The Daily Dish

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Today, the American Action Forum (AAF) released new research examining state-level expenditures for higher education, and the constant rise in college tuition. The research finds that regardless of state expenditures, college tuition tends to grow at an average of 3 percent a year. This suggests that other factors such as those that AAF previously examined explain the constant rise in tuition.

The American Action Forum released an analysis on the fixed and mobile broadband industries. The analysis finds that increasingly, wireless broadband is quickly becoming a competitive force within the market and is increasingly putting pressure on wired services. Industry players are betting on wireless tech, and the FCC has recognized that wireless might soon act as a competitive check on wired services.

Eakinomics: Online Thoughts about Online Lending

The Washington Post's no-nonsense Robert Samuelson featured a fine piece yesterday. It focused on the online lending firm LendingClub, which cut ties with its founder Renaud Laplanche this past month, and on the rapidly growing online lending industry in general. It has been an industry of very rapid growth, as Samuelson points out: "By one study, online lending in the United States totaled $36?billion in 2015, triple the 2014 volume. The increases have continued. In the first three months of 2016, LendingClub's new loans rose 68 percent to $2.75? billion from the same period in 2015."

Along with this growth comes concern about the quality of the loan underwriting. Is this another example of subprime lending that endangers the financial system? In short, no, because it is tiny compared to the $3.5 trillion loan market or even the $1 trillion subprime market (at the peak). Still, it does prompt a couple of thoughts.

- This is no surprise. First, every industry/product/service will take a shot at an online delivery presence. Lending (mortgage lending, in particular) has steadily moved this direction as well. Second, Dodd-Frank was a deliberate attempt to push risky lending out of the banking system. With risk comes higher expected returns; it is unsurprising that it simply migrated to a new location.
- It makes sense that some lending can be undertaken at arms (or continents) length over the web. Relationship loans are expensive, require investment of loan officer time and brick-and-mortar facilities to house. Statistical analysis of credit risks has pervaded corporate bonds, credit cards, and others for some time. Online lending is simply another manifestation of decentralized market systems.
- Online loans are financed by investors — individual and institutional — and not deposits. The absence of deposits lowers the regulatory stake, as there is no need to worry about consumer impacts of lender failure. If online lenders become highly leveraged and focus on short-term funding, they may pose risk of failure. But unless they take on those two business approaches andbecome large and interconnected, they will pose no systemic threat.

Online lending is both very new — from one peer to another across the web — and very old — underwriting in any form is still underwriting. The success and systemic implications of online lending will hinge to the range and scale of loans than can maintain high quality underwriting in this model.

From the Forum

Higher Education Budget: An Overview Of State-Level Expenditures For School Years (SY) 2010-11 To 2015-16 by Chad Miller, AAF Director of Education Policy

$3.6 billion in Regulatory Costs by Sam Batkins, AAF Director of Regulatory Policy

DOL’s Overtime Rule Hurts Charities & Non-Profits by Ben Gitis, AAF Director of Labor Market Policy