Discussion of:
Small Bank Financing and Funding Hesitancy in a Crisis: Evidence from the Paycheck Protection Program

by Balyuk, Prabhala and Puri

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Small banks and the PPP program

- Initial takeup of PPP loans skewed towards large firms
  - → Suggests program design failure, to extent small firms more vulnerable / "deserving"
  - → See also Granja et al., 2020; Neilson et al., 2020; Joaquim and Netto, 2021 etc.

- **This paper:** PPP lending outcomes vary between large and small banks:
  - → Small banks (often) did a better job of targeting PPP funds to smaller firms
  - → Particularly for subset of firms with a prior bank loan ("relationship")

- Paper also studies why firms *didn't* take PPP and/or returned the funds
  - → Finds threat of govt enforcement dampened borrowing ($2m audit cutoff + timing)

Overall reactions

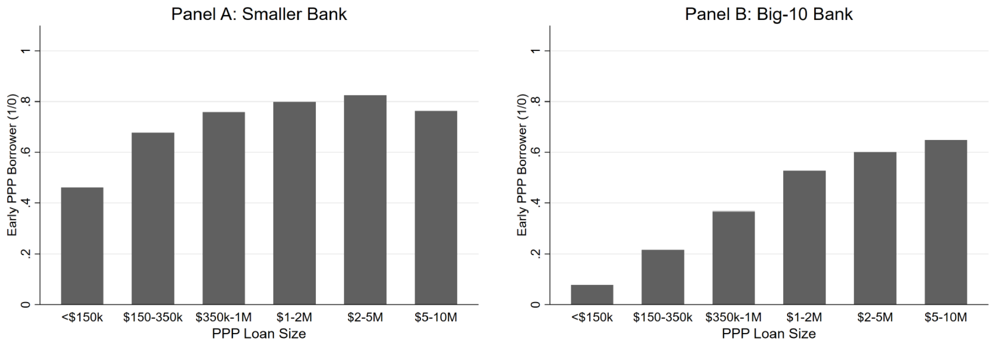
- Very nice paper. Relevant for policy + literature on bank size / relationships
  - → Data not perfect, but clever triangulation of evidence on public & private firms
  - → Herculean effort to assemble different datasets (e.g., UCC-SBA)
  - → *Very* comprehensive (22 figures + 16 tables + internet appendix!!)

- Clear that "intermediary effects" mattered in PPP rollout to firms
  - → Also true in other settings: e.g., CARES mortgage forbearance (Cherry et al. 2021; Kim et al. 2021).
  - → General issue if public policy is intermediated through banks

Comments

1. Better targeting or just more lending?
2. Fee structure
3. Role of bank relationships
3. Alignment of results and interpretation

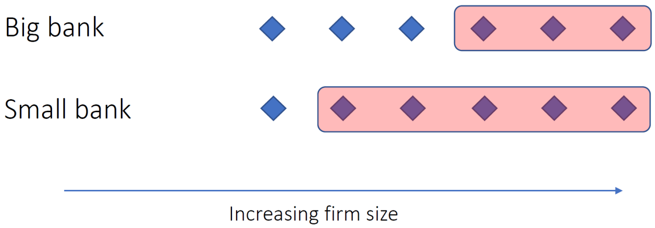
1. Small banks distributed PPP faster across entire size distribution



Striking fact: In total, 63% of PPP loans were originated by banks with < \$50bn assets. (Li & Strahan, 2021)

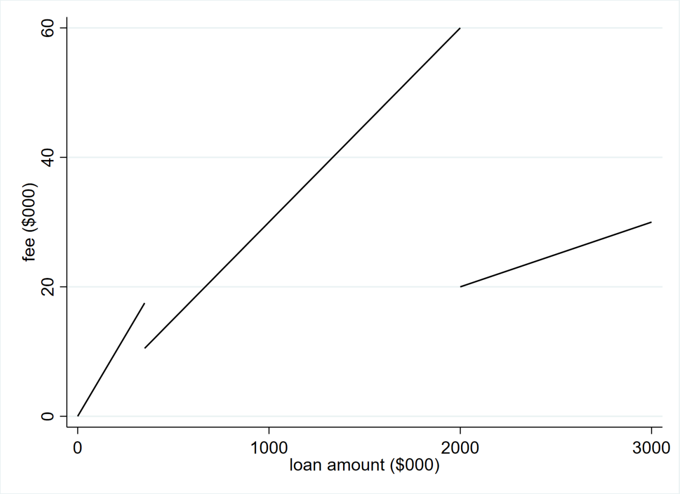
1. Small banks: better targeting or just more lending?

- Even if small & large banks prioritize firms in the same pecking order, more lending = lower average loan size. Different side of same coin?



- Deeper question: *why* did small banks lend more and earlier in PPP program?
  - → E.g., organizational form – small banks more nimble (Stein 2002)? Regulation?

2. Bank fee schedule is highly nonlinear (and nonmonotonic)



2. What can we learn from kinks in fee schedule?

- Evidence inconsistent with simple fees > costs story:
  - → No bunching below \$2m prior to May (fig 22). Lending surprisingly inelastic wrt fees!
  - → **Policy implication:** tweaking fee structure wouldn't have improved targeting (?)
- Alternative explanations for positive size-PPP relationship:
  - → (i) Benefits of establishing/deepening large firm relationship? (ii) Reduce default risk for loans already in place? (iii) large firms more assertive/literate (demand side)?
- Could later bunching be evidence banks gradually started to game system?

3. Analysis of bank relationships

- Bank relationship = borrowed from *any* bank in last five years (not necessarily bank that provided PPP loan)

- Can use bilateral bank-firm linkages to tighten statements about relationships?
  - → What % of UCC-SBA PPP loans from banks with prior loan to firm?
  - → For firms with multiple relationships, which bank "wins" contest (Khwaja-Mian style: firm dummies to absorb demand effects)

- Small banks used PPP to draw new customers. Not just about prior relationships

"InBank [assets=$423m] added 350 new customers because of PPP, mostly from large banks, said Chairman and CEO Ed Francis ... 'We call it the gift that keeps on giving in this market' ... 'the most unique opportunity that I've ever seen in my 32-year career."

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4. Aligning text vs estimates

- Abstract emphasizes *"The size-preference effect reduces and sometimes reverses when small banks are making PPP loans"*

- But full-sample results actually have the opposite sign (table 7):

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	All firms	Bank relationship
	(1)	(2)
Log (PPP Loan Size) x Smaller Bank (1/0)	0.0262***	-0.0124***
	(6.73)	(-4.35)
Log (PPP Loan Size)	0.0784***	0.103***
	(22.12)	(33.99)
Smaller Bank (1/0)	0.357***	0.288***
	(34.70)	(44.11)

- Why? No "small bank" effect for small firms/loans (bulk of sample).

- Highlight up front. At least, results more nuanced than current intro/abstract.

Wrapping up

- Very interesting and thorough paper. Sheds a lot of light on role of small vs large banks in PPP program execution.
  - → Striking that large banks “underperform” in PPP delivery
  - → Future research: better understand why

- Results on program hesitancy reminiscent of TARP. Legal and reputational risk associated with government aid.

Thanks!