Small businesses comprise
- 48% of private-sector employment
  (SBA FAQ, June 2016)
- 65% of net new private-sector jobs
  (SBA “An Analysis of Small Business and Jobs,” March 2010)

Banks: Most common source of external credit for small businesses
(Federal Reserve System “Report on Employer Firms,”
Small Business Credit Survey, April 2017)

Small and large banks lend to small businesses differently
Between 2008 and 2017

- Number of small banks dropped by nearly a third
- Nearly 10 percent fewer branches overall in operation

What are the implications for small businesses?
Nationally-representative survey of banks and their small business lending practices

Conducted 2016 to 2017

Few surveys of banks and their small business lending practices
- Usually convenience samples
- Only small banks
- Fewer topics
Banks’ characterizations of their small business borrowers

Banks’ market area and their competitive environment for small business lending

Competitive practices and advantages

Loan products offered and underwriting practices, including loans to start-ups

Volume of C&I lending to small businesses not captured in current bank reporting to regulators
### SBLS (III): Asset Sizes & Response Rates

<table>
<thead>
<tr>
<th>Bank Size</th>
<th>Asset Class</th>
<th>Universe</th>
<th>Sample Size</th>
<th>Number of Respondents</th>
<th>Response Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>&lt; $10B</td>
<td>5,925</td>
<td>1,871</td>
<td>1,122</td>
<td>60%</td>
</tr>
<tr>
<td>Large</td>
<td>≥$10B</td>
<td>93</td>
<td>90</td>
<td>52</td>
<td>56%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>6,018</td>
<td>1,961</td>
<td>1,174</td>
<td>60%</td>
</tr>
</tbody>
</table>
1) SMALL BANKS: Relationship Lenders, Competitive in Small Business Lending Market

2) LARGE BANKS: Transactional, Perceived Advantages in Convenience and Pricing

3) CORE CHARACTERISTICS: Small Business Lending for All Banks Is Local, Relational, High Touch
Small Banks (I): Use Relationship-based Practices

Q: What are the top three practices your bank uses to generate and maintain your small business relationships?

Practice Used
- Customer Referrals: 51.6
- Ability to Talk with Someone: 49.9
- Community Involvement: 32.6
- Professional Referrals: 30.3
- Walk-ins: 21.4
- Marketing to Existing Customers: 21.1
- Staff Outreach: 19.9
- Staff Knowledge: 13.8
- Branch Network: 8.9
- Marketing to New Customers: 4.8
- Hours Open: 4.4
- Brokers: 1.4
- Lead Generators: 1.2
- Loan Production Offices: 0.8
- Online Applications: 0.4

Options Not Shown: Card Payment Processing, Check Cashing Services, Indirect Lending, Payroll Services, Transfer Services
Small Banks (II): Flexible in Describing Small Businesses

Q: How do you describe your bank’s small business borrowers?

**“** Indicates small banks are statistically more likely than large banks, at the significance level of at least 10 percent, to describe their small business borrowers with a characteristic in this category; “+” that large banks are statistically more likely than small banks. “w” indicates that the number of respondents falls below the allowable reporting threshold.
Q: Who are your bank’s top three competitors for small business lending?

Options Not Shown: Credit Unions, Crowd Funding, FinTech Firms, Nonbanks, Nonlocal banks. “*” indicates small banks are statistically more likely than large banks, at the significance level of at least 10 percent, to consider this institution a top three competitor; “+” that large banks are statistically more likely than small banks.
Small Banks (III): Top Competitors for Both Small and Large Banks

Q: Who is your bank’s number one competitor for small business lending?

Options Not Shown: Credit Unions, Crowd Funding, FinTech Firms, Nonbanks, Nonlocal banks. “+” Indicates large banks are statistically more likely than small banks, at the significance level of at least 10 percent, to consider this institution a number one competitor. “w” indicates that the number of respondents falls below the allowable reporting threshold.
Small Banks (III): Competition Not Focused on Other Lenders

Options Not Shown: Local Bank <$1B, Local Bank $1B to < $10B, Local Bank $10B to < $50B, and Local Bank $50B or more. "*" indicates small banks are statistically more likely than large banks, at the significance level of at least 10 percent, to consider this institution to be a top three competitor. "w" indicates that the number of respondents falls below the allowable reporting threshold.

### Top Three Competitors

<table>
<thead>
<tr>
<th>Category</th>
<th>Small</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonlocal Bank</td>
<td>13.0</td>
<td>12.3</td>
</tr>
<tr>
<td>Credit Union</td>
<td>34.1*</td>
<td></td>
</tr>
<tr>
<td>Local Nonbank</td>
<td>8.3</td>
<td></td>
</tr>
<tr>
<td>FinTech</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>Credit Card</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>Crowd-funding</td>
<td>1.8</td>
<td></td>
</tr>
</tbody>
</table>

### Number One

<table>
<thead>
<tr>
<th>Category</th>
<th>Small</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonlocal Bank</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>Credit Union</td>
<td>4.5</td>
<td></td>
</tr>
<tr>
<td>Local Nonbank</td>
<td></td>
<td>1.3</td>
</tr>
</tbody>
</table>

1) Small Banks

SBLS Q16/Report Figure 3.3B&C
Small Banks (IV): Perceived as Relational, Attentive, and Fast

**Advantage Category**

<table>
<thead>
<tr>
<th>Advantage Category</th>
<th>Number One Competitor Is a Small Bank (&lt;$10 Billion)</th>
<th>Number One Competitor Is a Large Bank (≥$10 Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Service</td>
<td>17.3</td>
<td>58.8*</td>
</tr>
<tr>
<td>Convenience</td>
<td>7.0</td>
<td>70.5+</td>
</tr>
<tr>
<td>Pricing/Structure</td>
<td>12.7</td>
<td>51.2</td>
</tr>
<tr>
<td>Speed of Service</td>
<td>5.5</td>
<td>26.2*</td>
</tr>
<tr>
<td>Underwriting</td>
<td>11.6+</td>
<td>15.8</td>
</tr>
<tr>
<td>Technology</td>
<td>11.6+</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Q: What are the top three competitive advantages of your bank’s number one competitor?

“*” Indicates small banks are statistically more likely than large banks, at the significance level of at least 10 percent, to be perceived to have an advantage in this category; “+” that large banks are statistically more likely than small banks.
SBLS: PREVIEW OF RESULTS

1) SMALL BANKS: Relationship Lenders, Competitive in Small Business Lending Market

2) LARGE BANKS: Transactional, Perceived Advantages in Convenience and Pricing

3) CORE CHARACTERISTICS: Small Business Lending for All Banks Is Local, Relational, High Touch
Large Banks (I): Much More Likely to Use Transactional Practices

<table>
<thead>
<tr>
<th>Does Your Bank...?</th>
<th>Small</th>
<th>Large+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use to Define Small Businesses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Either Gross Annual Revenue or Aggregate Loan Exposure</td>
<td>28%</td>
<td>85%</td>
</tr>
<tr>
<td>Use in Underwriting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Allowable Loan Amount (for Top C&amp;I Product)</td>
<td>15%</td>
<td>70%</td>
</tr>
<tr>
<td>Business Credit Score</td>
<td>15%</td>
<td>64%</td>
</tr>
<tr>
<td>Offer These Products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Cards</td>
<td>21%</td>
<td>69%</td>
</tr>
<tr>
<td>Standardized Small Business Loan Products</td>
<td>8%</td>
<td>65%</td>
</tr>
</tbody>
</table>

Large banks are statistically more likely than small banks, at the significance level of at least 10 percent, to use or offer, in all cases.
Large Banks (II): Lend to Start-Ups Differently And Look for Loan Guarantees

**Q: What, if any, additional requirements does your bank ask of start-ups?**

- **Underwrites Startups Same as Established Small Businesses**
  - Small: 8.5%
  - Large: 38.8%*

- **Additional Requirements**
  - **Any Guarantee**
    - Small: 26.7%
    - Large: 80.2%+
  - **SBA Guarantee**
    - Small: 14.3%
    - Large: 60.3%+
  - **Personal/Third-Party Guarantee**
    - Small: 8.2%
    - Large: 20.0%
  - **Owner Characteristics**
    - Small: 18.0%
    - Large: 17.2%
  - **Additional Documentation**
    - Small: 17.9%
    - Large: 17.9%
  - **Business Characteristics**
    - Small: 9.4%
    - Large: 9.4%

---

"*" indicates small banks are statistically more likely than large banks, at the significance level of at least 10 percent, to underwrite startups the same as established small businesses; "+" indicates large banks are statistically more likely than small banks to ask for this additional requirement. "w" indicates that the number of respondents falls below the allowable reporting threshold.
Large Banks (III): Perceived to Be Convenient and Cheaper

Q: What are the top three competitive advantages of your bank’s number one competitor?

Advantage Category

- **Convenience**:
  - Number One Competitor Is a Small Bank (<$10 Billion): 26.2*
  - Number One Competitor Is a Large Bank (≥$10 Billion): 52.4

- **Pricing/Structure**: 51.2

- **Customer Service**: 17.3

- **Underwriting**: 12.7

- **Technology**: 5.5

- **Speed of Service**: 7.0

"**" indicates small banks are statistically more likely than large banks, at the significance level of at least 10 percent, to be perceived to have this advantage; "+" indicates large banks are statistically more likely than small banks.
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Core Characteristics (I):
Small Business Lending Is Local

Application Method

- **At a Branch**
  - Small: 96.5
  - Large: 95.8

- **Telephone Call by Bank Staff**
  - Small: 51.3
  - Large: 68.7+

- **On-site Visit by Bank Staff**
  - Small: 49.4
  - Large: 83.2+

- **Online**
  - Small: 11.2
  - Large: 22.8+

- **Brokers**
  - Small: 4.2
  - Large: w

Q: Where can a small business apply for a loan from your bank?

“+” Indicates large banks are statistically more likely than small banks, at the significance level of at least 10 percent, to allow this method for small businesses to apply for loans. “w” indicates that the number of respondents falls below the allowable reporting threshold.
Are Own Important Advantages

Q: What are your own bank’s top three competitive advantages?

Options Not Shown: Collateral, Convenient Location, Debt-Service-Coverage, Fees, LTV, Mobile Banking, Remote Deposit, Term. “w” indicates that the number of respondents falls below the allowable reporting threshold.
Core Characteristics (III): Banks Use Similar Practices

Q: What practices does your bank use to generate and maintain small business relationships?
Core Characteristics (III): Banks Use Similar **High-Touch** Practices

![Graph showing the comparison of practices between small and large banks. The graph illustrates the percentage of small banks against the percentage of large banks for various practices such as personal interactions, external sources, outreach, convenience, and business services. The data points align along a diagonal line, indicating a similar usage pattern across bank sizes.]
Core Characteristics (III): Banks Use Similar High-Touch Practices

3) Core Practices

SBLS Q24/Report Figure 4.1A
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