
 - Rich Data Availability

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- Solution #1: Study areas without bank branches
- Solution #2: Use alternative shock that reduces lending without closing branches
 - Natural disasters (Cortés and Strahan, 2017)
 - Natural gas (Gilje, Loutskina and Strahan, 2016)
 - Deposit market power (Drechsler, Savov and Schnabl, 2021)
 - Real estate (Chakraborty, Goldstein and MacKinlay, 2018)

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- Solution:
 - Identify effect across size
 - Endogeneity concern: Currently ignoring small bank mergers
 - Overlook endogeneity for this exercise

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- Incorporate HMDA data
 - Mortgage markets should move in the same direction
 - Mortgage data is also at the loan level

Conclusion

- Rich data on SBA lending and important research question
- Analysis relies on tried and tested method of bank mergers
- Opportunities to reinforce using alternative settings