Findings from Analysis of Nationwide Summary Statistics for 2007 Community Reinvestment Act Data Fact Sheet (July 2008)

The following analysis of nationwide summary statistics is based on data compiled by the Federal Financial Institutions Examination Council (FFIEC) for institutions reporting under the Community Reinvestment Act (CRA) regulations.

Background

The CRA is intended to encourage federally insured commercial banks and savings institutions to help meet the credit needs of the local communities in which they are chartered. The regulations that implement the CRA require commercial banks and savings institutions with total assets of about $1 billion or more to collect and report data regarding their small business and small farm lending and community development lending. The mandatory reporting threshold adjusts annually based on changes to the Consumer Price Index and in 2007 was $1.033 billion.[1]

The small business and small farm lending data reported under the CRA regulations provide useful information about such lending, but they are more limited than the data reported on home mortgage lending under the Home Mortgage Disclosure Act (HMDA) in several respects. The CRA data include information on loans originated or purchased, but not on applications denied. The CRA data indicate whether a loan is extended to a borrower with annual revenues of $1 million or less, but they do not include demographic information about the applicant. The CRA data are aggregated into three loan-size categories and then reported at the census tract level, rather than loan-by-loan.

Interpreting the CRA data can be challenging. For example, lending institutions are asked to report the geographic location of the loan. If the proceeds are used in more than one location, the institution can record the loan location by either the location of the business headquarters or the location where the greatest portion of the proceeds are applied, as indicated by the borrower. However, these locations may have different socio-demographic and economic characteristics.

Furthermore, while CRA data provide information on extensions of credit in a geographic area, they do not indicate the amount or nature of the overall demand for credit in that area. Consequently, caution should be used in drawing conclusions from analyses using only CRA data, as differences in local loan volume may reflect differences in local demand. Indeed, CRA performance assessments by the bank and thrift supervisory agencies focus on evaluating the volume and distribution of lending in the context of local credit needs.

[1] The mandatory reporting threshold increased to $1.061 billion in 2008.

General Description of the 2007 CRA Small Business and Small Farm Loan Data

For 2007, a total of 998 lenders reported on their originations and purchases of small business and small farm loans, a 3 percent decrease from the 1,028 lenders reporting data in 2006 (table 1). As a consequence of amendments to the CRA regulations, beginning in September 2005 banking institutions with assets below the mandatory reporting threshold (and, beginning in October 2004, savings associations with assets below that threshold) are not required to collect or report data on their small business or small farm lending. However, institutions with assets below the mandatory reporting threshold may voluntarily collect and report such information, and they must report the information if they elect to be evaluated as "large" institutions. Of the 998 institutions reporting 2007 data in 2008, about half were not "large" institutions under the applicable regulation and, therefore, reported either voluntarily or because they elected to be evaluated as "large."

Reporting institutions' small business and small farm lending is a significant portion of total small business and small farm lending by commercial banks and savings institutions. Analysis of data from Consolidated Reports of Condition and Income ("Call Reports") indicates that CRA reporters account for about 78 percent of the small business loans outstanding measured by number of loans and about 23 percent of the small farm loans outstanding measured by number of loans extended by all commercial banks and savings institutions (table 1). Commercial banks and savings institutions with assets of $1.033 billion or more in 2007 originated or purchased about 94 percent (by dollars) of the small business loans reported under CRA (table 3).

In the aggregate, about 13.5 million small business loans, totaling $329 billion, and almost 219,000 small farm loans, totaling $13.1 billion, were reported as being originated or purchased in 2007 (table 2). Unlike home mortgage lending, a well-developed secondary market for small business loans does not exist, and the CRA data reflect this.[2] Most reported small business and small farm loans were originations; less than 1 percent of the small business loans and less than 1 percent of the small farm loans were reported as purchases from another institution (derived from table 2).

The CRA data provide information about the size of small business and small farm loans. For small business loans, the maximum loan size reported is $1 million; for small farm loans, the maximum is $500,000. Measured by number of loans, 96 percent of the small business loans and 83 percent of the small farm loans originated were for amounts under $100,000 (table 2). Measured by dollars, the distribution differs: about 45 percent of the small business loan dollars and about 35 percent of the small farm loan dollars were extended through loans of less than $100,000 (table 2).

The CRA data also include information on how many of the reported loans were extended to businesses or farms with revenues of $1 million or less. About 38 percent of

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[2] The one exception is for small business loans guaranteed by the Small Business Administration. See Board of Governors of the Federal Reserve System (2007), *Report to the Congress on the Availability of Credit to Small Businesses*, Washington: Board of Governors, July.

the number of reported small business loans (about 42 percent measured by dollars) and 81 percent of the number of reported small farm loans (about 76 percent measured by dollars) were extended to firms with revenues of $1 million or less (table 2).

Year-to-Year Comparison of Proportion of Small Business Loans to Smaller Firms

The proportion of small business loans extended to smaller firms in 2007, at 38 percent, is slightly higher than the 37 percent so extended in 2006. Lending to small firms peaked in 1999 at 60 percent. The longer-term decline in the percentage of small business loans to smaller firms is primarily a consequence of a substantial increase in lending to larger firms through lines of credit, renewals of credit lines with larger limits, and credit cards. The decline also reflects a change in the data collection practices of some banks that no longer request revenue-size information from business customers. As a result, these banks no longer report which, if any, "small business" loans were extended to small businesses.

The Geographic Distribution of Small Business and Small Farm Lending

The availability of information about the geographic location of businesses and farms receiving credit provides an opportunity to examine the distribution of small business and small farm lending across areas grouped by their socio-demographic and economic characteristics. Information on the distribution of businesses and population provides some context within which to view these distributions.

CRA performance assessments include an analysis of the distribution of small business and small farm loans (of all types) across census tracts grouped into four income categories: low-, moderate-, middle-, and upper-income.[3] Overall, the distribution of the number (table 4.1) and the dollar amounts (table 4.2) of small business loans across these categories parallels the distribution of population and businesses across these four income groups.[4] For example, low-income census tracts include about 4.5 percent of the population and about 4.1 percent of the businesses, and received about 3.0 percent of the number and about 3.9 percent of the total dollar amount of small business loans in 2007.[5] Each income category's share of the number and dollar amount of loans remained about the same in 2007 as in 2006.

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[3] For purposes of the regulations, a low-income census tract has a median family income that is less than 50 percent of the median family income for the broader area (the metropolitan area containing the tract or the entire non-metropolitan area of the state); a moderate-income census tract, 50 percent to less than 80 percent; a middle-income census tract, 80 percent to less than 120 percent; and an upper-income census tract, 120 percent or more.

[4] Beginning in 1998, institutions filing CRA data were allowed to report that the census tract location of a firm or farm receiving a loan was unknown. For 2007, 2.7 percent of the reported small business loans by number and 1.5 percent by dollar amount included such a designation.

[5] Data on the share of population across census tract income categories are derived from the 2000 Census of Population and Housing (most current available). Data on the share of businesses across census tract income categories are derived from information from Dun and Bradstreet files of businesses. Calculations exclude agricultural-related firms.

In the distribution of small business lending reported under the CRA across principal city, suburban, and rural areas, small business loans are heavily concentrated in U.S. principal city and suburban areas (about 88 percent of the number and 89 percent of the dollar amount of all small business loans), as are the bulk of the U.S. population and the number of businesses (tables 4.1 and 4.2). The majority of small farm loans (about 60 percent, measured by number of loans and dollars of loans) were extended in rural areas, with the remainder extended mostly in the suburban portions of metropolitan areas (tables 4.3 and 4.4).

Community Development Lending

In addition to information about small business and small farm lending, institutions covered by the CRA data-reporting requirements disclose the number and dollar amount of their community development loans. Among the 998 institutions reporting for 2007, 746 institutions, or about 75 percent extended community development loans (derived from table 5). The dollar volume of such lending increased from 2006, from $56.5 billion to $63.8 billion (table 5). Although the number of institutions reporting community development loans decreased by 2 percent from 2006, the volume of lending increased about 13 percent (data not shown in tables). As in 2006, in 2007 lenders with assets that met or exceeded the mandatory reporting threshold ($1.033 billion in 2007) extended the vast majority of reported community development loans.