

## Small Business Lending in the Fifth District

This issue of *5th District Footprint* examines the percentage change in the number and total dollar value of small business loans originated in Fifth District counties in the years following the Great Recession — from 2010 to 2015 — by the location of the recipient small businesses. Small businesses are key contributors to the U.S. economy, particularly in terms of job creation. The Bureau of Labor Statistics estimates that nationally small businesses created 62.3 percent of net new jobs on average per quarter from 1992 to 2015.<sup>1</sup> However, small businesses frequently report that they face challenges in accessing capital, with 50 percent of employer small businesses reportedly receiving less than the full amount of financing for which they applied in 2015.<sup>2</sup>

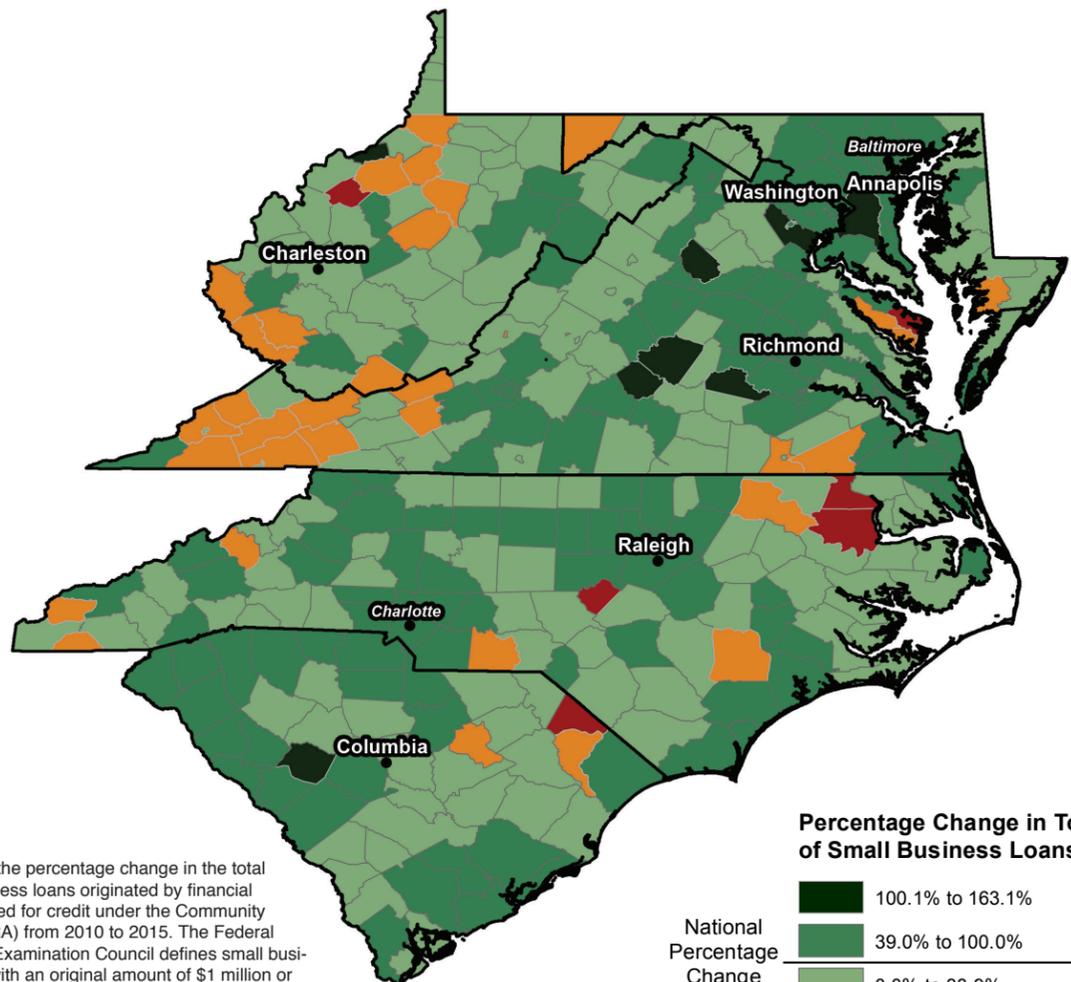
Lending to small businesses is one of the ways that financial institutions can fulfill their Community Reinvestment Act (CRA) obligation to invest in their local communities.<sup>3</sup> The Federal Financial Institutions Examination Council (FFIEC) collects data on small business lending by banks subject to CRA, which it then aggregates and releases annually.<sup>4</sup> While this data only represents a portion of small business lending in the United States, it may yield insight into post-recession trends in small business access to capital.

Nationally, the number of small business loans originated by CRA-obligated banks increased 38.9 percent from 2010 to 2015 and the total dollar value increased 25.7 percent. The Fifth District states and the District of Columbia all experienced an increase in the number and total dollar value of small business loans from 2010 to 2015, although the magnitude of these increases varies. Maryland had the greatest increase in the number of small business loans (60.4 percent) and the District of Columbia had the greatest total dollar value increase (36.8 percent). West Virginia experienced the smallest percentage increases in loan number and total dollar value at 12.2 percent and 0.02 percent, respectively.

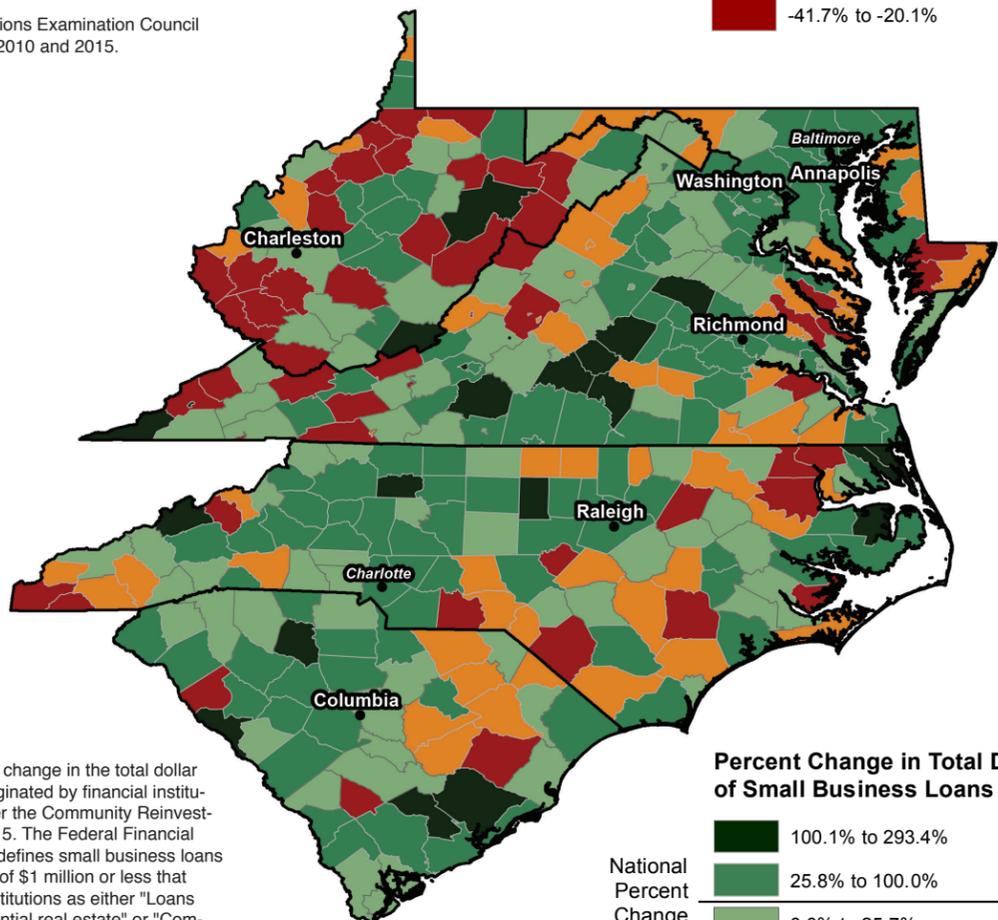
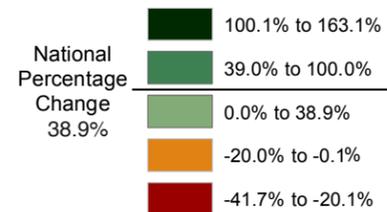
At the county level, more Fifth District counties experienced an increase in the number of small business loans rather than the total dollar value. While 88.9 percent of the 359 Fifth District counties had an increase in the number of loans, 68.2 percent experienced an increase in total dollar value. Eighty-one counties (22.6 percent) experienced an increase in the number of small business loans, but also a simultaneous decrease in the total dollar value. Of the 233 counties (64.9 percent) that had an increase in both the number and total dollar value of small business loans, Buckingham County, Virginia, experienced the greatest increases. From 2010 to 2015, the number of small business loans in Buckingham County increased 163.1 percent and the total dollar value increased 293.5 percent.

Note: Data represent the percentage change in the total number of small business loans originated by financial institutions and reported for credit under the Community Reinvestment Act (CRA) from 2010 to 2015. The Federal Financial Institutions Examination Council defines small business loans as those with an original amount of \$1 million or less that were reported by the financial institutions as either "Loans secured by nonfarm or nonresidential real estate" or "Commercial and industrial loans."

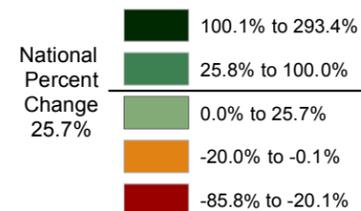
Source: Federal Financial Institutions Examination Council Aggregate Small Business Data 2010 and 2015.



Percentage Change in Total Number of Small Business Loans (2010 to 2015)



Percent Change in Total Dollar Value of Small Business Loans (2010 to 2015)



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Source: Federal Financial Institutions Examination Council Aggregate Small Business Data 2010 and 2015.

The number of small business loans originated in Fifth District counties in 2010 ranged from 13 loans (Wirt County, West Virginia) to 16,843 loans (Fairfax County, Virginia). This range expanded in 2015 as the minimum decreased to 10 loans (Wirt County, West Virginia) and the maximum increased to 28,813 loans (Fairfax County, Virginia). The median number of small business loans originated at the county level grew from 318 loans to 418 loans over the time period of interest.

In 2010, the average amount of a small business loan by county in the Fifth District ranged from \$11,846 (Lee County, Virginia) to \$97,459 (Waynesboro City, Virginia).<sup>5</sup> By 2015, this range had declined with average loan amounts of \$7,529 (Highland County, Virginia) to \$88,781 (Gilmer County, West Virginia). From 2010 to 2015, 72.4 percent of Fifth District counties experienced a decrease in the average dollar amount of small business loans.

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<sup>1</sup> This statistic uses the U.S. Small Business Administration definition of small business, which includes all firms with fewer than 500 employees. Business Employment Dynamics Table D: Average percentage share of gross job gains and gross job losses by firm size, third quarter 1992-fourth quarter 2015, seasonally adjusted, U.S. Bureau of Labor Statistics, 2015. Some research further suggests that small business job creation is concentrated among new and entering firms. E.g. Haltiwanger et al. "Who Creates Jobs? Small Versus Large Versus Young," 2013.

<sup>2</sup> "2015 Small Business Credit Survey: Report on Employer Firms," Federal Reserve Banks of New York, Atlanta, Boston, Cleveland, Philadelphia, Richmond and St. Louis, March 2016.

<sup>3</sup> Additional CRA performance standards vary by the size of the financial institution, but generally include percentage of lending activity in the designated CRA assessment area, record of lending to populations with varied income levels and geographic distribution of lending activity. For more information, see "A Banker's Quick Reference Guide to CRA" from the Federal Reserve Bank of Dallas.

<sup>4</sup> The FFIEC defines small business loans as those with an original amount of \$1 million or less that were reported by the financial institutions as either "loans secured by nonfarm or nonresidential real estate" or "commercial and industrial loans." The number of financial institutions reporting to the FFIEC may vary from 2010 to 2015.

<sup>5</sup> The average amount of small business loans is found by dividing the total dollar value by the number of small business loans in the given county for the given year.