

Small Business Lending: Third and Fourth Quarter 2014

By Victoria Williams, Economist

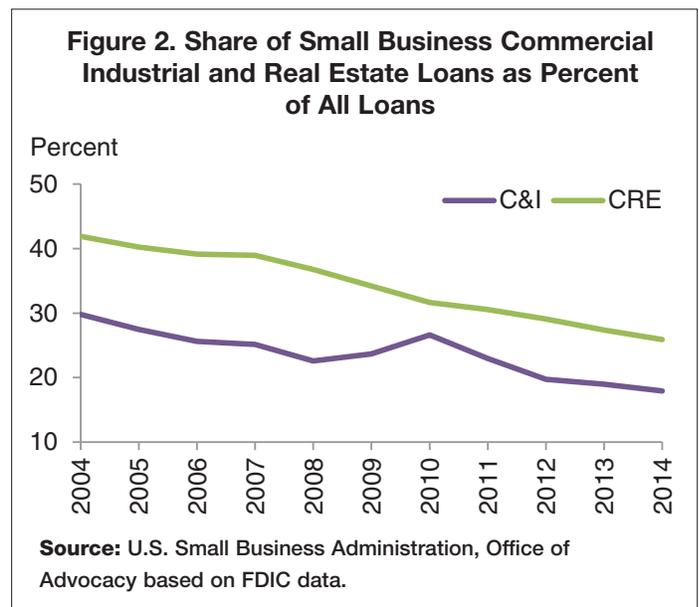
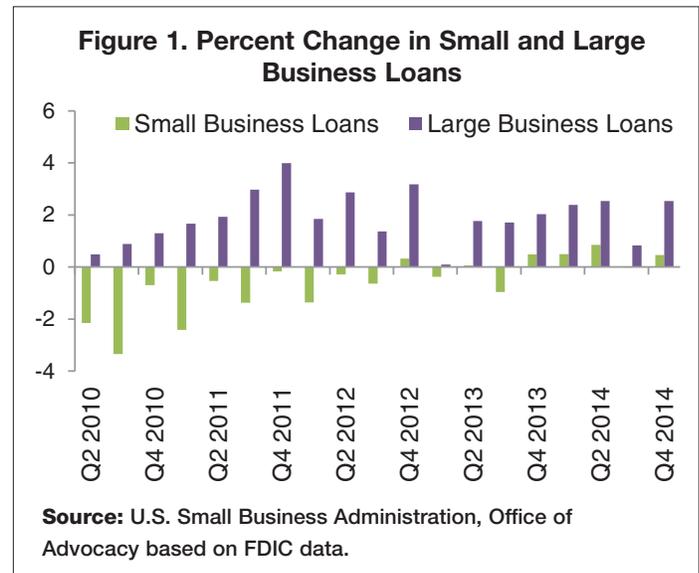
Economic activity in the United States was stronger in the second half of 2014 compared to the first half of 2014. Favorable financial conditions, including declines in the cost of borrowing for most businesses and households, supported this growth. Small business borrowing also stabilized as the balance sheets of small business owners continued to strengthen. Business borrowing remained healthy in the second half of the year, mainly due to large business borrowing (**Figure 1**). However, small business loan volume also continued to improve.

Small Business Loans

Small business loans outstanding in amounts of \$1 million or less are composed of small commercial and industrial (C&I) and real estate (CRE) loans.¹ Collectively, these loans averaged \$591 billion and increased by \$3.8 billion from the first half of 2014. Total small business lending remained relatively flat but positive during 2014. Other subcategories of small business size loans, such as loans under \$100,000 (the smallest loans) and loans \$250,000 to \$1 million (the largest of the small-sized loans) experienced incremental growth (1.1 percent and 0.7 percent, respectively) during this period.

Small Business Loan Trends

Over the years, traditional lending institutions have shifted away from small businesses loans. This is illustrated in **Figure 2**, which shows that the share for both C&I loans and CRE loans relative to all loans



1. Another term used for commercial real estate is nonfarm nonresidential commercial loans.

has steadily declined over the last decade. As a whole, small business borrowing from depository institutions remained flat during the last year, with an increase of roughly half a percent relative to the first half of 2014.

Growth in total business loans in the second half of the year was mostly attributable to C&I loans, which increased by an average of 3.5 percent. Total CRE loans increased by an average of 1.7 percent during the same period.

Growth rates for both small C&I and CRE loans lagged compared with total business loan progress, but small business C&I loan growth increased modestly. Small business nonfarm nonresidential commercial loans continue to make progress, as the rate of decline in small business loans decreases and moves upward.

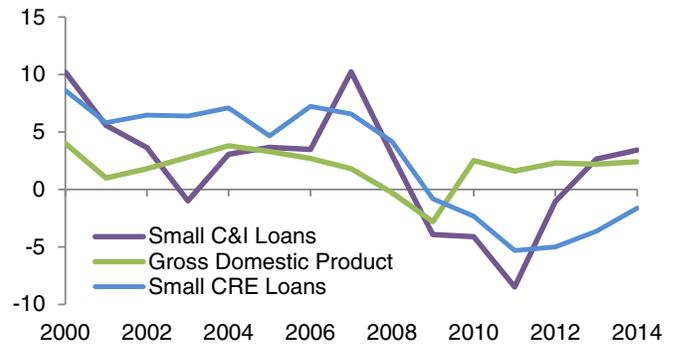
Nonetheless, in the last two years small business C&I loans have caught up with gross domestic product (GDP). Small business C&I growth has been positive since 2012, but GDP has experienced positive growth since 2009 (Figure 3).

Market Indicators

Numerous indicators show signs that small business credit risk is declining, which means that availability of credit to these firms is getting better. For example, bank lenders continued to ease their lending terms to firms of all sizes in the latter half of 2014, according to the Senior Loan Officer Opinion Survey and the Office of the Comptroller of the Currency's Survey of Credit Underwriting Practices, 2014 (Figure 4).

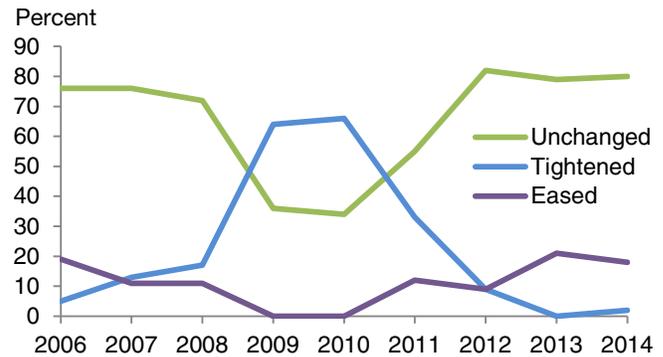
Another indicator that measures the pulse of small business borrowing is the Small Business Lending Index, which continues to show positive growth in the small business credit market (Figure 5).

Figure 3. Percent Change in Small Commercial Industrial Loans and Gross Domestic Product



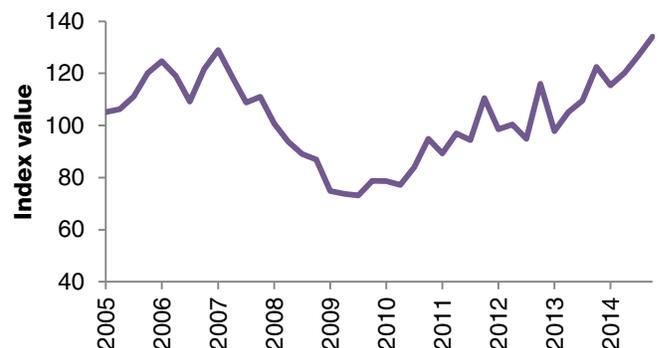
Source: U.S. Small Business Administration, Office of Advocacy based on FDIC and BEA data.

Figure 4. Trends in Small Business Credit Standards



Source: U.S. Small Business Administration, Office of Advocacy based on U.S. Treasury OCC's Survey of Credit Underwriting Practices Report, 2014.

Figure 5. Small Business Lending Index



Source: Thomson Reuters/PayNet Small Business Lending Index.

Other small business indices showed positive signs as well (**Figure 6**). For example, the NFIB and Wells Fargo both produce small businesses optimism indices. NFIB tends to poll more established firms and Wells Fargo tends to survey traditional firms.

Small business recovery from the recession has been slow but steady, as these businesses remain cautiously optimistic about their future.

