Common Themes

• **Impact of regulation on small business lending**
  - Does business lending change in aggregate?
  - Do banks change what kinds of loans they make?
  - Are there downstream impacts on local economic activity?

• **Both targeted and broad regulatory levers may produce effects**

• **Comparing policies that differ between relatively small and relatively large banks**
  - How careful do researchers need to be when employing this strategy?

• **Links to CSBS survey and the FDIC’s Small Business Lending Survey (SBLS)**
Main Question: Do banks facing different incentives use different strategies to comply with CRA?

• **Regulation:** Loans reviewed for CRA exams
  - Large bank – all loans originated before exam announcement
  - Small bank – up to 2 quarters of loans originated after announcement
  - Compare lending by small and large banks in the same county during exam years and off-exam years

• **Findings:** Under scrutiny, small business lending increases and shifts towards SBA
  - Small banks increase volume and number of very small business loans by 19% in year of exam
  - Large banks do not
  - Evidence that small SBA eligible lenders use SBA 7(a) program
(I) Black and Hackney – Questions

• Outstanding questions for best policy response
  o Are these additional loans that need to be made to comply with CRA or are they made over and above what is necessary?
  o Are the results driven by SBA lenders?
  o What are the economic effects on LMI areas?

• Outstanding questions from survey evidence
  o SBLS and CSBS Survey suggest that small banks do not heavily rely on SBA for their small business lending programs – are CRA loans different?
(II) Degryse et al. – Overview

Main Question: What is the effect of increased regulatory capital requirements on collateralized lending?

• Regulation: Sudden increase in capital requirements for some larger Portuguese banks in October 2011
  o Affected banks needed to quickly increase risk-weighted capital ratio
  o Risk-weighting meant uncollateralized loans required more capital than collateralized loans

• Findings: Collateralized lending increases for borrowers without prior banking relationship
  o Loans from affected banks to new borrowers are roughly 3 percentage points more likely to be collateralized
  o Effect dissipates for loans to borrowers in longer relationships
  o Collateral required has lower regulatory risk-weight – shift towards real estate and state guarantees (safer) from movable assets and personal guarantees (riskier)
(II) Degryse et al. – Questions

• Outstanding questions for best policy response
  o Are uncollateralized loans going down, collateralized loans going up, or both? Are there effects downstream on firms?
  o Do findings imply regulation decreases banks’ incentives to invest in relationships?
  o Does this make it harder for firms without relationships or collateral (such as start-ups) to get credit?

• Outstanding questions from survey evidence
  o 2018 CSBS: Banks “rarely” compete for small business borrowers through collateral
  o SBLS: Banks that use relationship practices more likely to lend without collateral
(III) Srivastav and Vallascas – Overview

Main Question: Does deregulation increase small business lending?

• Regulation: Asset threshold for being a ‘small’ BHC increased from $500M to $1B in June 2015
  o Small BHCs exempt from Basel III capital rules and have fewer reporting requirements
  o Affected banks – those in the $500M to $1B range – can now take on more debt at BHC level and inject into subsidiaries as equity

• Findings: Increased share of small business lending, equity injections, higher deposits, and deposit rates among affected banks
  o Small loans to businesses as share of assets increase by around 5 percent (0.5 percentage points)
(III) Srivastav and Vallascas – Questions

• Outstanding questions for best policy response
  o Is the policy change really what’s driving the pre/post-2015 divergence between banks above and below the threshold?
  o If so, which part of deregulation is driving it?
  o Why small business lending? What are affected banks shifting away from?

• Outstanding questions from survey evidence
  o CSBS 2019 shows that deposit costs have surpassed regulatory compliance as top concern of community bankers
  o SBLS shows that small loans to businesses are not the same as small business loans, with big changes around $1 billion threshold – so it’s good to supplement with SBA data!
Digging Deeper

• **Effect on employment and economic growth are of great interest to policy-makers – more like this, with more emphasis please!**
  - Lower-hanging fruit: Absolute changes in lending rather than proportional changes

• **What are the underlying mechanisms proposed for the bank’s changes in behavior?**

• **Bankers: Do these tests and theories pass the ‘smell test’?**
  - Do you think about CRA exam timing when you make small business lending decisions?
  - Do you think about capital requirements when deciding what kinds of collateral you will take?
  - Does small BHC designation guide your decision-making?