

Did Pandemic Relief Fraud Inflate House Prices

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July 18-19, 2024
NBER Summer Institute
Household Finance

Summary

Fraudulent PPP loan receipt associated with 6.3 bp increase in probability of home purchase

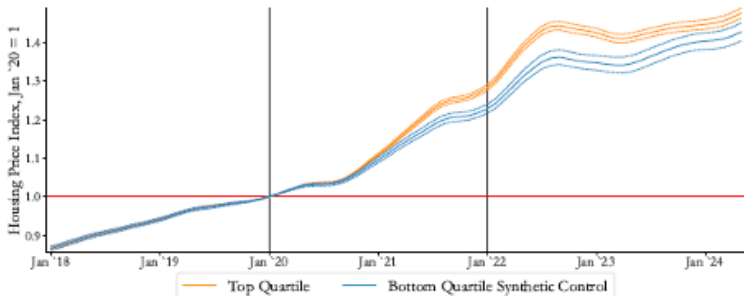
- ▶ Increase from 0.46% to 0.52% per month

Huge positive impact of this increase in home purchases on house prices in 2020-2021

- ▶ PPP fraud explains 23% of the increase in home prices during 2020 and 2021

The Paper in a Nutshell: Figure 3

Top quartile of zip codes of PPP fraud vs. bottom quartile of zip codes (controlling for stuff)



Effect more pronounced in 2020-21 consistent with \uparrow not being driven by \uparrow in future CFs but not temporary - persists

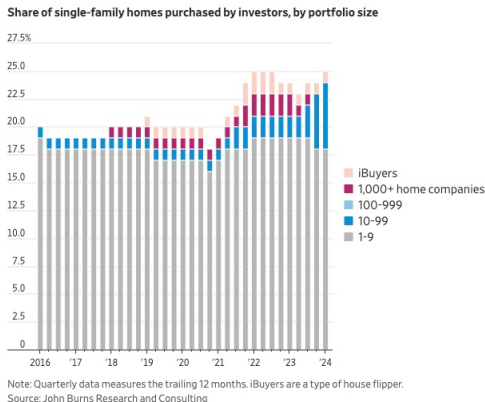
Important Research Agenda!

- ▶ Need to understand the once-in-a-lifetime effects of pandemic programs
- ▶ Previous papers documenting the extent of the fraud and how it transmits are fascinating
- ▶ Academics have unique credibility and skills to do forensic finance

Very well-written paper, easy to understand

Housing Market Microstructure

To a first approximation, housing market features one household buying one home



≈ 75% of single-family homes bought by individuals for personal use, rest bought by investors that own a handful of homes

Housing Market Microstructure

First order approximation of housing market is one buyer, one home

Very different from, e.g., stock market where marginal investor is not typically the marginal dollar that drives prices

So to generate a big movement in house prices, you have to have a shock that affects a large **number** of individuals

Are Griffin, Kruger, and Mahajan asserting that availability of fraudulent PPP loans is such a shock?

Back of the Envelope: Do Magnitudes Make Sense?

11.5 million PPP loans

- ▶ $\approx 14.8\%$ fraudulent (Griffin, KRUGER, and MAHAJAN, 2023)

Avg loan size is $\approx \$69,000$

Given dispersed ownership in housing market is, biggest bang for the buck if each fraudster gets one loan, less impact if a handful of fraudsters get a large number of loans

Let's assume every PPP fraudster gets exactly one loan \rightarrow
 $0.148 * 11,469,801 = 1,697,531$ fraudsters

Back of the Envelope: Do Magnitudes Make Sense?

From the paper: About 6.3% of fraudulent PPP recipients buy a home in a given year, marginal increase due to fraud of $\approx 0.4\%$

- ▶ All fraudsters that buy a home buy one home means you have 106,537 home purchases by fraudsters
- ▶ Marginal increase due to fraud is **12,833 home purchases**

Context: In 2020, **6.4 million** home purchases in the US

So fraudsters purchases accounted for **at most 1.7% of home purchases** in US in 2020

- ▶ Marginal purchases due to fraud **0.2%**

Back of the Envelope: Do Magnitudes Make Sense?

Headline finding is **5.8 percentage point** higher house price appreciation in top decile of fraud zip codes vs. bottom decile

- ▶ 23% of home price increase during 2020 and 2021

If fraudsters account for **at most 1.7%** of home purchases, what model can generate this sized increase?

Remember: No change in future flow of rents or discount rates from PPP fraud, at least not as asserted in the paper

Overall Assessment

For me, this paper's headline findings are hard to believe despite lots of careful data work

What would convince me would be an economic model that can generate something close to the magnitudes, not more empirical work

GRIFFIN, J. M., S. KRUGER, AND P. MAHAJAN (2023):
“Did FinTech Lenders Facilitate PPP Fraud?” *The Journal of Finance*, 78, 1777–1827.