



## Research Working Papers

# Rational but Not Prescient: Borrowing during the Fracking Boom

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Owners who leased natural gas rights in the mid-2000s expected large payments and so borrowed thousands of dollars.

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Following the arrival of news that fracking technology was commercially viable, leaseholders of gas rights in Texas' Barnett Shale borrowed \$12,800 more than non-leaseholders during 2003-2008. Ninety percent of leaseholders' borrowing occurred before they signed a lease. Expected royalties from fracking leases could not be collateralized, suggesting that expectations of increased permanent income rather than relaxed credit constraints drove leaseholder borrowing. We show that leaseholder borrowing is consistent with plausible expectations of gas prices and royalties. When natural gas prices unexpectedly crashed during 2009-2019, bankruptcy rates of leaseholders and nonleaseholders were no different, suggesting leaseholder borrowing was not impulsive.

JEL classifications: D12, G51, Q33

## Article Citations

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## Related Research

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- Cookson, J. Anthony, Erik P. Gilje, and Rawley Z. Heimer. 2020. "Shale Shocked: Cash Windfalls and Household Debt Repayment." National Bureau of Economic Research, working paper no. 27782, September. Available at <https://doi.org/10.3386/w27782>
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## Author



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