



Office of Advocacy

U.S. Small Business Administration

Micro-Business-Friendly Banks in the United States, 1998 Edition

A Directory of Small Business Lending Reported by Commercial
Banks in June 1998

Published July 1999. This report contains research prepared by the Office of Advocacy of the U.S. Small Business Administration. The opinions and recommendations made herein do not necessarily reflect official policies or statements of the U.S. Small Business Administration or any agency of the U.S. Government. For further information, contact the Office of Advocacy, U.S. Small Business Administration, Mail Code 3112, Washington, DC 20416. The complete study is available on the Internet's World Wide Web at <http://www.sba.gov/ADVO/lendinginus2.html> or on microfiche from the National Technical Information Service, Springfield, VA 22161, tel. (703) 487-4650.

Foreword

The SBA's Office of Advocacy is pleased to release the 1998 edition of *Micro-Business-Friendly Banks in the United States*. This fifth edition provides data not otherwise available in the marketplace and helps small firms identify banks in each state that are "micro-business-friendly" in their lending in amounts under \$100,000. The numbers reflect both the outcome of banks supplying loans and small firms' demand for loans. Highlights include the following:

- The most significant development in micro-business lending in 1998 was a large increase in the number of micro-business loans, up 19 percent from June 1997 to June 1998. However, the dollar amount of micro-loans increased by only 3.0 percent.
- Given that large business loans increased much more—by 13 percent—questions arise as to whether an adequate supply of micro-loans is available to the smallest borrowers.
- The study identifies 567 micro-business-friendly banks with significant business lending activity in loans of less than \$100,000. These 567 banks, holding 18 percent of total bank assets, had 26.5 percent (\$29.6 billion) of the dollar value of micro-business loans outstanding from all U.S. banks.
- Forty-two banks had at least \$100 million in micro-business loans outstanding as of June 1998.
- New this year are micro-business lending data from banks required to report under new Community Reinvestment Act (CRA) regulations. These data allow the large banks that must report under the CRA reporting system to be ranked by the dollar amounts of micro-business loans made in 1997. A total of 85 of these "reporting units" each made at least \$100 million in micro-business loans.

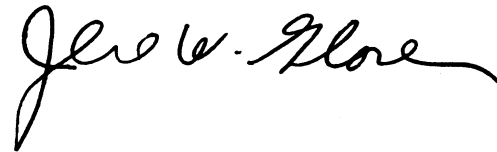
- Also new are two national tables on micro-business-friendly bank holding companies (BHCs), one using call reports and one using CRA data. These take on more significance as banks continue to merge into regional and national BHCs.

The Office of Advocacy annually publishes two companion reports, *Small Business Lending in the United States* and *The Bank Holding Company Study*. The 1998 edition of the first study rank-orders (within each state) all 8,966 U.S. banks on their small business lending, as well as large banks' small business lending under the CRA program. The second lists BHCs that are top lenders to small firms. In both studies, a small business loan is a loan of less than \$1 million.

For those involved in financing activities in rural America, the Office of Advocacy has produced for the first time *Small Farm Lending In the United States* for each state and a national edition of *Small Farm Lending by Bank Holding Companies*.

Thanks to all who have made helpful suggestions about the format of this report. A number of them have been incorporated in this edition to improve its usefulness while preserving comparability with earlier editions. Comments and suggestions are always welcome.

The studies are at <http://www.sba.gov/ADVO/Lendinginus2.html> on the World Wide Web. Copies are also available from the National Technical Information Service at (703) 605-6000.



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Introduction

This report is a companion to the more comprehensive study, the 1998 edition of *Small Business Lending in the United States*, also known as the “small-business-friendly banks” study.¹ The small business lending study ranks all 8,966 reporting commercial banks that provided small business lending data in their June 1998 “call reports” to federal banking regulators.

Micro-Business-Friendly Banks in the United States, 1998 identifies the micro-business-friendly lenders, or banks with significant lending activity in loans of less than \$100,000. This edition retains major features of the 1997 study—the use of four criteria to rank the small business lending activities of banks. The four ranking variables are (1) the ratio of micro-business loans to total bank assets, (2) the ratio of micro-business loans to total business loans, (3) the dollar value of micro-business loans, and (4) the number of micro-business loans.

A total ranking for each bank is derived from the bank’s rankings in the four categories. Scores are based on the decile (the tenth percentile) in which the bank falls when ranked with other banks in the state.

Micro-business-friendly banks in each state are identified based on their total ranking (column 1 of Table 1). Included in this micro-business-friendly listing are the top 10 banks or the top 10

¹U.S. Small Business Administration, Office of Advocacy, *Small Business Lending in the United States, 1998 Edition*, Springfield, Va.: National Technical Information Service (1999). It is also available on the Office of Advocacy’s Web site at <http://www.sba.gov/advo/lendinginus2html>.

percent in each state—whichever number is smaller, plus the top bank in each size category whether or not it is in the top 10 or 10 percent.² Many of the larger banks are included as a result.

A recent regulatory change in reporting requirements under the Community Reinvestment Act (CRA) has made available a new data base that shows the geographical distribution of small loans to businesses.³ To minimize the paperwork burden on small banks, the bank regulatory authorities require that only banks with assets over \$250 million or any member bank of a bank holding company (BHC) with assets over \$1 billion provide this information. Only 18 percent of banks must file under this requirement, but they make some two-thirds of the loans to small businesses.⁴

²Also, all banks with tied scores are included. Thus, for example, Wisconsin has 19 banks listed because the tenth place score is an eight-way tie and two banks are included for the two size categories not represented in the top 10.

³The CRA was enacted in 1977 and was designed to encourage banks to meet the credit needs of local communities from which they obtained deposited funds. In 1994 the federal banking supervisory agencies revised the regulations implementing the CRA. Part of the revisions included the requirement of banks to collect data on small business lending by census tract. For more information on the history of CRA see “Home Purchase Lending in Low Income Neighborhoods and to Low Income Borrowers” *Federal Reserve Bulletin*, February 1995, 71-105.

⁴Raphael W. Bostic and Glenn B. Canner, “New Information on Lending to Small Business and Small Farms: The 1996 CRA Data,” *Federal Reserve Bulletin* (Jan. 1998), 1-35.

The CRA data are classified by the borrower's location, rather than the location of the bank headquarters, as is the case for call report data. The number of small business loans will be quite different when reported by location of the borrower rather than by location of the headquarters office of a large bank.

In addition, whereas call report data cover loans outstanding (the stock of loans) as of June 1998, CRA data cover all loans made in calendar year 1997 (the flow of loans). Ranked by the dollar amount of their micro-lending are all banks in a given state that make more than \$10 million in micro-business loans (Table 2). Consequently, a different perspective on micro-business lending, especially by large banks, emerges from the CRA data. Large banks make more than half of the micro-loans to small firms.

For bank holding companies (BHCs), only consolidated information is reported in this study. Total micro-business lending in a given state by the BHC is then derived for the state lending statistics and listed under the name of the ultimate owning bank or BHC.

Given the growing importance of BHCs, two new national tables were added this year to report on the micro-lending of BHCs with assets of more than \$10 billion. Table 3 uses call report information and ranks the BHCs on the traditional four-variable format. Table 4 uses CRA data and ranks the banks on the dollar amount of micro-business lending.

Findings: Micro-Business-Friendly Banks, 1998

From Call Report Data

A total of 567 banks were identified as micro-business-friendly lenders in the United States in 1998 using call report data (Tables A and 1).

These banks, holding 18 percent of total commercial bank assets, had 26.5 percent (\$29.6 billion) of the total value of micro-business loans outstanding in June 1998 (Table B).

The dollar amount of micro-business loans ranged from \$1.3 million to \$3.11 billion in the 567 banks. Forty-two banks had more than \$100 million in micro-loans outstanding in June 1998.

The banks' ratios of micro-loans to total assets ranged from 0.004 to 0.615; the ratios of micro-loans to total business loans ranged from 0.011 to 1.00. The wide range in the ratios comes from the inclusion of at least one bank in each size category headquartered in each state, even if the bank had a low ratio compared with the top lenders in the other size categories.

The most significant development in micro-business lending in 1998 was the continued large increase—19 percent—in the number of micro-business loans between June 1997 and June 1998. This increase contrasts with the less than 2 percent gains in the other loan size categories (Table C).

While the number of loans under \$100,000 increased significantly, the percentage increase in the dollar amount of these loans was less than it was for larger loans (Table D). The

Table A. Distribution of Micro-Business-Friendly Banks Using Call Report Data, June 1998

<i>Bank Asset Size</i>	<i>Micro-Business-Friendly Banks</i>	<i>All Banks</i>	<i>MBF Banks Percent of All Banks</i>
< \$100 million	191	5,644	3.4
\$100–\$500 million	260	2,656	9.8
\$500 million –\$1 billion	49	303	16.2
\$1–\$10 billion	48	302	15.9
> \$10 billion	1	61	1.7
Total	567	8,966	6.3

Table B. Total Assets and Micro-Business Loans Outstanding of All Banks and 567 Micro-Business-Friendly Banks, June 1998

	<i>Total Assets (Billions)</i>	<i>Micro-Business Loans (Billions)</i>	<i>Micro-Business Loans (Thousands)</i>
567 MBF Banks	\$803.1	\$29.6	3,223
All Banks	\$4,419.4	\$111.5	8,022
MBF Banks as Percent of All Banks	18.2%	26.5%	40.2%

Table C. Percent Change in the Number of Small Business Loans by Loan Size, 1994-1998

<i>Loan Size (Thousands)</i>	1994-1995	1995-1996	1996-1997*	1997*-1998
<\$100	8.6	8.8	26.6	19.3
\$100-250	10.7	6.0	8.6	1.8
\$250-1,000	11.6	7.5	8.0	1.4

*Changes for 1996-1997 and 1997-1998 were estimated based on revised estimates for Keycorp in 1997.

Table D. Percent Change in the Dollar Amount of Business Loans by Loan Size, 1994-1998

<i>Loan Size (thousands)</i>	94-95	95-96	96-97*	97*-98
<\$100	2.8	4.8	2.9	3.0
\$100-250	9.8	5.7	5.2	8.1
\$250-1,000	9.5	5.7	5.7	7.7
>\$1,000	12.8	5.1	11.5	13.0

*Changes for 1996-1997 and 1997-1998 were estimated based on revised estimates for Keycorp in 1997.

Note: Dollar amounts are not adjusted for inflation.

implication is that the average size of the smallest loans is decreasing with the increased use of business credit cards, while the average size of the larger loans is increasing.

Fluctuations in the number and amount of loans and in the number of banks and their assets reflect the churning of the banking industry because of mergers and the rapid development of credit card banks. As the number of small banks with less than \$100 million in assets decreased, their total assets and the dollar value of micro-loans decreased by similar percentages (Table E). And while the number of micro-loans increased almost 300 percent in the mid-sized banks, the dollar value of these loans increased only .32 percent. The number of loans declined almost 41 percent in the banks with \$1 billion to \$10 billion in assets.

Bank consolidations continued to affect the relative importance of banks of different sizes in the small firm loan market.⁵ The number of very small banks has been declining since 1995 (Table F). Very few failed, however; most grew into the next size category, merged, or were acquired by larger banks. The number of banks with assets between \$100 million and \$1 billion increased. Mergers and acquisitions led to small declines in the number of banks in the over \$10 billion asset size category.⁶

Table E. Changes in Micro-Business Loans, Business Loans and Total Assets by Bank Asset Size, 1997-1998 (Percent)

Bank Asset Size	< \$100 million	\$100–\$500 million	\$500 million – \$1 billion	\$1–\$10 billion	> \$10 billion*
Micro-Loans (\$)	-5.66	1.94	0.32	2.74	16.01
Micro-Loans (#)	3.15	43.92	298.05	-40.95	21.46
Business Loans (\$)	-3.00	3.72	10.43	-1.59	18.58
Total Assets (\$)	-5.26	3.02	4.90	0.89	16.46
Number of Banks	-6.73	2.55	3.77	0.67	-4.69

*Changes from 1997 to 1998 were estimated based on revised estimates for Keycorp in 1997.

Table F. Number of Reporting Banks by Asset Size, 1995-1998

Bank Asset Size	1995	1996	1997	1998
<\$100 Million	6,980	6,465	6,047	5,644
\$100 Million-\$500 Million	2,521	2,548	2,590	2,656
\$500 Million-\$1 Billion	256	260	292	303
\$1 Billion-\$10 Billion	326	326	300	302
>\$10 Billion	66	71	64	61
Total	10,149	9,670	9,293	8,966

From CRA Data

CRA data provide information on the geographic location of small business lending by large “reporting units” (BHCs and

⁵The discussion on changing banking structures should be interpreted with caution. Changes in the number of reporting banks could be caused by the financial reporting consolidation of BHCs.

⁶See Loretta J. Master, “Banking Industry Consolidation: What’s a Small Business to Do?” *Business Review*, Federal Reserve Bank of Philadelphia (January/February 1999), 3-16.

independent banks). Some 699 units made at least \$10 million in micro-business loans in a given state in 1997 (Table 2).

One major finding is that many large banks are very active in micro-business lending across the states. In fact, in many states, more out-of-state than in-state banks are making micro-loans. In Florida, for example, the CRA data show 24 active lenders of micro-loans, only three of which are Florida-based. The first nine banks in Florida, ranked by the dollar amount of micro-loans, are out-of-state lenders. In the District of Columbia, both banks making more than \$10 million in micro-loans are out-of-state banks.

A total of 85 BHCs/banks made more than \$100 million in micro-business loans in one or more states in 1997. Of these, 40 were out-of-state banks in the states where they were listed. In fact, all six banks/BHCs lending more than \$100 million in Texas were out-of-state lenders, as were four of the nine banks that lent \$100 million or more in New York.

The larger banks covered by the CRA make more than one-half (56.2 percent) of the micro-business loans under \$100,000 (Table G).

National Rankings of Micro-Business-Friendly BHCs

Tables 3 and 4 provide national rankings of the micro-business lending of BHCs with assets of more than \$10 billion. Table 3

Table G. Small Business Loans Outstanding from All and CRA-Covered Banks, June 1998 (Billions of Dollars)

Loan Size	All Banks	Banks Subject to CRA	CRA/All (Percent)
<\$100,000	111.5	62.7	56.2
<\$250,000	187.8	117.3	62.5
<\$1 Million	370.8	258.2	69.6
>\$1 Million	649.4	628.3	96.8
Total Business Loans	1,020.2	886.5	86.9

rank-orders all 57 banks with more than \$10 billion in assets and lists three credit card banks in that size category. The ranking uses the same four-variable format as Table 1, based on call report data. Wells Fargo ranks as the most micro-business-friendly bank nationally in this table.

Table 4 lists the same banks but reports their micro-lending using CRA data. These BHCs are ranked only by the dollar amount of their micro-loans. American Express is number 1 with more than \$3.5 billion in micro-loans and Wells Fargo is second with \$2.9 billion in micro-loans.

Which banks or BHCs are the most micro-business-friendly is difficult to say. The tables provide uniquely different measures of the top micro-business lenders.

Bank Lending through U.S. Small Business Administration Loan Programs

Small businesses seeking loans from small-business-friendly banks should also seek out banks that participate in the U.S. Small Business Administration's lending programs, especially those programs aiming at very small borrowers—namely the low-doc and pre-qualification programs. If a bank participates in the SBA's loan programs and uses secondary markets extensively, the bank's ranking in this study may be artificially low. Banks participating in the SBA's preferred or certified lender programs should be considered small-business-friendly.⁷

Limitations of the Study

It is important to note that the call report and CRA data tell only part of the story about lending to small business. Call reports and CRA data do not reflect a major factor affecting a bank's ability to make loans to small businesses: the demand or lack of demand for small business loans. Banks in one area of a state may have a strong demand for small business loans, which increases their score in comparison with other banks in the state. Banks with a

⁷Preferred lender status means that the bank has been given the full authority to approve SBA loans to qualified business owners without SBA review. Nearly 400 banks are preferred lenders. Certified lender status means that final approval will be made in three days by an SBA loan official relying primarily on the bank's analysis. More than 1,000 banks have this status. SBA preferred or certified lenders can be located by calling the Small Business Answer Desk at 1-800-827-5722—or consult the SBA's home page at <http://www.sba.gov>.

similar capacity to lend may have little or no demand for small business loans, resulting in a lower ranking.

In addition, some lending information may not be reported in the call reports and CRA data or may not be discernible as small business lending. For example:

- Banks may issue consumer credit cards or other forms of consumer credit to small businesses for business purposes. These may be reported as consumer lines of credit or consumer loans by some banks.
- Large banks may make loans to small businesses through their consumer loan divisions, thereby classifying the loans as consumer loans.
- Large banks may send the business owner to a subsidiary finance company.
- Only the non-guaranteed portion of SBA-guaranteed loans sold in the secondary market is included in the dollar value of small loans in the call reports.
- Loans to small businesses are often made in the form of a second mortgage on the business owner's home and/or personal lines of credit.⁸
- Lending statistics by state for multi-state banks are becoming less meaningful as these banks consolidate their accounting and reporting systems. This is not true of CRA data.

⁸ "Recent Developments in Home Equity Lending," *Federal Reserve Bulletin*, April 1998.

Despite these limitations, call report and CRA data provide sufficient information to present a fairly accurate picture of commercial bank lending to small firms in the U.S. economy. More important, they are currently the only source of small business lending data available to the public.

Suggestions

Suggestions on how to improve the study are welcome. Comments may be addressed to Dr. Robert Berney, Chief Economist, Office of Advocacy, U.S. Small Business Administration, telephone (202) 205-6875, e-mail robert.berney@sba.gov or Dr. Charles Ou, telephone (202) 205-6966, e-mail charles.ou@sba.gov.

Written comments may be sent to: Office of Advocacy, U.S. Small Business Administration, Mail Code 3112, 409 Third Street S.W., Washington, DC 20416, or by fax: (202) 205-6928.

Accessing the Study

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The Tables: Micro-Business-Friendly Banks in the United States

Tables 1 and 2 lists micro-business-friendly lenders in each state using call report and CRA information. Because of different banking structures in each state, as well as interstate differences in the number of banks, their size distribution, and demand for small business loans, the levels of micro-business lending for these top lenders differs greatly from state to state.

Explanation of Columns

Table 1

Table 1, using call report data, follows the format of previous micro-business lending reports.

- 1. Total Rank.** The total in the first column represents the bank's overall micro-business lending score within the state in which it is listed. The number is the sum of the four decile rankings found in columns 2 through 5. The best possible score is now 100, not 40 as in past editions. A score of 100 indicates that the bank is in the top decile—the top 10 percent—in each of the four variable categories. (The decile values are multiplied by 2.5 to give a maximum score of 100.)
- 2. Rank of the Ratio of Micro-Business Loans to Total Bank Assets (SSBL/TA).** The bank's ranking in the state for the ratio of micro-business loans to total bank assets. A ranking of 25 means that the bank is in the top decile of all banks in the state.

3. **Rank of the Ratio of Micro-Business Loans to Total Business Loans (SSBL/TBL).** The bank's decile ranking for the ratio of micro-business loans to total business loans. A ranking of 25 means that the bank is in the top decile of all banks in the state.
4. **Rank of Total Dollar Amount of Micro-Business Loans Lent by the Bank (SSBL(\$)).** The decile ranking of a bank's dollar value of micro-business loans outstanding. A ranking of 25 means that the bank is in the top decile of all banks in the state.
5. **Rank of Total Number of Micro-Business Loans Issued by the Bank (SSBL(#)).** The bank's decile ranking for the total number of micro-business loans. A ranking of 25 means that the bank is in the top decile of all banks in the state.
6. **Bank Asset Size Class.** Asset size classes include:
 - Under \$100 million (<100M)
 - \$100 million to under \$500 million (100M-<500M)
 - \$500 million to under \$1 billion (500M-<1B)
 - \$1 billion to under \$10 billion (1B-<10B)
 - \$10 billion and over (>10B)
7. **Rank Within Size Class (Rank by Bnk Sz.).** How well a bank is doing in its respective asset size class based on the summary ranking found in column 1. A 1 in this column means that the bank ranks first in its asset size class. A 7 means that it ranks seventh in its asset size class.
8. **Dollar Amount of Micro Business Loans (SSBL\$).** The dollar amount (in thousands) of small business loans of less than \$100,000
9. **Number of Micro Business Loans (SSBL#).** The number of small business loans of less than \$100,000 made by the bank.
10. **Total Rank of Mid-Sized Small Business Loans (Total Rank<250K).** The sum of the decile rankings of the four variables multiplied by 2.5 but using the loan size of less than \$250,000. A firm looking for a loan of between \$100,000-250,000 might be better served by a bank ranking high in this column.
11. **Total Rank of Small Business Loans (Total Rank<1M):** The sum of the decile rankings of the four variables multiplied by 2.5 using the loan size of less than \$1 million. A firm looking for a loan of less than \$1 million might seek out a bank that ranks high in this column.

Table 2

Table 2, using CRA data for 1997, is formatted slightly differently from Table 1. Besides listing the name of the ultimate owning bank or BHC, the table lists the bank's home state (HQ STATE) as well as the state where the bank did small business lending (STATE w SBL). It provides the dollar amount and number of micro-loans under \$100,000, business loans under \$250,000 and small business loans under \$1 million made in 1997 by banks that made more than \$10 million in micro-loans.

1. **Dollar Amount of Micro-Business Loans (SSBL\$):** The dollar amount (in thousands) of loans of less than \$100,000.
2. **Number of Micro-Business Loans (SSBL#):** The number of loans of less than \$100,000.
3. **Bank Asset Size (Bk Size):** The total assets of the ultimate owning bank by size category:
 - less than \$1 billion (<1B)
 - \$1 billion to under \$10 billion (1B-<10B)
 - \$10 billion to under \$50 billion (10B-<50B)
 - \$50 billion and over (>50B)
4. **Dollar Amount of Mid-Sized Small Business Loans (MSBL\$):** The dollar amount (in thousands) of mid-sized business loans (<\$250,000).
5. **Number of Mid-Sized Small Business Loans (MSBL#):** The number of mid-sized business loans (<\$250,000).
6. **Dollar Amount of Small Business Loans (LSBL\$):** The dollar amount (in thousands) of loans of less than \$1 million.
7. **Number of Small Business Loans (LSBL#):** The number of loans of less than \$1 million.
8. **Credit Card Banks (Crt. Card Bk).** A double asterisk in this column means that the bank has a significant amount of business credit card activity. These loans may be the credit card accounts of individual employees of large or small firms.

Since the CRA report does not distinguish between these types of loans, the double asterisk is a caution flag.

Table 3

Table 3, using call report data, is formatted similarly to Table 1 except for the following:

1. **Total Rank (SSBL).** The top bank is listed number 1 and the bottom bank is number 50. Credit card banks are listed separately for information only.
- 2-4. The actual value of the variable listed rather than the decile value.
- 7-8. Same as column 1 for small business loans under \$1million (LSBL) and mid-sized small business loans under \$250,000 (MSBL).
9. **Percent Growth in Total Assets 1997-1998 (%G TA 98/97).**
10. **Percent Growth in Micro-Loans 1997-1998 (%G SSBL\$ 98/97).**
12. **Business Credit Card Loans to Total Assets (CRD/TA).**

Table 4

Table 4, using CRA data, is formatted like Table 2 except for the following:

(No of States) Number of states in which the BHCs make micro-loans.

5. Five Largest SSBL\$ States. A listing of the five states where the BHC does most of its lending.

6-7. Dollar Amount and Number of Small Business Loans (LSBL\$, LSBL#)

8-9. Dollar Amount and Number of Mid-Sized Small Business Loans (MSBL\$, MSBL#)