Discussion

Loan Guarantees in a Crisis: An Antidote to a Credit Crunch (Marsh and Sharma 2022)

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- The paper investigates the effects of the Paycheck Protection Program (PPP) on the balance sheets of community banks in the U.S.
- Highly relevant topic
  - PPP: $525 billion distributed in the first round; forgivable government-guaranteed loans to small businesses to cover payroll and other expenses (law passed on March 27, 2020)
  - "the most ambitious and creative - and potentially, the most important - fiscal policy response to the Pandemic Recession in the U.S. (Hubbard and Strain 2020)"
  - Community banks played an outsized role in PPP loans (30% of PPP loans in 2020Q2, twice as much as their share on total loans)

- Large and growing literature on the Paycheck Protection Program
  - Real effects of the program
    - Autor et al 2020, Bartlett and Morse 2021, Berger et al 2021, Chetty et al 2020, Hubbard and Strain 2020, Humphries et al 2020
  - Financial aspects: PPP loans vs conventional loans, role of PPP lenders, PPP and bank-firm relationships
    - Amiram and Rabetti 2020, Balyuk et al 2021, Bartik et al 2020, Chodorow-Reich et al 2021, Duchin and Hackney 2021, Erel and Liebersohn 2020, James et al 2021, Joaquim and Netto 2021, Karakaplan 2021, Levine et al 2020, Li and Strahan 2021, Lopez and Spiegel 2021
- **Suggestion**: Better highlight the contribution of the paper to the existing literature, and streamline the main results: *Role of community banks? Self-selection into the program? Balance-sheet effects?*

Methodology (1)

- Bayesian framework, joint model of:
  - Decision to participate in the program (selection equation)
  - Intensity of participation
  - Bank outcomes
- Selection equation
  - Exclusion restriction: banks' pre-pandemic technological efficiency (as a proxy of the ability to manage PPP loans online)
  - Somewhat counter-intuitive: a bank that spends *more* on outsourcing technology is deemed as *less* efficient and less likely to participate in PPP
  - Ability to process loans online might also affect the intensity of participation (e.g. ability to handle the very fast pace of applications)
  - Only 13% of community banks did not participate: perhaps other drivers of non-participation?
    - Concerns about potential fraud liability
    - Low interest rates on PPP loans

Methodology (2)

- Intensity of participation (share of PPP loans on total loans) equation:
  - Exclusion restriction: deposit-weighted share of employment in Covid-affected sectors
  - Assumption that this measure does not directly affect bank profitability and loan growth outside of the PPP
    - This assumption does not necessarily hold: e.g. local general equilibrium effects (shock in Covid-affected sectors spills over to non-Covid affected sectors in the same municipality or region)
  - Argument that bank lending specialization breaks the relationship between Covid-affected employment and bank outcomes
    - But specialization of community banks is likely to be very closely related to sector specialization in the bank's region

Other comments

- Persuade the reader that non-participating banks are broadly similar to participating banks; same for high-participating vs low-participating banks
    - Pre-trends analysis: show trends in main balance-sheet variables across various groups of banks before PPP
    - Add further controls (at least region/county of operation)
- No effect on non-PPP loans: how to reconcile with Chodorow-Reich et al (2021)?
    - They find that small companies that received PPP funds reduced their non-PPP bank borrowing in 2020Q2 by an amount equal to 90% of their PPP funds
- Exploit borrower-lender data on PPP published under FOIA
    - Investigate characteristics of borrowing firms and of bank-firm pairs
- Robustness analysis: Poisson (takes into account both extensive and intensive margins)

Summary

- Very interesting and detailed analysis of a highly relevant policy measure (Paycheck Protection Program) during the pandemic
- Better highlight the contribution to the literature and streamline the main results
- Various suggestions in order to strengthen the methodology and convince the reader on the identification