U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF ADVOCACY
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RESEARCH SUMMARY
Advocacy: The Voice of Small Business in Government

Small Business Lending in the United States, 2014 and 2015

U.S. Small Business Administration
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The health, growth and survival of small firms depend on their access to credit, and most small businesses turn to the banking system for their credit needs. The lending activities of depository lending institutions to small businesses are captured yearly in the Office of Advocacy's "Small Business Lending in the United States" report. This report combines two years of analysis using descriptive statistics to examine the changes in the supply of small business credit. Two types of data that the lenders report to their regulating agencies utilized in the report are the Consolidated Reports of Condition and Income (Call Reports) for June 2014 and 2015 and the Community Reinvestment Act (CRA) reports for 2013 and 2014. The report is meant to inform the small business community about the current developments among traditional and non-traditional lenders in the small business credit market. For the first time, the activities of minority depository institutions to small firms are examined.

Background

Developments in the financial services industry are reshaping how small businesses access credit such as technology improvements on online lending markets. This is more prevalent in the credit markets for small businesses where non-institutional lenders have been playing an increasingly vital role. Anecdotal evidence suggests that small businesses have become increasingly reliant on non-traditional sources of capital, (such as online marketplace lending and trade credit), to finance their businesses. Since the 2008 financial crisis, an abundance of research studies examining the impact of the crisis as well as how regulations may have perpetuated the decline in small business lending have emerged. Some studies show that the decline in small business lending began prior to the crisis, and lingered for several years after. During the last few years, lending to small firms has stabilized and remained positive.

Highlights

Small Business Lending by All Banks

While marketplace lenders are gaining shares in the small business credit market, the banking sector continues to be the most sought after by small businesses. Both databases confirm that the pace of small business borrowing and lending has stabilized and continues to improve when looking at the value of loans. They show that the improvement is mostly driven by loans in the smallest size category (under $100K). The number of small business loans increased between 2010 and 2014-2015 for both databases, while the average loan size dropped.

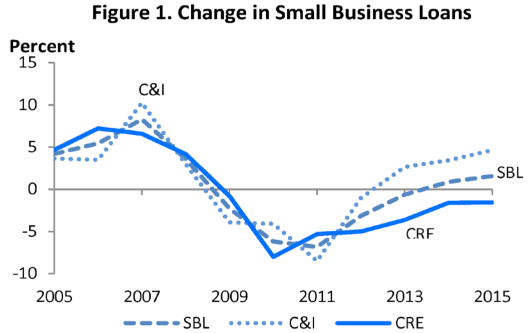
- The Call Reports show that the amount of small business loans ($1 million or less) by commercial and industrial (C&I) loans, and commercial real estate (CRE) loans combined) has gradually improved and totaled $599 billion in June 2015, up by $9.2 billion from $589.8 billion in June 2014. Between 2013 and 2014, the total amount of small business loans outstanding was up by $5.2 billion **(Figure 1).**

• The number of small business loans outstanding grew by 3.4 percent between June 2014 and June 2015, with nearly all of the growth being attributed to small commercial and industrial loans, which increased from 2 percent the previous year.

• In terms of loan sizes, the smallest loans under $100,000 had 22.3 million loans outstanding, which represented 92.1 percent of all small business loans. These loans had a value of $151 billion, representing a quarter of all small business loans in June 2015. The value of these loans grew by 3.7 percent between 2014 and 2015, up from 3.2 percent the previous year.

• The CRA reports confirm that small business lending has turned upward. CRA-reporting institutions numbered 633 in 2014, and they extended a total of 5.6 million loans valued at $213 billion. This compares with the $206 billion for a total of 5.0 million loans by 652 lending institutions the previous year.

Figure 1. Change in Small Business Loans



Source: FDIC

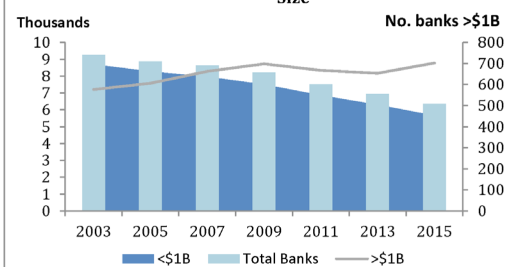
Depository Lending Institutions by Size

• The declining trend in the number of lending institutions is not uniform across all bank sizes. Small lenders with under $1 billion in assets mirrored trends to the total number of lenders while lenders with assets of $1 billion or more experienced uneven growth in the number of institutions during the years **(Figure 2).** Lending institutions with $1 billion or more in assets represented 11 percent of lenders, but held 91 percent of the industry's assets, and 72.2 percent of small business loans in 2015.

• The ratio of small business loans to total business loans and small business loans to total assets show a similar pattern—the larger the lender, the smaller the percentage of small business loans in the bank's loan portfolio.

• Small lending institutions with less than $1 billion in assets account for 27.8 percent of all small business loans outstanding, and held a greater percentage of small business loans in their bank's loan portfolio in 2015. The value of small business loans outstanding grew modestly amongst middle market lenders ($1 billion to $9.9 billion in assets) and large lenders ($10 billion or more). These lenders combined accounted for half of small business loans, and grew by 3.5 percent between 2014 and 2015 compared to 1.8 percent the previous period.

Figure 2. Number of Lending Institutions by Asset Size



Note: See Online Appendix **Table 6** and various *2nd Quarterly Banking Profile Table III-A*
Source: FDIC data.

Small Business Lending by Minority Depository Institutions

• In 2015, Minority Depository Institutions designated as bank holding companies and independent lenders represented 2.8 percent of all lending institutions, a total of 163, and held roughly 1.3 percent of the industry's assets.

• Small business loans outstanding by MDIs remained restrained and totaled $13.8 billion in 2015, down by 3.9 percent from the previous year. MDIs hold a relatively small percentage of total small business loans (about 2.3 percent), and their share has been declining, which is a trend similar to overall small business lending.

• MDIs with $1 billion or less in assets make up almost 90 percent of minority lenders, while those lenders with $1 billion or more hold 79 percent of total assets and account for 60 percent of small business loans outstanding. These minority lenders hold about the same percentage (around 20 percent) of their total business portfolio in small businesses loans as other depository lenders in 2015.

Scope and Methodology

This study covers the lending activities of depository institutions for the years 2013-2015. Two types of data are used in the analysis.

The Call Reports (for data years 2014 and 2015) from the Federal Deposit Insurance Corporation provide information on loan balances for all depository institutions.

The Community Reinvestment Act (CRA) reports (for data years 2013 and 2014) from the Federal Financial Institutions Examination Council (FFIEC) provide information for loan originations and purchases.

All foreign depository institutions are excluded.

The data is then aggregated and categorized into various small business loan size categories and bank asset sizes. Bank holding company data is used for consolidating the data. Developments in lending activities over time are analyzed using Call Report statistics for several variables.

Please note that this report examines all small business lenders filing Call Reports, but it is not possible to distinguish SBA-guaranteed lenders from the available information.

Because of the changing number of banks required to report under the CRA, year-to-year changes in the lending activities for this group of banks are more difficult to interpret. All small business lenders filing Call Reports are examined, but data provided does not make it possible to distinguish SBA-guaranteed lenders.

The appendix to the report contains six extensive sets of tables ranking lenders by various factors, as well as providing other specific lending details by state. The rankings are based on four factors·

1. The ratio of loans of $1 million or less, $100K or less, and $100K-$1 million to total assets (total asset ratio or TA ratio);

2. The ratio of loans of $1 million or less, $100K or less, and $100K-$1 million to total business loans (total business loan ratio or TBL ratio)·

3. The value of loans of $1 million or less, $100K or less, and $100K-$1 million by the lender, and

4. The number of loans of $1 million or less, $100K or less, and $100K-$1 million.

This report was peer-reviewed consistent with Advocacy's data quality guidelines.

More information on this process can be obtained by contacting the Office of Economic Research at 202-205-6533.

READ THE FULL REPORT ONLINE

This report is available on the Office of Advocacy's webpage at **www.sba.gov/advocacy**.

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