Discussion of:
Who Supplies PPP Loans (and Does It Matter)? Banks, Relationships and the COVID Crisis

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Small banks and the PPP program

- Striking fact: 63% of PPP loans originated by small banks (< $50bn assets).
- Why? **This paper:** Due to role of small banks as relationship lenders.
  - → More PPP if higher: i) undrawn commitments, ii) small bus loans, iii) core deposits
  - → These "relationship" correlations concentrated in core markets (bank has branch)
  - → *Within-bank:* more PPP in counties with more deposits, CRA loans + older branches
- Evidence these "intermediary effects" had macro consequences (unemployment)

Overall reactions

- Nice paper. Important topic. Relevant for policy + relationship banking literature
  - Limitations: no firm characteristics or information on bank-firm relationship
  - But creative use of location of PPP loan + summary of deposits data + CRA data
  - Other data sources (e.g., Y-14) have their own limitations

- Convinced of key point: bank relationships mattered for PPP access
  - → Implication: less credit for small firms (e.g., sole proprietors) w/o active relationships
  - → PPP skewed to large firms [Granja et al., 2020; Humphries et al., 2020]

Comments

1. Interpretation and mechanisms
2. Comparison to COVID-era consumer lending
3. Empirics

Interpretation and Mechanisms

- **Paper:** Small banks made more PPP loans because these are *"banks typically associated with close relationships with their borrowers"*

- Key mechanism? Important to distinguish individual vs aggregate effects here
  - If close relationship just moves firm up in queue, won't raise *total* PPP lending
  - Do relationships enable faster PPP screening/processing? Something else?

- 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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Interpretation and Mechanisms (cont.)

- Alternative story: organizational form. Small banks more nimble? (Stein 2002)
  - Large banks set up centralized PPP systems (took time, and systems were buggy)
  - Small banks had more "low-tech" labor-intensive approach
  - See Kotlikoff articles in Forbes about attempts to get PPP loan from BofA

- Role of regulation & risk management?
  - PPP lending *not* risk-free (legal/regulatory risk; prepayment risk etc.)
  - Big banks have risk committee + extensive risk management. Sand in the gears?
  - Greater supervisory oversight above $10bn bank size (Eisenbach et al., 2021)
  - Interesting no PPP-size relationship *within* < $10bn group (table 5)

Comparison to bank behavior in COVID mortgage market

Some interesting parallels:

1. Big banks lost mkt share of govt-guaranteed agency lending (Fuster et al. 2021)
   → Common thread with PPP results here – big banks less elastic/responsive?

2. Like PPP, large "intermediary" effects in CARES mortgage forbearance rollout
   → Probably general feature if public policy is intermediated through banks

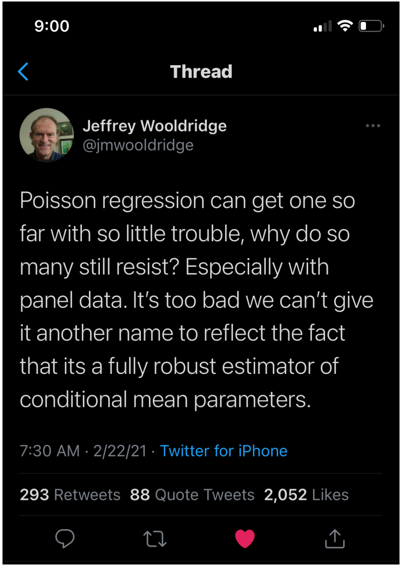
3. But big banks *more* successful in implementing debt relief via CARES forbearance
   → See Cherry et al. (2021) + Kim et al. (2021).
   → Big banks more "borrower-friendly" due to legal/regulatory risk concerns?

Comments / suggestions on empirics

- Are magnitudes of aggregate effects reasonable?
  - Firms used PPP to build up liquid assets, pay down debt [Chodorow-Reich et al. 2021; Granja et al. 2020] + PPP undersubscribed after second round
  - Placebo: PPP correlated with *predicted* rise in unemployment based on industry mix?
  - Reconcile results with Granja et al., who use similar empirical strategy
- Some results could be in line with "null" of PPP lending $\propto$ prior SME lending
  - E.g., seems no surprise that small C&I predicts PPP?
- Beware of log(1+x) [table 7] – not well behaved (e.g., see Cohn et al. 2021)

  $\rightarrow$ Alternatives: poisson regression, or scale by aggregate PPP in county

The Good Word on poisson



Wrapping up

- Very interesting paper. Sheds a lot of light on outsized role of small, relationship-oriented banks in PPP program.
- Big picture: speaks to costs/benefits of small banks for macro & financial stability
- Future research: Study relationships in PPP lending using Y-14 data?

Thanks!