



The Bank Holding Company Study, 1998

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

I am pleased to release *The Bank Holding Company Study, 1998*. This year's study—an expanded version of the previous studies—provides information not otherwise available in the marketplace and helps small firms identify the 57 large (>\$10 billion in assets) bank holding companies (BHCs) that are “small-business-friendly,” that is, banks from which small firms have been more successful in obtaining loans.

With the rapid pace of bank consolidations and the consolidation of accounting operations by major banking companies over the past two years, the study of large BHCs becomes even more relevant to an understanding of small business lending in the United States.

This study uses the four criteria applied in earlier studies to rank large BHCs on their small business lending, based on June 1998 call report data submitted to banking regulators. For the first time, this year's edition also includes data gathered under the revised regulations of the Community Reinvestment Act (CRA). The new data are arrayed by the areas where loans were made in 1997.

Among the highlights of the study are the following:

- Of the \$371 billion in small business loans (loans of less than \$1 million) outstanding from all banks as of June 1998, \$157 billion—almost 42 percent—was in the 57 large BHCs. These BHCs had 69 percent of total domestic bank assets in the United States.
- Large BHCs continued to participate in the small business loan market in 1998. However, the growth in dollars lent to small firms—up 14.5 percent—lagged behind the 20 percent growth in total business loans and the 17.7 percent growth in total assets for this group. The smallest increase was in the smallest-sized loans (under \$100,000), up 10.4 percent.
- The number of the smallest loans increased by 23.5 percent in 1997-1998, compared with a 53.2 percent increase in 1996-1997. Large BHCs continued to promote credit cards and expand lines of credit

for small firms. The use of credit scoring methods by major banks and BHCs seems to have been a contributing factor.

- The top five small-business-friendly lenders in 1998, based on the ranking method used in previous years, were Norwest, BB&T, Southtrust, Wells Fargo, and Firststar.
- The top five lenders using the 1997 CRA data base, based on the dollar amount of loans made in 1997, were Wells Fargo, NationsBank, Banc One, Chase Manhattan and Norwest.

The Office of Advocacy annually issues two companion reports, *Small Business Lending in the United States* and *Micro-Business-Friendly Banks in the United States*. The first rank-orders within each state all 8,966 U.S. banks on their small firm lending, as well as large banks' small firm lending under the CRA program. The second lists the top banks in each state in terms of micro-business lending (loans of \$100,000 or less). New this year are *Small Farm Lending in the United States* and *Small Farm Lending by Bank Holding Companies*. All are found at <http://www.sba.gov/ADVO/lendinginus2.html>.

Banks that participate in the U.S. Small Business Administration's (SBA) loan programs and use secondary markets extensively may have artificially low “small business friendliness” rankings because only the nonguaranteed portion of guaranteed loans will appear in the bank's loan portfolio. SBA preferred or certified lenders should be considered small-business-friendly, and small firms should certainly seek them out.

Thanks to all who have helped fine-tune this effort. Comments and suggestions are valuable and truly welcome.



Jere W. Glover
Chief Counsel for Advocacy
U. S. Small Business Administration

Introduction

The Bank Holding Company Study, 1998, the Office of Advocacy's fourth study of small business lending by bank holding companies (BHCs), is a companion to a more comprehensive study, *Small Business Lending in the United States*, the Office of Advocacy's "small-business-friendly banks" study. The small business lending study ranks all 8,966 U.S. commercial banks that reported small firm lending data in June 1998 call reports filed with federal banking regulators.¹

This expanded version of the previous studies provides information not otherwise available in the marketplace and helps small businesses identify large BHCs that are "small-business-friendly." With the rapid pace of bank consolidations and the consolidation of accounting operations by major banking companies over the past several years, the study of large BHCs becomes even more relevant to an understanding of small business lending in the United States. This study includes 57 large BHCs with domestic assets of \$10 billion or more.

What's New in the 1998 Report

For this study, the definition of a small business loan is changed from loans under \$250,000 to loans under \$1 million. Most financial regulatory agencies and other researchers have defined small business loans as those under \$1 million. The definition was

¹Call reports, officially known as *Consolidated Reports of Condition and Income for U.S. Banks*, are quarterly reports filed by financial institutions with their appropriate bank regulators. The call reports provide detailed information on the current status of a financial institution. Section 122 of the Federal Deposit Insurance Corporation Improvement Act of 1991 requires financial institutions to report on an annual basis the number and amount of small business loans.

changed to make Advocacy's results more compatible with their work, and because many small businesses require loans greater than \$250,000.

A recent regulatory change under the Community Reinvestment Act (CRA) has made a new data base available showing the geographical distribution of small loans to business. To minimize the paperwork burden on small banks, the bank regulatory authorities require that only banks with assets over \$250 million or member banks of a bank holding company 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 business.²

This 1998 edition of the BHC lending study reports on the latest CRA data available, for calendar year 1997. Table 2 ranks banks listed in Table 1 using the CRA data.³ Here, BHCs are ranked by the dollar amount of the loans made in 1997 rather than by the four-criteria scoring method used in Table 1, because comparable statistics on the volumes of total assets and total business loans are not available for ratio calculation. Consequently, larger banks dominate the list.

Findings

- Of the \$371 billion in small business loans outstanding from all banks, \$157 billion was from the 57 large BHCs in June 1998.

² Raphael 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.

³ With the exception of Greenwood TC of Delaware which was not in the 1997 CRA database.

As a group, these BHCs accounted for almost 42 percent of small business loans under \$1 million and 69 percent of total domestic assets in the United States.

- These large BHCs continued to participate in the small business loan market in 1998. However, the growth in dollars lent—up 14.5 percent for loans under \$1 million—lagged behind the 20 percent growth in their total business loans. The smallest increase was in the smallest loans under \$100,000, which increased only 10.4 percent (Table A).
- The number of the smallest loans increased by 23.5 percent in the large BHCs in 1998 (Table A). These BHCs continued to promote credit cards and lines of credit for small firms and to use credit scoring models in their credit reviews.
- The top five small-business-friendly lenders in 1998, based on call report data and using the ranking method used in previous years are: Norwest (3rd in the 1997 study), BB&T (1st in 1997), Southtrust (10th in 1997), Wells Fargo (2nd in 1997), and Firststar (9th in 1997) (Tables B and 1).⁴
- The top five small-business-friendly lenders using the 1997 CRA data base but ranked only by dollar amount are: Wells Fargo, with \$5.7 billion in small business loans; NationsBank with \$4.8 billion; Banc One with \$4.6 billion; Chase Manhattan with \$4.1 billion; and Norwest Corporation with \$3.8 billion (Table 2).

⁴ Some of the change in rank order for these leading BHCs is caused by the change in definition of small business loans from under \$250,000 to under \$1million.

Table A. Assets, Loans, and Small Business Lending of 57 Large Bank Holding Companies, June 1997 and June 1998*

Loan Sizes	1997 (Dollars in Billions)	1998 (Dollars in Billions)	Percent Change 1996-1997	Percent Change 1997- 1998
<\$100,000 (Dollars)	32.5	36.0	4.60	10.43
<\$100,000 (Number)	2,671,913	3,299,722	53.18	23.50
<\$250,000 (Dollars)	60.8	68.7	4.97	12.95
<\$250,000 (Number)	2,928,256	3,587,170	47.88	22.50
<\$1Million (Dollars)	137.4	157.3	5.19	14.47
<\$1 Million (Number)	3,183,353	3,874,618	44.21	21.71
Total Business Loans (Dollars)	582.2	699.0	10.64	20.10
Total Assets (Dollars)	2,574.2	3,028.9	10.03	17.66

*Changes from 1996 to 1998 were estimated based on revised estimates for Keycorp in 1997.

Table B: Top Five Small-Business-Friendly BHCs, Based upon Call Report Data, June 1998

<i>BHC Name</i>	<i>Rank</i>	<i>Ratio SBL/TA</i>	<i>SBL (Millions)</i>
Norwest Corporation	1	0.090	6,389
BB&T Corporation	2	0.123	3,689
Southtrust Corporation	3	0.130	4,514
Wells Fargo & Co.	4	0.082	7,943
Firststar Corporation	5	0.106	2,391

Definitions: SBL=small business loans under \$1 million; TA=total assets.

Limitations of the Study

Call report and CRA data tell only a part of the story about lending to small business, namely the commercial banking part. Small businesses certainly have access to other sources of credit, such as their suppliers, finance companies, family and friends. Additionally, some lending information may not be reported in call reports or CRA data, or may not be discernible as small business financing. For example:

- Banks may provide lines of credit to small firms. If the line of credit is not used, it will not be reported as a loan.
- Banks may issue consumer credit cards or other forms of consumer credit to small businesses for working capital (for example, to buy office equipment). Banks may report these as either small business or consumer loans.
- 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.
- Small business owners may use their personal credit cards to finance their businesses.⁵
- Large banks may make loans to small firms through their consumer loan divisions, classifying the loans as consumer loans.
- Large banks may send the business owner to a subsidiary finance company that is not required to file a call report.

⁵The National Survey of Small Business Finances found that 27.6 percent of small businesses used business credit cards and 39.2 percent used personal credit cards for business purposes in 1993.

- SBA-guaranteed loans sold in the secondary market are recorded in the number of small business loans made by banks, but only the non-guaranteed portion of these loans is included in the dollar value of small loans in the call report.

Additionally, call reports do not reflect a major factor affecting a bank's small business lending activities—the demand or lack of demand for small business loans. Banks of similar lending capacities and similar desires to serve the small business community may end up with significantly different ranking results because of different demands.

Despite these limitations, the call report and CRA data provide useful information and a fairly accurate picture of lending to small businesses in the U.S. economy. And more important, they are currently the only source of small business lending information publicly available on individual bank lending patterns.

Suggestions

Suggestions on how to improve the study are welcome. Send written comments to: Office of Advocacy, U.S. Small Business Administration, Mail Code 3112, 409 Third Street, S.W., Washington, DC 20416. Or fax your comments to (202) 205-6928. Technical questions may be addressed to Dr. Robert Berney or Dr. Charles Ou, Office of Advocacy, U.S. Small Business Administration, telephone (202) 205-6966. E-mail addresses: Robert.Berney@SBA.gov or Charles.Ou@SBA.gov.

Accessing the Study

The 1998 edition and previous editions of *The Bank Holding Company Study*, as well as *Small Business Lending in the United States*, *Micro-Business-Friendly Banks in the United States*, *Small-Farm Lending in the United States*, and *Small Farm*

Lending by Bank Holding Companies are all available at the following Internet address:

- <http://www.sba.gov/ADVO/lendinginus2.html>

Paper and microfiche copies of the banking studies are available for purchase from the National Technical Information Service, Springfield, VA 22161, telephone (703) 487-4650.

Explanation of Columns

Table 1: Small Business Lending of Multi-Billion-Dollar BHCs, June 1998

This table uses call report data to rank BHCs that are small-business-friendly on the basis of four criteria that measure the small business lending emphases in a bank's loan portfolio. Small business loans (SBL) are defined as loans under \$1 million.

1. Total Rank. Summary ranking of BHCs. Because of the small number of large BHCs (>\$10 billion in assets) and because this is a national listing, a simple ranking of 1 through 57 is used with the data found in columns 2 through 5, unless ties occur. The four rankings of columns 2 through 5 are then summed and re-ranked in column 1. Given the ties, the rankings range from the high of 1 to a low of 47. The three credit card banks are unranked.

2. Ratio of Small Business Loans to Total Assets (LSBL/TA). The ratio of small business loans under \$1 million to total bank assets for each bank holding company. For the 57 large BHCs, the ratios of small business loans to total assets ranged from near 0 percent to 13 percent.

3. Ratio of Small Business Loans to Total Business Loans (LSBL/TBL). For the 57 large BHCs, the ratios of the value of

small business lending to total business lending ranged from 0.3 percent to 59 percent, except for the three credit card banks that make only small loans and have a 100 percent ratio.

4. Total Dollar Amount of Small Business Lending by the BHC (LSBL\$). The total dollar amount (in thousands) of small business loans of less than \$1 million.

5. Total Number of Small Business Loans (LSBL#). The number of small business loans of less than \$1 million.

6. BHC Asset Size Class. Asset size class of the large BHCs:

- \$10 billion to under \$50 billion (10B-<50B)
- \$50 billion and over (>50B)

7. Total Rank of Mid-Sized Business Loans (MSBL). Like column 1, the total rank for BHC lending for loans of less than \$250,000.

8. Total Rank of Micro-Small Business Loans (SSBL). Like column 1, the total rank for BHC lending for loans of less than \$100,000.

9. Growth in Total Assets (% G TA 98/97). Percentage growth of the BHC's total assets from 1997 to 1998.

10. Growth in Small Business Loans (%G LSBL\$ 98/97). The percentage growth in the BHC's small business loan dollars (<\$1 million) from 1997 to 1998.

11. Credit Card Loans to Total Assets (CRD/TA). When this measure exceeds 25 percent, the bank is listed as a credit card bank. Credit card loans may be the credit card accounts of individual employees of large firms or of small firms. Since the call report information does not distinguish between these types of loans, the summary total statistic in column 1 may be biased,

making some banks appear more small-business-friendly than they are. Thus, the double asterisk is a caution flag.

Table 2: Top Lending BHCs in Small Business Loans under CRA Reporting Program, 1997

Table 2 uses CRA data to rank the BHCs and is formatted slightly differently from Table 1. Besides listing the BHC's name, it lists the home state of the BHC and the number of states in which the BHC operates. It then provides the dollar amount and the number loans under \$1 million, under \$250,000, and under \$100,000).

1. Dollar Amount of Small Business Loans (LSBL\$): The dollar amount of loans (in thousands) of less than \$1 million made in 1997.

2. Number of Small Business Loans (LSBL#): The number of loans of less than \$1 million made in 1997.

3. Bank Asset Size (Bk Size): The same asset size classes as are used in Table 1:

- \$10 billion to \$50 billion (10B-<50B)
- \$50 billion and over (>50B)

4. 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 business credit card accounts of individual employees of large firms or of small firms. Since the call report information does not distinguish between these types of loans, the summary total statistic in column 1 may

be biased, making some banks appear more small-business-friendly than they are. Thus, the double asterisk is a caution flag.

5. Five States with the Greatest BHC Lending (Five Largest LSBL\$ States): The five states where the BHC makes the largest dollar value of loans.

6. Dollar Amount of Micro-Loans (SSBL\$): The dollar amount (in thousands) of micro business loans (<\$100,000).

7. Number of Micro-Loans (SSBL#): The number of micro-business loans (<\$100,000).

8. Dollar Amount of Mid-Sized Small Business Loans (MSBL\$): The dollar amount (in thousands) of loans of less than \$250,000.

9. Number of Mid-Sized Small Business Loans (MSBL#): The number of loans of less than \$250,000.