

# **The Profitability of Small Business Lending by Small Banks**

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## ***Abstract***

The present study employs recently available data on U.S. bank Call Reports to examine the relationship between small business lending and small bank profits and risk. Small business lending is defined to be all commercial loans under \$250,000. Small banks are defined as less than \$100 million in assets or \$100-\$500 million in assets, which together account for 40-50 percent of the aforementioned loans across the nation. A variety of bank profit and risk measures are examined. Briefly stated, univariate analyses show that banks earn higher profit rates on small business loans than other assets on average. These higher than average rates of return are earned by increasing bank risk, including credit, capital, liquidity, and funding risks. However, after taking into account these risks, bank profits are still higher among small business friendly banks compared to less small-business oriented banks. Thus, the main conclusion of this study is that small business lending contributes positively to bank profits, contrary to a commonly-held belief that such lending is risky and should be constrained.

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The views expressed in this paper are those of the authors alone and do not necessarily reflect those of the Office of Advocacy or the U.S. Small Business Administration.

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# **The Profitability of Small Business Lending by Small Banks**

## **Introduction**

Small business firms rely heavily on commercial banks to meet their credit needs. A survey conducted by the Federal Reserve and the Office of Advocacy of the U.S. Small Business Administration found that two-thirds of small firms depend on banks for financing.<sup>1</sup> Thus, commercial banks are a critical link in the growth of successful small firms. Unfortunately, a commonly-held view in the banking industry is that small business loans are risky and therefore not profitable, such that exposure to them should be limited. This skepticism is difficult to reject, as little is known about the effects of small business lending on bank profit and risk beyond the first hand experiences of individual bankers. Of course, if banks curtail their lending to small firms for this reason, entrepreneurial activity in the United States is diminished. And, since small firms play an important role in national employment and innovation, economic growth would likewise be negatively affected in the long run.

With this justification in mind, beginning in June 1993, Congress required all insured banks to disclose small business and small farm loan information in their Call Reports schedule RC-C entitled "Loans to Small Businesses and Small Farms." For business loans the data breaks down small commercial and industrial and commercial real estate loans as follows: less than \$100K, \$100K to \$250K, and \$250K to \$1 million. One drawback of this data is that it is not clear that the borrower was indeed a small business; however, it is reasonable to assume that there is a close association between firm size and loan size.

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<sup>1</sup> See Robert E. Berney, "White Paper on the Financing of Small Business," Office of Advocacy, U.S. Small Business Administration, Washington, D.C. (1996).

In this article we define small business loans to be less than \$250K. We believe this category of loans best captures credit supplies to small firms, while excluding most loans to large firms. Our approach is to examine the relationship between small business lending activity and various dimensions of bank profit and risk in 1995 and 1996.<sup>2</sup> We focus on small banks -- that is, banks with either total assets less than \$100 million or in the range of \$100-\$500 million -- due to the fact that larger banks tend to have nominal exposures to such loans as a percentage of total assets. As such, profit and risk effects of small business lending would be difficult to discern among these larger institutions. By contrast, many small banks are small business friendly and have a considerable share of their credit balances outstanding with small firms.

Interestingly, we find that small banks earn higher profit rates on small business loans than on other assets on average. These higher average rates of return are found to be associated with increased bank risk, including credit, capital, liquidity, and funding risks. However, after taking into account various dimensions of bank risk and other bank characteristics, small business loans appear to significantly increase bank profit. Thus, these results counter a common belief (held by some bankers and regulators) that small business loans are risky and should be constrained to some extent. The empirical evidence shows conclusively that small business friendly banks reap appropriate rewards for reaching out and helping to develop young and growing small firms in their local communities.

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<sup>2</sup>The data series began in 1993 but regulators have cited problems in this initial year of data collection. It is plausible that 1994 continued to contain errors inherent in developing a new set of data (e.g., some banks did not report all of their small business loans due to difficulties in obtaining such data from their files or simply lack of enforcement by regulators). Recent data for the years 1995 and 1996 is more reliable than in the past due to the continued use of schedule C-C by banks.

## **Small Business Lending by Small Commercial Banks**

Table 1 shows the percentage of total assets devoted to small business loans (SBLs) under \$250,000 in 1995 and 1996 (using data reported in June of each year) for small banks.<sup>3</sup> The distribution of banks are divided into deciles in terms of their involvement in small business lending as measured by the ratio of SBLs to total assets. Banks in decile group 10 are in the top 10 percent of the distribution and have the highest SBL/total asset ratios. They are considered to be most small business friendly. By contrast, banks in decile group 1 are in the lowest 10 percent of the distribution and are least small business friendly. These decile groupings are developed from data for the entire banking population, which exceeds 9,000 banks. Thus, the deciles represent the small business lending activity of the banks in each group relative to all U.S. insured banks, rather than with respect to small banks alone.

Casual inspection of the mean values of the SBL/total asset ratio in Table 1 reveals that:

- many small banks have little exposure to small business loans (e.g., banks in deciles 1-3 had no more than six percent of total assets allocated to such loans);
- on average small banks tend to have SBL ratios of about 10 percent; and
- about one in ten small banks has a sizable exposure to small business loans (e.g., banks in decile 10 had more than 25 percent of assets allocated to such loans).

Notice also that the bottom of Table 1 gives t tests of mean differences in SBL ratios for different decile ranking comparisons. Here we see that there are significant differences in SBL ratios for low versus high decile ranks. In other words, there are considerable differences in the degree of small business lending by small banks -- an important point that helps to motivate the forthcoming

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<sup>3</sup> It should be noted that banks with no business loans are excluded from this study. These banks are specialty institutions that fall outside of mainstream banking (e.g., banks that primarily process credit cards).

discussion of how small business lending affects bank profits, risk, and profits after adjusting for risk differences among banks.

### **Bank Profit and Small Business Lending**

Tables 2-5 report the results for a variety of bank profit measures. Table 2 gives the mean net interest margins (NIMs), or total interest revenues minus total interest expenses divided by total assets, for different decile ranks over time. NIM abstracts from taxes, gains (or losses) from securities, noninterest operating expenses (such as wages, plant and equipment expenditures, etc.) and, therefore, focuses on "gross profit" from lending services. As shown in Table 2, NIM ranged from about 1.90 percent to 2.40 percent among small banks. Visual inspection of the patterns of means across deciles, as well as the t tests, reveals that NIMs are clearly higher among small business friendly banks. The difference between the lowest and highest deciles is in the range of 30-50 basis points, which is substantial both from a statistical and economic standpoint. The evidence is consistent for both size groups of small banks in 1995 and 1996; thus, there is no ambiguity in terms of interpretation of these results.

Table 3 displays the ratio of net interest margin minus loan and lease losses divided by total assets (NIML), which adjusts NIM for credit risk. Again, profit rates are positively and significantly related to small business lending. Also, the spread between the lowest and highest deciles is still in the range of 30-50 basis points. These results suggest that, after adjusting for potentially higher credit risk on small business loans than other bank assets, profitability is enhanced by increased small loans.

Table 4 gives the rate of return on assets (ROA) comparisons across banks with varying levels of small business lending and over time. ROA encompasses noninterest operating revenues

and expenses, in addition to taxes and securities gains and losses. Small banks with low levels of small business lending may have greater securities holdings (as we will see in the next section). Also, they may put more funds into real estate with lower operating costs than small business loans per dollar of investment. These factors would tend to increase the profitability of banks with relatively low levels of small business lending relative to the NIM and NIML findings. Not surprisingly, the ROA results in Table 4 vary much less across deciles than the results for NIM and NIML above, with ROAs in the range of only 0.50 percent to 0.70 percent, or a 20 basis difference at most. Importantly, small business friendly banks had higher profit rates than other banks, which is confirmed by the fact that most t tests are statistically significant. In this regard, the results for small banks with \$100-\$500 million in assets are stronger than for banks with less than \$100 million -- that is, the t tests for this latter size group in 1996 are not significant, while the t tests of the former size group are highly significant.

Lastly, Table 5 reports the rate of return on equity (ROE) by small business lending activity and year. ROEs ranged between 4.0 percent and 7.5 percent, with a trend toward higher ROEs among small business friendly banks compared to other banks. In conjunction with our other profit results, we believe the recent evidence is remarkably clear -- *small business lending increased the profits of small banks in 1995 and 1996.*

### **Bank Risk and Small Business Lending**

Tables 6-10 give the results for a variety of risk measures. The following discussion summarizes the results in those tables:

- Net loan and lease losses/total assets ratios in Table 6 suggest that for banks under \$100 million credit risk increases as small business lending increases. However, for banks with

\$100-\$500 million in assets, no clear trend was found, with no statistical difference in the mean ratios between small business friendly banks and other banks.

- Total securities/total assets ratios in Table 9 make clear that small business friendly banks have significantly lower proportions of assets devoted to securities than other banks.

In summary, small business lending activity does appear to be associated with riskier bank management practices. Small business friendly banks reduced their holdings of securities in favor of higher earning small business loans. At least in the years 1995 and 1996, which were marked by low interest rates and strong economic growth, small business credit risk was higher among smaller banks with less than \$100 million in assets, but this pattern was not apparent among small banks with \$100-\$500 million in assets. Although we do not report the figures, we also found that banks with higher proportions of small business loans made greater use of purchased funds and less use of equity capital, both of which tend to reduce funding costs but at the price of increased funding and capital risks. Other results for off-balance sheet activities did not suggest any trends with respect to small business lending activity.

It is possible to argue from the above findings that the increased profit rates obtained by active small business lenders were obtained by taking more liquidity, funding, and capital risks (and possibly credit risk or off-balance sheet risk), rather than by increased small business lending per se. To overcome this potential criticism, we ran a multiple regression model using the rate of return on assets (ROA) as the dependent variable,<sup>4</sup> small business lending as the main independent variable, and the risk measures as other independent variables in the equation. Due to the fact that small business lending can be related to bank size, we also added total assets as a control

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<sup>4</sup> We focus on ROA for the following reasons: (1) it is the most widely recognized measure of profitability in the banking industry, (2) it is more comprehensive in scope than NIM and NIML, and (3) ROE is a simple product of ROA and the total assets/equity capital ratio and, as such, we would have to drop TIER1 from the independent variable set if we used ROE as the dependent variable.

variable. Finally, we included a measure of market structure known as the Herfindahl index (HHI)<sup>5</sup> -- as HHI increases, the concentration of bank assets in a market (such as a county or Standard Metropolitan Statistical Area) is higher in that the assets held by larger banks increases relative to smaller banks. It is believed that profit rates increase as HHI increases due to less competition in the banking market.<sup>6</sup> Briefly stated, we found that, in both years under study and for both bank size groups, even after holding constant various control measures of bank risk, asset size, and market competition, small business lending tends to boost bank profits. Other results of this multivariate analysis can be summarized as follows:

- Within each bank size category, larger banks had higher ROAs than smaller banks.
- Bank markets with higher concentration (or less competition) had higher ROAs than less concentrated markets.
- Higher loan loss, securities holdings, and purchased funds ratios reduced ROAs relative to other banks.
- Banks with higher capital ratios and off-balance sheet ratios had higher ROAs than other banks.

These results are not surprising for the most part; however, it is interesting that increased use of purchased funds, as opposed to core deposits, tended to reduce profit, holding all else the same. In the context of our earlier findings, this result suggests that small business friendly banks, which rely more on purchased funds than other banks, may be able to increase their profits further by reducing their use of purchased funds.

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<sup>5</sup> HHI is the sum of squared ratios of the total assets of the *i*th bank to the aggregate total assets of all banks in the SMSA for urban areas or county for other areas.

<sup>6</sup> See articles by Gilbert (1984) and Hannan (1991) for further discussion.

## **Summary and Conclusions**

Recently available Call Report information in the banking industry strongly suggests that small business lending increased profits among small banks in 1995 and 1996. Also, the data reveals that active small business lending banks have distinctly different risk management practices, with increased credit, capital, liquidity, and funding risks among these banks relative to other banks that do not make many small business loans. Nonetheless, after holding these risks constant in a multivariate context, bank profits are still higher among small business friendly banks compared to less small-business oriented banks. Thus, the main conclusion of this study is that small business lending contributes positively to bank profits, contrary to a commonly-held belief that such lending is risky and should be constrained.

An important inference from our findings is that small business friendly banks have a higher tolerance for risk than other banks. Conservatively managed small banks shy away from small business loans. By contrast, more aggressive small banks with higher risk preferences commit more investable funds in small business loans. Thus, lender behavior is a key determinant of small business lending.

As a final note, as already mentioned, the years under study encompassed a period of low interest rates and healthy economic expansion. For this reason it may well be difficult to discern the true credit risk of active small business until an economic recession takes place. Certainly such additional evidence would greatly enhance our understanding of the how small business lending affects bank profit in the long run throughout the business cycle. And, another interesting issue is that profitable small firm relationships may well pay off in later years in terms of healthier local business environments and banking opportunities with firms that have grown into large

successful enterprises. However, these potential long-run benefits cannot be determined from the limited data at this time. As the data series continues, these issues would be intriguing to study.

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## References

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Hannan, Timothy H., "Foundations of the Structure-Conduct-Performance Paradigm in Banking, *Journal of Money, Credit, and Banking*, 23 (February 1991), pp. 68-84.

**Table 1. The Ratio of Small Business Loans Less Than \$250,000 to Total Assets (SMALLBUS): Means for Decile Rankings of Small Commercial Banks<sup>a</sup> (in percent)**

Decile Bank Group	1995				1996			
	<\$100		\$100 - \$500		< \$100		\$100 - \$500	
	Mean	n	Mean	n	Mean	n	Mean	n
1	2.39	524	2.23	199	2.46	506	2.24	197
2-3	5.58	1211	5.68	560	5.76	1151	5.69	520
4-7	10.27	2756	10.13	1137	10.41	2488	10.30	1188
8-9	16.85	1558	16.69	430	16.80	1434	16.55	455
10	26.59	839	25.96	155	26.59	795	25.68	152
All	12.32	6888	10.62	2481	12.40	6374	10.78	2512
t tests:								
1 vs 10	-115.31***		-57.40***		-116.67***		-52.77***	
2, 3 vs 8, 9	-199.33***		-109.21***		-188.96***		-111.56***	
1-3 vs 8-10	-120.02***		-64.86***		-115.46***		-65.16***	

<sup>a</sup>Asterisks indicate the level of significance for t tests of mean differences in ratios for different decile bank groups: \*-.10, \*\*-.05, and \*\*\*-.01.

**Table 2. Net Interest Margin to Total Assets (NIM): Means for Decile Rankings of Small Business Lending Activity Among Small Commercial Banks<sup>a</sup> (in percent)**

Decile Bank Group	1995				1996			
	<\$100		\$100 - \$500		< \$100		\$100 - \$500	
	Mean	n	Mean	n	Mean	n	Mean	n
1	1.95	524	2.01	199	1.88	506	1.95	197
2-3	1.99	1211	2.02	560	1.95	1151	2.00	520
4-7	2.12	2756	2.13	1137	2.07	2488	2.11	1188
8-9	2.26	1558	2.26	430	2.20	1434	2.23	455
10	2.41	839	2.30	155	2.33	795	2.26	152
All	2.15	6888	2.13	2481	2.10	6374	2.11	2512
t tests:								
1 vs 10	-16.37***		-4.74***		-15.31***		-4.85***	
* 2, 3 vs 8, 9	-14.06***		-10.03***		-15.12***		-9.06***	
1-3 vs 8-10	-21.32***		-10.63***		-21.69***		-9.94***	

<sup>a</sup>Asterisks indicate the level of significance for t tests of mean differences in ratios for different decile bank groups: \*-.10, \*\*-.05, and \*\*\*-.01.

**Table 3. Net Interest Margin Minus Loan and Lease Losses to Total Assets (NIML): Means for Decile Rankings of Small Business Lending Activity Among Small Commercial Banks<sup>a</sup> (in percent)**

Decile Bank Group	1995				1996			
	<\$100		\$100 - \$500		< \$100		\$100 - \$500	
	Mean	n	Mean	n	Mean	n	Mean	n
1	1.89	524	1.83	199	1.79	506	1.76	197
2-3	1.93	1211	1.92	560	1.87	1151	1.85	520
4-7	2.04	2756	2.03	1137	1.98	2488	2.01	1188
8-9	2.16	1558	2.18	430	2.10	1434	2.13	455
10	2.32	839	2.21	155	2.23	795	2.16	152
All	2.07	6888	2.03	2481	2.00	6374	1.99	2512
t tests:								
1 vs 10	-15.61***		-7.43***		-15.43***		-8.24***	
2, 3 vs 8, 9	-12.76***		-10.26***		-14.18***		-5.26***	
1-3 vs 8-10	-19.82***		-12.60***		-20.99***		-7.59***	

<sup>a</sup>Asterisks indicate the level of significance for t tests of mean differences in ratios for different decile bank groups: \*--.10, \*\*--.05, and \*\*\*--.01.

**Table 4. Rate of Return on Assets (ROA): Means for Decile Rankings of Small Business Lending Activity Among Small Commercial Banks<sup>a</sup> (in percent)**

Decile Bank Group	1995				1996			
	<\$100		\$100 - \$500		< \$100		\$100 - \$500	
	Mean	n	Mean	n	Mean	n	Mean	n
1	0.55	524	0.58	199	0.51	506	0.61	197
2-3	0.53	1211	0.57	560	0.56	1151	0.60	520
4-7	0.56	2756	0.58	1137	0.58	2488	0.63	1188
8-9	0.58	1558	0.62	430	0.56	1434	0.67	455
10	0.57	839	0.63	155	0.55	795	0.67	152
All	0.56	6888	0.59	2481	0.56	6374	0.63	2512
t tests:								
1 vs 10	-0.58		-1.35		-0.82		-3.82***	
2, 3 vs 8, 9	-2.00**		-2.18**		-0.46		-3.14***	
1-3 vs 8-10	-1.99**		-2.56**		-0.85		-3.39***	

<sup>a</sup>Asterisks indicate the level of significance for t tests of mean differences in ratios for different decile bank groups: \*--.10, \*\*--.05, and \*\*\*--.01.

**Table 5. Rate of Return on Equity (ROE): Means for Decile Rankings of Small Business Lending Activity Among Small Commercial Banks<sup>a</sup> (in percent)**

Decile Bank Group	1995				1996			
	<\$100		\$100 - \$500		< \$100		\$100 - \$500	
	Mean	n	Mean	n	Mean	n	Mean	n
1	4.45	524	6.68	199	4.02	506	6.06	197
2-3	4.97	1211	7.04	560	5.32	1151	6.40	520
4-7	5.47	2756	7.06	1137	5.78	2488	6.82	1188
8-9	5.90	1558	5.23	430	6.14	1434	7.29	455
10	6.31	839	5.99	155	5.66	795	7.59	152
All	5.51	6888	6.88	2481	5.62	6374	6.80	2512
t tests:								
1 vs 10	-7.31***		-2.76***		-1.82*		-3.82***	
2, 3 vs 8, 9	-6.32***		-2.20*		-5.16***		-3.85***	
1-3 vs 8-10	-9.53***		-2.86***		-3.19***		-5.26***	

<sup>a</sup>Asterisks indicate the level of significance for t tests of mean differences in ratios for different decile bank groups: \*--.10, \*\*--.05, and \*\*\*--.01.

**Table 6. Net Loan and Lease Losses to Total Assets (LOSS): Means for Decile Rankings of Small Business Lending Activity Among Small Commercial Banks<sup>a</sup> (in percent)**

Decile Bank Group	1995				1996			
	<\$100		\$100 - \$500		< \$100		\$100 - \$500	
	Mean	n	Mean	n	Mean	n	Mean	n
1	0.03	524	0.12	199	0.06	506	0.15	197
2-3	0.02	1211	0.06	560	0.04	1151	0.07	520
4-7	0.04	2756	0.06	1137	0.05	2488	0.06	1188
8-9	0.06	1558	0.05	430	0.05	1434	0.07	455
10	0.05	839	0.05	155	0.06	795	0.07	152
All	0.04	6888	0.06	2481	0.05	6374	0.07	2512
t tests:								
1 vs 10	-2.33**		2.60***		-0.16		2.11**	
2, 3 vs 8, 9	-4.93***		0.78		-1.35		0.12	
1-3 vs 8-10	-5.34***		2.24**		-1.16		1.64	

<sup>a</sup>Asterisks indicate the level of significance for t tests of mean differences in ratios for different decile bank groups: \*--.10, \*\*--.05, and \*\*\*--.01.

**Table 9. Total Securities to Total Assets (SECURITIES): Means for Decile Rankings of Small Business Lending Activity Among Small Commercial Banks<sup>a</sup> (in percent)**

Decile Bank Group	1995				1996			
	<\$100		\$100 - \$500		< \$100		\$100 - \$500	
	Mean	n	Mean	n	Mean	n	Mean	n
1	47.36	524	33.39	199	43.15	506	33.22	197
2-3	39.04	1211	33.76	560	38.20	1151	33.77	520
4-7	32.61	2756	28.94	1137	32.06	2488	28.79	1188
8-9	25.76	1558	25.87	430	25.52	1434	25.77	455
10	20.50	839	22.95	155	20.20	795	22.75	152
All	31.84	6888	29.48	2481	31.10	6374	29.25	2512
t tests:								
1 vs 10	28.55***		6.37***		24.14***		6.43***	
2, 3 vs 8, 9	25.41***		9.91***		24.17***		10.22***	
1-3 vs 8-10	37.29***		11.75***		34.19***		11.87***	

<sup>a</sup>Asterisks indicate the level of significance for t tests of mean differences in ratios for different decile bank groups: \*--.10, \*\*--.05, and \*\*\*--.01.

**Table 10. Purchased Funds to Total Assets (PURCHASED): Means for Decile Rankings of Small Business Lending Activity Among Small Commercial Banks<sup>a</sup> (in percent)**

Decile Bank Group	1995				1996			
	<\$100		\$100 - \$500		< \$100		\$100 - \$500	
	Mean	n	Mean	n	Mean	n	Mean	n
1	7.34	524	9.48	199	8.86	506	12.13	197
2-3	7.55	1211	7.87	560	9.15	1151	9.96	520
4-7	8.22	2756	8.80	1137	9.65	2488	10.77	1188
8-9	9.03	1558	9.00	430	10.50	1434	10.72	455
10	9.72	839	9.57	155	10.83	795	12.20	152
All	8.40	6888	8.72	2481	9.84	6374	10.79	2512
t tests:								
1 vs 10	-6.91***		-0.11		-4.50***		-0.06	
2, 3 vs 8, 9	-7.35***		-3.46***		-5.40***		-1.82*	
1-3 vs 8-10	-10.19***		-2.70***		-7.10***		-1.26	

<sup>a</sup>Asterisks indicate the level of significance for t tests of mean differences in ratios for different decile bank groups: \*--.10, \*\*--.05, and \*\*\*--.01.

**Table 11. Regression Analyses for Small Commercial Banks: The Relationship Between the Rate of Return on Assets (ROA) and Small Business Lending Holding Constant Bank Risk and Other Control Variables (t statistics in parentheses<sup>a</sup>)**

Independent Variables <sup>b</sup>	1995		1996	
	<\$100 mil (n=6888)	\$100-\$500 mil (n=2481)	<\$100 mil (n=6374)	\$100-\$500 mil (n=2512)
INTERCEPT	0.003 (9.85***)	0.002 (5.66***)	0.005 (17.38***)	0.001 (5.34***)
ASSETS	0.000 (6.43***)	0.000 (2.92***)	0.000 (7.83***)	0.000 (3.13***)
HHI	0.001 (3.45***)	0.0006 (2.35)	0.001 (5.92***)	0.001 (4.39***)
LOSS	-0.799 (-22.43***)	-0.49 (-14.72***)	-0.660 (-21.79***)	-0.524 (-17.88***)
TIER1	0.011 (8.31***)	0.032 (15.53***)	0.019 (-14.46***)	0.043 (22.28***)
OFFBAL	0.0003 (10.44***)	0.002 (6.73***)	0.0002 (12.76***)	0.0004 (6.56***)
SECURITIES	-0.0001 (-0.368)	-0.0005 (-1.142)	0.004 (9.42)	-0.001 (-2.97***)
PURCHASED	-0.004 (-3.27***)	-0.002 (-1.72*)	-0.005 (-6.31)	-0.002 (-2.87***)
SMALLBUS	0.005 (4.56***)	0.004 (3.49***)	0.002 (2.58***)	0.004 (4.04***)
Overall F	98.59***	66.96***	132.21***	114.71***
Adjusted R <sup>2</sup>	0.1018	0.1755	0.1414	0.2659

<sup>a</sup> Asterisks indicate the significance of the regression model coefficients at the following levels: \*-.10, \*\*-.05, and \*\*\*-.01.

<sup>b</sup> Independent variables are defined as follows:

LOSS = loan and lease losses, net recoveries/total assets

TIER1 = total equity/total assets

OFFBAL = total off-balance sheet activities/total assets

SECURITIES = total securities/total assets

PURCHASED = large time deposits plus other borrowed money/total assets

ASSETS = total assets

HHI = Herfindahl index measure of bank market concentration

SMALLBUS = commercial and industrial loans and commercial real estate loans less than \$250,000/total assets.

**Table 12. Correlation Coefficients for Independent Variables in Regression Models:  
1995 and 1996**

		A 1995 Results						
<b>1. Banks Less Than \$100 Million in Assets</b>		LOSS	TIER1	OFFBAL	SECURITIES	PURCHASED	ASSETS	HHI
LOSS	1.00							
TIER1	0.07	1.00						
OFFBAL	-0.05	-0.09	1.00					
SECURITIES	0.12	-0.08	0.04	1.00				
PURCHASED	-0.03	0.05	0.01	0.01	1.00			
ASSETS	-0.00	0.12	-0.03	0.13	0.05	1.00		
HHI	0.02	-0.04	0.01	-0.04	-0.04	0.01	1.00	
SMALLBUS	0.03	0.12	0.02	0.35	-0.08	-0.05	-0.01	1.00
<b>2. Banks \$100-\$500 Million in Assets</b>		LOSS	TIER1	OFFBAL	SECURITIES	PURCHASED	ASSETS	HHI
LOSS	1.00							
TIER1	0.04	1.00						
OFFBAL	-0.21	-0.07	1.00					
SECURITIES	0.15	-0.14	0.18	1.00				
PURCHASED	-0.04	-0.01	0.03	-0.02	1.00			
ASSETS	0.01	0.08	-0.10	0.12	0.02	1.00		
HHI	0.01	-0.05	0.06	-0.01	0.01	-0.01	1.00	
SMALLBUS	0.08	0.06	0.08	0.28	-0.05	0.25	-0.13	1.00
		B 1996 Results						
<b>1. Banks Less Than \$100 Million in Assets</b>		LOSS	TIER1	OFFBAL	SECURITIES	PURCHASED	ASSETS	HHI
LOSS	1.00							
TIER1	0.04	1.00						
OFFBAL	-0.06	-0.11	1.00					
SECURITIES	0.09	-0.07	0.02	1.00				
PURCHASED	-0.06	0.03	0.01	0.06	1.00			
ASSETS	0.01	0.15	-0.01	-0.02	-0.11	1.00		
HHI	-0.01	-0.03	0.01	-0.04	-0.08	0.01	1.00	
SMALLBUS	0.03	0.11	0.01	0.43	-0.04	-0.04	-0.01	1.00
<b>2. Banks \$100-\$500 Million in Assets</b>		LOSS	TIER1	OFFBAL	SECURITIES	PURCHASED	ASSETS	HHI
LOSS	1.00							
TIER1	0.00	1.00						
OFFBAL	-0.21	-0.07	1.00					
SECURITIES	0.16	-0.14	0.03	1.00				
PURCHASED	-0.06	0.05	-0.03	-0.00	1.00			
ASSETS	-0.04	0.07	-0.01	0.12	-0.02	1.00		
HHI	0.02	-0.06	-0.01	-0.01	-0.04	-0.00	1.00	
SMALLBUS	0.06	0.07	0.03	0.26	-0.02	0.22	-0.14	1.00

**Table 1**  
**Small Business Loans Less Than \$250,000 to Total Assets (SMALLBUS):**  
**Means for Decile Rankings and Bank Asset Size Groups\***  
 (in percent)

Decile	1993			1994			1995			1996		
	<\$100	\$100 - \$500	n	<\$100	\$100 - \$500	n	<\$100	\$100 - \$500	n	<\$100	\$100 - \$500	n
	Mean	Mean	n	Mean	Mean	n	Mean	Mean	n	Mean	Mean	n
1	2.23	1.92	175	2.21	1.93	210	2.39	2.23	199	2.46	2.24	197
2-3	5.44	5.53	510	5.31	5.37	544	5.58	5.68	560	5.76	5.69	520
4-7	10.48	10.38	1055	10.06	9.85	1138	10.27	10.13	1137	10.41	10.30	1188
8-9	18.22	18.08	488	16.75	16.54	442	16.85	16.69	430	16.80	16.55	455
10	30.54	30.15	224	27.05	26.50	146	26.59	25.96	155	26.59	25.68	152
All	12.64	12.11	2452	12.13	10.37	2480	12.32	10.62	2481	12.40	10.78	2512
t tests:												
1 vs 10	-120.42***	-64.30***		-118.65***	-51.37***		-115.31***	-57.40***		-116.67***	-52.77***	
2, 3 vs 8, 9	-198.10***	-106.39***		-201.38***	-104.93***		-199.33***	-109.21***		-188.96***	-111.56***	
1-3 vs 8-10	-119.87***	-63.83***		-121.71***	-62.18***		-120.02***	-64.86***		-115.46***	-65.16***	

\*Asterisks indicate the level of significance: \*, .10, \*\*, .05, and \*\*\*-.01.

Table 1, continued  
 Small Business Loans Less Than \$250,000 to Total Assets (SMALLBUS):  
 Means for Decile Rankings and Bank Asset Size Groups  
 (in percent)

Decile	1993						1994						1995						1996					
	\$500-\$1B		\$1B - \$10B		\$10B - \$10B		\$500-\$1B		\$1B - \$10B		\$10B - \$10B		\$500-\$1B		\$1B-\$10B		\$10B-\$10B		\$500-\$1B		\$1B-\$10B		\$10B-\$10B	
	Mean	n	Mean	n	Mean	n	Mean	n	Mean	n	Mean	n	Mean	n	Mean	n	Mean	n	Mean	n	Mean	n	Mean	n
1	1.59	51	1.71	134	1.72	66	1.70	146	2.04	63	2.01	163	2.13	50	2.01	144	2.13	50	2.01	144	2.13	50	2.01	144
2-3	5.41	84	5.06	114	5.53	90	5.08	120	5.65	111	5.43	101	5.74	113	5.47	103	5.74	113	5.47	103	5.74	113	5.47	103
4-7	9.44	75	9.15	47	9.10	80	8.44	42	9.79	62	8.92	41	9.38	71	9.31	57	9.38	71	9.31	57	9.38	71	9.31	57
8-9	19.19	15	17.35	8	16.18	8	15.50	3	16.57	7	16.47	3	16.90	10	16.57	3	16.57	10	16.57	3	16.90	10	16.57	3
10	29.13	8	30.13	2	23.81	5	27.46	1	24.54	5	29.40	1	25.91	5	—	—	25.91	5	—	—	25.91	5	—	—
All	7.57	233	4.71	305	6.37	249	4.12	312	6.46	248	4.27	309	6.91	249	4.67	307	6.91	249	4.67	307	6.91	249	4.67	307
t tests:																								
1 vs 10																								
2, 3 vs 8, 9																								
1-3 vs 8-10																								



**Table 1A**  
**Small Business Loans Less Than \$1,000,000 to Total Assets (SMALLBUS):**  
**Means for Decile Rankings and Bank Asset Size Groups\***  
 (in percent)

Decile	1993			1994			1995			1996		
	<\$100	\$100 - \$500		<\$100	\$100 - \$500		<\$100	\$100 - \$500		<\$100	\$100 - \$500	
	Mean	Mean	n	Mean	Mean	n	Mean	Mean	n	Mean	Mean	n
1	3.00	5.66	700	3.19	5.46	210	3.48	6.45	199	3.85	6.13	197
2-3	6.78	11.22	510	7.01	11.51	544	7.56	12.47	560	8.03	12.29	520
4-7	12.96	17.75	1055	13.06	18.40	1138	13.39	18.93	1137	13.73	19.07	1188
8-9	21.35	22.81	488	21.04	24.43	442	21.53	25.45	430	21.77	26.09	455
10	32.84	31.19	224	31.23	30.36	146	30.85	30.11	155	30.82	30.73	152
All	14.88	17.76	2452	15.16	17.57	2480	15.58	18.30	2481	15.86	18.63	2512
t tests:												
1 vs 10	-99.17***	-40.84***		-88.07***	-10.61***		-82.55***	-7.83***		-77.22***	-31.65***	
2, 3 vs 8, 9	-76.21***	-29.40***		-65.20***	-30.55***		-63.03***	-28.57***		-55.99***	-31.28***	
1-3 vs 8-10	-99.04***	-41.76***		-90.27***	-40.49***		-87.23***	-39.13***		-80.38***	-41.11***	

\*Asterisks indicate the level of significance: \*--.10, \*\*--.05, and \*\*\*--.01.

Table 1A, continued  
 Small Business Loans Less Than \$1,000,000 to Total Assets (SMALLBUS):  
 Means for Decile Rankings and Bank Asset Size Groups  
 (in percent)

Decile	1993			1994			1995			1996				
	\$500-\$1B Mean	n	\$1B-\$10B Mean	\$500-\$1B Mean	n	\$1B-\$10B Mean	\$500-\$1B Mean	n	\$1B-\$10B Mean	\$500-\$1B Mean	n	\$1B-\$10B Mean	n	
1	5.31	51	4.67	5.15	66	4.79	5.87	63	5.71	163	2.59	50	2.79	144
2-3	11.86	84	11.74	13.07	90	11.39	13.06	111	11.96	101	7.23	113	5.88	103
4-7	19.84	75	16.34	18.35	80	16.31	19.84	62	17.36	41	9.78	71	8.54	57
8-9	23.97	15	18.10	25.48	8	25.45	25.06	7	25.22	3	12.15	10	5.48	3
10	29.13	8	30.13	23.81	5	27.46	28.01	5	29.40	1	9.58	5	—	—
All	14.36	233	9.63	13.28	249	9.15	13.57	248	9.57	309	7.27	249	4.92	307
t tests:														
1 vs 10														
2, 3 vs 8, 9														
1-3 vs 8-10														



**Table 2**  
**Net Interest Margin (NIM): Means for Decile Rankings**  
**of Small Business Lending Activity and Bank Asset Size Groups\***  
 (in percent)

Decile	1993			1994			1995			1996			
	Mean	n	\$100 - \$500	Mean	n	\$100 - \$500	Mean	n	\$100 - \$500	Mean	n	\$100 - \$500	
1	1.95	700	2.09	1.90	588	2.07	210	1.95	524	2.01	199	1.88	506
2-3	2.06	1484	2.06	1.99	1346	2.03	544	1.99	1211	2.02	560	1.95	1151
4-7	2.14	3223	2.16	2.09	2957	2.12	1138	2.12	2756	2.13	1137	2.07	2488
8-9	2.25	1688	2.22	2.22	1655	2.20	442	2.26	1558	2.26	430	2.20	1434
10	2.31	867	2.20	2.31	903	2.25	146	2.41	839	2.30	155	2.33	795
All	2.15	7962	2.15	2.11	7449	2.12	2480	2.15	6888	2.13	2481	2.10	6374
t tests:													
1 vs 10	-14.55***		-1.67*	-15.71***		-2.45**		-16.37***		-4.74***		-15.31***	
2, 3 vs 8, 9	-14.79***		-6.30***	-16.05***		-7.05***		-14.06***		-10.03***		-15.12***	
1-3 vs 8-10	-20.65***		-5.77***	-22.63***		-6.54***		-21.32***		-10.63***		-21.69***	

\*Asterisks indicate the level of significance: \*--.10, \*\*--.05, and \*\*\*--.01.

Table 2, continued  
 Net Interest Margin (NIM): Means for Decile Rankings  
 of Small Business Lending Activity and Bank Asset Size Groups  
 (in percent)

Decile	1993			1994			1995			1996			
	\$500-\$1B Mean	n	\$1B-\$10B Mean	\$500-\$1B Mean	n	\$1B-\$10B Mean	\$500-\$1B Mean	n	\$1B-\$10B Mean	\$500-\$1B Mean	n	\$1B-\$10B Mean	n
1	2.05	51	2.06	1.95	66	2.04	2.06	63	2.00	2.11	50	1.94	144
2-3	2.11	84	2.07	2.07	90	2.02	2.09	111	2.01	2.02	113	2.02	103
4-7	2.21	75	2.17	2.13	80	2.08	2.19	62	2.11	2.13	71	2.11	57
8-9	2.14	15	2.14	2.18	8	2.01	2.52	7	1.93	2.12	10	3.13	3
10	2.17	8	1.86	2.08	5	2.16	2.22	5	2.37	2.10	5	—	—
All	2.13	233	2.08	2.06	249	2.04	2.12	248	2.02	2.08	249	2.01	307

t tests:

1 vs 10

2, 3 vs 8, 9

1-3 vs 8-10

\* Asterisks indicate the level of significance: \*--,.10, \*\*--,.05, and \*\*\*--,.01.

Table 2, continued  
 Net Interest Margin (NIM): Means for Decile Rankings  
 of Small Business Lending Activity and Bank Asset Size Groups  
 (in percent)

Decile	1993		1994		1995		1996	
	Mean	n	Mean	n	Mean	n	Mean	n
1	1.96	40	1.86	44	1.95	50	1.98	54
2-3	2.10	8	2.35	8	2.12	15	2.04	15
4-7	2.41	1						
8-9	2.23	1						
10	—							
All	2.00	50	1.94	52	1.99	63	1.99	69
t tests:	NA		NA		NA		NA	

Net Income Margin, Asset Loss and Loan Loss Ratios: Means for Decile Rankings of Small Business Lending Activity and Bank Asset Size Groups (in percent)

Decile	1993			1994			1995			1996					
	<\$100 Mean	n	\$100 - \$500 Mean	<\$100 Mean	n	\$100 - \$500 Mean	<\$100 Mean	n	\$100 - \$500 Mean	<\$100 Mean	n	\$100 - \$500 Mean	<\$100 Mean	n	
1	1.87	700	1.84	1.88	588	2.07	2.10	1.89	524	1.83	199	1.79	506	1.76	197
2-3	1.96	1484	1.91	1.97	1346	2.03	2.10	1.93	1211	1.92	560	1.87	1151	1.85	520
4-7	2.01	3223	2.01	2.06	2957	2.12	2.13	2.04	2756	2.03	1137	1.98	2488	2.01	1188
8-9	2.11	1688	2.08	2.16	1655	2.20	2.18	2.16	1558	2.18	430	2.10	1434	2.13	455
10	2.13	867	2.04	2.25	903	2.25	2.16	2.32	839	2.21	155	2.23	795	2.16	152
All	2.03	7962	1.99	2.07	7449	2.12	2.12	2.07	6888	2.03	2481	2.00	6374	1.99	2512
t tests:															
1 vs 10	-9.89***		-2.85***	-13.83***		-3.57***		-15.61***		-7.34***		-15.43***		8.24***	
2, 3 vs 8, 9	-9.59***		-6.29***	-13.69***		-7.79***		-12.76***		-10.26***		-14.18***		5.26***	
1-3 vs 8-10	-13.63***		-6.49***	-19.57***		-8.16***		-19.82***		-12.60***		-20.99***		7.59***	

\*Asterisks indicate the level of significance: \*-.10, \*\*-.05, and \*\*\*-.01.

Table 3, continued  
 Net Interest Margin Minus Loan and Lease Losses (NIML): Means for Decile Rankings  
 of Small Business Lending Activity and Bank Asset Size Groups  
 (in percent)

Decile	1993		1994		1995		1996	
	\$500-\$1B Mean	n	\$1B-\$10B Mean	n	\$500-\$1B Mean	n	\$1B-\$10B Mean	n
1	1.80	51	1.70	134	1.84	63	1.75	163
2-3	1.95	84	1.82	114	1.96	111	1.88	101
4-7	1.95	75	1.99	47	2.02	62	1.98	41
8-9	1.88	15	1.69	8	2.30	7	1.82	3
10	1.90	8	1.71	2	2.10	5	2.18	1
All	1.91	233	1.79	305	1.96	248	1.83	309
t tests: 1 vs 10 2, 3 vs 8, 9 1-3 vs 8-10					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1
					1.92	249	1.81	312
					1.80	66	1.78	146
					1.96	80	1.93	42
					1.89	8	1.94	3
					1.94	5	2.09	1



Table 4  
 Rate of Return on Assets (ROA): Means for Decile Rankings of  
 Small Business Lending Activity and Bank Asset Size Groups  
 (in percent)

Decile	1993			1994			1995			1996		
	<\$100	\$100 - \$500		<\$100	\$100 - \$500		<\$100	\$100 - \$500		<\$100	\$100 - \$500	
	Mean	Mean	n	Mean	Mean	n	Mean	Mean	n	Mean	Mean	n
1	0.64	0.57	175	0.54	0.59	210	0.55	0.58	199	0.51	0.61	197
2-3	0.65	0.59	510	0.57	0.55	544	0.53	0.57	560	0.56	0.60	520
4-7	0.60	0.63	1055	0.55	0.58	1138	0.56	0.58	1137	0.58	0.63	1188
8-9	0.58	0.65	488	0.55	0.59	442	0.58	0.62	430	0.56	0.67	455
10	0.46	0.60	224	0.51	0.57	146	0.57	0.63	155	0.55	0.67	152
All	0.59	0.62	2452	0.55	0.57	2480	0.56	0.59	2481	0.56	0.63	2512
t tests:												
1 vs 10	3.88***	-0.54		0.54	0.43		-0.58	-1.35		-0.82	-3.82***	
2, 3 vs 8, 9	4.33***	-2.19**		1.47	-1.20		-2.00**	-2.18**		-0.46	-3.14***	
1-3 vs 8-10	5.76***	-1.94*		1.35	-0.72		-1.99**	-2.56**		-0.85	-3.39***	

\*Asterisks indicate the level of significance: \*-,.10, \*\*-.05, and \*\*\*-.01.

**Table 4, continued**  
**Rate of Return on Assets (ROA): Means for Decile Rankings of**  
**Small Business Lending Activity and Bank Asset Size Groups**  
**(in percent)**

Decile	1993				1994				1995				1996			
	\$500-\$1B		\$1B-\$10B		\$500-\$1B		\$1B-\$10B		\$500-\$1B		\$1B-\$10B		\$500-\$1B		\$1B-\$10B	
	Mean	n	Mean	n	Mean	n	Mean	n	Mean	n	Mean	n	Mean	n	Mean	n
1	0.51	51	0.59	134	0.55	66	0.68	146	0.59	63	0.61	163	0.65	50	0.60	144
2-3	0.61	84	0.55	114	0.60	90	0.61	120	0.61	111	0.61	101	0.62	113	0.67	103
4-7	0.55	75	0.63	47	0.61	80	0.56	42	0.59	62	0.62	41	0.69	71	0.59	57
8-9	0.47	15	0.89	8	0.59	8	0.57	3	0.37	7	0.48	3	0.64	10	0.09	3
10	0.67	8	0.58	2	0.63	5	0.51	1	0.55	5	0.68	1	0.66	5	—	—
All	0.56	233	0.59	305	0.59	249	0.64	312	0.59	248	0.61	309	0.65	249	0.62	307
t tests:																
1 vs 10																
2, 3 vs 8, 9																
1-3 vs 8-10																



Panel A: Mean and Standard Deviation of Small Business Lending Assets and Bank Asset Size Groups\*  
(in percent)

Decile	1993			1994			1995			1996			
	Mean	n	\$100 - \$500	Mean	n	\$100 - \$500	Mean	n	\$100 - \$500	Mean	n	\$100 - \$500	
1	5.23	700	5.00	4.62	588	5.73	210	4.45	524	6.68	199	4.02	506
2-3	6.35	1484	6.40	5.36	1346	5.65	544	4.97	1211	7.04	560	5.32	1151
4-7	6.37	3223	6.53	5.62	2957	6.13	1138	5.47	2756	7.06	1137	5.78	2488
8-9	5.34	1688	7.61	6.07	1655	5.13	442	5.90	1558	5.23	430	6.14	1434
10	1.46	867	6.86	5.38	903	6.63	146	6.31	839	5.99	155	5.66	795
All	5.51	7962	6.64	5.56	7449	5.84	2480	5.51	6888	6.88	2481	5.62	6374
t tests:													
1 vs 10	1.15		1.46	-1.47		-1.55		-7.31***		-2.76***		-1.82*	
2, 3 vs 8, 9	0.82		-3.27***	-2.65***		0.29		-6.32***		-2.20*		-5.16***	
1-3 vs 8-10	1.43		-3.09***	-2.82***		0.12		-9.53***		-2.86***		-3.19***	

\*Asterisks indicate the level of significance: \*--.10, \*\*--.05, and \*\*\*--.01.





Table 6  
 Net Loan and Lease Losses/Total Assets (L.OSS): Means for  
 Decile Rankings of Small Business Lending Activity and Bank Asset Size Groups\*  
 (in percent)

Decile	1993			1994			1995			1996		
	<\$100 Mean	n	\$100 - \$500 Mean	<\$100 Mean	n	\$100 - \$500 Mean	<\$100 Mean	n	\$100 - \$500 Mean	<\$100 Mean	n	\$100 - \$500 Mean
1	0.03	700	0.18	0.04	588	0.11	0.03	524	0.12	0.06	506	0.15
2-3	0.03	1484	0.10	0.03	1346	0.07	0.02	1211	0.06	0.04	1151	0.07
4-7	0.07	3223	0.10	0.04	2957	0.06	0.04	2756	0.06	0.05	2488	0.06
8-9	0.09	1688	0.09	0.06	1655	0.06	0.06	1558	0.05	0.05	1434	0.07
10	0.13	867	0.12	0.06	903	0.09	0.05	839	0.05	0.06	795	0.07
All	0.07	7962	0.11	0.04	7449	0.07	0.04	6888	0.06	0.05	6374	0.07
t tests:												
1 vs 10	-7.19***		1.54	-1.85*		0.90	-2.33**		2.60***	-0.16		2.11**
2, 3 vs 8, 9	-7.16***		0.59	-4.29***		0.56	-4.93***		0.78	-1.35		0.12
1-3 vs 8-10	-10.06***		1.38	-4.36***		1.06	-5.34***		2.24**	-1.16		1.64

\*Asterisks indicate the level of significance: \*--.10, \*\*--.05, and \*\*\*--.01.

Table 6, continued  
 Net Loan and Lease Losses/Total Assets (LOSS): Means for  
 Decile Rankings of Small Business Lending Activity and Bank Asset Size Groups  
 (in percent)

Decile	1993			1994			1995			1996			
	\$500-\$1B Mean	n	\$1B-\$10B Mean	\$500-\$1B Mean	n	\$1B-\$10B Mean	\$500-\$1B Mean	n	\$1B-\$10B Mean	\$500-\$1B Mean	n	\$1B-\$10B Mean	
1	0.20	51	0.27	0.18	146	0.16	63	0.18	163	0.23	50	0.19	144
2-3	0.08	84	0.17	0.12	120	0.08	111	0.07	101	0.08	113	0.09	103
4-7	0.20	75	0.12	0.09	42	0.10	62	0.08	41	0.07	71	0.11	57
8-9	0.17	15	0.31	0.04	3	0.19	7	0.08	3	0.09	10	1.34	3
10	0.19	8	0.13	0.05	1	0.05	5	0.13	1	0.07	5	—	—
All	0.15	233	0.21	0.14	312	0.11	248	0.13	309	0.11	249	0.15	307

t tests:

1 vs 10

2, 3 vs 8, 9

1-3 vs 8-10



Table 6A  
 Provision for Loan Losses/Total Assets (LOSS): Means for  
 Decile Rankings of Small Business Lending Activity and Bank Asset Size Groups\*  
 (in percent)

Decile	1993			1994			1995			1996					
	Mean	n	\$100 - \$500	Mean	n	\$100 - \$500	Mean	n	\$100 - \$500	Mean	n	\$100 - \$500	Mean	n	
															<\$100
1	0.05	700	0.21	0.06	588	0.12	210	0.05	524	0.11	199	0.07	506	0.17	197
2-3	0.05	1484	0.14	0.04	1346	0.09	544	0.05	1211	0.07	560	0.07	1151	0.09	520
4-7	0.09	3223	0.15	0.06	2957	0.09	1138	0.06	2756	0.08	1137	0.08	2488	0.09	1188
8-9	0.12	1688	0.12	0.08	1655	0.10	442	0.08	1558	0.09	430	0.10	1434	0.11	455
10	0.16	867	0.17	0.11	903	0.12	146	0.10	839	0.12	155	0.12	795	0.13	152
All	0.10	7962	0.15	0.07	7449	0.09	2480	0.07	6888	0.09	2481	0.09	6374	0.10	2512
t tests:															
1 vs 10	-5.46***		0.78	-3.16***		-0.06		-3.98***		-0.22*		-2.81***		0.98	
2, 3 vs 8, 9	-8.25***		0.78	-6.01***		-0.49		-6.03***		-2.86***		-4.16***		-1.64	
1-3 vs 8-10	-9.48***		0.93	-6.64***		-0.30		-7.24***		-2.09***		-4.96***		-0.31	

\*Asterisks indicate the level of significance: \*--.10, \*\*--.05, and \*\*\*--.01.





Table 7  
**Total Equity/Total Assets (TIER1): Means for Decile Rankings  
of Small Business Lending Activity and Bank Asset Size Groups**  
(in percent)

Decile	1993			1994			1995			1996		
	<\$100	\$100 - \$500	n	<\$100	\$100 - \$500	n	<\$100	\$100 - \$500	n	<\$100	\$100 - \$500	n
	Mean	Mean	n	Mean	Mean	n	Mean	Mean	n	Mean	Mean	n
1	12.68	10.51	700	12.86	10.19	210	13.89	10.61	199	13.72	10.43	197
2-3	10.68	9.02	1484	10.89	9.16	544	11.78	9.52	560	11.49	9.64	520
4-7	9.70	8.75	3223	9.93	8.93	1138	10.54	9.34	1137	10.61	9.35	1188
8-9	9.09	8.61	1688	9.23	8.94	442	9.75	9.32	430	9.89	9.32	455
10	9.12	8.66	867	9.18	8.88	146	9.35	9.25	155	9.78	9.04	152
All	9.95	8.90	7962	10.09	9.09	2480	10.69	9.48	2481	10.75	9.47	2512
t tests:												
1 vs 10	10.71***	3.08***		10.41***	2.66***		11.66***	2.77***		9.65***	2.74***	
2, 3 vs 8, 9	14.42***	2.75***		13.73***	1.44		10.58***	1.21		9.52***	1.90*	
1-3 vs 8-10	16.76***	4.09***		16.44***	2.95***		15.70***	2.82***		13.42***	3.27***	

Table 7, continued  
 Total Equity/Total Assets (TIER I): Means for Decile Rankings  
 of Small Business Lending Activity and Bank Asset Size Groups  
 (in percent)

Decile	1993			1994			1995			1996			
	\$500-\$1B Mean	n	\$1B-\$10B Mean	\$500-\$1B Mean	n	\$1B-\$10B Mean	\$500-\$1B Mean	n	\$1B-\$10B Mean	\$500-\$1B Mean	n	\$1B-\$10B Mean	n
1	8.44	51	8.18	8.46	66	8.37	8.88	63	8.52	9.38	50	8.69	144
2-3	8.15	84	8.05	8.40	90	8.25	8.78	111	8.45	8.84	113	8.60	103
4-7	7.77	75	8.07	8.08	80	8.19	8.45	62	8.54	8.48	71	8.55	57
8-9	8.14	15	9.17	8.90	8	7.50	9.75	7	7.27	8.82	10	10.12	3
10	7.91	8	8.17	8.29	5	7.11	9.25	5	7.10	8.39	5		
All	8.08	233	8.14	8.33	249	8.28	8.76	248	8.48	8.84	249	8.65	307

t tests:

1 vs 10

2, 3 vs 8, 9

1-3 vs 8-10



**Table 8**  
**Off-Balance Sheet Activities/Total Assets (OFFBAL):**  
**Means for Decile Rankings of Small Business Lending**  
**Activity and Bank Asset Size Groups\***  
 (in percent)

Decile	1993			1994			1995			1996					
	<\$100 Mean	n	\$100 - \$500 Mean n	<\$100 Mean	n	\$100 - \$500 Mean n	<\$100 Mean	n	\$100 - \$500 Mean n	<\$100 Mean	n	\$100 - \$500 Mean n			
1	6.03	700	28.48	6.98	588	31.77	210	5.77	524	21.60	199	7.17	505	21.54	196
2-3	5.35	1484	13.58	5.37	1346	16.31	544	5.66	1211	11.34	560	6.15	1151	11.42	519
4-7	5.68	3223	11.20	6.68	2957	12.23	1138	6.32	2756	10.72	1137	7.10	2488	11.44	1188
8-9	6.78	1688	10.31	7.62	1655	10.50	442	7.09	1558	10.65	430	7.68	1434	11.34	455
10	10.91	867	11.97	8.87	903	18.80	146	8.33	839	10.07	155	9.23	795	12.28	152
All	6.45	7962	12.82	6.94	7449	14.86	2480	6.58	6888	11.68	2481	7.73	6373	12.26	2510
t tests:															
1 vs 10	1.79*		3.23***	-1.31		1.35		-3.21***		2.89***		0.95		1.98**	
2, 3 vs 8, 9	-2.04**		2.07**	-6.72***		2.88***		-5.89***		0.77		-5.02***		1.00	
1-3 vs 8-10	-2.54**		3.70***	-4.54***		2.76***		-6.21***		2.83***		0.86		1.47	

\*Asterisks indicate the level of significance: \*-.10, \*\*-.05, and \*\*\*-.01.





Table 9  
**Total Securities/Total Assets (SECURITIES): Means for Decile**  
**Rankings of Small Business Lending Activity and Bank Asset Size Groups\***  
 (in percent)

Decile	1993			1994			1995			1996			
	<\$100 Mean	n	\$100 - \$500 Mean	<\$100 Mean	n	\$100 - \$500 Mean	<\$100 Mean	n	\$100 - \$500 Mean	<\$100 Mean	n	\$100 - \$500 Mean	
1	50.08	700	34.93	48.77	588	33.82	47.36	524	33.39	43.15	506	33.22	197
2-3	44.36	1484	40.40	42.20	1346	36.94	39.04	1211	33.76	38.20	1151	33.77	520
4-7	35.65	3223	34.77	34.99	2957	32.02	32.61	2756	28.94	32.06	2488	28.79	1188
8-9	29.47	1688	31.02	27.81	1655	28.17	25.76	1558	25.87	25.52	1434	25.77	455
10	22.47	867	27.13	21.80	903	25.53	20.50	839	22.95	20.20	795	22.75	152
All	35.83	7962	34.48	34.19	7449	32.18	31.84	6888	29.48	31.10	6374	29.25	2512
t tests:													
1 vs 10	31.22***		4.08***	31.20***		4.93***	28.55***		6.37***	24.14***		6.43***	
2, 3 vs 8, 9	17.82***		9.46***	27.94***		10.39***	25.41***		9.91***	24.17***		10.22***	
1-3 vs 8-10	29.73***		10.32***	40.98***		11.08***	37.29***		11.75***	34.19***		11.87***	

\* Asterisks indicate the level of significance: \*-.10, \*\*-.05, and \*\*\*-.01.

**Table 9, continued**  
**Total Securities/Total Assets (SECURITIES): Means for Decile**  
**Rankings of Small Business Lending Activity and Bank Asset Size Groups\***  
 (in percent)

Decile	1993			1994			1995			1996			
	\$500-\$1B Mean	n	\$1B-\$10B Mean	\$500-\$1B Mean	n	\$1B-\$10B Mean	\$500-\$1B Mean	n	\$1B-\$10B Mean	\$500-\$1B Mean	n	\$1B-\$10B Mean	n
1	28.35	51	27.25	29.75	66	24.28	26.82	63	21.96	26.15	50	21.46	144
2-3	36.42	84	26.90	30.15	90	26.14	27.09	111	24.01	29.38	113	24.52	103
4-7	25.34	75	27.39	25.64	80	25.38	23.72	62	22.57	24.55	71	23.48	57
8-9	24.30	15	35.91	25.46	8	28.26	21.82	7	17.36	24.26	10	14.85	3
10	29.36	8	32.39	27.10	5	22.05	25.23	5	16.80	31.18	5	—	—
All	30.09	233	27.41	28.38	249	25.18	25.99	248	22.65	27.19	249	22.80	307
t tests:													
1 vs 10													
2, 3 vs 8, 9													
1-3 vs 8-10													



**Table 10**  
**Purchased Funds/Total Assets (PURCHASED): Means for Decile**  
**Rankings of Small Business Lending Activity and Bank Asset Size Groups\***  
 (in percent)

Decile	1993			1994			1995			1996					
	Mean	n	\$100 - \$500	Mean	n	\$100 - \$500	Mean	n	\$100 - \$500	Mean	n	\$100 - \$500			
1	6.43	700	10.92	6.97	588	11.05	2.10	7.34	524	9.48	199	8.86	506	12.13	197
2-3	6.56	1484	7.02	7.19	1346	7.53	544	7.55	1211	7.87	560	9.15	1151	9.96	520
4-7	7.38	3223	7.78	7.35	2957	8.10	1138	8.22	2756	8.80	1137	9.65	2488	10.77	1188
8-9	8.05	1688	7.69	8.34	1655	8.58	442	9.03	1558	9.00	430	10.50	1434	10.72	455
10	8.99	867	8.72	8.75	903	9.19	146	9.72	839	9.57	155	10.83	795	12.20	152
All	7.46	7962	7.91	7.68	7449	8.37	2480	8.40	6888	8.72	2481	9.84	6374	10.79	2512
t tests:															
1 vs 10	-7.19***		2.42**	-4.97***		1.87*		-6.91***		-0.11		-4.50***		-0.06	
2, 3 vs 8, 9	-7.76***		1.97**	-5.50***		-2.82***		-7.35***		-3.46***		-5.40***		-1.82*	
1-3 vs 8-10	-10.90***		0.00	-7.51***		-0.57		-10.19***		-2.70***		-7.10***		-1.26	

\*Asterisks indicate the level of significance: \*- .10, \*\*-.05, and \*\*\*-.01.





**Table 11**  
**Rate of Return on Assets (ROA): 1995 Regression Analyses for**  
**U. S. Commercial Banks by Asset Size Group**  
**(t statistics in parentheses<sup>a</sup>)**

Independent Variables <sup>b</sup>	Assets in Millions				
	<\$100 (n=6,888)	\$100-\$500 (n=2,481)	\$500-\$1B (n=248)	\$1B-\$10B (n=309)	>\$10B (n=65)
INTERCEPT	0.003 (9.85***)	0.002 (5.66***)	0.007 (4.60***)	0.002 (2.14**)	0.003 (0.90)
ASSETS	0.00 (6.43***)	0.00 (2.92***)	0.00 (-1.84*)	0.00 (-1.057)	0.00 (1.194)
HHI	0.001 (3.45***)	0.0006 (2.35)	0.0009 (0.86)	0.002 (2.46**)	-0.004 (-1.33)
LOSS	-0.799 (-22.43***)	-0.49 (-14.72***)	-0.07 (-0.75)	-0.635 (-10.87***)	0.98 (4.85***)
TIER1	0.011 (8.31***)	0.032 (15.53***)	0.012 (1.176)	0.038 (4.81***)	0.049 (1.66)
OFFBAL	0.0003 (10.44***)	0.002 (6.73***)	-0.0003 (-0.94)	0.003 (12.76***)	-0.0002 (-0.55)
SECURITIES	-0.0001 (-0.368)	-0.0005 (-1.142)	-0.002 (-1.36)	-0.002 (-1.53)	-0.005 (-0.92)
PURCHASED	-0.004 (-3.27***)	-0.002 (-1.72*)	0.005 (1.37)	0.003 (1.07)	0.007 (0.606)
SMALLBUS	0.005 (4.56***)	0.004 (3.49***)	-0.011 (-2.24***)	-0.003 (0.545)	-0.007 (-0.218)
Overall F	98.59***	66.96***	1.53	32.43***	6.94***
Adjusted R <sup>2</sup>	0.1018	0.1755	0.0169	0.4494	0.4259

<sup>a</sup> Asterisks indicate significance at the following levels: \*-.10, \*\*-.05, and \*\*\*-.01.

<sup>b</sup> Independent variables are defined as follows:

LOSS = loan and lease losses, net recoveries/total assets

TIER1 = total equity/total assets

OFFBAL = total off-balance sheet activities/total assets

SECURITIES = total securities/total assets

PURCHASED = large time deposits plus other borrowed money/total assets

ASSETS = total assets

HHI = Herfindahl index

SMALLBUS = commercial and industrial loans and commercial real estate loans less than \$250,000/total assets.

**Table 12**  
**Rate of Return on Assets (ROA): 1993 Regression Analyses for**  
**U. S. Commercial Banks by Asset Size Group**  
**(t statistics in parentheses<sup>a</sup>)**

Independent Variables <sup>b</sup>	Assets in Millions				
	<\$100 (n=7,790)	\$100-\$500 (n=2,388)	\$500-\$1B (n=222)	\$1B-\$10B (n=309)	>\$10B (n=50)
INTERCEPT	0.004 (17.67***)	0.0001 (0.25)	-0.001 (-0.55)	0.001 (0.94)	0.005 (1.62)
ASSETS	0.00 (7.80***)	0.00 (-0.27)	0.00 (-0.03)	0.00 (0.054)	0.00 (0.14)
HHI	0.001 (4.20***)	0.001 (2.74***)	-0.0004 (-0.378)	0.005 (2.97***)	0.001 (0.313)
LOSS	-0.677 (-28.12***)	-0.420 (-7.13***)	-0.79 (-8.02***)	-0.285 (-2.58)	0.046 (0.271)
TIER1	0.006 (4.09***)	0.050 (10.16***)	0.089 (5.91***)	0.024 (1.71*)	-0.034 (-0.795)
OFFBAL	-0.0009 (-4.58***)	0.001 (2.18**)	-0.0001 (-1.99**)	0.0016 (5.50***)	0.0003 (2.74***)
SECURITIES	-0.001 (3.83***)	0.003 (3.64***)	0.0005 (0.307)	-0.0002 (-0.10)	-0.001 (-0.38)
PURCHASED	-0.001 (-1.54)	-0.002 (-1.09)	0.004 (1.62)	0.005 (1.35)	0.015 (1.84*)
SMALLBUS	-0.002 (-2.98***)	0.003 (1.83*)	0.005 (1.19)	-0.003 (0.40)	0.015 (0.80)
Overall F	133.31***	28.97***	14.28***	7.55***	2.69***
Adjusted R <sup>2</sup>	0.1196	0.0857	0.3254	0.1526	0.2163

<sup>a</sup> Asterisks indicate significance at the following levels: \*-.10, \*\*-.05, and \*\*\*-.01.

<sup>b</sup> Independent variables are defined as follows:

LOSS = loan and lease losses, net recoveries/total assets

TIER1 = total equity/total assets

OFFBAL = total off-balance sheet activities/total assets

SECURITIES = total securities/total assets

PURCHASED = large time deposits plus other borrowed money/total assets

ASSETS = total assets

HHI = Herfindahl index

SMALLBUS = commercial and industrial loans and commercial real estate loans less than \$250,000/total assets.

**Table 13**  
**Rate of Return on Assets (ROA): 1994 Regression Analyses for**  
**U. S. Commercial Banks by Asset Size Group**  
**(t statistics in parentheses<sup>a</sup>)**

Independent Variables <sup>b</sup>	Assets in Millions				
	<\$100 (n=7449)	\$100-\$500 (n=2,480)	\$500-\$1B (n=249)	\$1B-\$10B (n=309)	>\$10B (n=52)
INTERCEPT	0.003 (12.59***)	0.0017 (4.28***)	0.003 (2.31**)	0.003 (2.28**)	0.005 (2.007*)
ASSETS	0.00 (8.40***)	0.00 (2.89***)	0.00 (0.484)	0.00 (-1.19)	0.00 (0.80)
HHI	0.001 (4.84***)	0.0013 (4.18***)	0.0008 (0.824)	0.003 (2.61***)	0.003 (0.14)
LOSS	-0.796 (-31.49***)	-0.720 (-22.09***)	-0.08 (-0.854)	-0.386 (-3.76***)	-0.223 (-0.97)
TIER1	0.073 (5.16***)	0.036 (14.88***)	0.023 (2.10**)	0.031 (2.95***)	0.003 (0.119)
OFFBAL	0.0008 (2.71***)	0.0003 (1.78*)	-0.00004 (-1.14)	0.002 (7.90***)	0.00008 (.926)
SECURITIES	0.0005 (1.39)	0.0004 (0.76)	-0.0009 (-0.71)	-0.002 (-1.51)	-0.0004 (-0.10)
PURCHASED	-0.001 (-1.42)	0.0005 (0.46)	-0.0001 (0.05)	0.002 (1.12)	-0.003 (-0.59)
SMALLBUS	0.0009 (1.10)	0.0000005 (0.004)	-0.011 (0.25)	-0.007 (-0.85)	0.02 (0.54)
Overall F	147.71***	107.81***	0.967	15.05***	0.527
Adjusted R <sup>2</sup>	0.1361	0.2563	-0.0011	0.2655	-0.0801

<sup>a</sup> Asterisks indicate significance at the following levels: \*-.10, \*\*-.05, and \*\*\*-.01.

<sup>b</sup> Independent variables are defined as follows:

LOSS = loan and lease losses, net recoveries/total assets

TIER1 = total equity/total assets

OFFBAL = total off-balance sheet activities/total assets

SECURITIES = total securities/total assets

PURCHASED = large time deposits plus other borrowed money/total assets

ASSETS = total assets

HHI = Herfindahl index

SMALLBUS = commercial and industrial loans and commercial real estate loans less than \$250,000/total assets.

**Table 15**  
**Rate of Return on Assets (ROA): 1996 Regression Analyses for**  
**U. S. Commercial Banks by Asset Size Group**  
**(t statistics in parentheses<sup>a</sup>)**

Independent Variables <sup>b</sup>	Assets in Millions				
	<\$100 (n=6373)	\$100-\$500 (n=2,511)	\$500-\$1B (n=249)	\$1B-\$10B (n=307)	>\$10B (n=69)
INTERCEPT	0.005 (17.56***)	0.001 (5.60***)	0.004 (3.20***)	0.006 (5.64***)	0.001 (0.576)
ASSETS	0.00 (7.83***)	0.00 (2.74***)	0.00 (-1.65)	0.00 (1.13)	0.00 (-1.59)
HHI	0.001 (6.01***)	0.001 (4.33***)	0.0004 (0.468)	0.001 (1.20)	-0.0002 (-0.13)
LOSS	-0.674 (-22.27***)	-0.540 (-18.27***)	0.320 (4.06***)	-0.094 (-1.09)	0.161 (1.25)
TIER1	0.019 (-14.71***)	0.043 (22.20***)	0.022 (2.39**)	0.06 (0.787)	0.022 (1.15)
OFFBAL	0.0000 (13.92***)	0.00 (7.54***)	0.00 (1.09)	0.000 (-1.30)	0.00 (5.08***)
SECURITIES	0.004 (9.62)	-0.001 (-2.96***)	-0.001 (-0.93)	-0.004 (-2.48**)	0.008 (1.76*)
PURCHASED	-0.005 (-6.44)	-0.002 (-2.97***)	0.006 (2.72***)	0.0003 (0.18)	0.0004 (0.116)
SMALLBUS	0.002 (2.61***)	0.004 (4.11***)	0.006 (1.43)	-0.003 (-0.48)	0.064 (2.70***)
Overall F	136.61***	107.81***	7.213***	1.73*	5.835
Adjusted R <sup>2</sup>	0.1455	0.2563	0.1670	0.0188	0.3626

<sup>a</sup> Asterisks indicate significance at the following levels: \*-.10, \*\*-.05, and \*\*\*-.01.

<sup>b</sup> Independent variables are defined as follows:

LOSS = loan and lease losses, net recoveries/total assets

TIER1 = total equity/total assets

OFFBAL = total off-balance sheet activities/total assets

SECURITIES = total securities/total assets

PURCHASED = large time deposits plus other borrowed money/total assets

ASSETS = total assets

HHI = Herfindahl index

SMALLBUS = commercial and industrial loans and commercial real estate loans less than \$250,000/total assets.