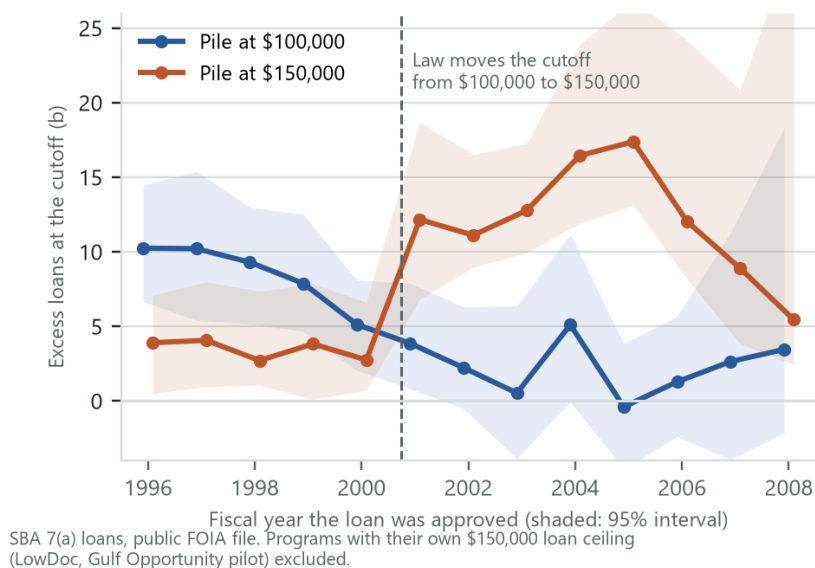


# The \$150,000 Cliff

What a loan-guarantee rule does to lending, measured on every SBA 7(a) loan since 1991.

When the law moved the cutoff, the pile of loans moved with it



## THE QUESTION

The SBA guarantees 85% of a 7(a) loan up to \$150,000 and 75% above it, so one extra dollar raises the bank's own share of the risk from 15% to 25%. Do lenders bend loan sizes around the rule, and are loans at the line riskier?

**1.69M**

loans in the public SBA file, fiscal 1991–2026

**26,200**

more loans at \$145,000–\$150,000 than a smooth distribution predicts

**3.9**

lending elasticity, against 4.6 in the published estimate it replicates

## WHAT I FOUND

- 1. Lenders size loans to the rule.** The pile at \$150,000 holds as many loans as would normally spread across about \$49,000 of loan sizes.
- 2. The pile follows the rule, not the round number.** It appeared within a year of the 2000 law that moved the cutoff from \$100,000 to \$150,000. It shrank to a third in years when a flat 90% guarantee removed the step. SBA Express, which has no step, shows none.
- 3. It replicates** Bachas, Kim and Yannelis (2021, *Journal of Financial Economics*) on their sample: elasticity 3.9 against their 4.6.
- 4. No evidence the step changes loan quality.** Loans at the cutoff charge off 3.4 points more over five years, but the gap falls to about 1 point, not distinguishable from zero, once the loans piled at the line are set aside.
- 5. Policy shapes the training data.** A default model fit in one guarantee era predicts 6.5% five-year charge-offs in the next; 7.9% happened.

## CAUGHT ALONG THE WAY

- Two SBA programs capped loans at \$150,000 and would have faked part of the result. Their 127,841 loans are excluded, which made the migration above far cleaner.
- Loan terms in the file are rewritten after default, which leaked the outcome into a first model (AUC 0.98). Fields set after origination are now excluded, with a test that fails if one comes back.

## HOW IT HOLDS UP

Bunching with round-number controls and four placebos; a regression discontinuity built to survive manipulation (donut, Gerard–Rokkanen–Rothe bounds, difference in discontinuities); a competing-risks model with county unemployment, tested out of time (AUC 0.68–0.80).

## NEXT

Lender-level estimates of screening, and the 24-month stress test of the active book run on every loan instead of a 5,000-loan sample.