

*6TH Annual Community Banking Research and
Policy Conference*

FEDERAL RESERVE BANK OF ST. LOUIS

FDIC SMALL BUSINESS LENDING SURVEY

October 3, 2018

Federal
Deposit
Insurance
Corporation

Division of
Insurance and
Research



Context (I): Small Businesses & Banks in the US

- 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

Context (II): Consolidation

- 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?

SBLS (I): FDIC's Small Business Lending Survey

- **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

SBLS (II): 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

Bank Size	Asset Class	Universe	Sample Size	Number of Respondents	<i>Response Rate</i>
Small	< \$10B	5,925	1,871	1,122	60%
Large	≥\$10B	93	90	52	56%
Total		6,018	1,961	1,174	60%

SBLS: PREVIEW OF RESULTS

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

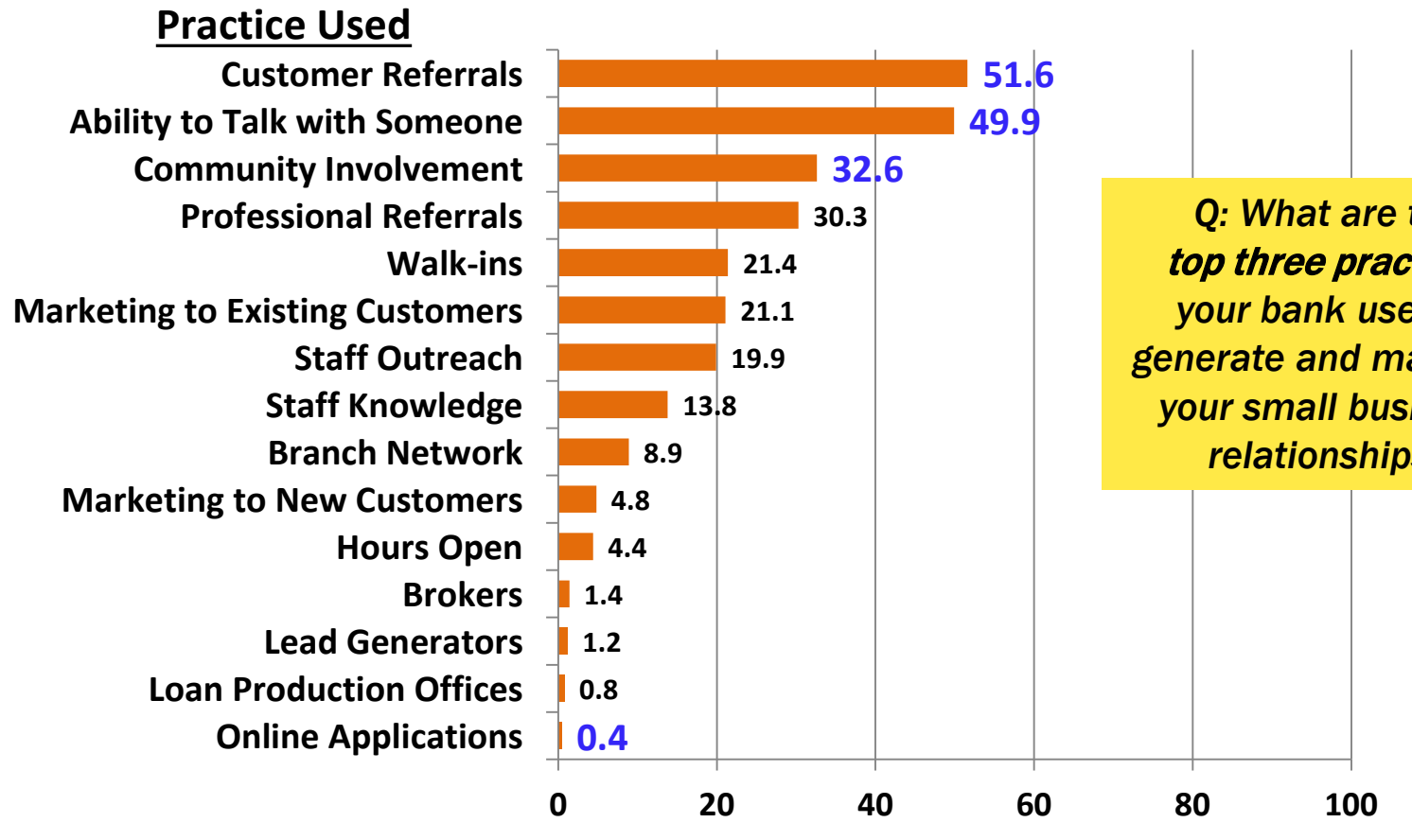
2) LARGE BANKS: Transactional, Perceived Advantages in Convenience and Pricing

3) CORE CHARACTERISTICS: Small Business Lending for All Banks Is Local, Relational, High Touch

FDIC

**Small
Business
Lending
Survey**

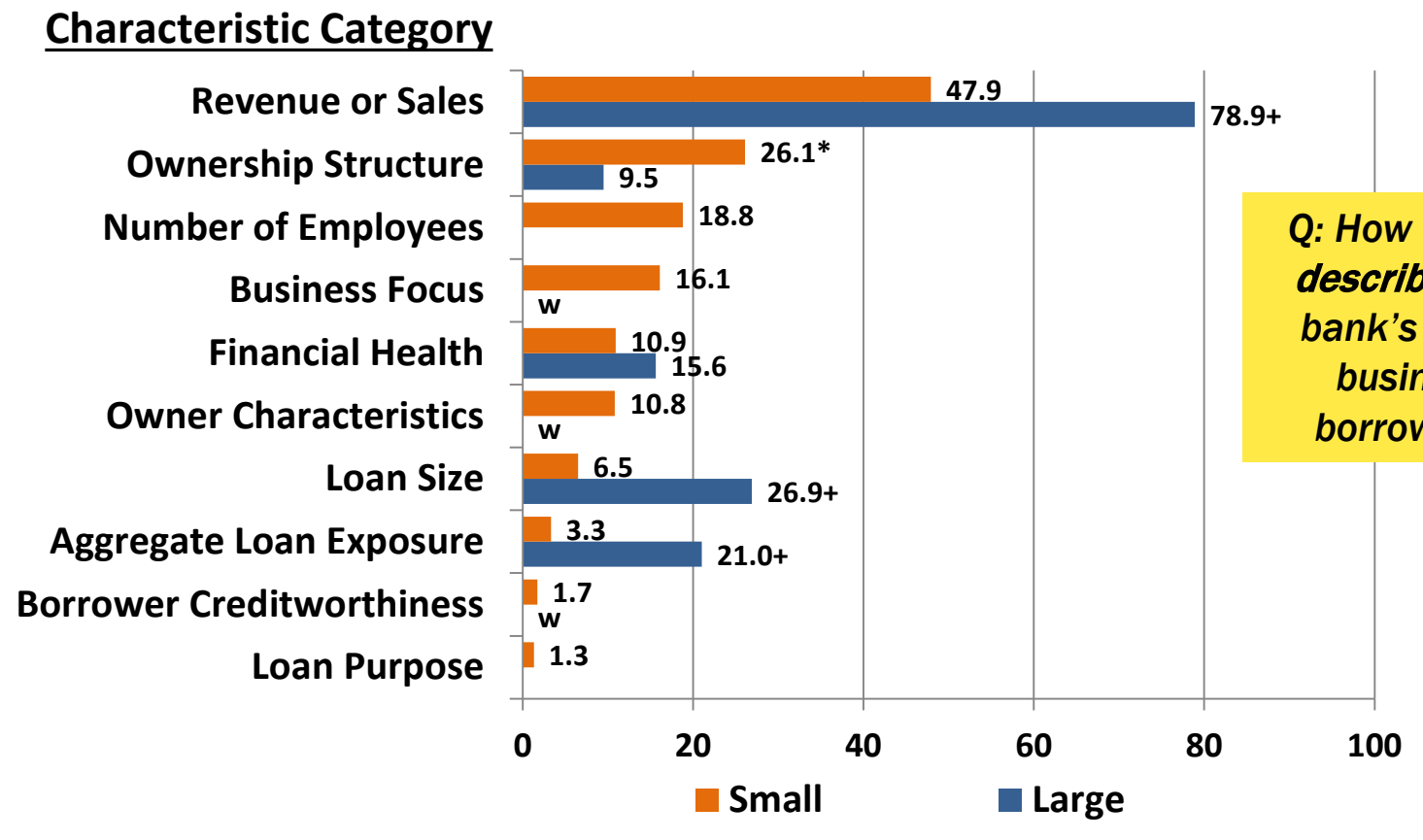
Small Banks (I): Use **Relationship-based** Practices



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

Options Not Shown: Card Payment Processing, Check Cashing Services, Indirect Lending, Payroll Services, Transfer Services

Small Banks (II): Flexible in Describing Small Businesses

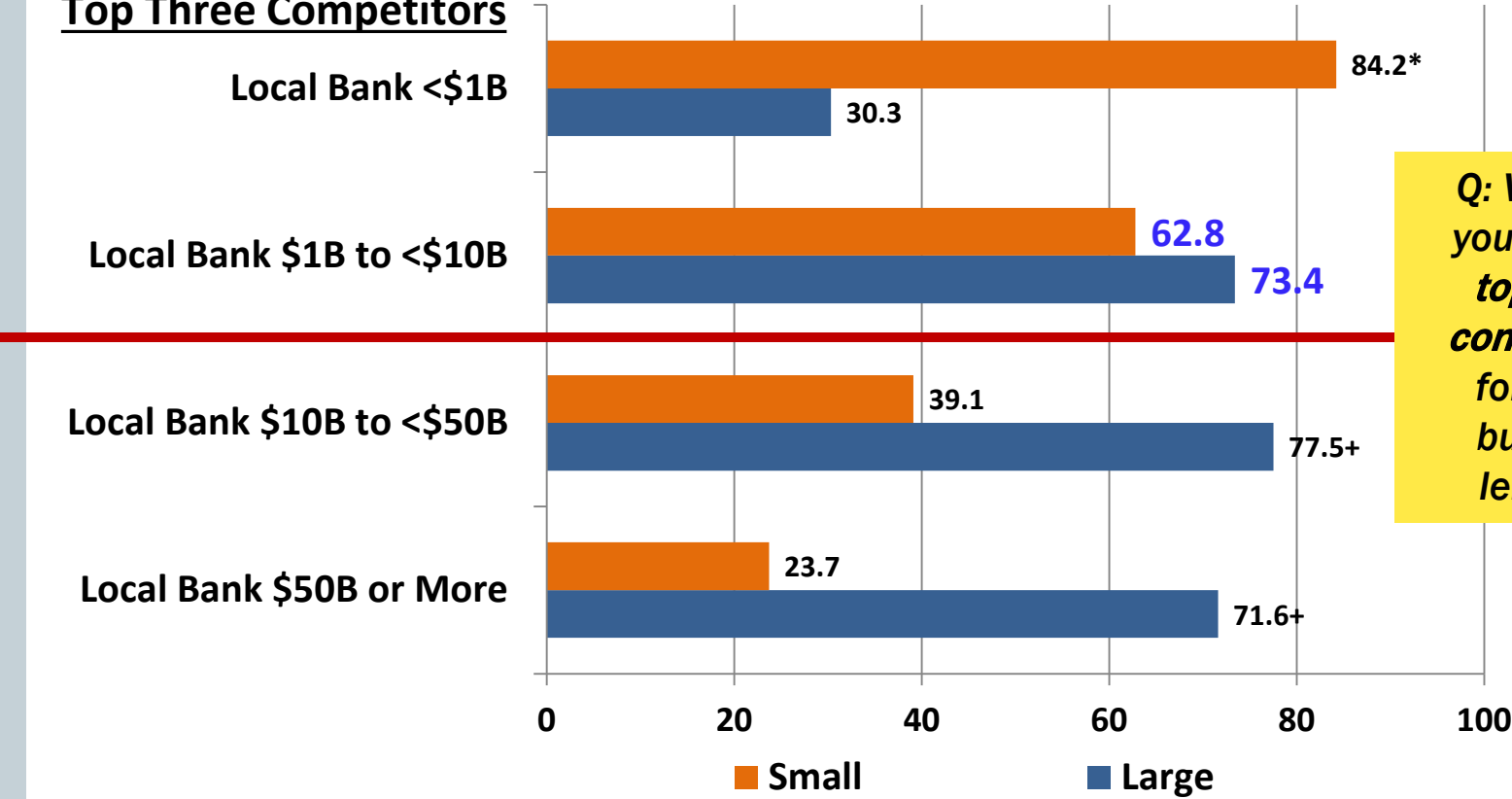


Q: How do you describe your bank's small business borrowers?

"*" 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.

Small Banks (III): Top Competitors for Both Small and Large Banks

Top Three Competitors

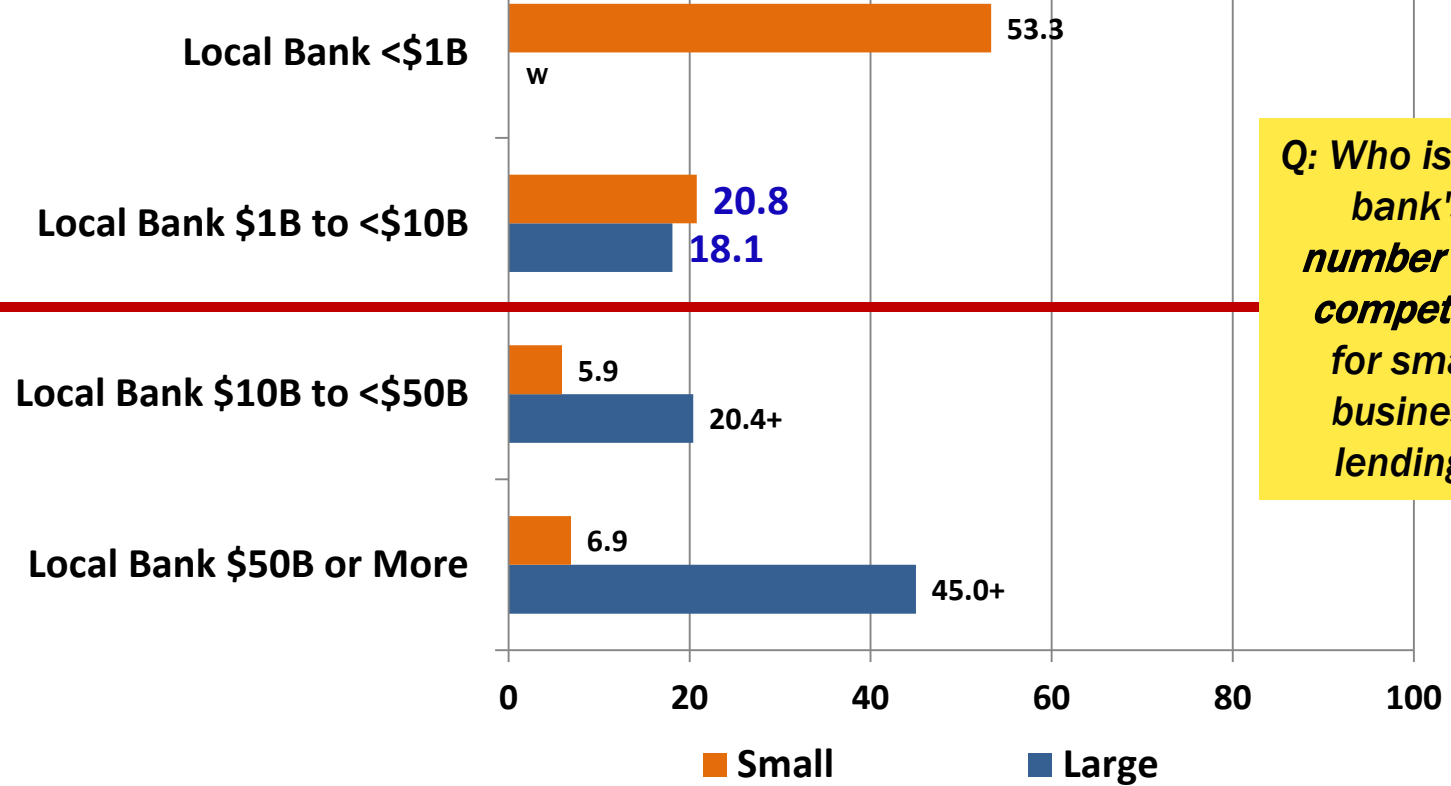


Q: Who are your bank's top three competitors for small business lending?

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

Number One Competitor

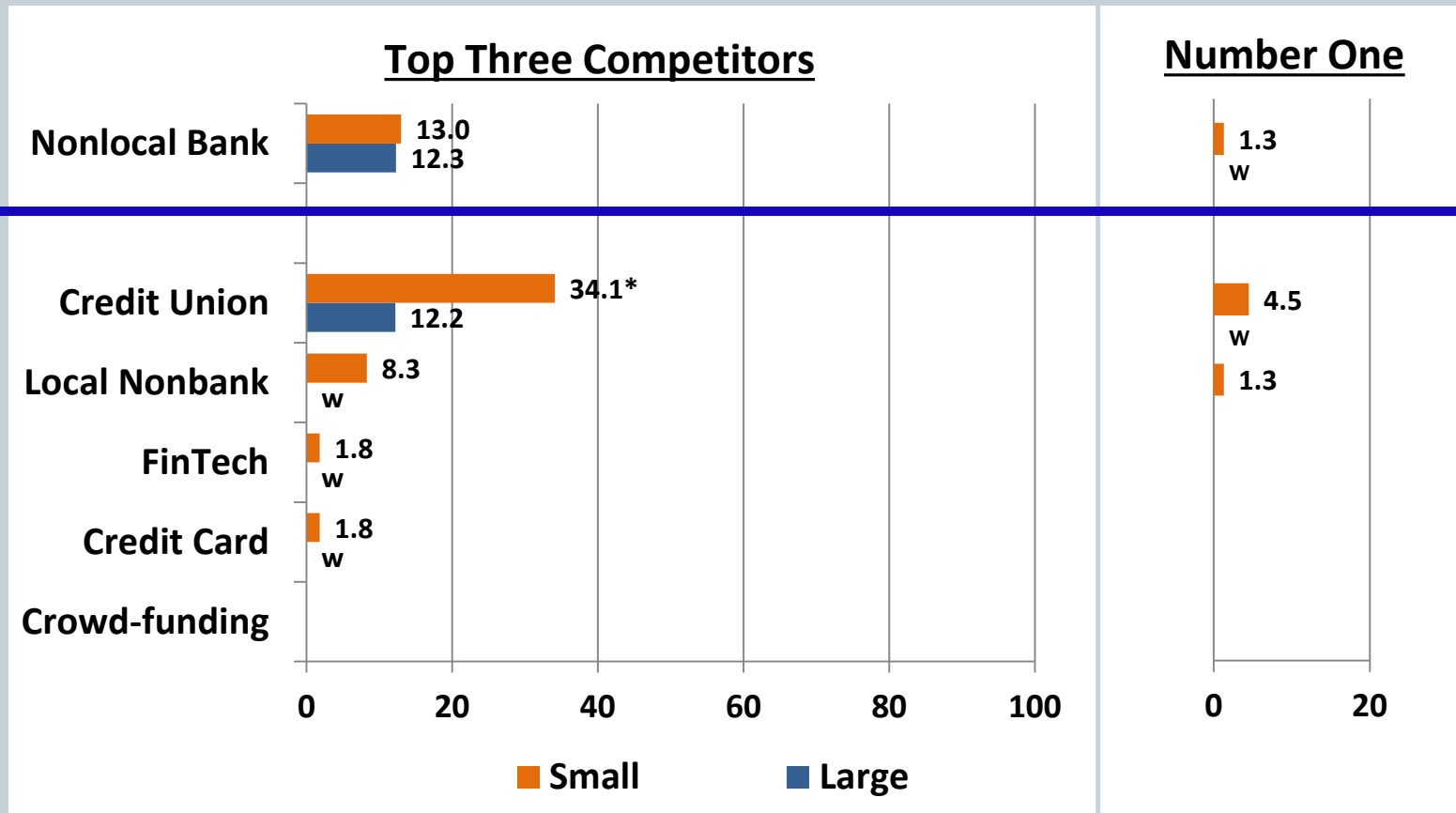


Q: Who is your bank's number one competitor for small business lending?

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

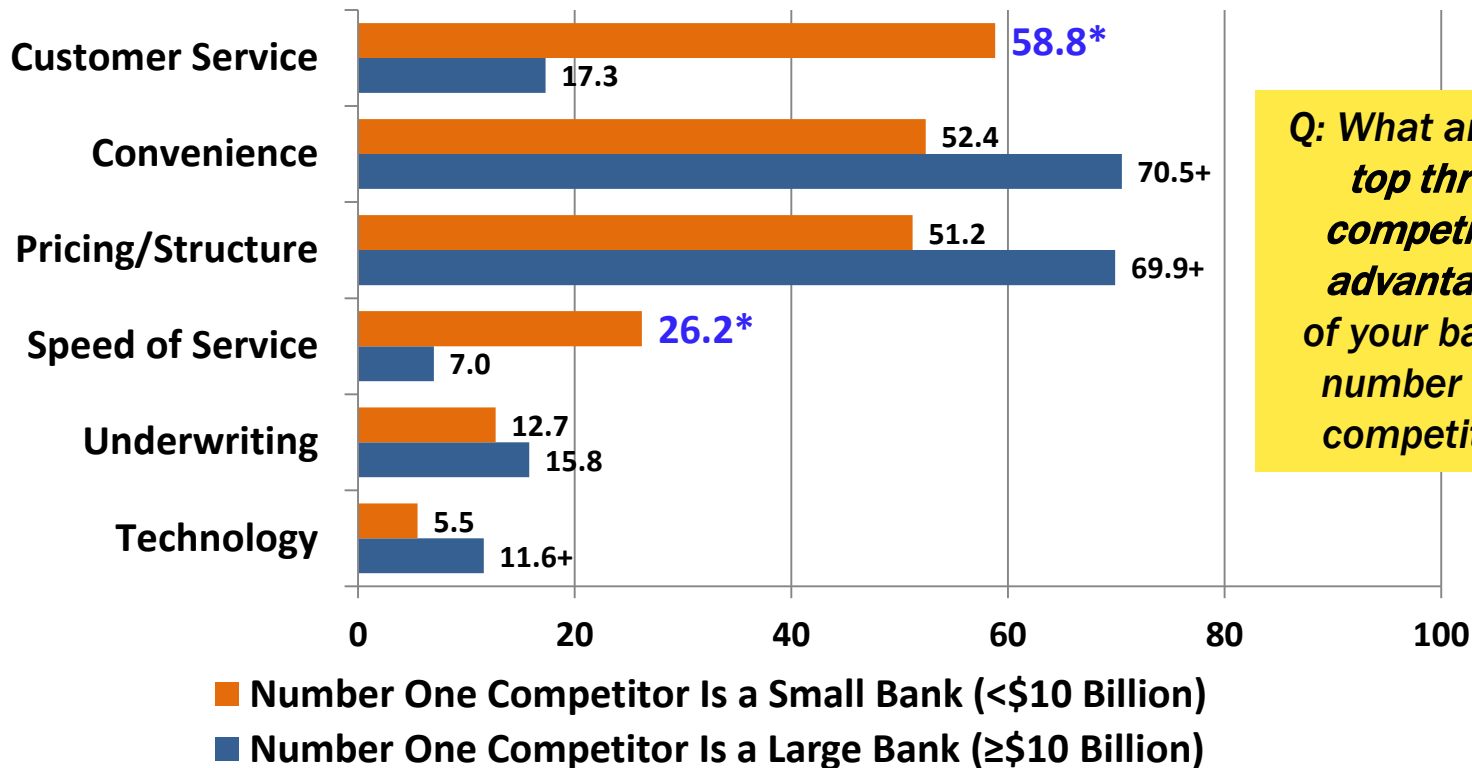
Not Focused on Other Lenders



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.

Small Banks (IV): Perceived as Relational, Attentive, and Fast

Advantage Category



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.

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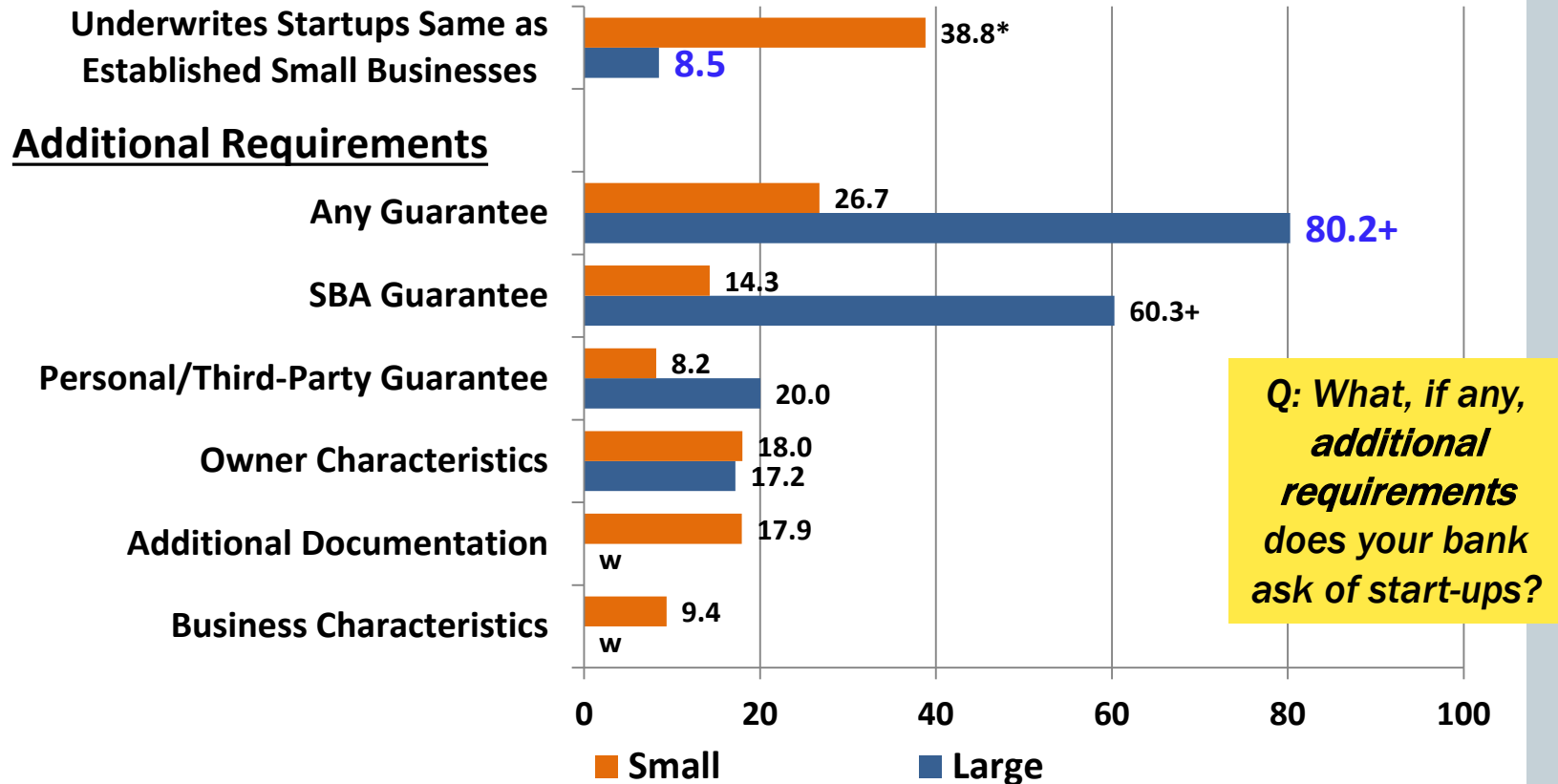
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Large Banks (I): Much More Likely to Use **Transactional** Practices

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

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.

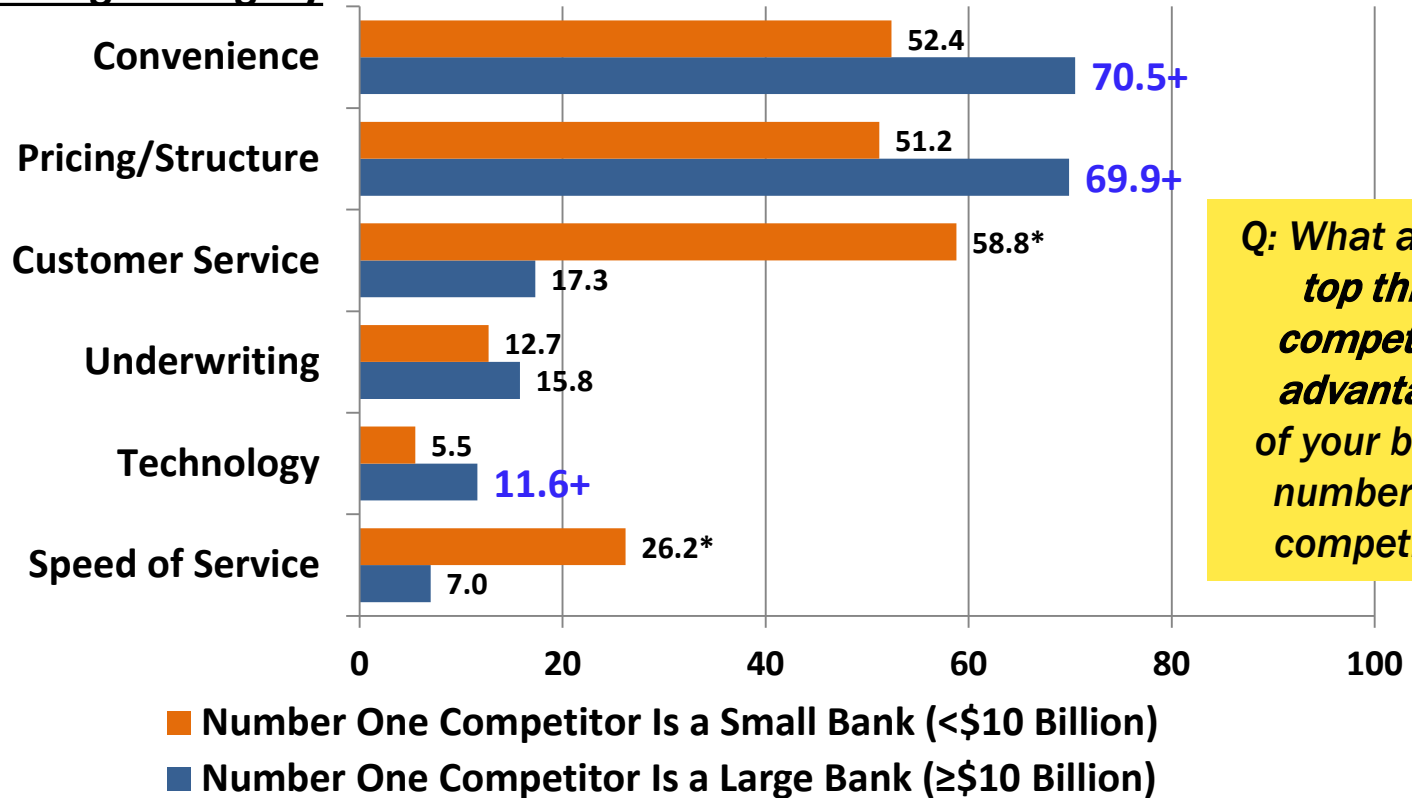
Large Banks (II): Lend to Start-Ups Differently And Look for **Loan Guarantees**



*** 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

Advantage Category



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 this advantage; "+" indicates large banks are statistically more likely than small banks.

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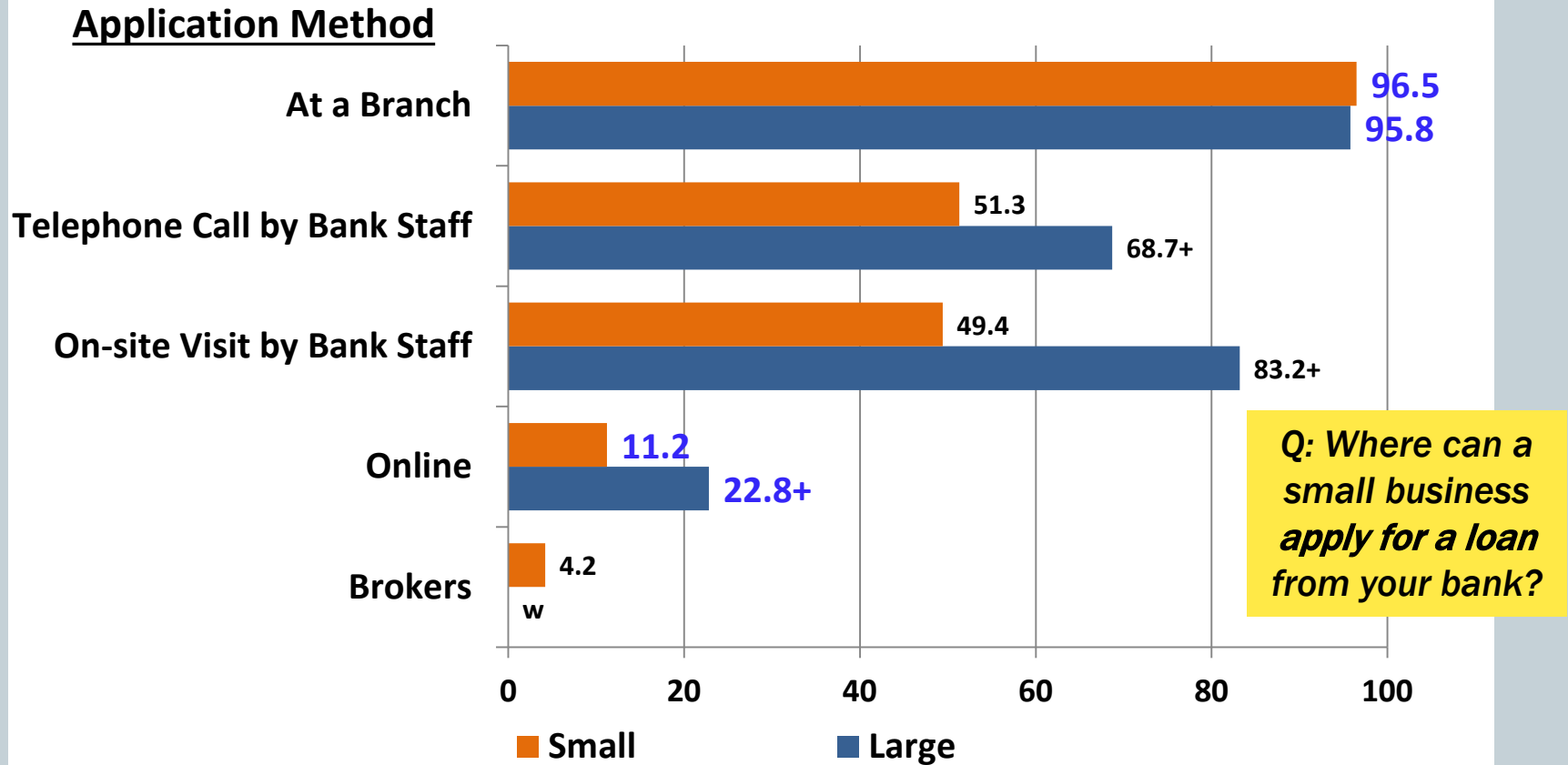
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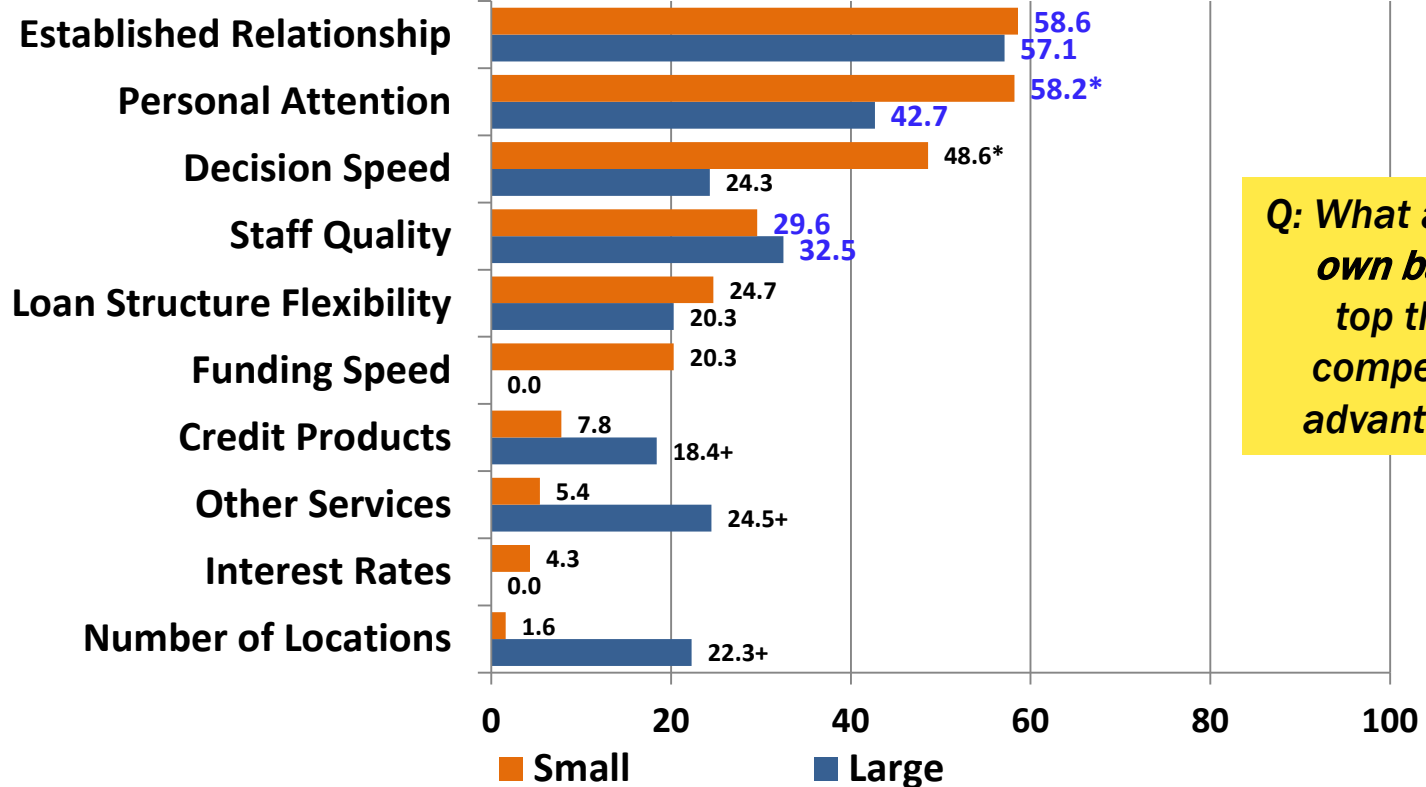
Core Characteristics (I): Small Business Lending Is **Local**



“+” 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.

Core Characteristics (II): Relationships Are *Own* Important Advantages

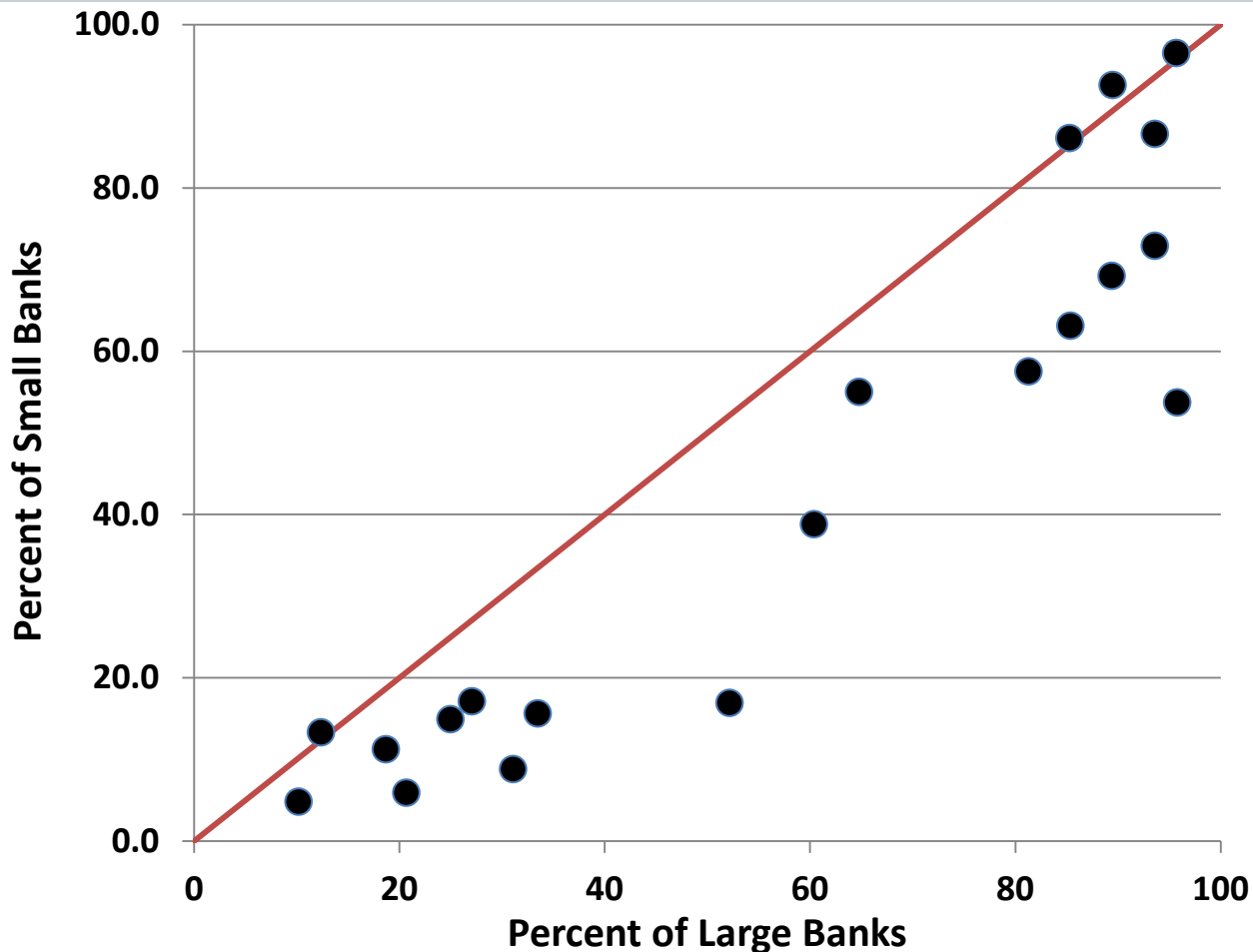
Competitive Advantage



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

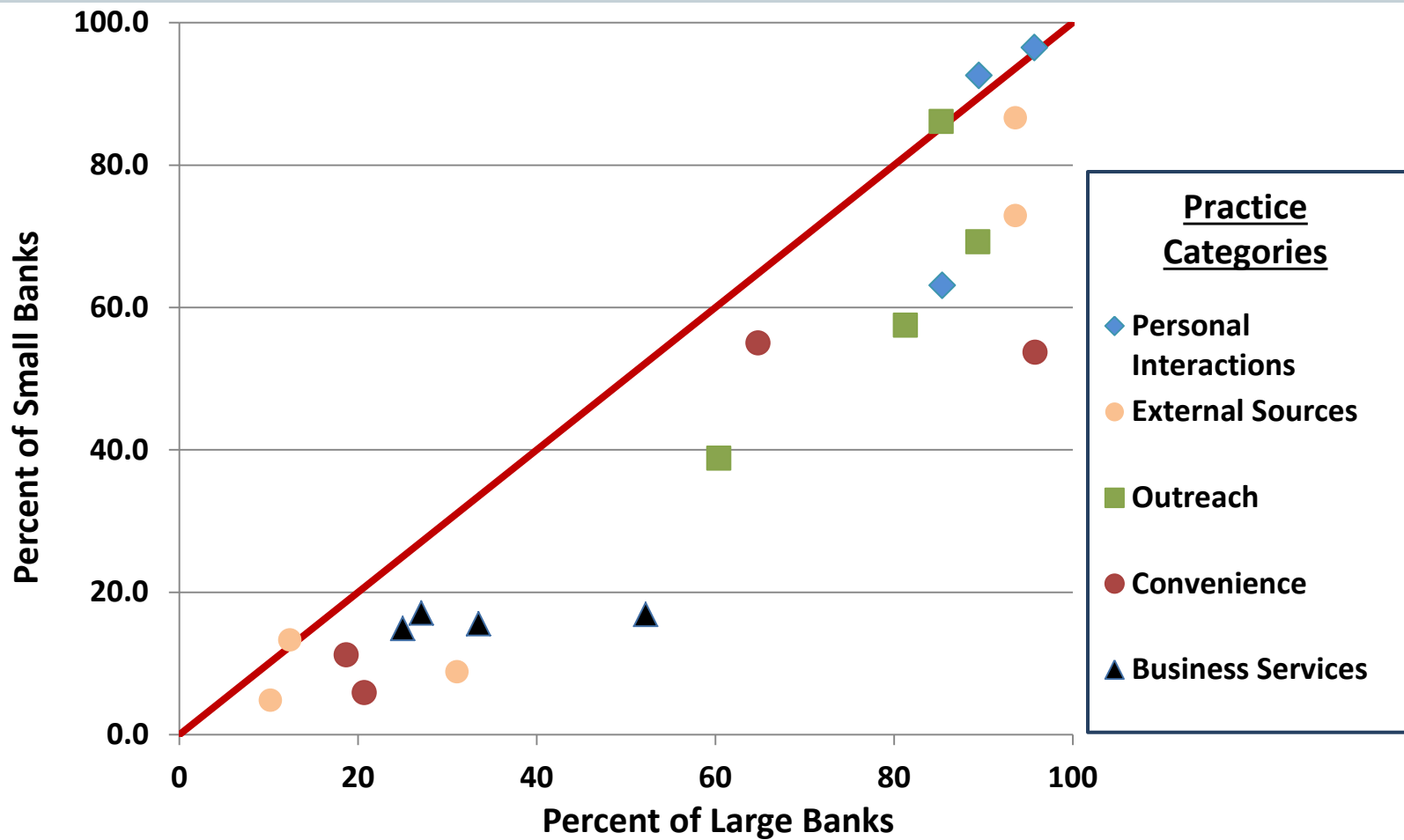
Options Not Shown: Collateral, Convenient Location, Debt-Service-Coverage, Fees, LTV, Mobile Banking, Remote Deposit, Term. "w" indicates that the number of respondents falls below the allowable reporting threshold.

Core Characteristics (III): Banks Use **Similar** Practices

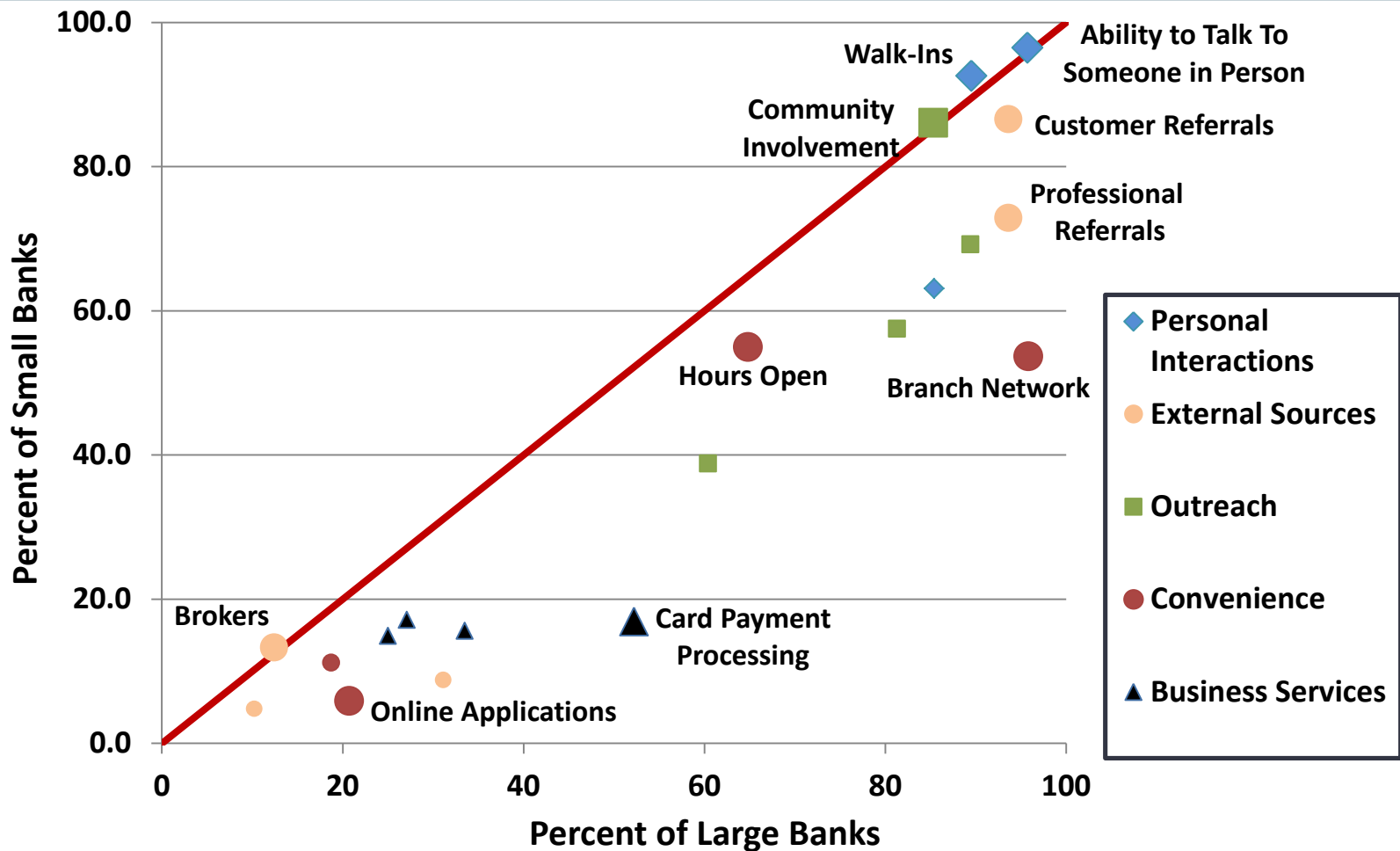


Q: What *practices* does your bank use to generate and maintain small business relationships?

Core Characteristics (III): Banks Use Similar **High-Touch** Practices



Core Characteristics (III): Banks Use Similar **High-Touch** Practices



SBLS: TAKEAWAYS

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