

Small and Micro Business Lending for 2003-2004

Office of Advocacy, U.S. Small Business Administration

The Office of Advocacy prepares an annual study of bank lending to small firms using the most recent data available on small and micro business loans. This study provides a brief review of banks' lending activities in 2003-2004 based on two types of data reported by banks to their regulating agencies—the call reports for June 2004 and the Community Reinvestment Act (CRA) reports for 2003. Because data are available only by the size of the loan, not by the size of the borrower, small business loans are defined here as business loans under \$1 million, and micro business loans are those under \$100,000. The report includes a discussion of developments in the small and micro business lending activities of commercial banks in the United States. In part one, the first section reviews developments apparent in the call report data (June 2003 through June 2004); the second section looks at developments evident from the CRA database for the year 2003. Part two provides directories of the top small and micro business lenders in the 50 states and District of Columbia using both the call report and CRA data.

Highlights

- Borrowing from banks continued to recover from 2002-2003, registering a moderate increase. Small business loans outstanding (under \$1 million) totaled \$522 billion as of June 2004, an increase of \$27.2 billion or 5.5 percent between June 2003 and June 2004. This compares with an overall increase of 2.3 percent over the previous period. Overall business loans also increased; the total value of business loans increased 4.2 percent to a value outstanding of \$1.38 trillion from \$1.32 trillion the year before.

- The increases came primarily from the larger small business loans (\$100,000 to \$1 million). The values of medium-sized small business loans

(\$100,000 to \$250,000) and large small business loans (\$250,000 to \$1 million) increased 4.95 percent and 8.4 percent, respectively. The number of these loans also increased 4.95 and 8.5 percent, respectively, during this period.

- As in the previous periods, lending of the smallest loans showed the least activity during this period. These declines, though smaller than in the previous year, occurred in both the dollar amount and number of loans outstanding. The number of the smallest business loans outstanding declined from 14.1 million to 13.6 million, a 3.6 percent drop, while the dollar value declined from \$125.7 billion to \$125.3 billion in June 2004, a decline of 0.31 percent. As in previous years, these declines appear to be an accounting phenomenon, not an indicator of a significant trend.

- In 2003, a total of \$248 billion in small business loans under \$1 million were extended by 998 CRA-reporting banks and bank holding companies, compared with \$227.5 billion extended by 905 entities in 2002. For micro business loans, these banks and bank holding companies made 5.6 million loans valued at \$78 billion in 2003, compared with 5.3 million loans valued at \$73 billion in 2002. The CRA data confirm the findings in the call report data of the importance of multibillion dollar banks and bank holding companies in the market for the smallest loans, and also their declining share of the larger small business loans (\$100,000-\$1 million).

- Bank consolidations continued during June 2003 and June 2004 as indicated by the large increases in total domestic assets for several large bank holding companies. The number of multibillion dollar banks and bank holding companies (with total domestic assets of more than \$10 billion) increased from 67 to 72 by June 2004; they accounted for 75.3 percent of

total banking assets and 63 percent of total business loans. However, the importance of these entities in the small business loan markets varied. While, their importance in the market for micro business loans continued to increase, accounting for 50 percent of the market in value and 67 percent in the number, bank holding companies remained passive in promoting larger small business loans (between \$100,000 and \$1 million). The share of these banks in this market remained almost unchanged, in both amount and number of loans, in spite of their increased asset share from June 2003 to June 2004.

Scope and Methodology

This study provides a review of the banks' lending activities in 2003-2004 based on two types of data reported by banks to their regulating agencies—the call reports for June 2004 (for the amount and number of outstanding loans) and the Community Reinvestment Act (CRA) reports for 2003 (for loans made during the year). Since the reported data are available only by the size of the loan (not by the size of the business), small business loans are defined as business loans under \$1 million. Micro business loans are defined to include loans under \$100,000. Developments in lending activities over time by banks are analyzed based on the call report statistics for various variables. However, because of the changing number of banks required to report under the CRA reporting requirements (some 1,000 large banks and bank holding companies are required to report under the CRA), year-to-year changes in the lending activities for these banks are more difficult to interpret.

Large banks and bank holding companies with total domestic assets greater than \$10 billion are ranked and reported separately, under the presumption that they serve a national market. Rankings by state are made for all “reporting” banks on the basis of the designated headquarters state of the reporting bank. Two ranking methods are used, depending upon the availability of data.

For banks where information for total assets and total business loans are available (those filing call

reports), four criteria are used as the basis for a bank's performance ranking. A summary rank for four decile ranks is computed for each bank in the state rankings. A decile ranking is first used for individual criteria; decile rankings range from 1 to 10. Banks in the top 10 percent of all banks in the state receive the maximum score of 10; banks in the lowest 10 percent receive a score of 1. Banks that do not lend to small businesses (loans under \$1 million) receive a 0. Four top scores will sum to 40. To make the top score total 100 rather than 40, each score is multiplied by 2.5.

For state lending using the CRA data, banks were listed in order of the dollar amount of small business loans made in each state in 2003. Large institutions therefore appear at the top. Simple rankings were used for multibillion dollar banks and bank holding companies because only a small number of banks 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.

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/advolresearch. Copies are available for purchase from:

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