

**Small Business Lending**

**in**

**Massachusetts**

**2007-2014**

**EXECUTIVE SUMMARY**

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# EXECUTIVE SUMMARY

The CRA data for the year ended December 31, 2014 shows that small business lending in Massachusetts increased at a moderate pace from 2013 to 2014, the fourth consecutive year of moderate growth although lending levels remain well below the levels achieved prior to the recent financial crisis. Other more current data sources, including quarterly Call Report data through June 30, 2015, which includes local community banks that are not included in the CRA database, and data compiled by the SBA through September 30, 2015, also showed continued increases in small business lending across the state including in some cases increases to levels above the highs achieved prior to the financial crisis. A review of some of the current economic conditions that influence small business lending shows that the economic climate in Massachusetts and across the country has continued to improve.

This report is the 17<sup>th</sup> report on small business lending commissioned by the Massachusetts Community & Banking Council (MCBC). The report reviews recent small business lending trends in Massachusetts with an emphasis on traditionally underserved areas across the state. The report also reviews changes in economic conditions and other factors that affect small business lending. The report primarily utilizes two sources of small business lending data: annual data collected under the Community Reinvestment Act (CRA) and quarterly Call Report data. A more detailed discussion of the sources of data is provided in the section entitled Data Sources at the end of this report, and additional detailed data on small business lending trends in Massachusetts is available in the online appendix at [www.mcbc.info](http://www.mcbc.info).

This report includes new topics not covered in previous editions of the report including sections on state rankings, business ownership by race and immigrant status, small business lending in communities with large immigrant populations, and small business lending in Massachusetts Gateway Cities and Economic Target Areas which represent priority economic development areas designated by the Commonwealth and local municipalities.

The following are some of the report's most important findings:

## LOAN VOLUME

- **The annual CRA data shows that small business lending volume in Massachusetts increased modestly in 2014 in terms of both the number and dollar amount of loans.** The volume of CRA-reported small business loan originations in Massachusetts totaled 118,950 loans for \$4.5 billion in 2014, compared to the previous year totals of 107,428 loans for \$4.3 billion. The 2014 increase represents the fourth consecutive annual increase in loan dollars although loan volume remains below the levels achieved prior to the recent financial crisis. On a percentage basis, the CRA data showed a 10.7% increase in the number of small business loans and a 5.5% increase in the dollar amount of loans.
- **The most recent quarterly Call Report data, which includes local community banks that are not included in the annual CRA database, also shows large increases in both the number and dollar volume of small business loans at Massachusetts banks and thrift institutions over the past year.** The volume of small business loans on the books of local community banks totaled 85,884 loans for \$11.6 billion as of June 30, 2015, compared to 70,624 loans for \$10.6 billion as of June 30, 2014. On a percentage basis, the Call Report data showed a 21.6% increase in the number of small business loans and a 9.7% increase in the dollar amount of loans.
- **According to the US Small Business Administration, loans guaranteed by the SBA also expanded strongly in Massachusetts during the twelve months ended September 30, 2015 raising the agency's lending volume to records levels.** SBA loans in Massachusetts totaled \$474.5 million during the most recent fiscal year which represents a 12.0% increase compared to the previous year. On a national basis, SBA lending increased by 19.2% to \$27.9 billion.

- **Credit unions in Massachusetts reported 6,169 small business loans for \$1.7 billion as of June 30, 2015, compared to 5,675 loans for \$1.5 billion as of June 30, 2014.** Member business loans at local credit unions increased by 8.7% and 14.1% in terms of the number and dollar amount of small business loans during the twelve months ended June 30, 2015.
- **When compared to other states, the national CRA data shows that Massachusetts experienced larger overall percentage increases in the number and dollar amount of loans than most states in 2014.** Massachusetts, which has the 14<sup>th</sup> largest state population in the country, ranked 9<sup>th</sup> in terms of the largest percentage change in small business loan dollars from 2013 to 2014 and 19<sup>th</sup> in terms of the percentage change in the number of loans.

## LENDERS

- **The CRA data shows that local CRA reporters originated a total of 24,500 small business loans for \$3.2 billion in 2014 which represented 20.6% of the total number of small business loans in Massachusetts and 70.3% of small business loan dollars.** The 2014 results represented the fourth consecutive year of increases in both the number and dollar amount of loans for local CRA reporters.
- **Local CRA reporters have significantly increased their share of the Massachusetts small business loan market in the wake of the recent financial crisis.** In 2014 local CRA reporters accounted for 70.3% of small business loan dollars in the state compared to 57.9% in 2007.
- **A closer examination of the data of local CRA reporters shows that the local community banks in Massachusetts were outperformed in 2014 by large commercial banks that operate in the state in terms of small business lending, which represents a departure from the trend over the past few years.** In 2014, local community banks accounted for 47.4% of small business loan dollars in Massachusetts in 2014 compared to 48.7% in the previous year, while the large commercial banks with branches in the state accounted for 26.8% of the total compared to 23.4% in the previous year.
- **The average size of a CRA-reported small business loan at a local community bank declined in 2014 for the first time in four years, while the average size of a loan at a large commercial bank with branches in the state declined for the fifth straight year.** The average size of a small business loan at local community banks dipped from \$194,325 in 2013 to \$190,840 in 2014 although the average loan size remains well above the levels preceding the recent financial crisis.
- **Credit card lenders reported an estimated 82,975 small business credit card loans in Massachusetts in 2014 for \$677.6 million, which represents a relatively large increase compared to the previous year but still well below the levels generated in the years leading up to the recent financial crisis.** Small business credit card loans accounted for 69.8% of the total number of CRA-reported small business loans in the state in 2014 and 15.1% of loan dollars.
- **Other out-of-state CRA lenders reported 11,475 CRA-reported small business loans in Massachusetts in 2014 for \$659.3 million, which exceeds the levels reached before the recent financial crisis.** Small business loans by other out-of-state CRA lenders accounted for 9.6% of the total number of CRA-reported small business loans in the state in 2014 and 14.6% of loan dollars.

## LENDING IN TRADITIONALLY UNDERSERVED AREAS

- **Businesses in low and moderate income census tracts in Massachusetts received a total of 23,352 small business loans in 2014 for \$949.3 million, which represents an increase in terms of the number of loans compared to the previous year but a decrease in terms of the dollar amount of loans.** While small business loan dollars in low and moderate income census tracts

have increased moderately over the past several years, they remain well below the highs achieved in 2007 prior to the recent financial crisis.

- **Local CRA lenders continued to account for the vast majority of small business loans dollars in low and moderate income census tracts in Massachusetts in 2014.** Local CRA lenders made a total of 5,088 loans for \$694.7 million in 2014, which accounted for 73.2% of the small business loan dollars in lower income areas in the state.
- **Low and moderate income areas in Massachusetts experienced relatively small declines in small business loan dollars in 2014, while middle and upper income areas experienced increases.** Low and moderate income census tracts in Massachusetts experienced overall declines of 3.5% and 0.4% in small business loan dollars from 2013 to 2014 while middle and upper income census tracts experienced increases of 3.2% and 12.6%.
- **Low and moderate income census tracts in Massachusetts continued to receive a somewhat smaller share of small business loans in 2014 than one might expect given the local demographics.** Low and moderate income census tracts, which account for 27.2% of the total population of Massachusetts, received 19.6% of the total number of CRA-reported small business loans in the state in 2014 and 21.1% of the total loan dollars.
- **The lowest lending rates in Massachusetts, measured in the amount of loan dollars per 100 firms, were recorded in upper income communities in 2014 for the third consecutive year although the lending rates between income groups fell within a relatively narrow range of values.** Low and moderate income census tracts received an aggregate \$792,000 and \$779,000 per 100 businesses respectively, while middle and upper income census tracts in Massachusetts received an aggregate \$792,000 and \$762,000 per 100 businesses. The 2014 results represent the third time in the past seven years when the lowest overall lending rates were not in low or moderate income census tracts.
- **When compared to other states, the national CRA data shows that Massachusetts experienced smaller percentage increases in the number and dollar amount of loans in low and moderate income areas than many states in 2014.** Massachusetts, which has the 15<sup>th</sup> largest population in the country living in low and moderate income areas, ranked 29<sup>th</sup> in terms of the largest percentage increase in loan dollars from 2013 to 2014 and 23<sup>rd</sup> in terms of the percentage change in the number of loans.
- **When race is also taken into account, the CRA data shows that the lowest lending rates in Massachusetts were recorded in high minority communities in 2014 in contrast the previous year when the lowest lending rates were in white communities.** High minority census tracts in lower income areas in Massachusetts received \$706,000 per 100 businesses while high minority census tracts in middle and upper income areas in Massachusetts, which account for just a handful of census tracts, received \$649,000 per 100 businesses. In comparison, lower income white communities received an average \$740,000 per 100 businesses while middle and upper income white communities received \$775,000. Lower income minority neighborhoods in Massachusetts have experienced lower lending rates than lower income white neighborhoods in seven of the past eight years.
- **The overall dollar volume of small business loans in communities in Massachusetts with the largest immigrant populations has recovered from the lows reached in the aftermath of the recent financial crisis but remains well below recent highs.** Businesses in communities where the foreign-born population is 40% or more of the local population, which includes neighborhoods in just over a dozen towns around the greater Boston area, received 2,903 small business loans for \$120.8 million in 2014, compared to the previous year when such communities received 2,557 loans for \$119.0 million.

## GEOGRAPHIC COMPARISONS

- Nine of the 14 counties in Massachusetts experienced increases in CRA-reported small business lending volume in 2014. On a percentage basis, the changes in small business loan dollars ranged from a 22.4% increase in Essex County to a 31.7% decrease in Berkshire County. In terms of dollar amounts, the counties with the largest increases in loan dollars occurred in Essex, Middlesex, and Worcester Counties, while the counties with the largest decreases occurred in Berkshire, Hampden, and Hampshire Counties.
- The city of Boston, which accounts for 9.4% of the state's population, received \$488.9 million in CRA-reported small business dollars in 2014 and accounted for 11.8% of the total loan dollars, while the cities of Worcester and Springfield, which account for 2.8% and 2.3% of the state's population respectively, received 1.6% and 1.5% of the total loan dollars in the state.