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Small Business Research Summary

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Lending by Depository Lenders to Small Businesses, 2003 to 2010

by George Haynes and Victoria Williams, U.S. Small Business Administration,
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Introduction

Access to credit is essential for the survival and success of small firms. This descriptive report utilizes Federal Deposit Insurance Corporation (FDIC) Call Report data to examine changes in the supply of small loans held by depository lenders from 2003 to 2010. It also assesses the contribution of small and large depository lenders to declines in small business loans.

The research study focuses on changes in five performance measures: aggregate lending, numbers of loans, average loan sizes, ratio of small business loans to total assets, and ratio of small business loans to total business loans. Two types of small business loans are reported by the FDIC: loans secured by nonfarm, nonresidential properties, or commercial real estate (CRE) loans; and commercial and industrial (C&I) loans.

The first section examines small business loans held by depository lenders, with special emphasis on lending institutions with total assets exceeding $10 billion. The second section examines small business loans held by "community lenders"—depository lenders with assets of less than $10 billion—in each of the 10 regions as defined by the U.S. Small Business Administration (SBA).

Overall Findings

Small business lending peaked in 2008, when depository institutions in the United States held small business loans valued at more than $711 billion. From 2008 to 2010, small business lending by depository institutions declined by 8.3 percent to $652 billion. In 2010 alone, these depository institutions realized a reduction in the small loan portfolio of $43 billion. Lenders with $10 billion or more in assets, which hold about 48 percent of all small business loans, accounted for more than 55 percent of this decline.

Perhaps of most concern is the further decline in two key ratios: small business loans to total assets and small business loans to total business loans. Small business loans constituted about 16.8 percent of total assets in 2005, but only 15.3 percent in 2010; hence, small businesses are less successful in competing against other uses of the capital held by these institutions. Small business lending is also losing business loan market share. The small business share of total business loans declined from 81.7 percent in 2003 to 68.9 percent in 2010.

Highlights

- The largest lenders, with $10 billion or more in total assets, increased their small business lending from 2003 to 2008 by nearly 30 percent; however, from 2008 to 2010 this lending declined by more than 8 percent. Smaller lenders, with less than $10 billion in total assets, increased their small business lending from 2003 to 2008 by more than 20 percent, but decreased such lending by about the same percentage as larger lenders from 2008 to 2010. The smallest lenders, with assets of $100 million or less, saw a small business lending decline of more than 30 percent from 2003 to 2010.
- The total value of small business loans declined by just over $43 billion from 2009 to 2010; large lenders with $10 billion or more in assets accounted for more than 55 percent of the decline.
- The largest decline in total value was in commercial real estate loans between $250,000 and $1 million, down by $17.9 billion, or 6.4 percent, from $278.4 billion in 2009 to $260.5 billion in 2010. The largest lenders, with more than $50 billion in assets, saw total declines of $13.5 billion—75 percent of the decline in these loans.

- The aggregate number of loans is dominated by commercial and industrial (C&I) loans of $100,000 or less; these loans constitute nearly 90 percent of all loans held by depository institutions. The largest lenders have more than doubled the number of these loans since 2003; for other lenders the number has steadily decreased. In 2003, the largest banks held 41 percent of these small loans and 35 percent of the total number of small business loans. By 2010, they held nearly 80 percent of the smallest loans and more than 70 percent of total small business loans. The concentration of loans in the smallest category reflects the growth in credit cards.
- The most dramatic increase in market share for the largest lenders was in C&I loans of $100,000 or less, which includes credit card loans. The market share held by lenders with $50 billion or more in assets increased by over 30 percentage points, from 37.2 percent in 2003 to 68.9 percent in 2010. All other lender categories lost market share in these loans from 2003 to 2010.
- The ratio of total small business loans to total assets declined by more than 7 percent from 2003 to 2010, and from 15.9 to 15.3 percent in 2009-2010 alone.
- The ratio of total small business loans to total business loans declined by more than 15 percent for all except the largest lenders from 2003 to 2010. The largest lenders saw an increase in the total business loan ratio, driven by increases in credit card loans.

Important Concerns

This study does not address the question of whether the declines in small business loans reflect declines in the small business demand for loans or in the supply of loans available from depository lenders. From 2008 to 2009, the relatively modest decline in gross domestic product (less than 2 percent) paralleled a modest 2.3 percent decline in small business loans. More recently, the substantial GDP gain from 2009 to 2010 (3.8 percent) was met by further declines in small business loans (6.2 percent).

Scope and Methodology

This descriptive study utilizes Call Report data supplied for all depository institutions by the FDIC, available from the FDIC website (**http://www2.fdic.gov/sdi/main.asp**). This information is obtained from the Federal Financial Institutions Examination Council (FFIEC) Call Reports and the Office of Thrift Supervision (OTS) Thrift Financial Reports submitted by all FDIC-insured depository institutions. All information is collected and presented based on the headquarters office of the institution.

Two types of small business loans are reported by the FDIC: loans secured by nonfarm nonresidential properties (commercial real estate loans); and C&I loans. All dollar amounts are reported in nominal terms, where there are no adjustments for inflation.

A small business loan is defined as a loan of $1 million or less. The value of a small business loan is the outstanding balance on these loans held by these lenders on June 30 of each year. Clearly, some small businesses have borrowed more than $1 million at one time and some large businesses have occasionally borrowed less than $1 million at one time; hence, some overlap occurs in the information supplied the FDIC.

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.

Ordering Information

The full text of this report and summaries of other studies performed under contract with the U.S. Small Business Administration's Office of Advocacy are available on the Internet at **www.sba.gov/advo/**. Copies are available for purchase from:

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