Competition and Scope in Banking: The Case of Small Business Lending

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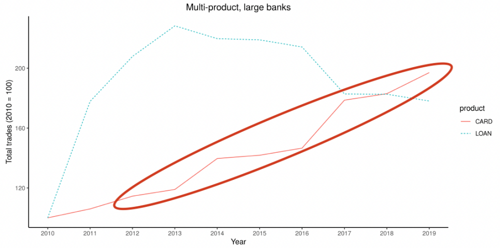
Discussant: Chris Hansman
Imperial College London

Workshop on Household Finance and Housing

Summary: Three Stylized Facts on Small Businesses Lending

- Banks ↑ corporate credit cards post-Basel III
  - Particularly relative to term loans/non-banks
  - Validated with Khwaja-Mian style approach (γ_{it})
- Bank issued CC more likely to be maxed out
- Clustering of bank term lending at $50,000
- **Banks push firms to CC + large term loans**
  - Non-bank lenders take up the slack

Panel A: Banks (% Change in Sales Across Products)



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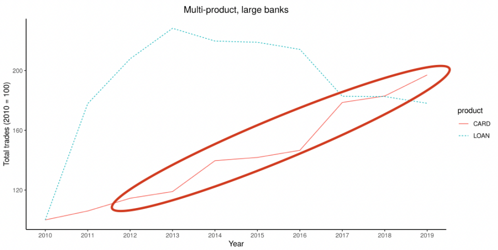

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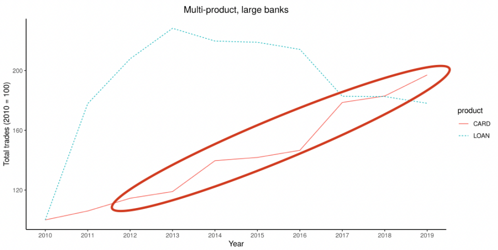

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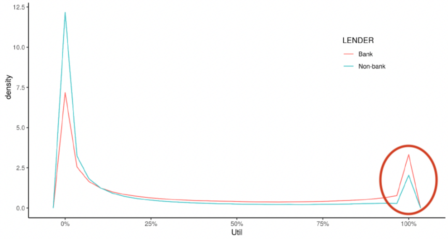
Panel A: Distribution of Credit Card Utilization Rates



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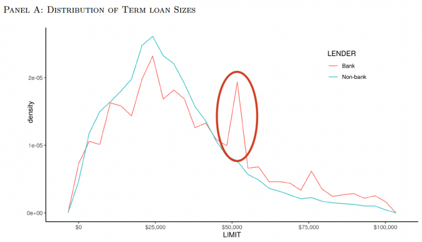

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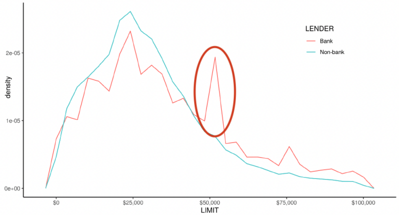
PANEL A: DISTRIBUTION OF TERM LOAN SIZES



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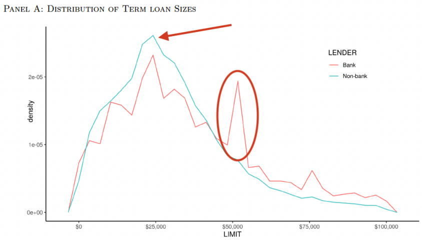

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U_{ijm} = & -\alpha r_{jlm} + X'_{jlm}\beta - \psi ln(\hat{q}_i) \times \mathbb{1}[j = CC] \\
& - \mathbb{1}[\hat{q}_i < \bar{q}_{jlm}]\Big[\gamma_{jlm} \times \mathbb{1}[j = TL] + \lambda(\bar{q}_{jlm} - \hat{q}_i) \times \mathbb{1}[j = \bar{T}L]\Big] \\
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1. Distaste for credit-cards ψ
2. Penalty for over-borrowing λ

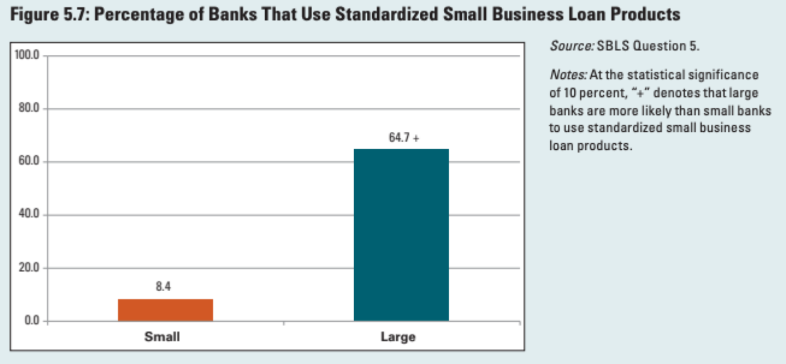
This Discussion in Three Parts

1. Steering vs. standardization
2. The role of credit lines
3. My highlights

Steering vs. Standardization

- Model: banks impose cost γ_{jlm} to steer away from small loans
  - Pushes firms toward high margin products
- Empirical support: bunching of loans at \$50,000
  - But why are different banks coordinating precisely at \$50,000?
- Alternative: efficiency gains for product **standardization** passed on to firms

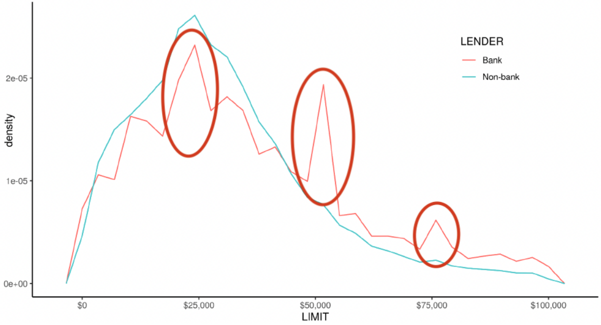
Larger Banks Rely Heavily on Standardized Loan Products



Source: 2018 Small Business Lending Survey

Standardization Can Explain Bunching Across the Board

Panel A: Distribution of Term loan Sizes



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- Steering $\Rightarrow$ bunching + reliance on credit cards is distortionary
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  - Natural target for regulation
- Standardization $\Rightarrow$ bunching reflects lending technology
  - γ_{jlm} not necessarily a choice variable for firms
  - Regulation to ensure access to small loans can be distortionary

What Role do Credit Lines Play?

- Analysis considers the choice between term loans and credit cards
  - Key tension for small borrowers: over-borrow or turn to credit cards?
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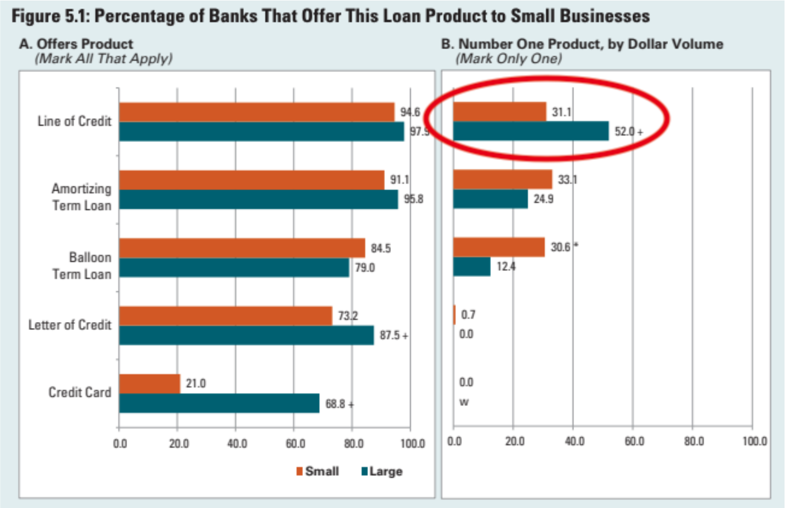
  - I see a lot of value in including them

Not a Sideshow: Lines of Credit are a Key Form of Small Business Finance



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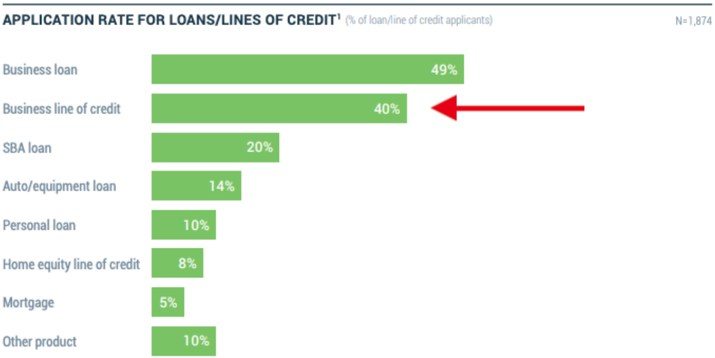

Source: 2020 Small Business Credit Survey Report on Employer Firms

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3. Low take up of credit lines would reinforce core narrative
   - Widely offered + well tailored product and small borrowers aren't using it...
   - Further suggests that banks are steering firms towards high margin products

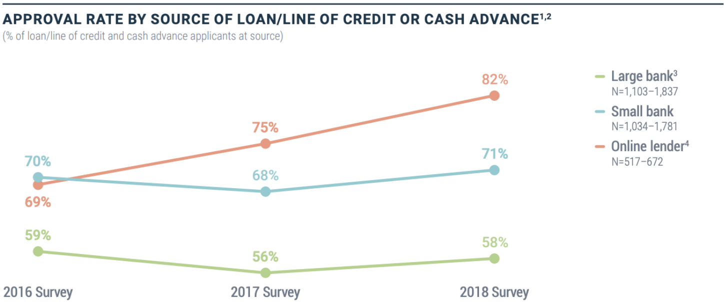
My Highlights

1. Rich structural modeling of the supply side
    - Multi-product + specialized lenders
    - Market power + strategic pricing *across* products for banks
    - Cost synergies across bank assets
2. Transparent estimation + identification
    - Complex structural model with rich heterogeneity
    - But super clear link between model parameters and empirical moments

Small Points for Authors

1. Some dissonance in discussion of $\psi ln(\hat{q})$ as a cost on large CC borrowing
   - Isn't this a cost on all CC borrowing? Concavity seems a bit awkward.
2. Why not allow for synergies between term + CC
   - Does Table 6 indicate substitution instead of complementarity?
3. How do we think about steering vs. rationing?
   - Does shift to credit cards + non-banks reflect denials for term loans

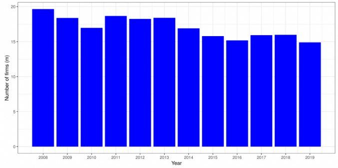
Approval Rates Growing for Online Lenders

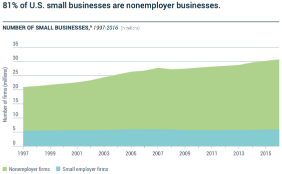


Source: 2018 Small Business Lending Survey

Non-Employer Firms

Panel B: Total Number of Firms (Both Borrowers and Non-Borrowers)

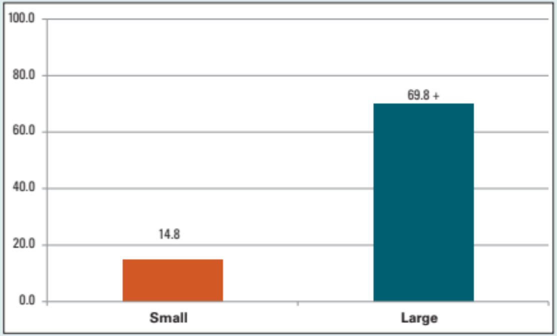




Back

Large Lenders Require Minimum Loan Sizes

Figure 5.6: Percentage of Banks That Require a Minimum Loan Amount for Their Number One Loan Product to Small Businesses



Source: SBLS Question 22B.

Notes: At the statistical significance of 10 percent, "+" denotes that large banks are more likely than small banks to require a minimum loan amount for their number one loan product to small businesses.