The Propagation of Local Credit Shocks
Evidence from Hurricane Katrina

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Did Katrina impact housing markets in the undamaged areas?
Financial Linkages to Katrina Areas
Housing prices in the financially connected CBSAs declined relative to the less connected ones
Causal Chain of Events

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• This contraction dampened housing prices and construction in the undamaged areas. These effects depend on undamaged markets’ financial ties to Katrina-hit markets.
Booming Housing Markets in Disaster Areas
Booming Credit Markets in Disaster Areas
Banks’ Re-allocation of Resources toward Disaster Areas

- Banks’ Market Entry Decision (Disaster Vs. Non-Disaster Areas)
  - Likelihood of Bank Entry (Regression Coefficients)

- Banks’ Loan Approval Rates in the Undamaged Areas
  - Loan Approval Rates (Regression Coefficients)
Policy Implications

• The effects of natural disasters propagate through banks’ internal networks and can reach very distant markets.

• Community banks shield their local markets from external shocks.

• Banks’ are financially constrained. I show that securitization did not fully alleviate these constraints. There was a surge in loan retention in disaster areas.

• Disasters are tragic events for the impacted communities. For banks, reconstruction efforts create business opportunities. Banks strategically re-allocate to seize these opportunities.
Learning from Bankers and Regulators

• If you are an outsider (to Katrina areas), did your bank enter disaster markets after the storm?

• If you are insider, were you able to maintain pre-storm loan supply in the undamaged regions?

• What policies can help extend credit to the impacted communities, ease banks’ constraints and limit these spillovers on the undamaged areas?

I would welcome your comments or questions

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