

Small Business Lending: First Quarter 2015

By Victoria Williams, Economist

Small business borrowing conditions continued to improve gradually in the first quarter of 2015. For example, the percent change in small business loans outstanding (in amounts of \$1 million or less) remained positive or unchanged for the sixth consecutive quarter (**Figure 1**). Small business loans outstanding totaled \$595 billion and remained relatively flat from the previous quarter, but year-over-year (Q1 2014 to Q1 2015) showed an increase of 1.7 percent.

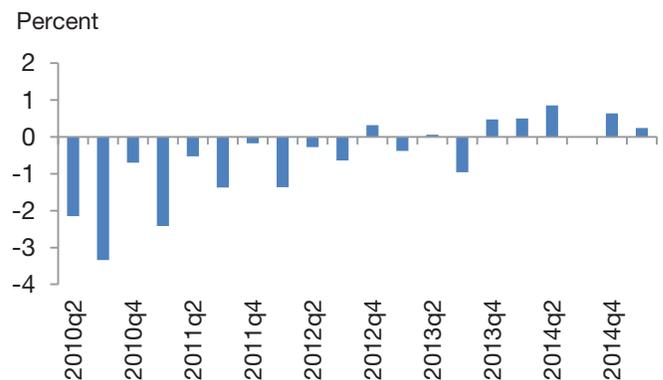
Both commercial industrial (C&I) and commercial real estate (CRE) loans make up small business loans.¹ A careful look at these loans shows that they continue to indicate progress in capital availability for small businesses. For example, C&I continues to maintain a positive uneven growth (**Figure 2**). In addition, the decline in the small business share of CRE loans has slowed.

C&I loan standards changed little in the first quarter of 2015, but bankers reported easing standards and terms on loans secured by nonfarm nonresidential borrowing (Federal Reserve's Board Senior Loan Officer Opinion Survey). While there was not a significant change in demand for C&I loans, respondents reported that the demand was stronger for all CRE loan size categories.

Loan Sizes

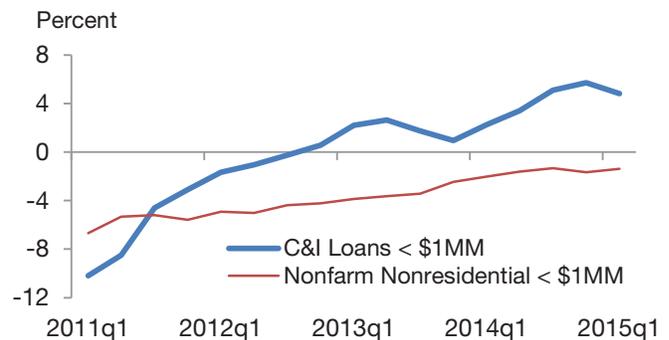
The FDIC reports small business loans in three loan size categories for both C&I and CRE loans: loans under \$100,000, \$100,000 - \$250,000, and \$250,001 - \$1 million. The smallest size of small business commercial industrial loans outstanding (under \$100,000) grew by 1.1 percent

Figure 1. Percent Change in Small Business Loans Outstanding



Source: Federal Deposit Insurance Corporation.

Figure 2. Small Business Loans Annual Growth Rates



Source: Federal Deposit Insurance Corporation.

1. Another well-known term for commercial real estate loans is nonfarm nonresidential loans.

relative to the last quarter in 2014. Loans in this size category have grown by 11.6 percent from their lowest point, \$118 billion in the third quarter of 2011.

Lenders

Large unconsolidated lenders with \$10 billion or more in assets numbered 112 in the first quarter of 2015. Although they represent about 2 percent of all depository lenders, they dominate the banking industry in terms of small business loan share (**Figure 3**). Total small business lending by these lenders totaled \$286.3 billion in the first quarter of 2015, remaining relatively flat relative to the previous quarter.² These lenders hold roughly 48 percent of the small business loan market.

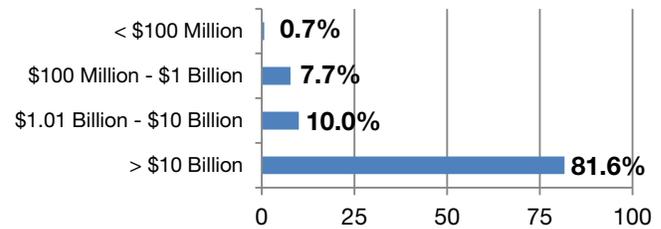
Approvals by Institutions

The small business credit market not only consists of traditional depository lenders, but also of alternative lenders. Traditional lenders have lower approval rates compared to alternative lenders, according to the Biz2Credit Small Business Credit Index.³ While alternative lenders have the highest approval rates, they tend to be more costly⁴ (**Figure 4**). Of the three traditional lenders, large banks have the lowest approval rates, but these lenders have recovered in the last few years.

Within the banking industry, small banks have higher approval rates when compared with large lenders (**Figure 5**). The approval rate gap (for loans by small business owners) between small and large lenders appears to be narrowing as these institutions continue to make more loans.

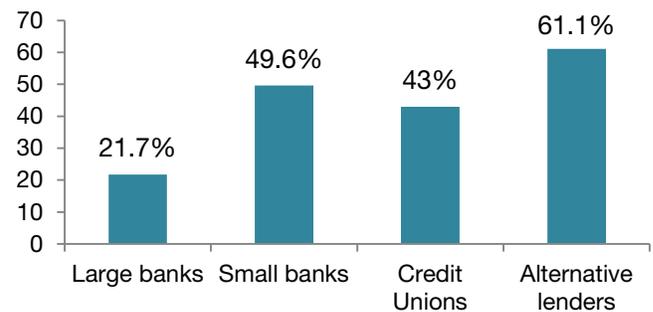
In general, small business loans outstanding continue to recover at a gradual pace. Small depository lenders continue to approve more loans than their counterparts. Small firms seeking credit have more options available to them, but the cost of credit provided by non-traditional lenders tends to be higher when compared to traditional lenders.

Figure 3. Share of Industry by Bank Asset Size



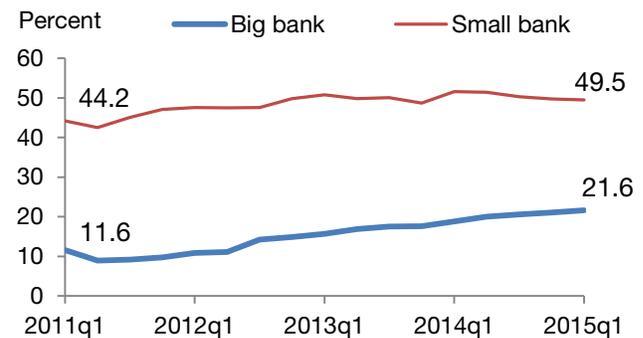
Source: Federal Deposit Insurance Corporation, Call Report Data, March 2015.

Figure 4. Small Business Loan Approval Rates



Source: Biz2Credit Small Business Index, April 2015.

Figure 5. Small and Large Bank Approval Rates, 2011 - 2014



Source: Biz2Credit Small Business Index.

2. The total amount of small business loans by lenders in this asset size category may be underestimated since it is not consolidated.

3. The Biz2Credit Small Business Index analyzed loan requests ranging from \$25,000 to \$3 million from companies in business more than two years with an average credit score above 680. The results are based on self-reporting small business owners who applied for funding using Biz2Credit online platform. See <http://www.biz2credit.com/small-business-lending-index/june-2015>.

4. <http://www.biz2credit.com/small-business-lending-index/April-2015>.