

The Other Side of the Credit Crisis: Small Business Lending in LMI Communities



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Economic Recovery of Low- and Moderate-
Income Neighborhoods”**

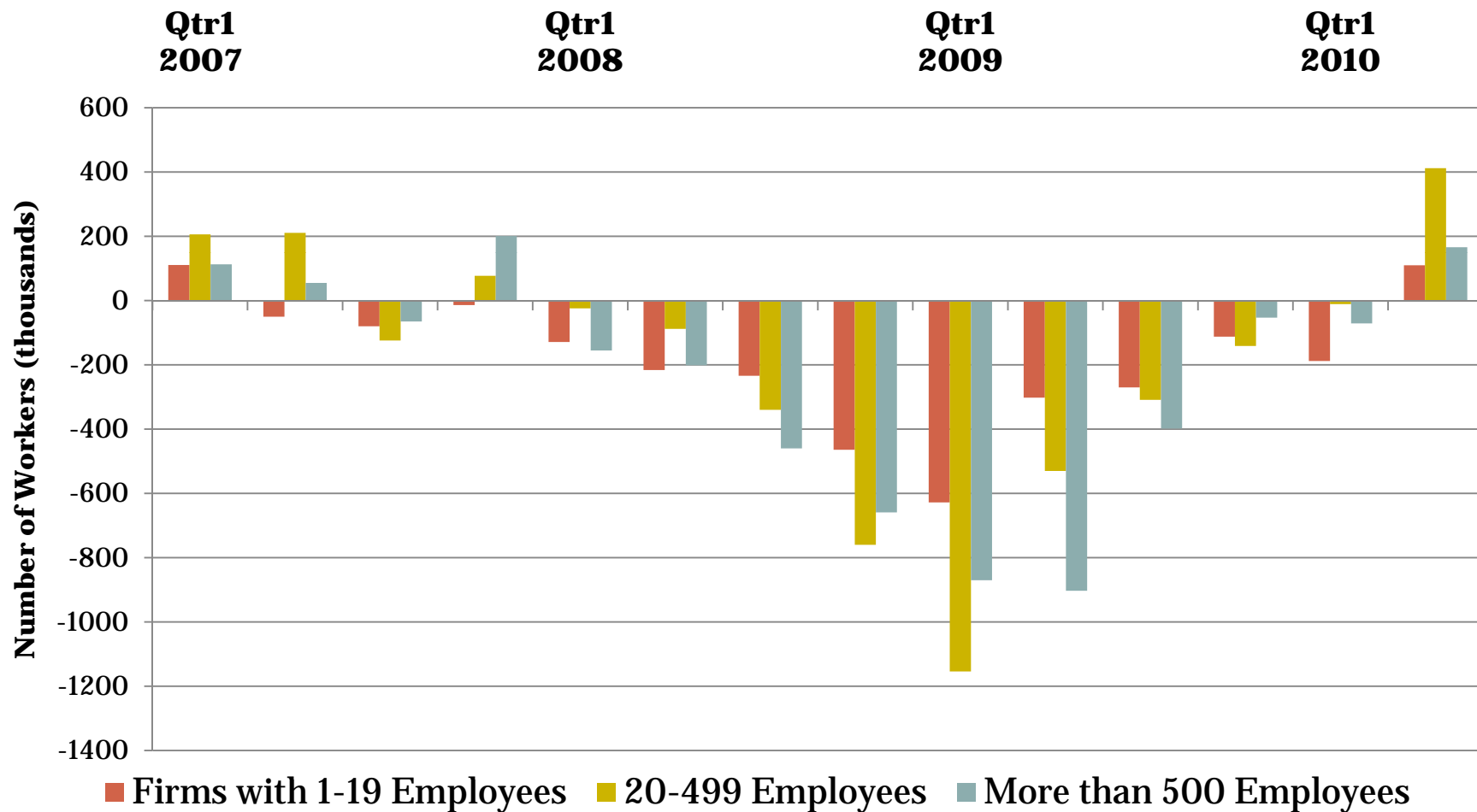
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How Important are Bank Loans for Small Businesses?



- According to the 2003 Survey of Small Business Finances, almost 90 percent of small businesses use some form of credit.
- About 60 percent use a bank loan.
 - For businesses with more than 20 employees—85 percent rely on a bank loan
 - Credit cards increasing in importance, but still comprise only a small proportion of credit to small businesses
- Credit not only critical for “startup”, but coupled with technical assistance, can make the difference for business sustainability
 - Important implications for job growth

Quarterly Job Changes by Business Size



A Sharp Decline in Small Business Lending



- **Between 2007 and 2009, the amount of small business lending in the nation, as reported in banks' CRA filings, dropped by nearly half, from \$137 billion to \$73 billion**
- **And the number of loans made fell by more than two thirds, from 5.2 million to 1.6 million**
- **And in LMI neighborhoods?**
 - Small business credit may be particularly important for these areas
 - Relevant to policy discussions about the CRA

Data Sources

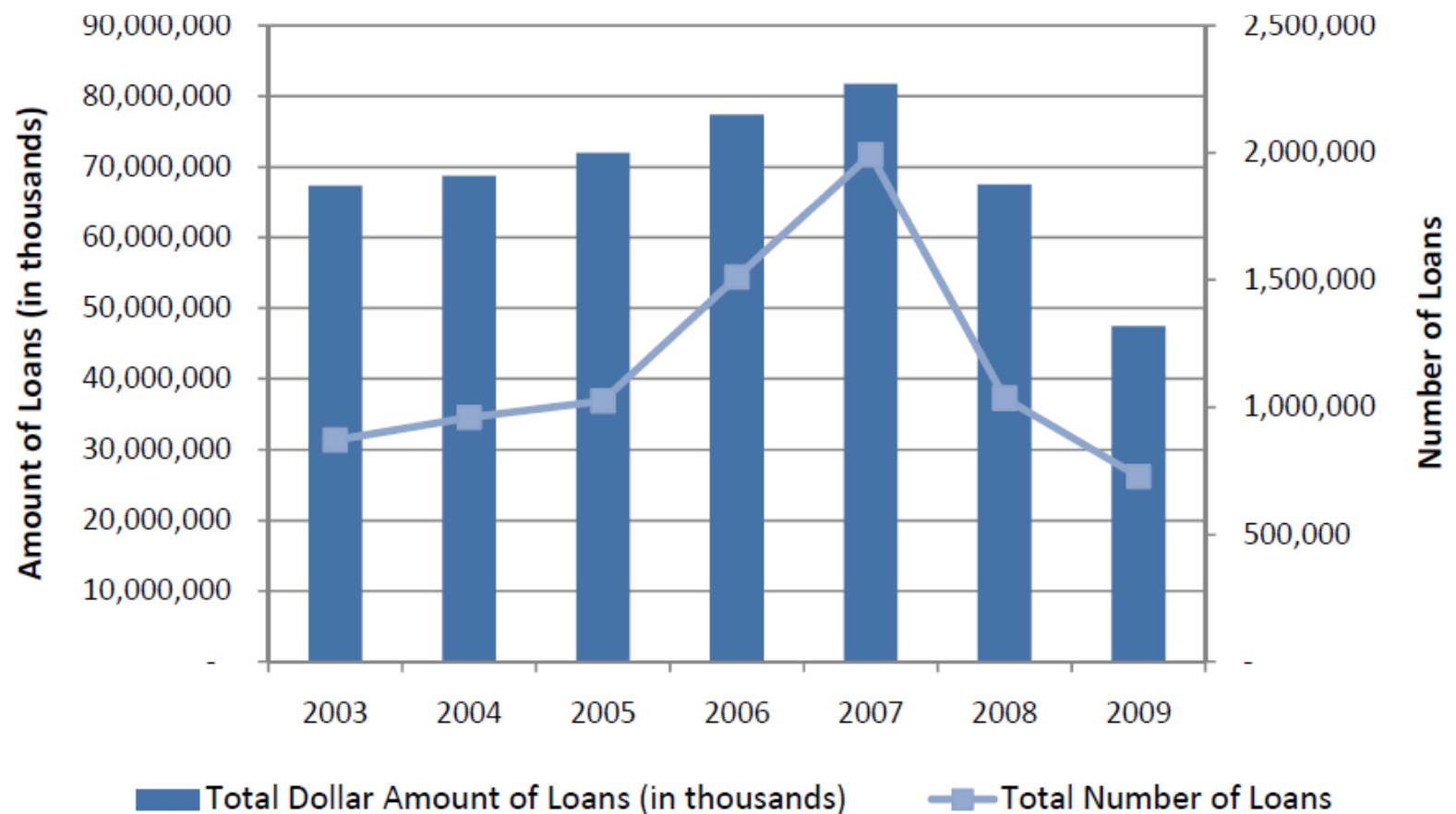


- **CRA small business lending data**
 - Loans under \$1 million to businesses with annual revenue under \$1 million
 - CRA reporters: Banks with assets of at least \$1 billion
 - Census tract level
 - 2003-2009
- **Other data**
 - Tract: income status, race, central city, mortgages, number of small businesses (Census, HMDA, and Dun & Bradstreet)
 - County: median household income, unemployment rate (ACS and BLS)
 - Zip code: foreclosure rate (private data vendor)
 - MSA: house price index (FHFA)

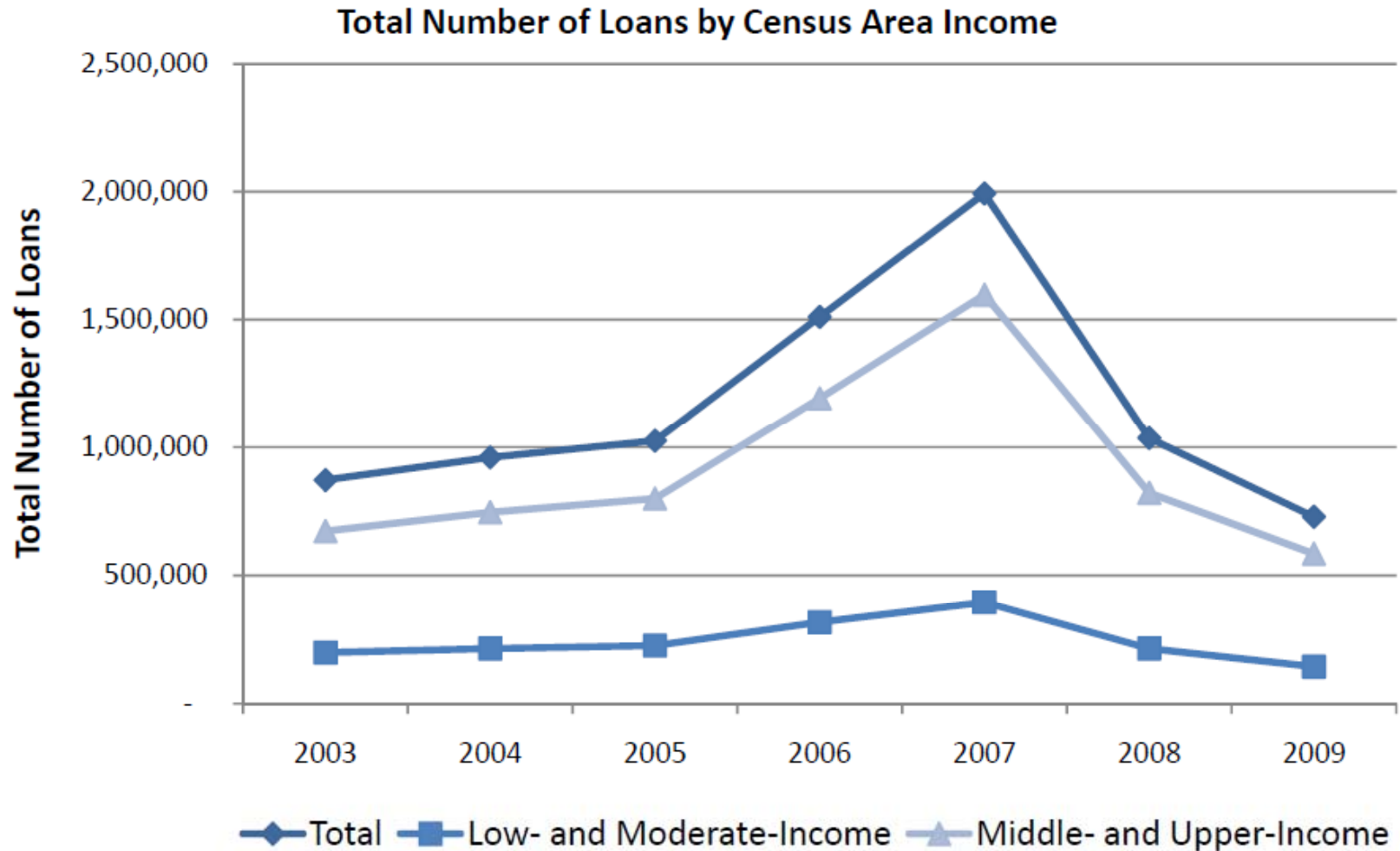
Trends in Small Business Lending



Total Number and Amount of Loans



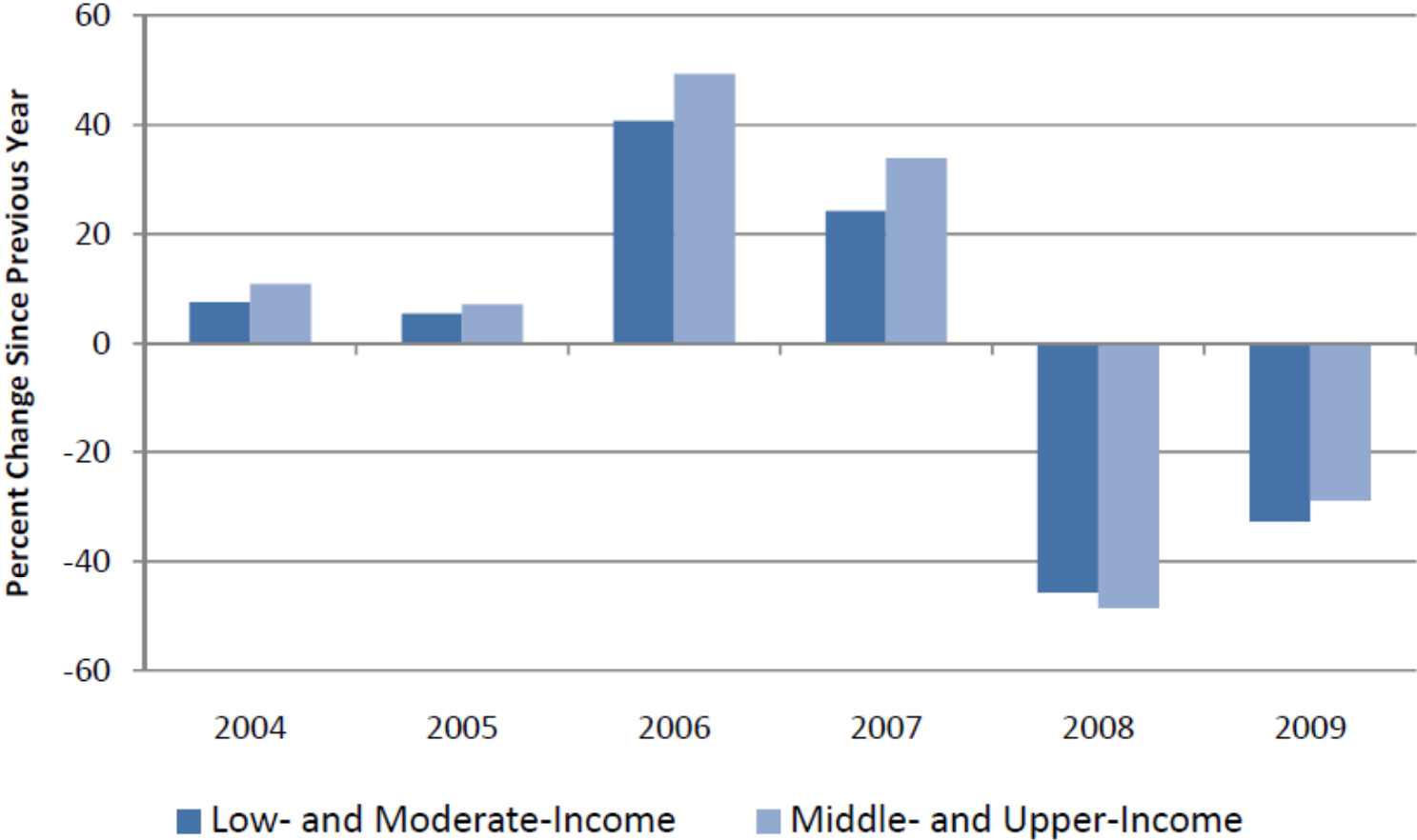
LMI Neighborhoods Didn't See Same "Boom"



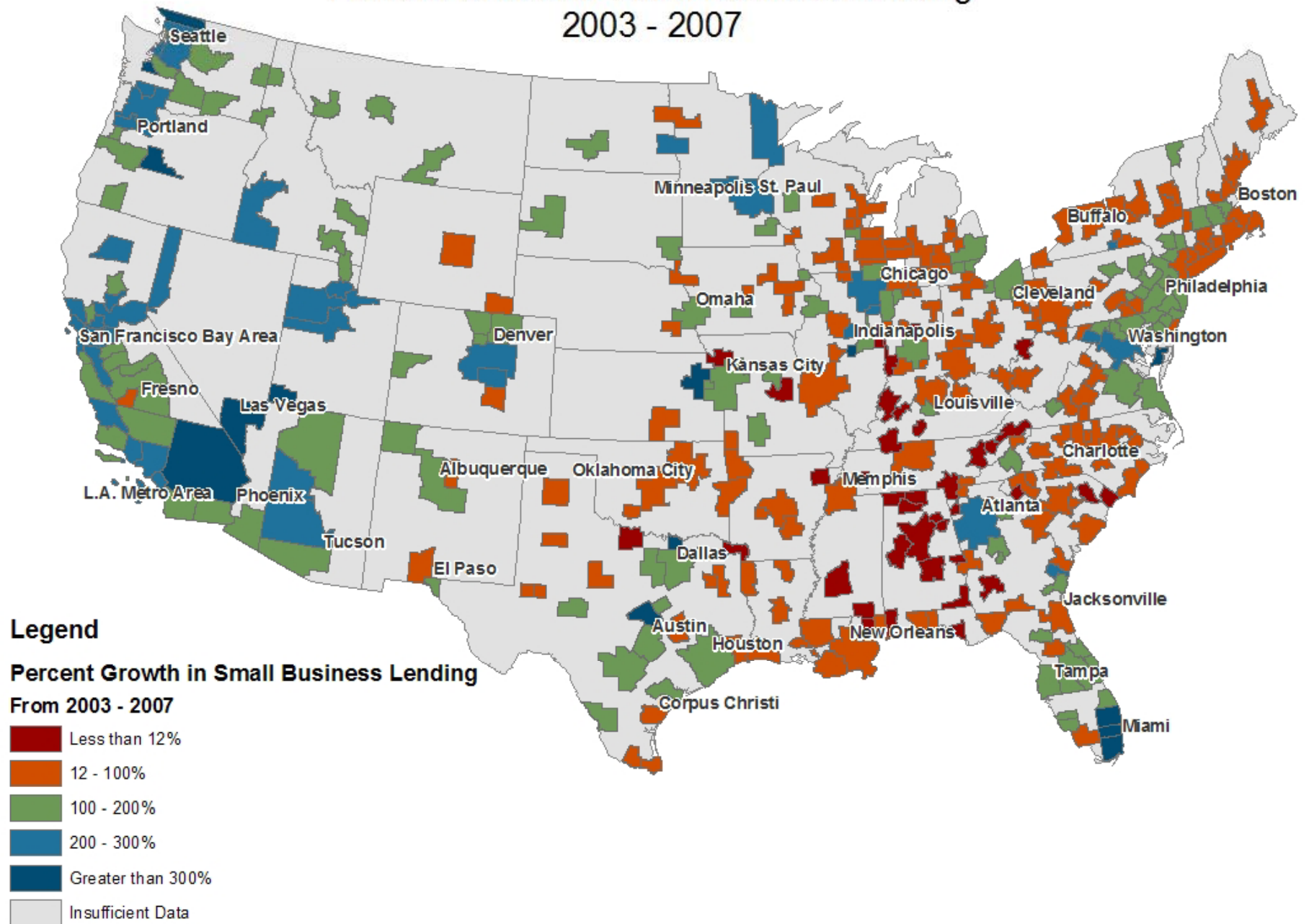
Yet Recession is Taking its Toll



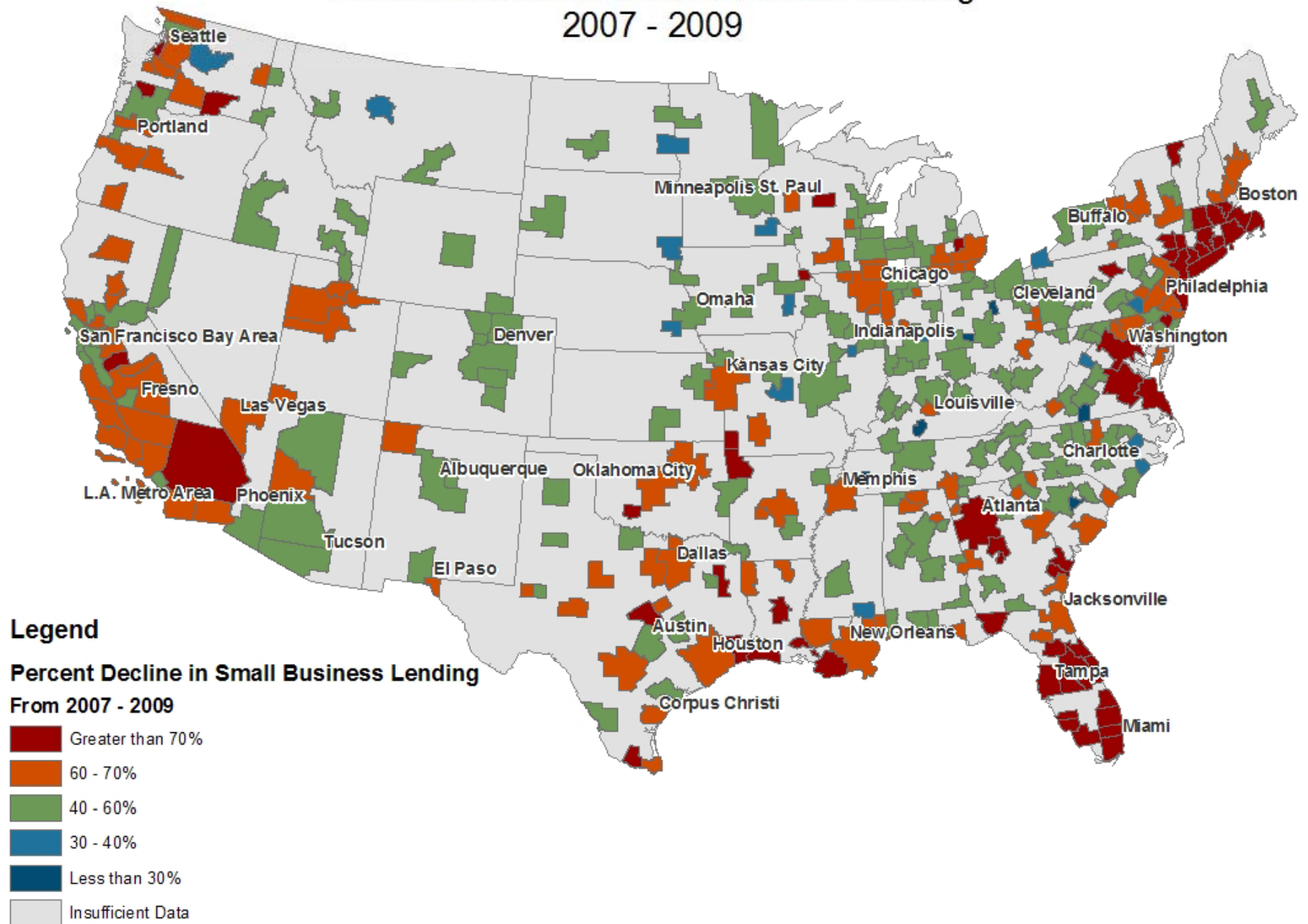
Year over Year Change in Total Number of Small Business Loans



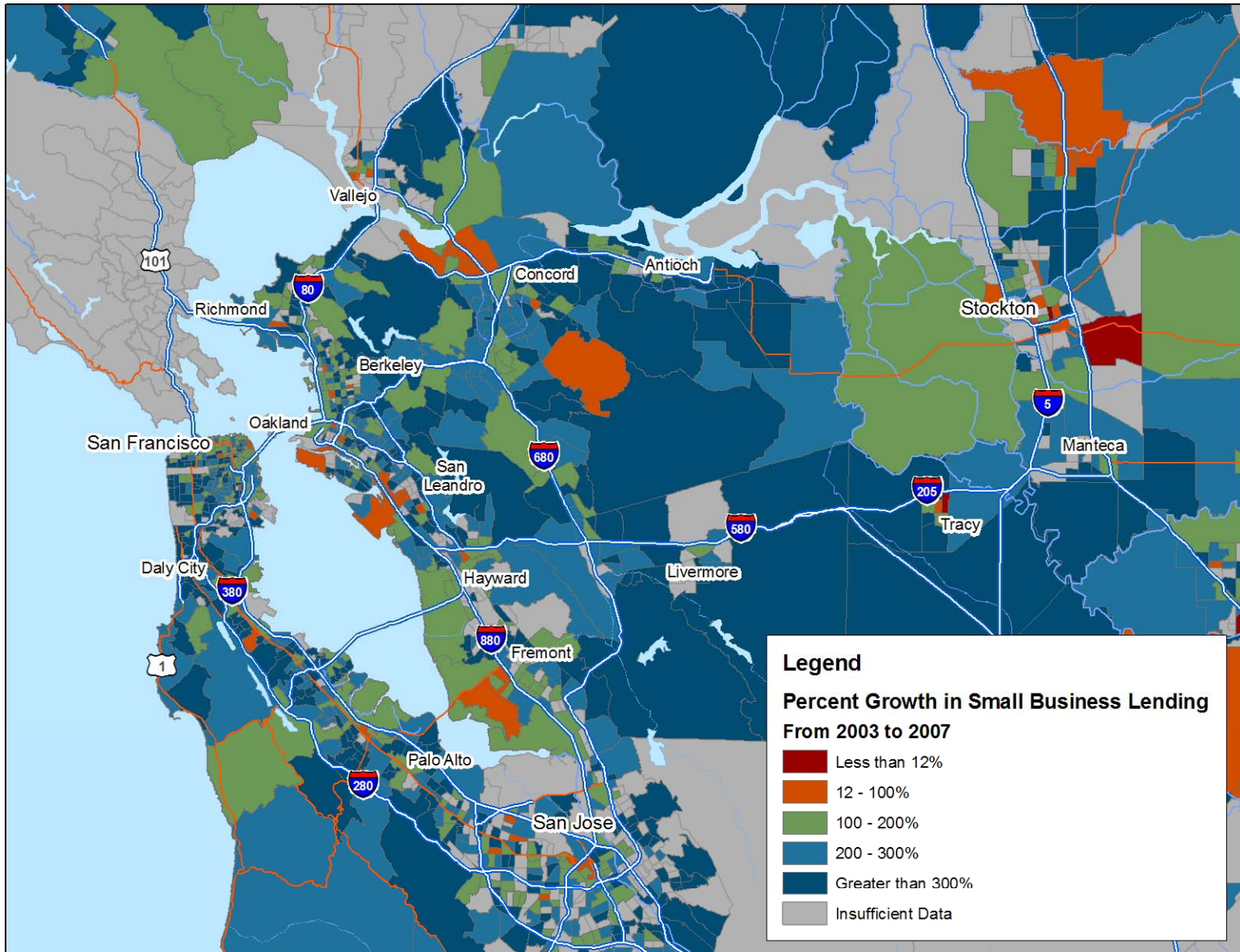
Percent Growth in Small Business Lending 2003 - 2007



Percent Decline in Small Business Lending 2007 - 2009



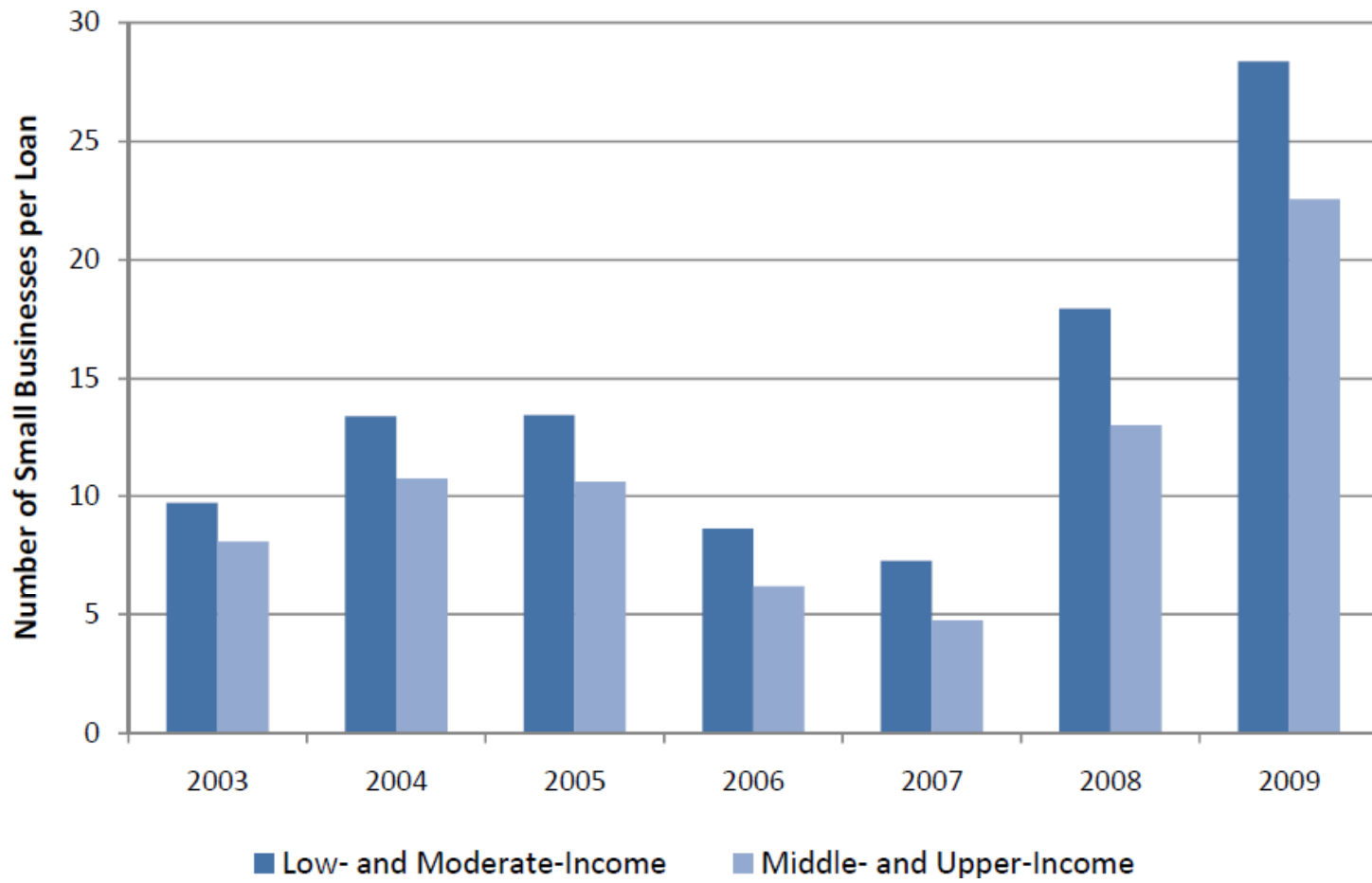
Percent Growth in Small Business Lending, 2003 - 2007



Gap in Access to Credit Widening



Average Number of Small Businesses per Loan (at the Census Tract Level)



What Factors are Associated with Access to Credit at the Neighborhood Level?



Increase Levels of SB Lending

- Number of small businesses
- Central city/commercial district
- Number of Lenders
- Part of 'real estate boom' – high house price appreciation, number of mortgage originations, small businesses related to real estate activities
- Percent Asian

Decrease Levels of SB Lending

- LMI neighborhood
- Percent African American/Latino
- Percent foreclosures

Policy Implications



- **Low-income neighborhoods are facing disinvestment on two fronts – in the housing market and along commercial corridors**
 - Neighborhood stabilization will require focus on both – NSP for small businesses and commercial areas?
 - SBA Small Loan Advantage and Community Advantage Programs
- **Long-term inequalities in access to small business credit**
 - Technical assistance: not just to obtain/qualify for loan, but detailed TA around growing and sustaining business
 - ✦ Access to market efforts – expanding the capacity of entrepreneurs to grow and sustain their business