

Capital Allocation in the U.S. Financial Sector:

Wrong Size vs. Wrong Use?

Real Estate Loans vs. Business Loans.

AECM Annual Seminar 2014

October 16-17, 2014

Istanbul, Turkey.

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The statements, findings, conclusions, and recommendations in this study are those of the author, and do not necessarily reflect his position as the Chief Economist at the United States Small Business Administration.

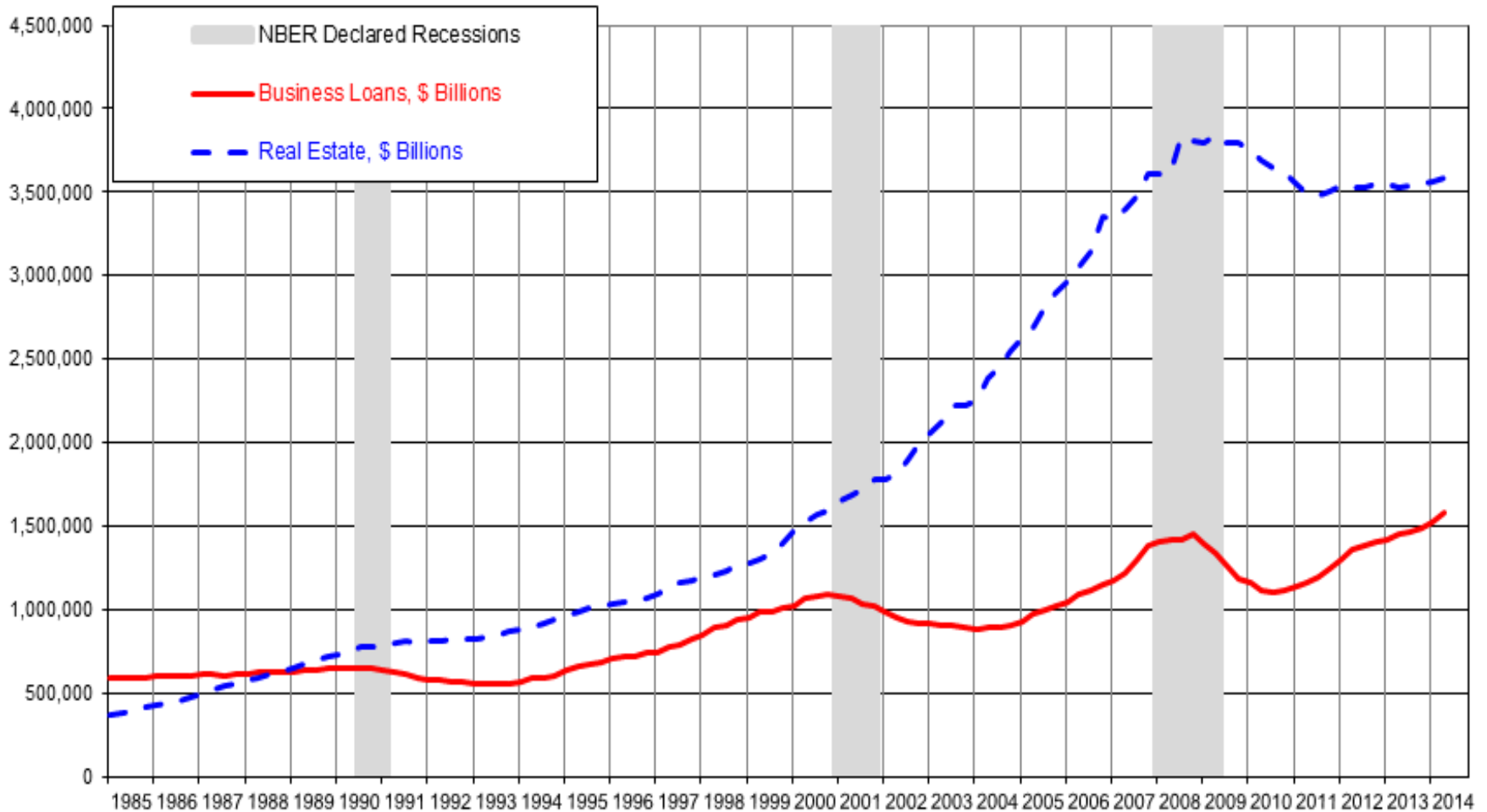
The Questions

1. Did **too much capital** cause the 2008-2009 financial crisis?
2. Did **inefficient allocation** of this excess capital cause the crisis?
3. Did too much capital go to the Real Estate Sector, and not enough capital go to the Business and possibly the Small Business Sector?
4. What does your portfolio risk-preference look like when looked from:
 5. A cohort perspective (pre 2007 vs. 2007-2010)?
 6. A sectorial perspective (Real Estate vs. Small Business)?

The Volume Story: A lot more capital went to Real Estate Sector.

Commercial Banks: (1) Significantly Increased their **Real Estate Loan** Positions;
(2) Only slightly Increased their **Business Loans** Positions

Loans Held (Loan Portfolio Positions), Quarterly Average, \$ Millions, NSA

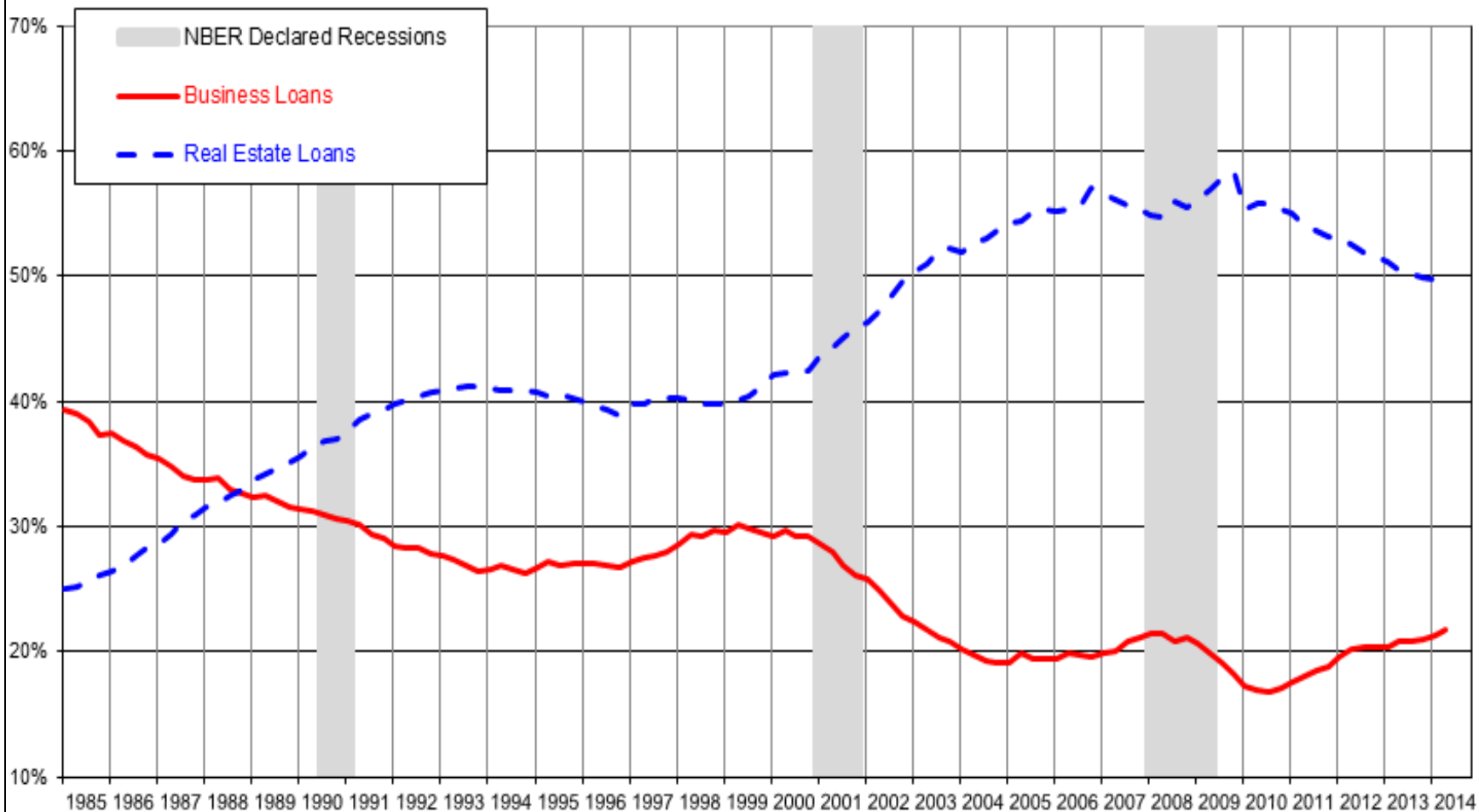


Source: Board of Governors of the Federal Reserve System, Charge-Offs and Delinquency Rates, Data Release

The Concentration Rate Story: Banks Became More Focused on Real Estate

Commercial Banks: (1) Increased their **Real Estate Loan** Concentration, and
(2) Reduced their **Business Loans** Concentration

Concentration Ratios, Real Estate Loans and Business Loans (C&I), as a Percent of All loans and leases, NSA

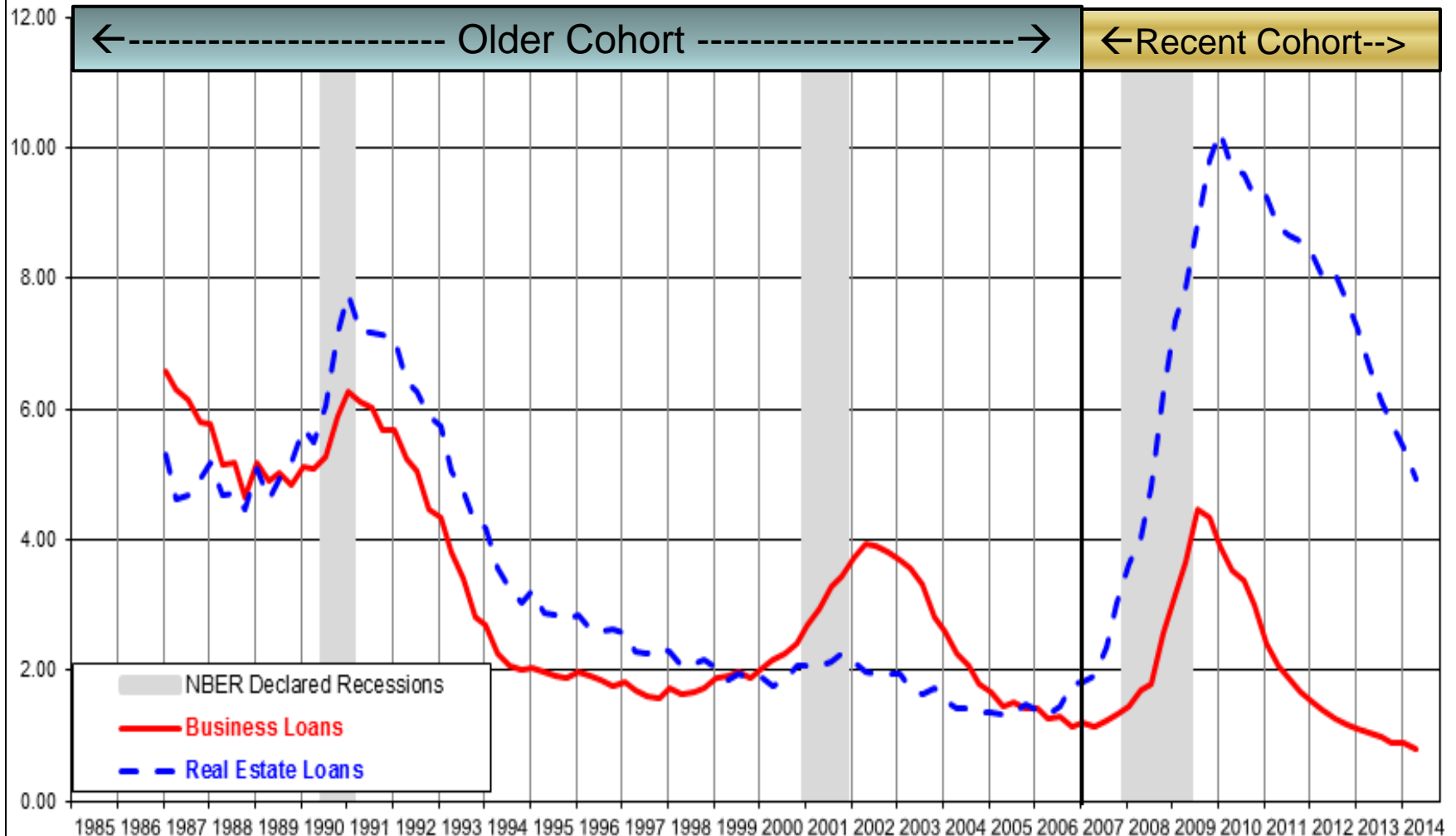


Source: Board of Governors of the Federal Reserve System, Charge-Offs and Delinquency Rates, Data Release

The Risk Story: Delinquency Rates - Sectorial Risk Flipped

Commercial Banks: (1) Significantly increased their risk in **Real Estate Loans**
(2) only slightly increased their risk in **Business Loans**

Delinquency Rates NSA



Source: Board of Governors of the Federal Reserve System, Charge-off and Delinquency Rates