

Community Banking  
in the 21st Century



# The Impact of the Small Business Lending Fund on Community Bank Lending to Small Businesses

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# The SBLF

- Established by Congress in September 2010
- Designed to provide capital to community banks and community development loan funds to encourage small business lending
- BHCs with < \$10 billion in assets were eligible
- Limits on SBLF funding are more stringent for BHCs with > \$1 billion in assets
- Problem banks need not apply

# More on the SBLF

- The initial interest rate on SBLF capital was from 1% to 5%, with the lowest rate if banks increased their small business lending by at least 10%
- After 2 years, the rate increased to 7% if the bank didn't increase its lending
- After 4½ years, the rate increased to 9% if funds had not been repaid
- Was different from, but often used to repay, the Capital Purchase Program

# Purpose of our work

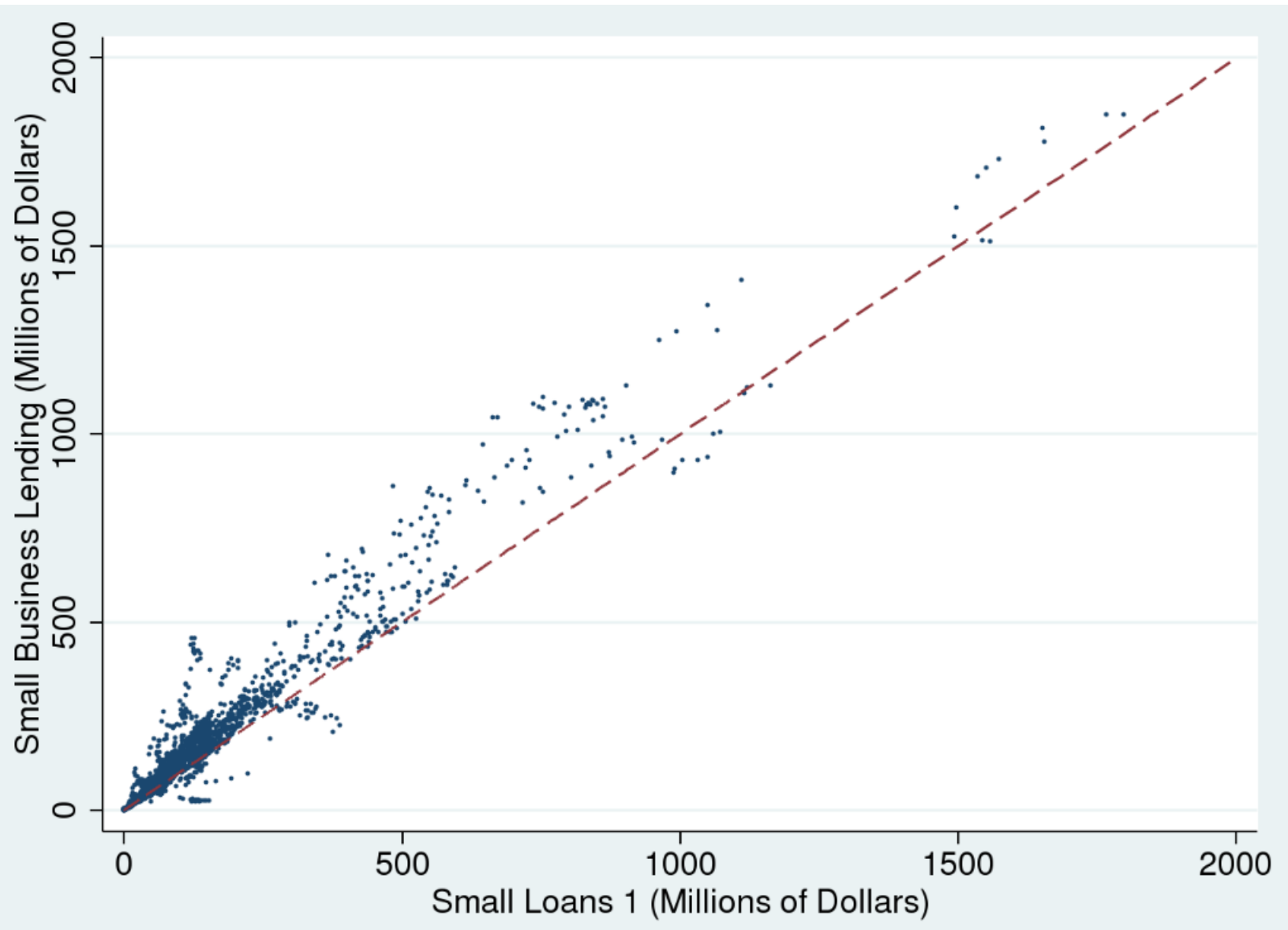
- Treasury says that SBLF increased small business lending by \$12.5 billion over baseline levels
  - Find a 35-40% increase compared to 7-11% for peers
- We conduct a standard economic analysis of the effect of the SBLF program
- Use a diff-in-diffs approach comparing participating banks to non-participating banks and controlling for economic and demographic differences in local economic markets

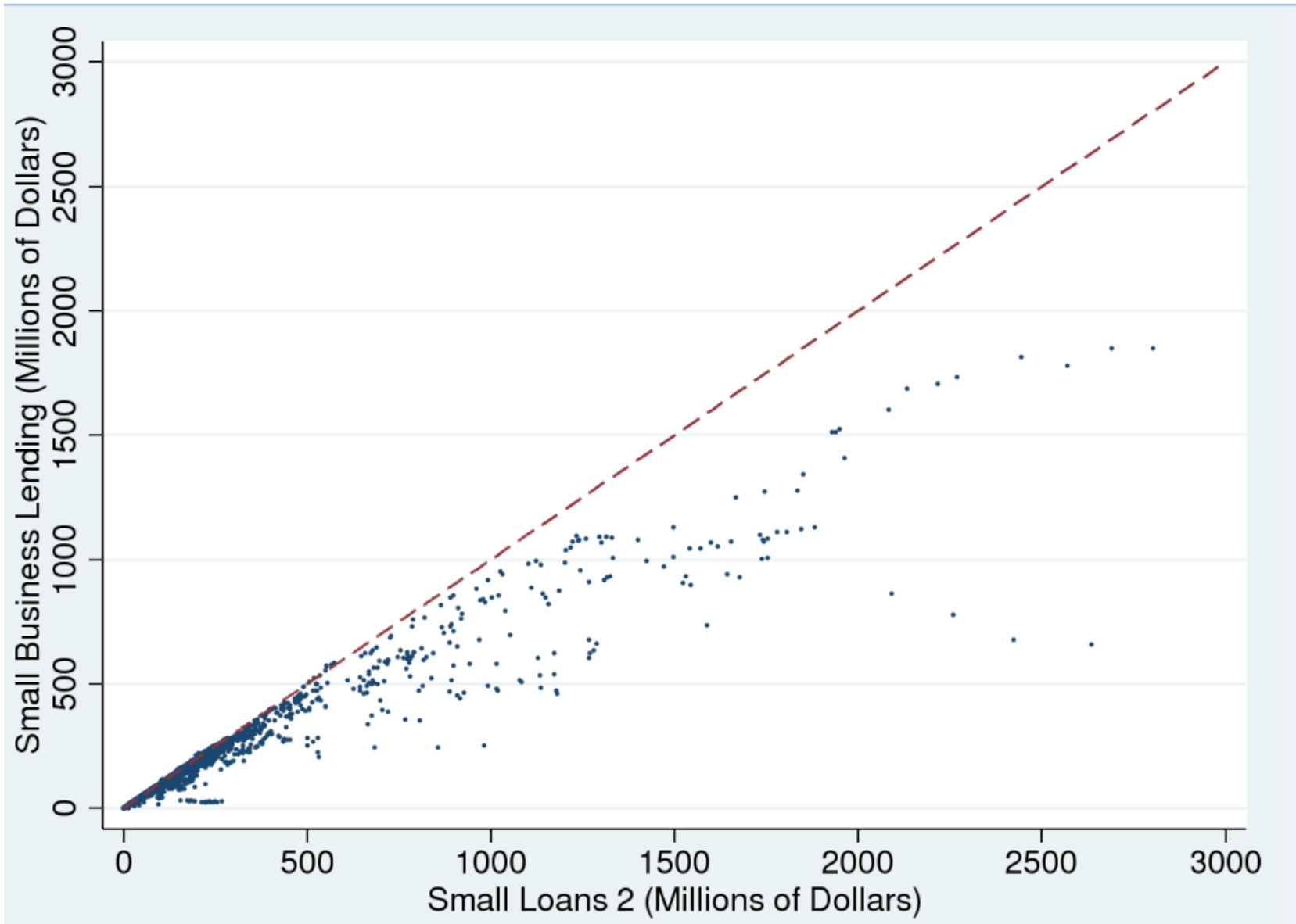
# Our findings

- Banks that participated in the SBLF increased their small business lending significantly faster than other community banks
  - Results support Treasury findings
- However, SBLF participants were increasing their small business lending faster than other banks before the SBLF was introduced
- Program does not appear to have increased the volume of small business loans

# Our dependent variable

- The change in small business lending by bank  $i$  between time  $t-1$  and time  $t$  ( $\Delta SB$ )
- Because the SBLF definition of small business lending doesn't match Call Report data, we use two measures of  $\Delta SB$ :
  - One measure excludes large ag production loans, large C&I loans and large loans secured by farmland
  - The two measures bracket the SBLF numbers







# Independent variables

- SBLF participation dummy
- CPP participation dummy
- $\ln(\text{bank assets})$
- $\ln(\text{market population})$
- $\ln(\text{market per capita income})$
- $\ln(\# \text{ of business establishments in market})$
- Market unemployment rate
- Market HHI
- % of market deposits held by small depositories
- Market CoreLogic House Price Index
- Rural market dummy

# Our sample

- Covers 2006-2013
- “Community banks”
  - Can be banks or thrifts
  - Belong to a BHC with < \$10 billion in assets
  - Are  $\geq 2$  years old
  - Derive > 70% of their deposits from one local banking market
    - Define markets as MSAs or counties

# Univariate comparisons

	SBLF Participants		Non-Participants		Differences	
	Mean	Median	Mean	Median	t-statistic	Pearson Chi2
Assets	12.52	12.51	12.11	11.97	-13.97	340.22
Small Loans 1	10.64	10.79	10.11	10.19	-14.24	309.33
Small Loans 2	10.93	11.04	10.35	10.35	-15.47	360.36
Diff. in Small Loans 1	0.24	0.12	0.14	0.03	-7.18	261.03
Diff. in Small Loans 2	0.23	0.13	0.13	0.05	-9.05	292.49
Rural	0.25	0.00	0.49	0.00	21.02	437.95
Housing Price Index	149.91	141.88	145.92	137.83	-4.00	12.16
Business Estabs	8.11	7.90	7.38	7.12	-18.03	223.67
Unemployment Rate	7.57	7.30	6.90	6.40	-9.54	64.12
HHI 100% Thrifts	0.16	0.13	0.20	0.16	12.97	274.37
Per capita Income	40.99	39.80	37.62	36.75	-15.86	175.93
Population	13.16	13.64	12.04	11.72	-20.19	399.68
Market Share of Small Banks	59.62	54.82	68.39	77.78	12.05	72.39
Organization Assets	6.55E+05	3.18E+05	1.14E+06	1.83E+05	1.23	299.37

# Results of multiyear regression

SBLF	0.0947*** (0.0108)
CPP	-0.00368 (0.00724)
Rural	0.0186** (0.00757)
Assets (t-1)	-0.0109*** (0.00178)
Population (t-1)	0.00650*** (0.00239)
Per capita income (t-1)	0.000216 (0.000366)
Business estabs. (t-1)	-0.00295 (0.00209)
Unemployment rate (t-1)	-0.00296** (0.00116)
Share small banks (t-1)	-0.00121*** (0.000127)
House price index (t-1)	0.000819*** (6.92e-05)
HHI (t-1)	-0.0721*** (0.0247)

# Results of yearly regressions

	2006	2007	2008	2009
SBLF	0.0546*	0.0393	0.0953**	0.0850***
	(1.650)	(0.657)	(2.166)	(3.168)
SBLF	2010	2011	2012	2013
	0.123***	0.134***	0.0914***	0.118***
	(5.600)	(7.807)	(4.479)	(8.650)

# Interpretation of results

- SBLF participants increased their small business lending by about 10% compared to other community banks
- However, this was true both before and after the SBLF was created
- Formal diff-in-diff-in-diff regressions confirm that the SBLF did not have a significant effect on bank behavior

# Conclusions

- The SBLF does not appear to have increased the volume of small business lending
- We haven't examined whether the SBLF affected the riskiness of community loan portfolios
- We haven't done a cost-benefit analysis of the SBLF