

Small Business Lending in the United States, 2012

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Purpose

Understanding how small businesses are financed is important, since small firms are major contributors to the economy. Small businesses tend to rely on traditional depository institutions for their credit needs. Since the end of the recession in mid-2009, overall lending conditions have improved for businesses, but improvement has been slower for small firms. This report provides information on recent developments in small business borrowing by analyzing the lending patterns of depository lending institutions nationally and at the local level.

Background

For nearly two decades, the Office of Advocacy has provided a yearly review of the small business lending activities of depository lending institutions in the United States using data from the Call Reports (Consolidated Reports of Condition and Income) and the CRA reports required by the Community Reinvestment Act. Data compiled from these reports are the only timely information that looks at the lending environment of small businesses by multinational lenders and lenders at the local level.

Previous evidence suggesting that small traditional lenders represent the majority of lending institutions continues to hold true. In addition, nondepository lenders such as credit unions, finance companies, and others have become increasingly important as suppliers of credit to small firms.

Although the banking industry has undergone major consolidation, the market for small business loans tends to be local in nature. The literature shows that the impact of consolidation activity on the availability of credit to small firms is minimal, and is generally offset by an increase in small business lending by other banks.

The first section of Part One looks at the developments apparent in the Call Report data; the second reviews developments based on the CRA database. Listings of the top small and micro business lenders in the 50 states, the District of Columbia, and the U.S. territories are found in Part Two of the report. All small business lenders filling reports in the U.S. economy are examined. Small business loans are defined throughout the report as loans under \$1 million.

Overall Findings

- Total small business borrowing from depository lenders remained subdued for both commercial real estate (CRE) and commercial and industrial (C&I) loans under \$1 million, while large business borrowing increased. The value of these small business loans outstanding declined by 3.1 percent in 2012, compared with 7.0 percent the previous year, while large business loans in excess of \$1 million increased by 12 percent in 2012, compared with 5.8 percent in 2011.
- In 2012, the value of micro business loans—the smallest business loans of less than \$100,000—was \$138.2 billion, compared with \$139.5 billion in 2011, a decrease of roughly 1 percent; the decline was in commercial real estate loans.
- Lenders with total assets between \$1 billion and \$10 billion and those with assets between \$100 million and \$500 million combined accounted for 39.3 percent of all small business loans, and for more than half—53.3 percent—of the total decline in small business loans.
- Two ratios are used to gauge changes in lenders' small business lending activity. The total assets ratio is the ratio of small business loans

to total lender assets and the total business loan ratio is the ratio of small business loans to total business loans. Both were down in 2012—the total assets ratio by 4.3 percent and the total business loan ratio by 0.3 percent—showing that small business borrowers were less successful than large business borrowers in competing for business loans.

- The largest lenders, with \$50 billion or more in assets, are active in the C&I micro business lending market, where they represent 68.7 percent of small business loans.
- CRA-reporting institutions made a total of 3.3 million small business loans valued at \$178.8 billion in 2011.

Policy Implications

Policymakers interested in small business access to credit will find that the information presented in this report is an important part of the overall picture of small business financial markets. The findings suggest that it would be useful to evaluate the variables and methodology used for the popular credit scoring models. The results may also be helpful to small businesses interested in finding the lender that best suits their needs.

Scope and Methodology

Two types of data are used to analyze the lending environment of depository financial institutions for the years 2011-2012. The CRA 2011 data represent loans made during the 2011 calendar year, and the Call Report data for June 2012 include information on the amount and number of outstanding loans. The report examines all reporting commercial banks, thrifts, savings and loan associations, and federal savings institutions. The reported data are available only by the size of the loan, not by the size of the business, so small business loans are defined as business loans under \$1 million; macro business loans are defined as loans between \$100,000 and \$1 million; and micro business loans are defined as loans under \$100,000. To evaluate the developments in the lending activities of these institutions, several variables from the Call Reports are analyzed. Because of the changing number of lending institutions required to file CRA reports, year-to-year changes in these institutions' activities are more difficult to interpret than they are for the Call Reports.

Depository lenders with total domestic assets of more than \$10 billion are ranked and reported separately, on the assumption that they serve a national market. Lenders are ranked by state for all reporting lenders on the basis of the designated headquarters of the reporting lending institution. Four criteria are used as the basis for a lender's performance ranking: the ratio of small business loans to total loans, the ratio of small business loans to the institution's total assets, the total dollar value of small business loans made by the institution, and the total number of small business loans. The analysis of state lending was based on CRA data; lenders are listed in order of the dollar amount of small business loans made in each state in 2011 in descending order. Simple rankings are used for multi-billion-dollar lending institutions, because only a small number of lenders are involved.

This report was peer-reviewed consistent with Advocacy's data quality guidelines. More information on this process can be obtained by contacting the Director of Economic Research at advocacy@sba.gov or (202) 205-6533.

Additional Information

This report is available on the Office of Advocacy's website at www.sba.gov/advocacy/7540. To receive email notices of new Advocacy research, news releases, regulatory communications, publications, and the latest issue of *The Small Business Advocate* newsletter, visit www.sba.gov/updates and subscribe to the Small Business Regulation & Research Listservs.