

Small Business Lending: Fourth Quarter 2013

Signs of Improvement in Small Business Loans

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The fourth quarter of 2013 showed signs of improvement in small business loans. For the first time in fifteen consecutive quarters, both the value and volume of small business loans increased simultaneously —by 0.4 percent and 1.1 percent respectively (see Figure 1).

When viewed by size of loan, total small business loans under \$1 million rebounded with an increase of 0.4 percent in the fourth quarter from a 1 percent decline in the previous quarter (see Figure 1). The increase in small business loans was attributable to growth in the microloan category (less than \$100,000), which posted a 1.6 percent increase. Macroloans (\$100,000 to \$1 million), on the other hand, had a very small increase of 0.1 percent.

Small Business Loan Segments

Small business lending is made up of two segments: nonfarm commercial loans, also known as commercial and industrial loans (C&I), and nonresidential loans, or commercial real estate loans (CRE).

The value of commercial and industrial loans increased by 1 percent, from \$284.7 billion in September 2013 to \$287.6 billion in December 2013.



Commercial and industrial loans still comprise the largest component of small business lending, making up 94.3 percent of small business lending in December 2013. During the same period, the value of commercial real estate loans shrunk by 0.1 percent from \$295.2 billion down to \$294.8 billion. Though commercial real estate loans showed a negative change, it was at a lower rate compared to previous quarters.

Market Indicators

Lending standards are a measure of financial market conditions, and they show that the environment for small business lending is improving (Figure 2). According to the Senior Loan Officers' Survey, lenders reported easing lending standards relative to the previous quarter on commercial and industrial loans

and commercial real estate loans to both large and small firms. The survey also reported that lenders experienced stronger demand for loans. Increased competition and market strategy were the primary reasons banks eased their standards, according to the Office of the Comptroller of Currency's 2013 *Survey of Credit Underwriting Practices*.

**Questions or press inquiries?
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Lenders

Small business loans outstanding from depository lending institutions with consolidated assets under \$100 million declined by 3.4 percent, the largest quarterly decrease compared to other asset categories. Loans outstanding from lenders in the \$1 billion to \$9 billion asset category and from lenders with \$50 billion or more in assets increased by 1.9 percent and 0.4 percent, respectively.

