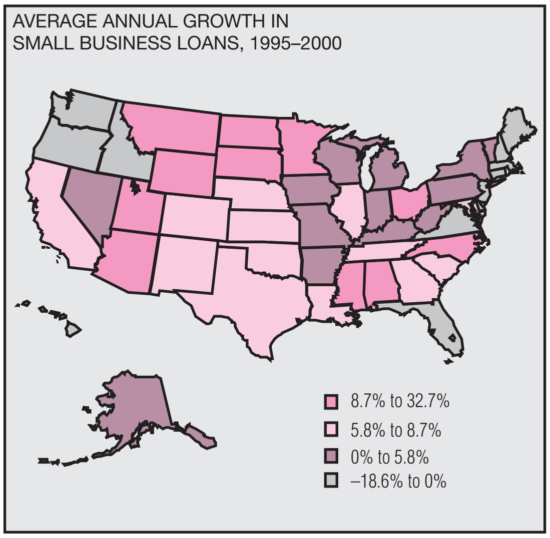
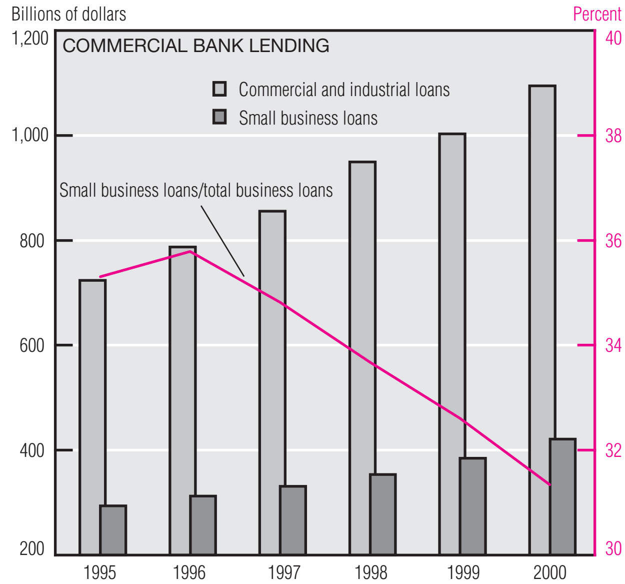
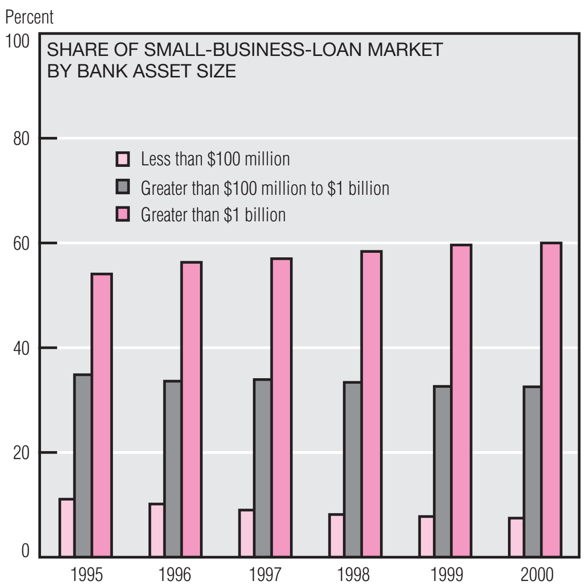
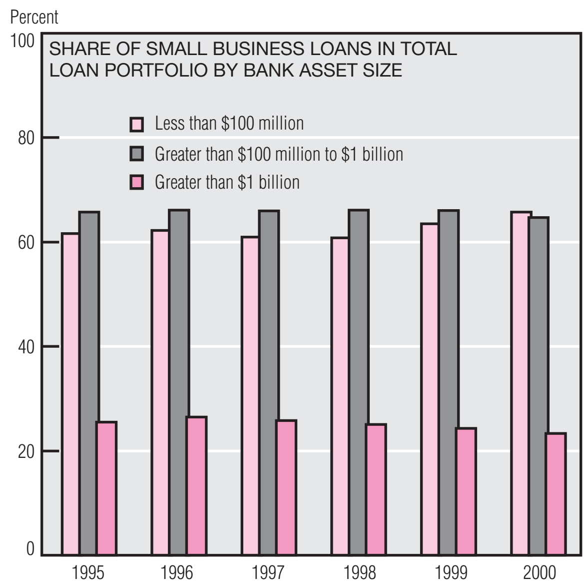
Commercial Bank Lending to Small Businesses









SOURCE: Federal Financial Institutions Examination Council, *Report of Condition and Income*, various issues.

The U.S. Small Business Administration Office of Advocacy reports that in 1999, small businesses with fewer than 500 workers employed 53% of the private nonfarm workforce, made 47% of all sales in the U.S., and were responsible for 51% of the private gross domestic product. Lending by commercial banks reflects small businesses' importance in the economy. With the exception of Florida and the northern parts of both coasts (11 states and the District of Columbia), small business lending (loans less than $1 million) grew at an average annual rate of 10.3% in 1995–2000. Within Fourth District states, growth rates reached 16.9% in Ohio, 5.0% in West Virginia, 4.4% in Kentucky, and 2.3% in Pennsylvania.

Small business lending grew at a 7.4% rate nationwide in 1995–2000, but this figure is lower than the 8.6% growth rate in commercial and industrial lending. Consequently, the share of small business loans in commercial banks' business loan portfolios fell from 36% to 31% over this period.

Commercial banks with assets greater than $1 billion control over half the market for loans to small businesses. In 1995–2000, their market share grew from 54% to more than 60%. One-third of this gain came at the expense of midsize banks with assets of $100 million to $1 billion, whose market share dropped from 35% to 33% in the course of five years. Small banks with assets less than $100 million suffered the biggest loss in market share—from 11% to 7%.

Although large banks dominate the small business market, in 2000 the share of small business loans in large banks' total business loan portfolio was less than 25% and declining. Small banks, however, remained heavily engaged in this market.