

Financing Negative Shocks: Evidence from Hurricane Harvey

How did Hurricane Harvey impact local firms' financial distress, and what financing methods did firms use to recover from this severe climate shock?

This study by Benjamin Collier and his colleagues, published in the *Journal of Financial and Quantitative Analysis*, examines the financial effects of Hurricane Harvey on local businesses in Southeast Texas. The authors analyze credit report data from 8,218 firms and survey responses from 273 firms to assess how the disaster impacted business finances and recovery efforts.

They find that flooding significantly increased loan delinquencies, with impairments doubling for firms in the worst-flooded areas. Even firms that were not flooded but nearby experienced financial distress, likely caused by spillover disruptions such as employee absences, utility outages, and reduced customer demand. Independent firms showed more distress than subsidiaries of larger companies, possibly due to subsidiaries' access to internal capital markets.

Formal recovery financing like insurance and Small Business Administration (SBA) disaster loans played a limited role. Only 15% of firms used insurance, with many uninsured or receiving less than expected payments. SBA loans had low application and approval rates as firms feared debt or doubted approval. Many businesses relied on informal financing from friends and family, which may limit future growth.

The findings highlight gaps in disaster financing and suggest current policies and insurance markets may inadequately support small business recovery. The authors recommend better risk management and innovative insurance products to improve resilience.

MAJOR TAKEAWAYS:

- Flooded and nearby firms faced increased loan delinquencies, with independent firms more distressed than subsidiaries of larger firms.
- Insurance and SBA disaster loans were underutilized; many firms lacked coverage or were denied credit, relying instead on personal funds.
- Financially constrained firms had less risk management before Harvey, highlighting the need for improved disaster preparation and innovative insurance products.

WHO NEEDS TO KNOW:

- Small Business Owners
- Policymakers
- Financial Institutions and Insurers

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- Financing Negative Shocks: Evidence from Hurricane Harvey
- Journal: *Journal of Financial and Quantitative Analysis*
- Article Link:
<https://doi.org/10.1017/S0022109024000103>