

Regulating Secondary Loan Markets: Evidence from Small Business Lending

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 - ▶ rules governing the maturity structure of securitized loan pools → loan term → lending to capital intensive firms → real effects

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 - ▶ WAC pools: 76% → 94%
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- ▶ **Method:** instrumented DID (Ye et al., 2023)
 - ▶ Secondary: maturity, sale price of loans predicted to be in the WAC pool
 - ▶ Primary: maturity and performance outcomes for loans predicted to be securitized
 - ▶ Differential effects on loans to high capital intensive industries
 - ▶ Real effects at the county level

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- ▶ **Key takeaway:** secondary-market rules made it costly to originate and pool long maturity loans and negatively affected lending to capital intensive industries

Comments

- ▶ Great paper: novel FOIA data, a clean non-crisis natural experiment, and an ambitious effort to trace the effect from pool-securitization rules to local labor markets
- ▶ My comments:
 1. Economic mechanism
 2. Questions about some results

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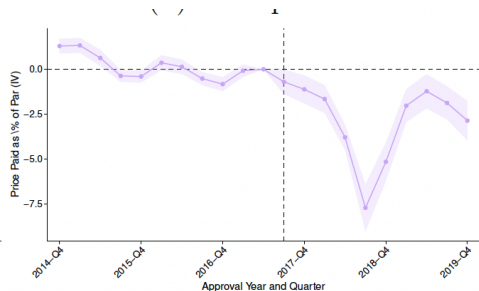
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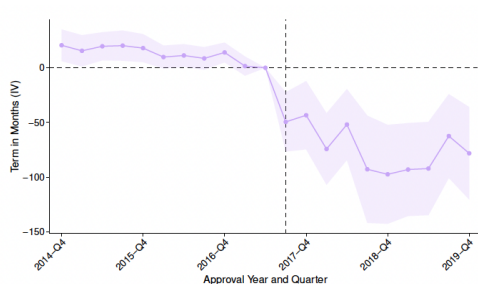
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- ▶ Important to discuss the underlying frictions and provide evidence on them

Comment 2: Effect on sale price and loan term



(d) Price Paid as Percent of Par



(a) Term

- ▶ Price response reversed quickly but effect on loan term persistent
- ▶ Why did the price effect reverse?

Comment 3: Definition of HCI industries

- ▶ HCI is *defined* as a 3-digit NAICS sector with pre-period average **maturity** above the cross-industry average
- ▶ The reform's first-order effect is to **shorten maturity**
- ▶ So the outcome and the treatment channel are the **same object**
- ▶ Can you use alternative definitions for high capital intensity industries?

Comment 4: From SBA Loans to County Employment

- ▶ County real effects: 10pp higher HCI share $\Rightarrow \approx 0.4\%$ lower employment, establishments, wages
- ▶ **Magnitude:** How large important are SBA loans in HCI industries at the county level?
- ▶ For county level effects to be large, two conditions need to be true: (i) high share of HCI industries, (ii) high share of SBA lending in high HCI industries
- ▶ If the size distribution of firm is skewed towards larger firms in HCI industries and if they can get funding from other sources, then county level effects would be small
- ▶ Useful to show heterogeneity along this dimension

Other Comments

- ▶ Why do we see an increase in loan maturities for Standard pools?
- ▶ If long maturity loans are more profitable to originate, why can't lenders increase origination of on balance sheet long maturity loans? Capital constraints?
- ▶ Discussion of magnitudes: how large is a 1.5pp decline in sale price relative to the average price a lender receives?
- ▶ Is the reduction in observed charge-offs mechanically driven by shorter remaining loan time or does it reflect better loan quality? The distinction will matter for welfare implications

Conclusion

- ▶ Really enjoyed the paper — novel data and results shed light on a new channel through which secondary market rules can affect credit allocation
- ▶ Main result on shorter loan terms are convincing. Pinning down the mechanism and providing more clarity on some institutional details will make the paper even stronger
- ▶ Look forward to seeing the next version