

**Small Business Lending**  
**in**  
**Massachusetts**  
**2004-2007**

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A REPORT PREPARED FOR

**M | C | B | C**

MASSACHUSETTS COMMUNITY & BANKING COUNCIL

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## FOREWORD

The Massachusetts Community & Banking Council (MCBC) is pleased to offer *Small Business Lending in Massachusetts, 2004-2007*, its 10<sup>th</sup> report on small business lending. This year, for the first time, the report has been expanded to include data on small business lending across the state and the impact of small business lending on the state's overall economy. As before, this report also focuses on small business lending in low-income and traditionally underserved areas. In addition to the data presented in this report, MCBC is also providing supplemental data tables on small business lending in the form of an online appendix which can be viewed at the MCBC website. MCBC hopes that this report can help to increase access to credit for small businesses by providing a snapshot of current small business lending patterns and the performance of major types of lenders.

MCBC was established in 1990 to bring together community organizations and financial institutions to affect positive change in the availability of credit and financial services across Massachusetts by encouraging community investment in low and moderate income and minority group neighborhoods and providing research, other information, assistance and direction in understanding and addressing the credit and financial needs of low and moderate income individuals and neighborhoods.

MCBC's Economic Development Committee, which includes representatives from city and state programs, regulatory agencies, community and non-profit organizations and financial institutions, oversees preparation of this report and works to identify other ways to leverage public and private resources to support small business development. The Committee regularly hosts speakers from a variety of city, state and community-based programs that assist small businesses and promote economic development in low and moderate income areas. To address the issues and concerns raised in this and previous reports, the Committee has also:

- Sponsored "Getting Credit for Business," a series of forums on lending patterns and strategies to ensure better access to credit for small business owners. The Committee also published *Getting Credit for Business*, a summary of the findings from the first MCBC forum.
- Participated, with the Massachusetts Association of Community Development Corporations (MACDC), on the Small Business Assistance Advisory Council which was established by the state legislature to assess the assistance and resources available to small businesses across the state.
- Established Banking Partners, a new small business loan program designed to improve access to financing by very small businesses. This program was developed in collaboration with the Commonwealth of Massachusetts, the Massachusetts Bankers Association and the Massachusetts Small Business Assistance Advisory Council. MCBC worked with the Federal Reserve Bank of Boston to launch the initiative and with the Massachusetts Commissioner of Banks to obtain his opinion that Banking Partners lenders would be eligible for Community Reinvestment Act (CRA) consideration. In 2007, 25 banks joined the program and their loan product descriptions and bank contact information were included on MCBC's website.

- In conjunction with the Massachusetts Small Business Assistance Advisory Council and the Federal Reserve Bank of Boston, helped to launch the Technical Assistance (TA) Collaborative, a new program designed to increase the quality of services provided to small businesses and to strengthen the network of TA providers across the state. In 2008-2009, as part of this initiative, MCBC assisted the Collaborative in developing the "Access to Financing" module of a new *Common Practices Guide* for TA providers. MCBC will also host meetings of lenders and TA providers to share information on ways to help small businesses access bank financing.
- Helped to organize "Regional Economies and the State of Entrepreneurs," a forum on current issues that impact small business technical assistance providers and small business financing throughout the state.

Copies of this report and its supplementary tables are available on MCBC's website at [www.mcbc.info](http://www.mcbc.info). Other MCBC reports, including *Getting Credit for Business*, are also available at this website, together with further information on MCBC's committees and programs.

MCBC wishes to thank a number of organizations that provided invaluable assistance in the preparation and distribution of this report including Boston Private Bank & Trust Company, Central Bank, Eastern Bank, and Hyde Park Savings Bank. MCBC depends on the financial support of its bank members to produce reports like *Small Business Lending in Massachusetts*. MCBC thanks the following banks for their 2008 membership:

Avidia Bank	Eastern Bank
Avon Co-operative Bank	Everett Co-Operative Bank
Bank of America	Fiduciary Trust Company
Bank of Canton	Hyde Park Co-operative Bank
Benjamin Franklin Bank	Hyde Park Savings Bank
Boston Private Bank & Trust Company	Mt. Washington Bank
Braintree Cooperative Bank	North Cambridge Co-operative Bank
Central Bank	Sovereign Bank
Chelsea- Provident Co-Operative Bank	State Street Corporation
Citi	StonehamBank – A Co-operative Bank
Citizens Bank of Massachusetts	TD Bank
Dedham Institution for Savings	The Bank of New York Mellon Corporation
Eagle Bank	Wainwright Bank
East Cambridge Savings Bank	

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# EXECUTIVE SUMMARY

This report is the 10<sup>th</sup> report on small business lending commissioned by the Massachusetts Community & Banking Council (MCBC). While previous reports have focused primarily on small business lending in Greater Boston with an emphasis on small business lending in Boston's lower income neighborhoods, this report takes a new direction by expanding the scope to include the entire state of Massachusetts and to consider the impact of small business lending on the state's overall economy as well as the traditionally underserved areas across the state. The report analyzes lending data collected under the Community Reinvestment Act (CRA) for the year ended December 31, 2007 and provides comparisons to 2004 through 2006 lending data. The following are some of the report's most important findings:

## LOAN VOLUME

- The volume of small business loan originations reported in Massachusetts in 2007 totaled 309,850 loans for \$6.3 billion.
- Massachusetts trailed the rest of New England and the country as a whole in terms of small business loan growth from 2006 to 2007. Small business loan volume in Massachusetts increased by 2.5% and 5.1% from 2006 to 2007 in terms of the number and dollar amount of loans respectively. The other five New England states experienced an aggregate increase of 4.1% and 6.2% in terms of the number and dollar amount of loans, while small business loans increased by 7.2% and 8.4% respectively on a nationwide basis.
- Small business loans with an original amount of \$100,000 or less accounted for 97.1% of the total number of loans in Massachusetts and 47.2% of the dollar amount of loans.
- Loans to businesses with annual revenues of \$1 million or less – which are traditionally understated in reporting estimates - accounted for just over one-third of the total small loans reported in Massachusetts in 2007, representing 35.3% of the total number of loans and 35.8% of the dollar amount of loans.

## GEOGRAPHIC DISTRIBUTION

- Businesses in Middlesex County accounted for most of the statewide growth in 2007 in small business loan dollars, while Barnstable, Dukes, and Nantucket Counties reported overall declines in small business loan dollars.
- Boston, which accounts for 9.3% of the state's population, received 9.6% of the total small business loan dollars in 2007, while Worcester and Springfield, the next largest cities in the state, each received smaller shares of small business loan dollars than one might expect given the size of their populations.

## LENDERS

- A total of 175 lenders reported small business loan activity in Massachusetts in 2007, including 47 lenders that are either headquartered in Massachusetts or have a substantial presence in the state.
- Massachusetts-based lenders reported a total of 24,945 small business loans in 2007 for \$3.2 billion, which represented 8.1% of the total number of small business loans in Massachusetts and 57.9% of loan dollars.

- Massachusetts banks accounted for 90.0% of the dollar volume of larger small business loans – those with an original loan amount between \$100,000 to \$1 million – while accounting for just over one-third of loan dollars for smaller loans.
- The number of small business loans reported by Massachusetts lenders increased by 0.5% from 2006 to 2007 although the dollar amount of loans declined by 1.2%.
- Credit card lenders accounted for an estimated 87.8% of the number of reported small business loans and 31.8% of loan dollars. Credit card lenders have more than doubled their market share of small business loan dollars over the past four years.

### **ECONOMIC CLIMATE**

- Most economic indicators have weakened since 2007 and suggest that the current recession may continue through 2009. The financial crisis and poor economic outlook will put downward pressure on future small business lending growth.
- According to data compiled by the US Small Business Administration, SBA loan dollars declined by 5.3% in Massachusetts for the year ended September 30, 2008 and by 11.3 nationally.

### **LENDING IN TRADITIONALLY UNDERSERVED AREAS**

- Low and moderate income census tracts in Massachusetts received 56,851 small business loans in 2007 for \$1.2 billion.
- Lower income areas in Massachusetts experienced an overall decrease of 0.5% in small business loan dollars from 2006 to 2007 while higher income areas experienced an overall increase of 6.5%.
- Approximately 26.3% of the state's total population reside in low or moderate income census tracts and an estimated 23.2% of the total number of businesses in the state, both large and small, are located in lower income areas.
- Small business loans in low and moderate income census tracts in Massachusetts accounted for 18.3% of the total number of small business loans in the state and 19.1% of total loan dollars.
- Larger small business loans – those with an original amount between \$100,000 to \$1 million – declined by 5.8% in the state's lower income areas from 2006 to 2007 while increasing in higher income areas.
- The lowest rates of lending in Massachusetts in 2007 (measured in thousands of dollars per 100 firms) were in low income census tracts while the highest rates of lending were in upper income census tracts.
- In each of the past four years, the lowest rates of lending to firms in Massachusetts were in low income census tracts while the highest rates were generally in either middle or upper income census tracts.
- In each of the past four years, low and moderate income minority communities in Massachusetts have reported lower rates of lending than low-to-moderate income white communities.

# INTRODUCTION

This report is the 10<sup>th</sup> report on small business lending patterns commissioned by the Massachusetts Community & Banking Council (MCBC). While previous reports have focused primarily on small business lending in Greater Boston with an emphasis on small business lending in Boston's lower income neighborhoods, this report takes a new direction by expanding the scope to include the entire state of Massachusetts and to consider the impact of small business lending on the state's overall economy as well as the traditionally underserved areas across the state.

The introduction of this new report format coincides with an historic period of financial turmoil and uncertainty in the United States not seen in decades, and lending to small businesses lies at the center of the crisis. Regardless of how one defines a small business, the vital role that they play in our economy is clear. Equally clear is the critical link between economic recovery and business access to credit. It seems likely that most businesses – whether large or small – use some form of bank financing or other type of credit on a regular basis to sustain and grow their business operations. Since larger businesses generally have more credit options than smaller businesses, reliable access to credit plays a particularly critical role for small business survivability and expansion. With roots in the subprime mortgage crisis, the current financial crisis signals a clear end to the days of relatively easy credit that characterized the mortgage and consumer credit markets in recent years. While the impact of the credit freeze on future lending patterns and the overall economy are not yet known, it is clear that the return to robust growth in small business lending and other types of lending ultimately hinges upon a resolution to the current financial crisis.

The number of small businesses in Massachusetts and the rest of the country has increased significantly in recent years. Nationally, the number of sole proprietorships alone has increased by nearly 35% over the past decade. While the rate of increase was lower in Massachusetts, sole proprietorships here account for a slightly larger and growing share of the labor force. This expansion of entrepreneurship may be linked to the “downsizing” of our country's largest corporations during the 1980s and 1990s which created an enormous pool of talented workers and managers, and to the rise of the personal computer and the internet which led to dramatic innovation and growth. The national trends are mirrored in Massachusetts, where the increase in small businesses and sole proprietorships has also been fostered by a substantial high-tech industry, leading educational institutions, and an educated workforce.

This report consists of two sections. The first section focuses on overall small business lending trends in Massachusetts, and examines changes in loan volume, differences between types of lenders, and changes in the business lending climate. The second section focuses on small business lending patterns in lower income and traditionally underserved areas across the state. The report bases its observations on data contained in the Federal Reserve Board's CRA small business loan database for 2004 through 2007. The report also utilizes demographic data compiled by the US Census Bureau, economic data compiled by the Bureau of Labor Statistics, and business demographic data compiled by Dunn & Bradstreet.

The primary goal of this report is to contribute to improved credit flows to small businesses across Massachusetts, particularly in traditionally underserved areas, by presenting a careful *description* of small business lending trends that all interested parties can agree is fair and accurate. It is beyond the scope of this report to offer either an *explanation* of why the observed outcomes have occurred or an *evaluation* of how well lenders have performed. Rather, this report's descriptive contribution is intended to be one input to the complex, on-going tasks of explanation and evaluation.

# **SECTION I**

**SMALL BUSINESS LENDING IN MASSACHUSETTS:**

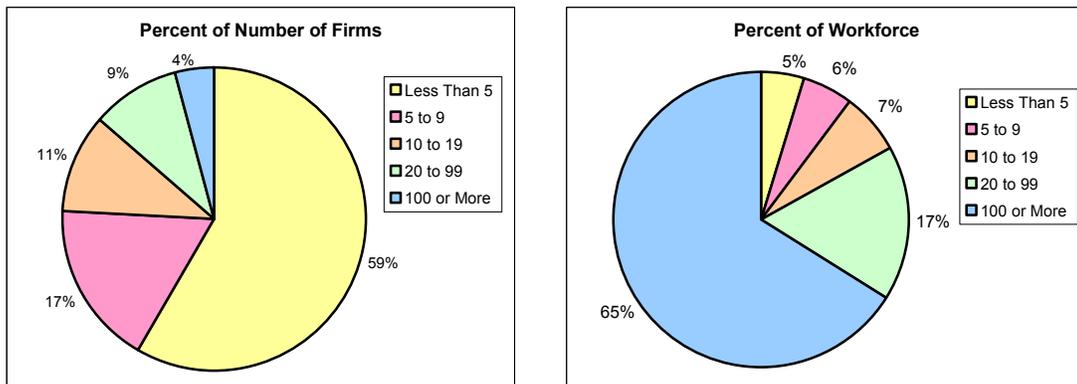
**A STATEWIDE REVIEW**

## SMALL BUSINESS DEMOGRAPHICS

According to the most recent US Census Bureau data, there were approximately 599,389 businesses in Massachusetts in 2006 consisting of 453,998 sole proprietorships, which include incorporated and unincorporated enterprises, and an additional 145,391 firms with employees.

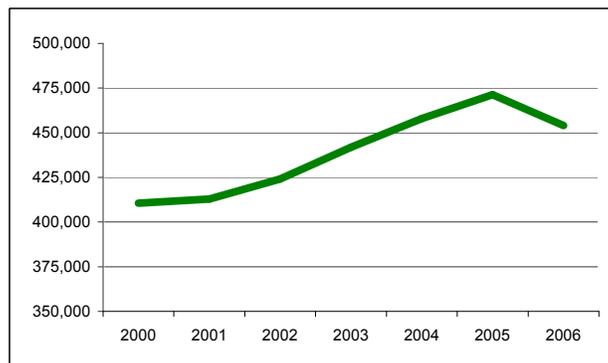
Identifying the number of *small* businesses is more challenging since, despite the frequency with which the term is used in our lexicon, there is no universally accepted definition of a small business. The most common measures of business size are based on the number of employees or the annual revenues of the business as compiled by the Census Bureau and the Bureau of Labor Statistics. While these measures are essentially arbitrary and vary from industry to industry, they represent our best source of information about small business demographics. Regardless of the measure used, it is clear that small businesses account for the majority of the *number* of businesses in Massachusetts and across the country. What is less clear is the contribution that small businesses make toward the overall economy. For example, businesses with less than 5 employees account for 59% of the number of businesses in Massachusetts but employ just 5% of the labor force. Using this measure, one would need to include businesses with more than 100 employees in order capture more than 50% of the work force.

CHART: The data shows that businesses with fewer than 5 employees far outnumber larger businesses in Massachusetts, but account for a smaller share of the workforce



According to the Census Bureau data, the number of sole proprietorships in Massachusetts has increased significantly in recent years but declined in 2006 for the first time this decade. Sole proprietorships in Massachusetts declined by 3.7% from an all-time high of 471,257 in 2005 to 453,998 in 2006, the most recent data available. The annual receipts of sole proprietorships in Massachusetts also declined from \$24.2 billion in 2005 to \$21.7 billion in 2006. While the reasons for the declines are not clear, sole proprietorships and other small businesses in Massachusetts are likely to face continued financial pressures until economic conditions improve.

CHART: The number of sole proprietorships in Massachusetts has increased significantly in recent years but declined in 2006

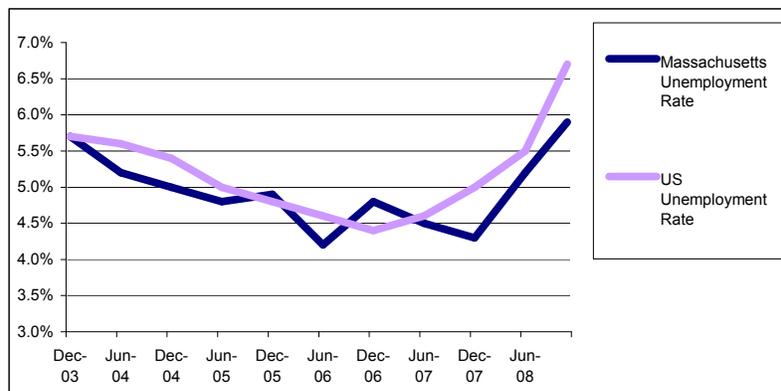


## ECONOMIC CLIMATE

As everyone knows, the economic climate in the country – and indeed the world - changed dramatically during the second half of 2008. In the year or so leading up to the current financial crisis that now grips the credit markets, many economists and business leaders predicated that the coming recession would be mild or that the country might avoid recession altogether. Now as we enter 2009, most economic indicators are signaling a dramatic shift in the economic climate and raising the likelihood that the current economic recession will continue throughout this year and may be more severe and prolonged than originally feared.

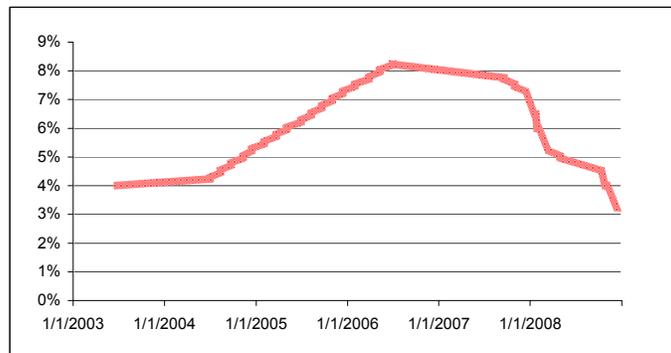
The unemployment rate in Massachusetts improved throughout 2007 to a recent seasonally-adjusted low of 4.3% at year-end 2007. Since then the jobless rate has significantly increased to 5.9% by November 2008 as businesses appear to have contracted in response to the ongoing national and international economic slowdown. Nationally, the unemployment rate has increased from 5.0% at year-end 2007 to 6.7% by November 2008. Additional worsening of the national and state unemployment rates are expected.

CHART: The Massachusetts and national unemployment rate increased in 2008



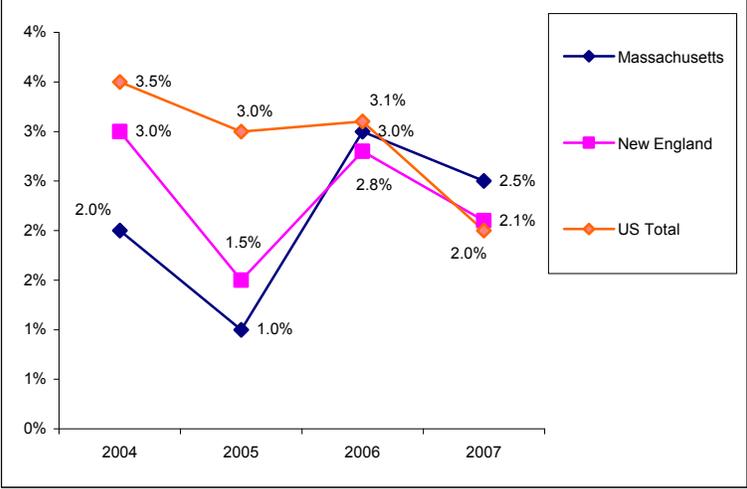
The prime rate, which is the interest rate that banks charge their best business customers, underwent a series of rate reductions during the final months of 2007, falling from its most recent high of 8.25% set in mid-2006 to 7.25% by year-end 2007 and to 3.25% by year-end 2008. The reductions in the prime rate closely tracked a series of reductions by the Federal Reserve Board in the target federal funds rate which were intended to stimulate lending activity and address recession concerns. Reductions in the prime rate have accelerated throughout 2008.

CHART: The prime rate has declined from a recent high of 8.25% in 2006 to 3.25% by year-end 2008



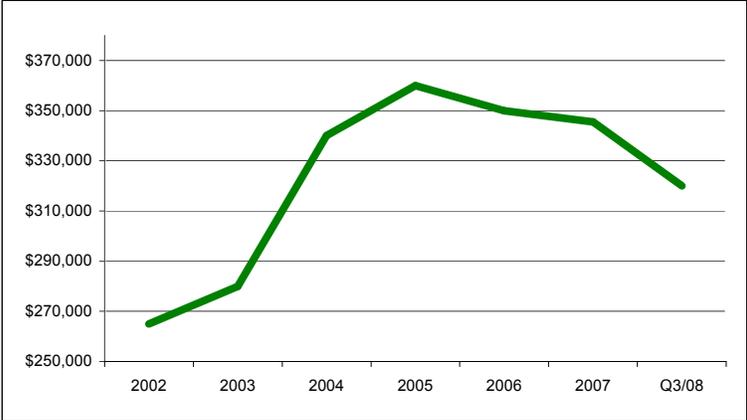
Real GDP growth in Massachusetts – the state equivalent of the national gross domestic product – slowed to 2.5% in 2007 compared to 3.0% in 2006, although it remained above the national average growth rate of 2.0%. Recent increases in unemployment point to the likelihood of continued slowing of state GDP in 2008.

CHART: Massachusetts state GDP growth fell in 2007 but was better than the rest of New England and the country as a whole



The slump in housing sales and real estate values, which some argue lies at the root of the current financial crisis, continued throughout 2007 and showed no signs of easing at the end of 2008.

CHART: Home prices across Massachusetts continued their slide in 2008



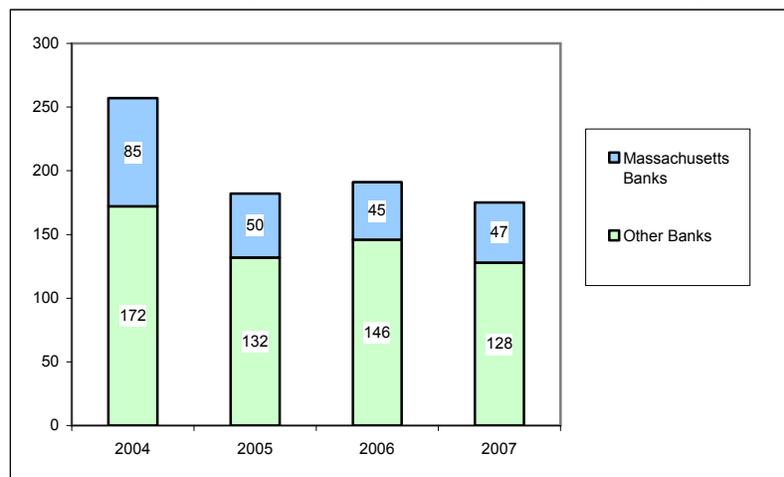
## THE CRA DATABASE

The Community Reinvestment Act (CRA) requires banks with assets over \$1 billion to report information on their small business loans to their federal regulators on an annual basis. The purpose of the CRA law is to encourage depository institutions to help meet the credit needs of the residents and small businesses in the communities in which they operate, particularly in low and moderate income neighborhoods, consistent with safe and sound business operations. The CRA law requires that each institution's record in helping to meet the credit needs of its community be evaluated periodically, and that its record be taken into account in considering an institution's application for deposit facilities and mergers and acquisitions. While the CRA law applies to all insured banks, the small business loan reporting requirement only applies to larger banks.

The number of lenders that report their small business loan data under the Community Reinvestment Act varies from year to year. The biggest factors affecting the number of reporting institutions is the asset size exemption threshold for the CRA reporting requirement as well as mergers, acquisitions, and consolidations within the banking industry.

On a national basis, a total of 998 lenders were included in the 2007 CRA database, down from 1,099 in 2004. The number of lenders that reported small business loan activity in Massachusetts has also trended down over the past four years. A total of 175 lenders reported CRA small business loan originations in Massachusetts in 2007 compared to 182 lenders in 2005. The number of local lenders, which includes lenders that are either headquartered in Massachusetts or have a substantial presence in the state, has also edged down from 50 lenders in 2005 to 47 lenders in 2007.

CHART: The number of CRA reporters in Massachusetts has trended down in recent years



Other than the large drop from 2004 to 2005, which can be attributed to a change in the CRA reporting requirements, the changes in the number of CRA reporters in Massachusetts over the past few years have mirrored the changes experienced by the state banking industry as a whole. At the end of 2005, there were a total of 194 insured banks in Massachusetts, compared to 181 banks at the end of 2007.

While the CRA database does not include the small business lending data of every bank in the country, it seems likely that the database reflects the vast majority of small business loan activity by FDIC-insured banks since banks with assets over \$1 billion account for nearly 90% of all industry assets.

## SMALL BUSINESS LOAN VOLUME IN MASSACHUSETTS

The volume of small business loan originations reported in Massachusetts in 2007 totaled 309,850 loans for \$6.3 billion, up slightly compared to the previous year when applicants in the state received 302,184 loans for \$6.0 billion.

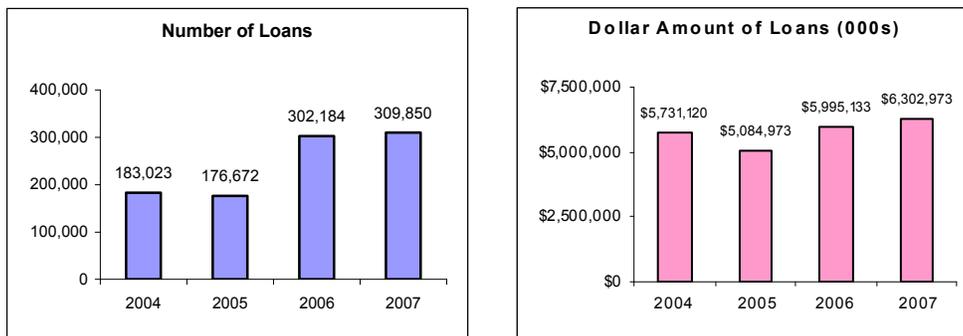
The distribution of CRA-reported small business loans in Massachusetts and New England generally follows each state's percentage of the total population of the region. Massachusetts accounted for 42.6% of the total small business loan dollars in New England in 2007, and 1.9% of the US total dollar volume, both of which are slightly less than the levels one might expect given the population of the state. The loan distribution for the other New England states also varied slightly from their relative population percentages.

TABLE: Small business loans by state (2007)

	Number of Loans	% of New England Total	% of US Total	\$ Amount of Loans (000s)	% of New England Total	% of US Total	Total Population	% of New England Population	% of US Population
Massachusetts	309,850	44.7%	2.3%	\$6,302,973	42.6%	1.9%	6,332,550	45.6%	2.3%
Connecticut	181,885	26.2%	1.3%	\$3,640,722	24.6%	1.1%	3,398,200	24.5%	1.2%
Maine	57,732	8.3%	0.4%	\$1,610,433	10.9%	0.5%	1,263,956	9.1%	0.4%
New Hampshire	68,653	9.9%	0.5%	\$1,439,505	9.7%	0.4%	1,229,068	8.9%	0.4%
Rhode Island	46,737	6.7%	0.3%	\$1,050,278	7.1%	0.3%	1,048,319	7.6%	0.4%
Vermont	28,643	4.1%	0.2%	\$749,166	5.1%	0.2%	605,062	4.4%	0.2%
Totals	693,500	100.0%	5.1%	14,793,077	100.0%	4.5%	13,877,155	100.0%	4.9%
US Total	13,474,210			\$327,781,999			281,376,544		

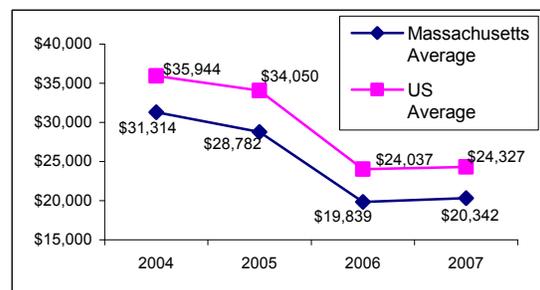
Two of the biggest influences on small business loan volume over the past few years could be described as technical in nature. The first involved the previously noted regulatory reporting change that went into effect in 2005 that reduced the number of lenders subject to the small business loan reporting requirement. The second was a reporting change involving a single lender (American Express Bank, FSB), which reported significant small business loan activity in 2006 and 2007 but not in previous years. The trends in small business loan volume in Massachusetts over the past few years shown below are fairly representative of the national trends in the CRA database.

CHART: Small business loan originations in Massachusetts – 2004 through 2007



One of the trends that stands out the most is the dramatic increase in the *number* of loans that were reported compared to the more modest increase in *dollar volume*. While the driving force behind this trend is related to the growing popularity of small business credit cards, the net effect is that the size of the average small business loan in the CRA database has declined in recent years.

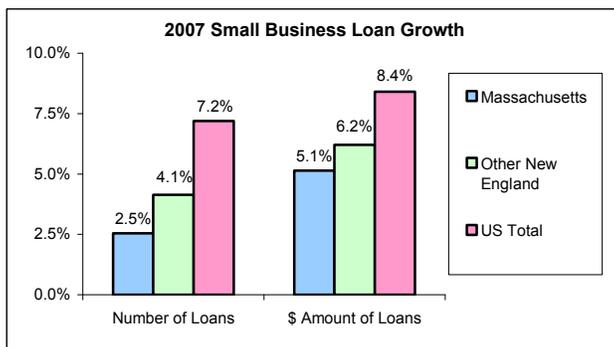
CHART: The average size of a small business loan has declined



## SMALL BUSINESS LOAN GROWTH IN MASSACHUSETTS

Massachusetts trailed the rest of New England and the country as a whole in terms of overall small business loan growth from 2006 to 2007, although this was a reversal of the previous year when the state generally outpaced the rest of the country. Small business loan volume in Massachusetts increased by 2.5% and 5.1% in 2007 in terms of the number and dollar amount of loans respectively. The other five New England states experienced an aggregate increase of 4.1% and 6.2% in terms of the number and dollar amount of loans, while small business loans increased by 7.2% and 8.4% respectively on a nationwide basis.

CHART: Small business loan growth in Massachusetts trailed the rest of New England and the US in 2007



A review of the 15 largest MSAs across the country shows that the Boston MSA ranked near the bottom of the list (13<sup>th</sup> out of 15) in terms of growth in CRA-reported small business loan dollars in 2007, and at the very bottom in terms of the year-over-year change in the number of small business loans from 2006 to 2007. The greater Boston area ranks 11<sup>th</sup> in terms of the most populated metro area in the country. The 2007 findings are consistent with the findings in the MCBC's previous reports on small business lending, which showed that the Boston MSA consistently trailed most other large metro areas in terms of small business lending.

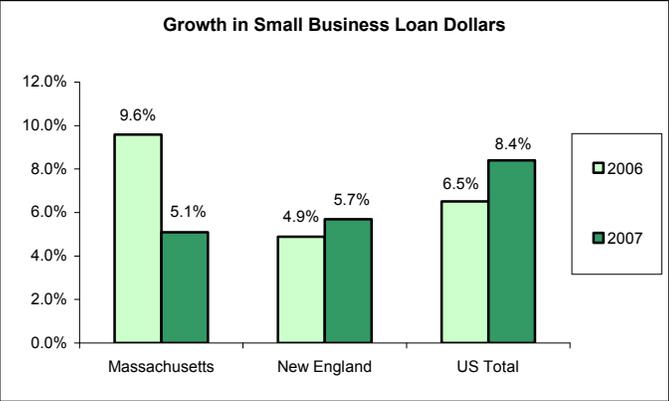
TABLE: Small business loan growth in the Boston MSA trailed most of the other largest metro areas across the country in 2007

	Total Population	2007 Number of Loans	2007 Amount of Loans (000s)	2007 Change in Number of Loans	% Change	2007 Change in Amount of Loans (000s)	% Change
Los Angeles (31100)	12,365,627	909,253	\$18,168,231	47,133	5.5%	\$1,360,390	8.1%
New York (35620)	15,569,089	906,304	\$17,818,964	36,573	4.2%	\$2,021,478	12.8%
Miami (33100)	5,007,564	412,117	\$7,413,818	19,988	5.1%	\$764,883	11.5%
Chicago (16980)	9,112,882	408,523	\$11,473,739	43,621	12.0%	\$936,585	8.9%
San Francisco (41860)	4,123,740	313,997	\$6,876,186	27,405	9.6%	\$813,360	13.4%
Dallas (19100)	5,166,871	279,152	\$6,336,308	22,811	8.9%	\$818,210	14.8%
Atlanta (12060)	4,406,747	273,379	\$6,701,263	17,370	6.8%	\$655,637	10.8%
Houston (26420)	4,787,274	262,672	\$6,064,363	23,167	9.7%	\$762,199	14.4%
Washington DC (47900)	4,870,279	259,666	\$6,122,687	6,394	2.5%	\$627,271	11.4%
Philadelphia (37980)	5,687,147	240,654	\$6,092,529	7,260	3.1%	\$204,965	3.5%
Boston (14460)	4,390,500	227,659	\$4,694,081	5,495	2.5%	\$274,258	6.2%
Phoenix (38060)	3,251,876	220,953	\$5,029,981	19,697	9.8%	\$789,219	18.6%
Riverside-San Bernardino (40140)	3,254,821	189,512	\$3,414,656	14,004	8.0%	\$420,680	14.1%
Detroit (19820)	4,452,557	176,992	\$5,310,989	12,311	7.5%	-\$64,071	-1.2%
Seattle (42660)	3,043,878	163,930	\$4,247,294	8,257	5.3%	\$279,532	7.0%

The rate of growth of small business loans in Massachusetts slowed in 2007 compared to 2006 while increasing at a modest pace in the rest of New England and the US as a whole. After expanding by an adjusted 9.6% in 2006, the growth rate of small business loan dollars in Massachusetts fell nearly in half to 5.1% in 2007. While the CRA database does not provide enough data points to establish a clear trend, given the ongoing financial crisis and credit freeze together with the apparent economic contraction, it seems reasonable to suggest that the growth of small business lending could moderate further in 2008 in

Massachusetts and across the country. This forecast is further supported by data compiled by the US Small Business Administration (SBA) which shows a 5.3% decline in the dollar volume of SBA loan programs in Massachusetts for the year ended September 30, 2008 and an 11.3% decline across the country.

CHART: Small business loan growth declined in Massachusetts in 2007 while increasing at a modest pace in the rest of New England and the US



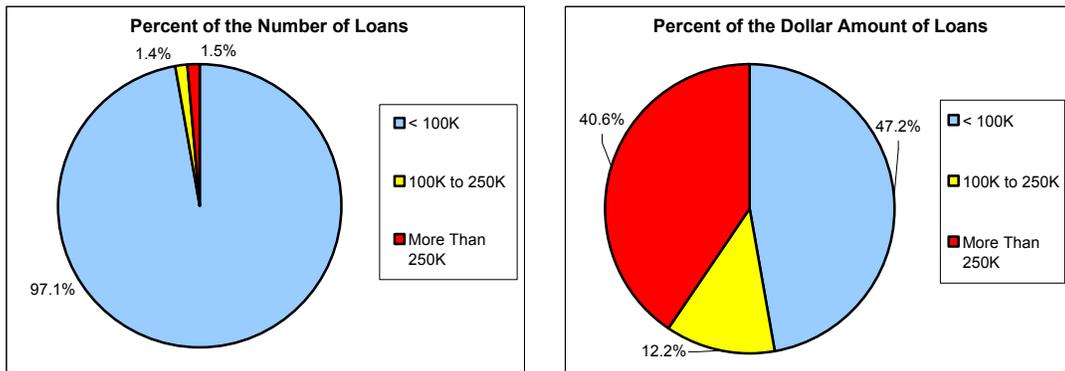
The current problems in the credit markets and the slowdown in small business lending can be attributed to a range of external and internal forces. The external forces include declining business conditions and diminished collateral values which affect both the demand for credit and the credit worthiness of the borrowers. The internal forces include tightened underwriting standards and bank liquidity concerns. Looking ahead to 2009, it is likely that these forces will continue to put downward pressure on small business loan growth.

## BREAKDOWN BY ORIGINAL LOAN AMOUNT

The CRA database does not provide specific loan size information for each small business loan in the database but it does provide an aggregate breakdown of loan data by the original amount of the loans using the following three loan size increments: under \$100,000, from \$100,000 to \$250,000, and from \$250,000 to \$1 million.

CRA-reported small business loans with an original amount of \$100,000 or less account for the vast majority of the total number of loans, while loans that are larger in size are much fewer in number. In Massachusetts, small business loans under \$100,000 accounted for 97.1% of the total number of loans in 2007 and 47.2% of the dollar amount of loans while larger small business loans - those with an original amount between \$250,000 and \$1 million - accounted for just 1.5% of the number of loans but 40.6% of loan dollars.

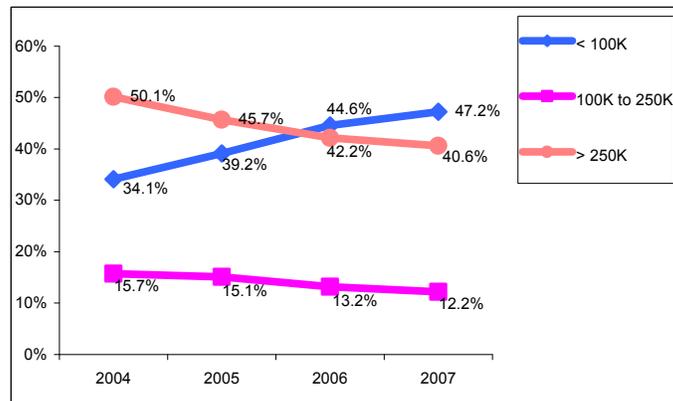
CHART: Small business loans over \$100,000, though fewer in number, account for more than half of the dollar volume of loans in Massachusetts (2007)



Not surprisingly given the increased popularity of business credit cards, the percentage of loans with original amounts under \$100,000 have steadily increased credit card lenders' share of the total small business loans in the CRA database. These loans account for much of the dramatic explosion in the number of loans over the past few years and now account for nearly half of the total volume of small business loan dollars in Massachusetts.

If loan size were used as an indicator of borrower size, the trend would indicate that a much larger pool of businesses is getting access to small business loans than just a few years ago.

CHART: Small business loans under \$100,000 now account for nearly half of the dollar volume of loans in Massachusetts

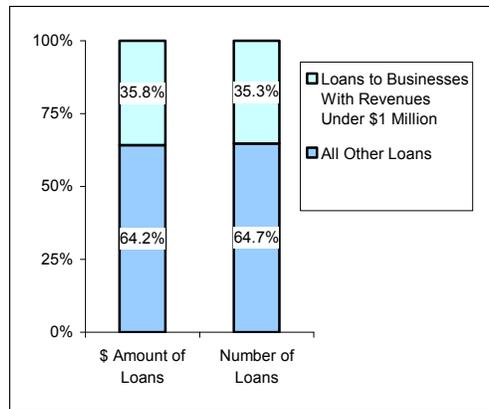


**LOANS TO BUSINESSES WITH ANNUAL REVENUES OF \$1 MILLION OR LESS**

The CRA database provides a category specifically for loans to businesses with annual revenues of \$1 million or less. The category is intended to provide a way of identifying small business borrowers from larger business borrowers. However, it is important to note that these loans are generally considered to be understated in the CRA database due to the fact that lenders are not required to report loans under this category unless the revenue of the borrower is relied upon to make the initial credit decision. Consequently, loan decisions based on other factors – such as credit score for example – rather than income are less likely to be counted in this category. In addition, the category only identifies borrowers with revenues *under* \$1 million, it does not identify borrowers with revenues *over* \$1 million or borrowers where revenues were not relied on for the credit decision.

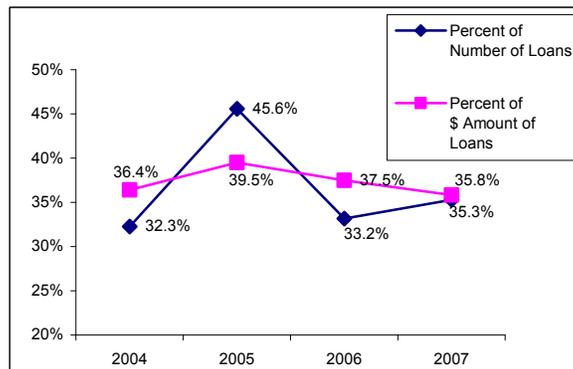
In 2007, loans to businesses with annual revenues of \$1 million or less accounted for just over one-third of the total small loans reported in Massachusetts, representing 35.3% of the total number of loans and 35.8% of the dollar amount of loans.

CHART: Loans to businesses with annual revenues under \$1 million accounted for just over one-third of all small business loans in Massachusetts in 2007



The percentage of loans to businesses with revenues under \$1 million has fluctuated somewhat over the past few years, but has consistently represented fewer than half of the loans reported in the CRA database.

CHART: The percentage of loans to businesses with revenues under \$1 million has fluctuated somewhat over the past few years



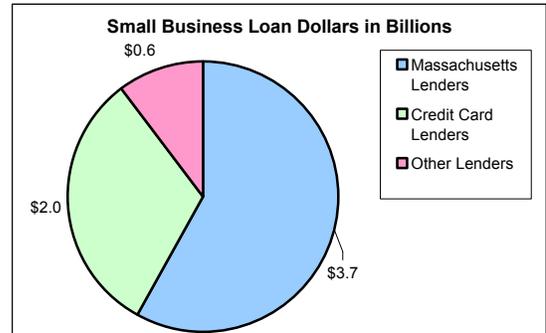
## THE ROLE OF LOCAL LENDERS

As previously noted, there were a total of 47 lenders in the 2007 CRA database that are either headquartered in Massachusetts or have a substantial presence across the state. Most of these local institutions are community-based institutions that reported fewer than 1,000 small business loans in 2007. The largest local lenders in 2007 were the four national and regional lenders that, while headquartered elsewhere, have substantial branch networks across Massachusetts. These largest lenders include Bank of America, Sovereign Bank, TD Banknorth, and RBS Citizens. Massachusetts lenders also compete for small business loans with banks in other states as well as small business credit card lenders that operate across the country. The roles of credit card lenders are discussed in more detail in a later section.

In 2007 local lenders reported a total of 24,945 small business loans for \$3.7 billion, representing 8.1% of the total number of small business loans in Massachusetts and 57.9% of small business loan dollars.

Table: Local lenders account for a fairly large share of the dollar volume of small business loans in Massachusetts (2007).

	Number of Loans	Percent of Total	\$ Amount of Loans (000s)	Percent of Total
Massachusetts Lenders	24,945	8.1%	\$3,651,258	57.9%
Credit Card Lenders	272,118	87.8%	\$2,003,337	31.8%
Other Lenders	12,787	4.1%	\$648,378	10.3%
State Totals	309,850	100.0%	\$6,302,973	100.0%



While local lenders have traditionally played a dominant role in local small business lending, the volume of loans originated by Massachusetts lenders has declined over the past few years in terms of both the number and dollar amount of loans, which has contributed to a clear trend of market share erosion.

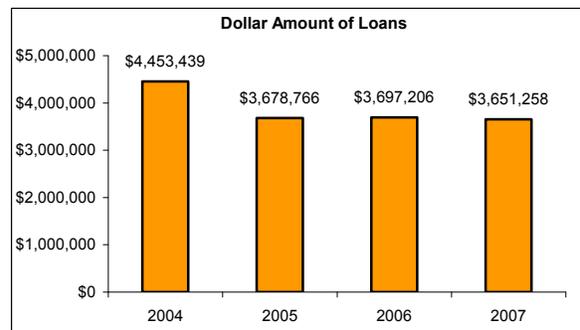
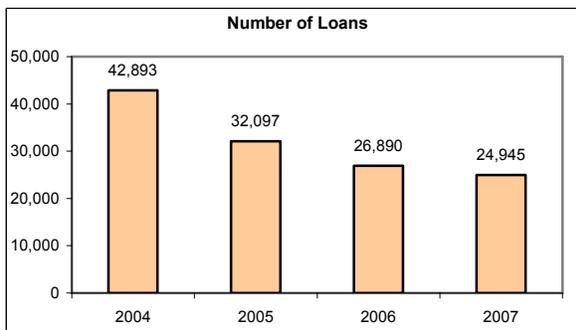
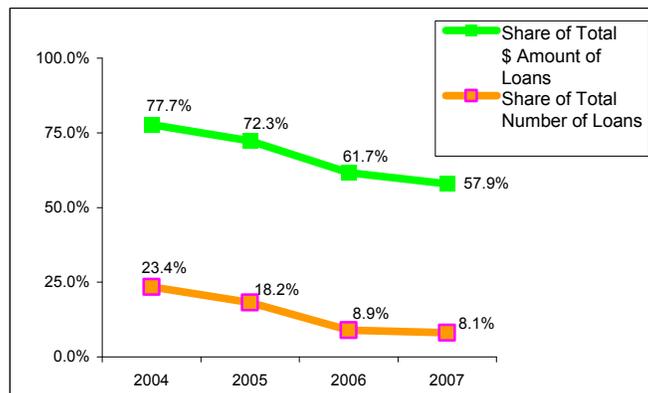
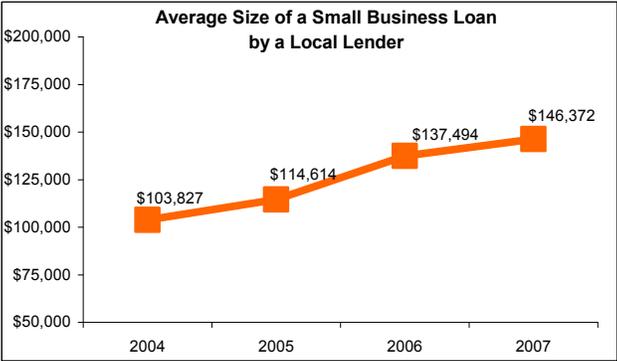


CHART: Local lenders have lost a substantial share of the small business loan market



The average size of a small business loan with a local lender was roughly \$146,000 in 2007, and ranged from a low of \$77,000 to a high of \$420,000. The average size of a small business loan by a local lender has trended up over the past few years.



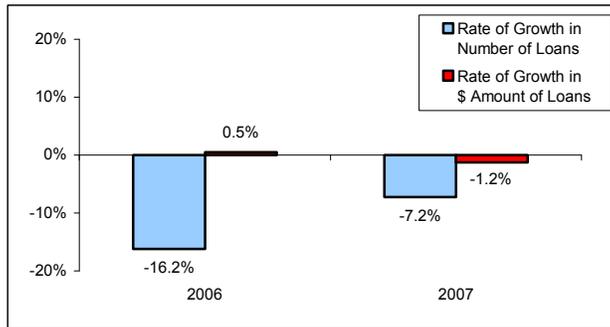
It should be noted that the average small business loan size by a local lender is also influenced by state banking laws that limit the rate of interest that state-chartered financial institutions in Massachusetts may charge for small loans under \$6,000 (see MGL Chapter 140 Section 96). While these laws, which do not apply to national banks or federally-chartered financial institutions, are intended to protect consumer interests, they may have the unintended consequence of discouraging local banks from making smaller loans by limiting the associated profit margin.

The following table shows the 2007 statewide small business loan volume for all local lenders that are included in the 2007 CRA database. More detailed information on these lenders is provided in the online appendix at [www.mcbsc.info](http://www.mcbsc.info).

	Massachusetts Deposits (000s)	Number of Loans	Amount of Loans in Millions	Average Loan Size (000s)
BANK OF AMERICA, N.A.	\$32,909,400	2,384	\$503.1	\$211
BELMONT SAVINGS BANK	\$313,072	27	\$3.3	\$122
BERKSHIRE BANK	\$1,402,457	267	\$28.6	\$107
BEVERLY NATIONAL BANK	\$360,056	105	\$16.7	\$159
BOSTON PRIVATE BANK & TRUST CO	\$1,720,089	316	\$89.1	\$282
BRISTOL COUNTY SAVINGS BANK	\$681,306	323	\$58.0	\$179
BROOKLINE BANK	\$1,318,704	106	\$25.9	\$244
CAMBRIDGE SAVINGS BANK	\$1,599,479	150	\$32.0	\$213
CAPE COD 5 CENTS SAVINGS BANK	\$1,411,806	558	\$52.6	\$94
CAPE COD COOPERATIVE BANK	\$355,222	195	\$33.9	\$174
CENTRAL COOPERATIVE BANK	\$376,082	28	\$8.4	\$299
CENTURY BANK & TRUST COMPANY	\$1,163,197	400	\$52.3	\$131
CITIZENS-UNION SAVINGS BANK	\$436,538	125	\$29.7	\$238
COMMERCE BANK & TRUST COMPANY	\$516,196	91	\$15.6	\$171
COMMONWEALTH NATIONAL BANK	\$210,208	139	\$29.2	\$210
COUNTRY BANK FOR SAVINGS	\$741,106	206	\$20.9	\$101
DANVERSBANK	\$972,925	192	\$40.8	\$212
EAGLE BANK	\$386,019	55	\$7.9	\$144
EAST BOSTON SAVINGS BANK	\$749,656	19	\$5.0	\$266
EAST CAMBRIDGE SAVINGS BANK	\$631,524	31	\$4.4	\$140
EASTERN BANK	\$4,884,322	2,072	\$320.5	\$155
EASTHAMPTON SAVINGS BANK	\$548,467	225	\$18.9	\$84
FIDELITY BANK	\$295,828	133	\$17.0	\$128
FLORENCE SAVINGS BANK	\$670,595	164	\$15.9	\$97
FRAMINGHAM CO-OPERATIVE BANK	\$249,274	102	\$16.6	\$163
GREENFIELD SAVINGS BANK	\$379,445	96	\$10.9	\$113
HAMPDEN BANK	\$328,230	101	\$16.9	\$167
LEGACY BANKS	\$554,102	110	\$16.6	\$151
MASSBANK	\$710,998	2	\$1.1	\$546
MELLON TRUST OF NEW ENGLAND	\$9,325,368	20	\$8.4	\$420
MIDDLESEX SAVINGS BANK	\$2,924,709	658	\$134.8	\$205
NORTH EASTON SAVINGS BANK	\$376,485	74	\$5.7	\$77
NORTHERN BANK & TRUST COMPANY	\$328,503	251	\$48.7	\$194
PEOPLESBANK	\$907,316	107	\$20.2	\$189
RBS CITIZENS, N.A.	\$23,713,359	5,245	\$531.3	\$101
ROCKLAND TRUST COMPANY	\$2,053,945	1,293	\$150.9	\$117
SALEM FIVE CENTS SAVINGS BANK	\$1,715,168	478	\$115.9	\$243
SLADE'S FERRY TRUST COMPANY	\$429,636	104	\$28.3	\$272
SOUTH SHORE SAVINGS BANK	\$605,620	254	\$33.7	\$133
SOUTHBRIDGE SAVINGS BANK	\$300,826	93	\$16.5	\$178
SOVEREIGN BANK	\$13,012,737	3,233	\$353.8	\$109
TD BANKNORTH NA	\$7,598,474	4,094	\$660.2	\$161
THE COOPERATIVE BANK	\$237,391	54	\$7.4	\$138
THE LOWELL FIVE CENT SAVINGS BANK	\$578,100	82	\$14.3	\$174
THE SAVINGS BANK	\$334,110	35	\$9.0	\$258
WATERTOWN SAVINGS BANK	\$1,149,809	52	\$11.6	\$223
WEBSTER FIVE CENTS SAVINGS BANK	\$358,230	94	\$8.0	\$85
TOTALS		24,943	\$3,650.2	\$146

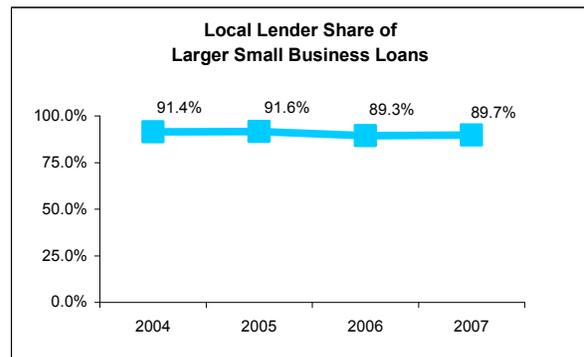
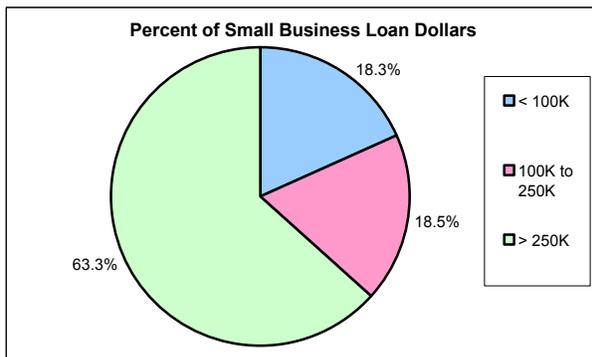
The rate of growth of small business loan dollars originated by local lenders in Massachusetts has been modest and declining for the past two years. Local lenders reported a combined 1.2% decline in overall small business loan dollars in 2007, following rather anemic growth of 0.5% in 2006.

CHART: The rate of growth of small business loan dollars originated by local lenders in Massachusetts has been modest and declining during the past couple of years

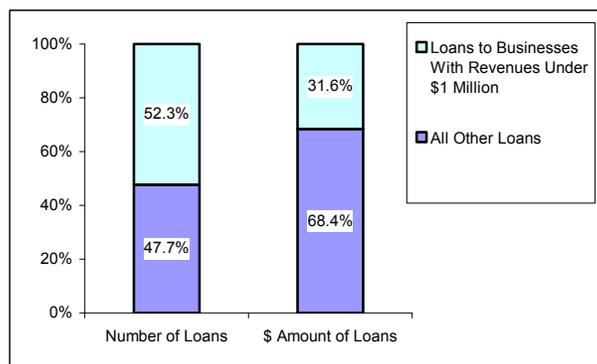


As one might expect given the average size of a small business loan originated by a local lender, the majority of loans made by local lenders had original amounts greater than \$100,000. It is also worth noting that, while local lenders have lost substantial overall market share, they have essentially maintained a dominant share with respect to larger small business loans – those with an original amount over \$100,000. In 2007, Massachusetts banks accounted for roughly 90% of the dollar volume of larger small business loans. The economic impact of these larger loans is substantial and underscores the vital role that local lenders play in small business lending in Massachusetts.

CHART: Larger small business loans – those with an original amount over \$250,000 - account for well over half of small business loan dollars at local banks and on the books of local lenders, and is one area where local banks continue to dominate the market.



Local lenders made 13,048 loans to businesses with revenues under \$1 million in 2007 for \$1.1 billion, which represented 52.3% of the total number of loans originated by local lenders and 31.6% of the dollar amount of loans.



## CREDIT CARD LENDERS

While the CRA database does not identify whether a given loan is a small business credit card loan, it does provide a way to estimate which lenders make credit card loans and how big the credit card market is. By reviewing the volume of loans and the average loan size of the largest lenders, a pattern quickly emerges: for some lenders the number of loans reported is quite large but the average loan size is quite small and well below the \$146,000 average loan size of the local lenders that account for the majority of the dollar volume of loans.

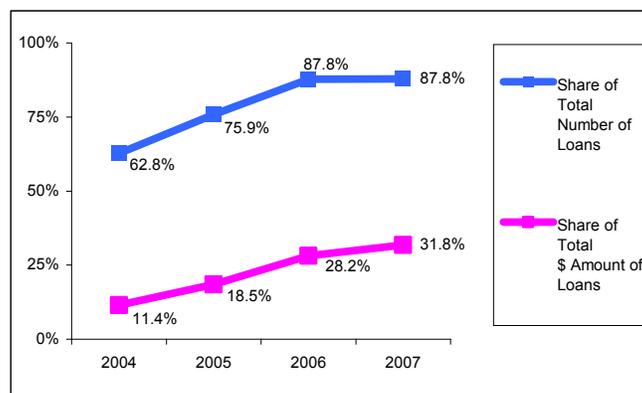
Credit card lenders originated an estimated total of 272,117 small business credit card loans in Massachusetts in 2007 for \$2.0 billion, which accounted for 87.8% of the total number of reported small business loans and 31.8% of loan dollars.

TABLE: Estimated small business credit card loans in Massachusetts (2007)

	Number of Loans	Amount of Loans in Millions	Average Loan Size
AMERICAN EXPRESS BANK, FSB	91,805	\$588.4	\$6,410
CHASE BANK USA, NA	44,616	\$385.6	\$8,643
FIA CARD SERVICES, N.A.	30,869	\$349.9	\$11,336
CITIBANK (SOUTH DAKOTA), N.A.	52,934	\$315.4	\$5,959
CAPITAL ONE, F.S.B.	24,395	\$136.5	\$5,597
ADVANTA BANK CORP	12,592	\$132.3	\$10,503
GE CAPITAL FINANCIAL INC.	5,289	\$28.7	\$5,418
DISCOVER BANK	2,436	\$21.1	\$8,647
NEW YORK COMMERCIAL BANK	3,292	\$16.9	\$5,132
WASHINGTON MUTUAL BANK	2,219	\$16.5	\$7,436
OTHER LENDERS	1,670	\$12.0	\$7,184
CREDIT CARD TOTALS	272,117	\$2,003.3	\$7,362

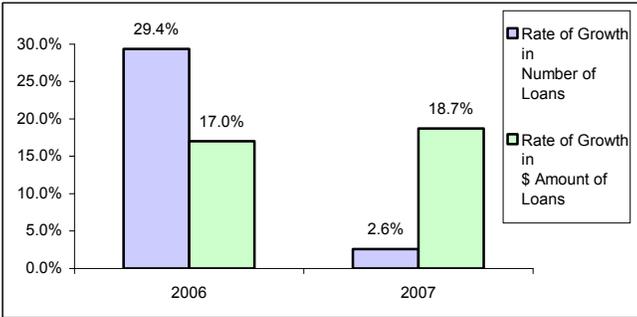
The role played by credit card lenders in Massachusetts underscores the level of competition for small business loans that exists between all lenders. It also exemplifies the wide variety of loan products and underwriting options that consumers can choose from. Unlike larger, traditional small business loans, which often involve a direct formal relationship with a local bank branch, credit card applications are usually conducted over the phone or by mail. They may also place greater emphasis on the credit score of the applicant than on the reported revenue of the business and are less likely to require a branch relationship. The popularity of small business credit cards is demonstrated by the dramatic increase in market share that these lenders have gained in recent years and by the fact that more and more local lenders are now offering credit card loans to their own customers.

CHART: Credit card lenders have substantially increased their share of small business loans in Massachusetts



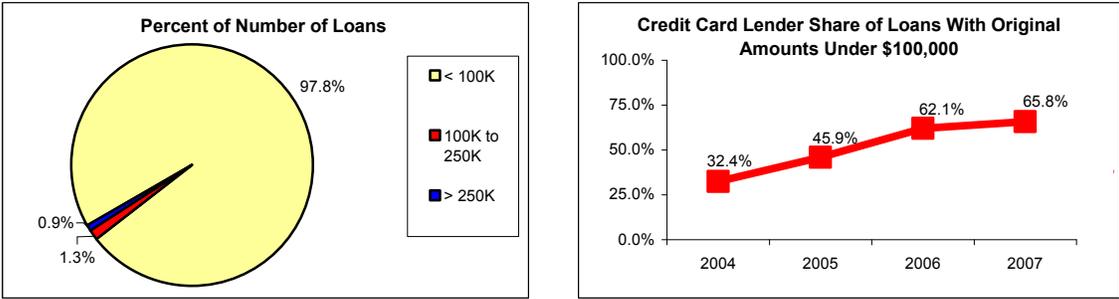
While the increase in the number of business credit card loans has been dramatic, there are signs that the rate of growth may be slowing and that the current financial crisis may constrain the short-term growth prospects of credit card lenders. The rate of growth of the number of credit card loans fell dramatically from an adjusted 29.4% in 2006 to 2.6% in 2007 despite a modest increase in dollar volume, and the outlook for future growth is somewhat bleak in large part due to liquidity and funding issues. Like the mortgage industry, the credit card industry relies on a secondary market to fund loan originations. As recession fears loom and asset quality concerns rise, the ability of the secondary market to function properly and fund additional loan growth has come into question. Part of the solution to the crisis may involve certain credit card lenders turning to depositor-based funding sources as well as direct capital infusions from the Treasury Department. Looking ahead, it seems reasonable to suggest that that tightened underwriting standards and liquidity factors could hold business credit card loan growth in check in 2008.

CHART: The rate of growth of the number of credit card loans to small businesses in Massachusetts declined significantly in 2007 despite a modest increase in the rate of growth in loan dollars

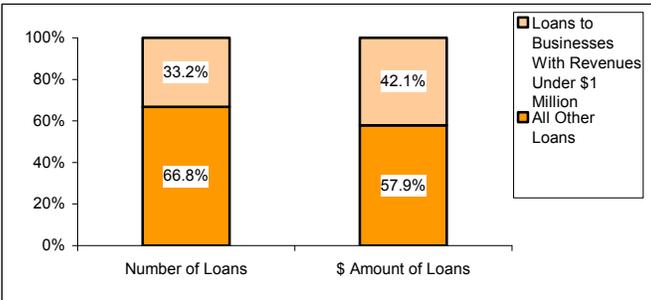


As one might expect given the average size of a small business credit card loan, the vast majority of loans originated by credit card lenders have original amounts less than \$100,000. In 2007, these loans accounted for a 97.8% of all small business loan dollars of credit card lenders, and credit card lenders have substantially increased their share of these smaller loans in Massachusetts in recent years.

CHART: Loans with an original amount under \$100,000 account for the vast majority of small business loan dollars by credit card lenders, and these lenders have increased their market share of these smaller loans over local banks and other out-of-state lenders.



Credit card lenders reported 90,237 loans to businesses with revenues under \$1 million in Massachusetts in 2007 for \$843.9 million, which represented 33.2% of the total number of loans originated by credit card lenders and 42.1% of the dollar amount of loans.



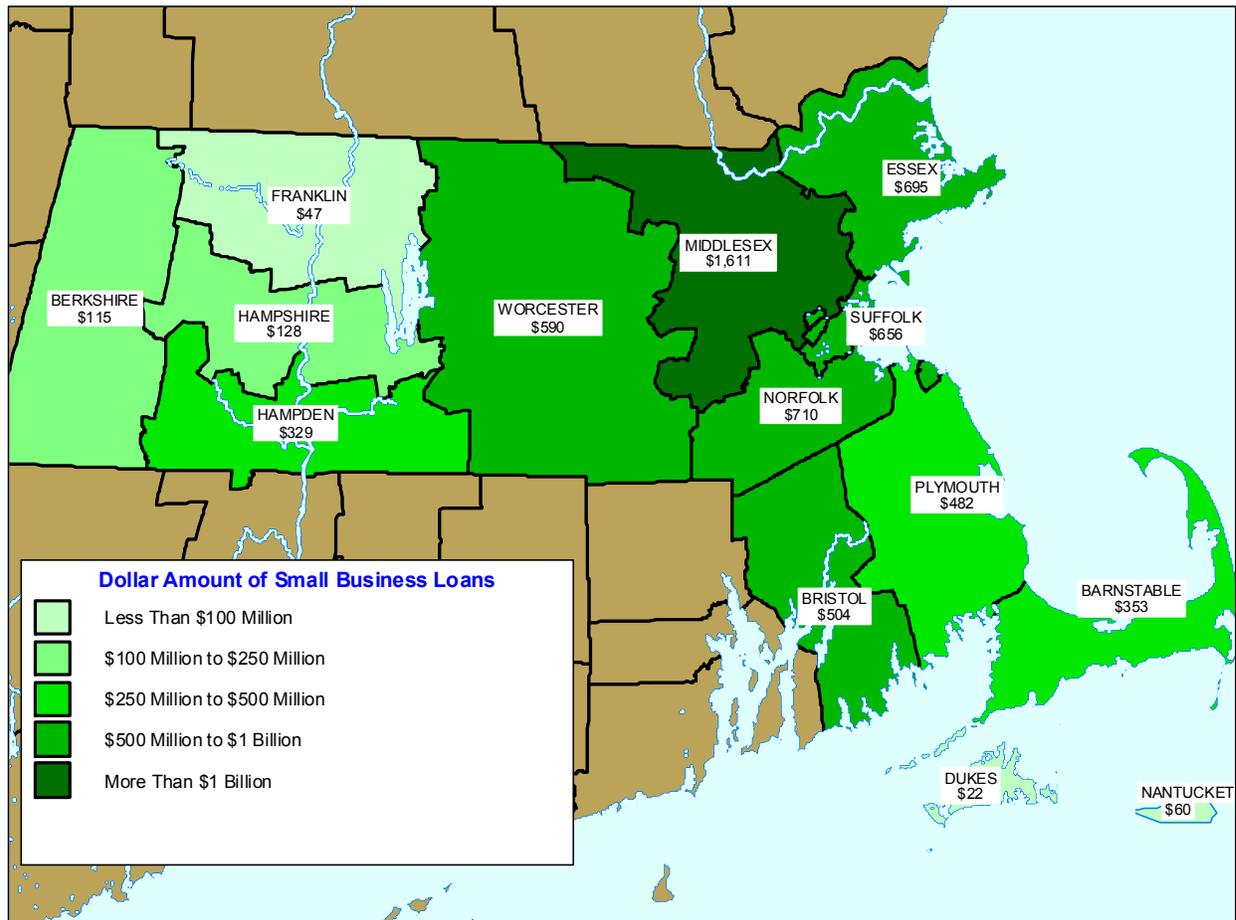
## SMALL BUSINESS LOANS BY COUNTY

The distribution of small business loans by county in Massachusetts generally follows each county's percentage of the total state population. Middlesex County, which accounts for 23.1% of the state's total population, received the largest share of small business loans in the state with 25.6% of small business loan dollars. In 2007, each of the counties west of Worcester county, reported a lower dollar volume of small business loans than one might expect given their contributions to the state's total population. Detailed small business loan data for all counties can be found in the online appendix at [www.mcbsc.info](http://www.mcbsc.info).

TABLE: The distribution of small business loans in Massachusetts generally follows each county's share of the state's total population (2007)

	Number of Loans	Percent of Total	\$ Amount of Loans (000s)	Percent of Total	Total Population	Percent of Total
Barnstable	16,631	5.4%	\$352,640	5.6%	222,219	3.5%
Berkshire	6,120	2.0%	\$115,256	1.8%	133,349	2.1%
Bristol	22,165	7.2%	\$504,135	8.0%	534,678	8.4%
Dukes	1,825	0.6%	\$21,716	0.3%	14,987	0.2%
Essex	35,802	11.6%	\$695,393	11.0%	723,419	11.4%
Franklin	2,902	0.9%	\$46,770	0.7%	67,758	1.1%
Hampden	16,088	5.2%	\$329,319	5.2%	451,510	7.1%
Hampshire	6,624	2.1%	\$128,276	2.0%	147,650	2.3%
Middlesex	79,036	25.5%	\$1,611,375	25.6%	1,465,396	23.1%
Nantucket	1,912	0.6%	\$59,615	0.9%	9,520	0.2%
Norfolk	36,301	11.7%	\$710,314	11.3%	650,308	10.3%
Plymouth	23,621	7.6%	\$482,117	7.6%	472,822	7.5%
Suffolk	29,191	9.4%	\$656,080	10.4%	689,807	10.9%
Worcester	31,632	10.2%	\$589,967	9.4%	749,127	11.8%
State Totals	309,850	100.0%	\$6,302,973	100.0%	6,332,550	100.0%

Map: Small business loans dollars volume by county (2007)

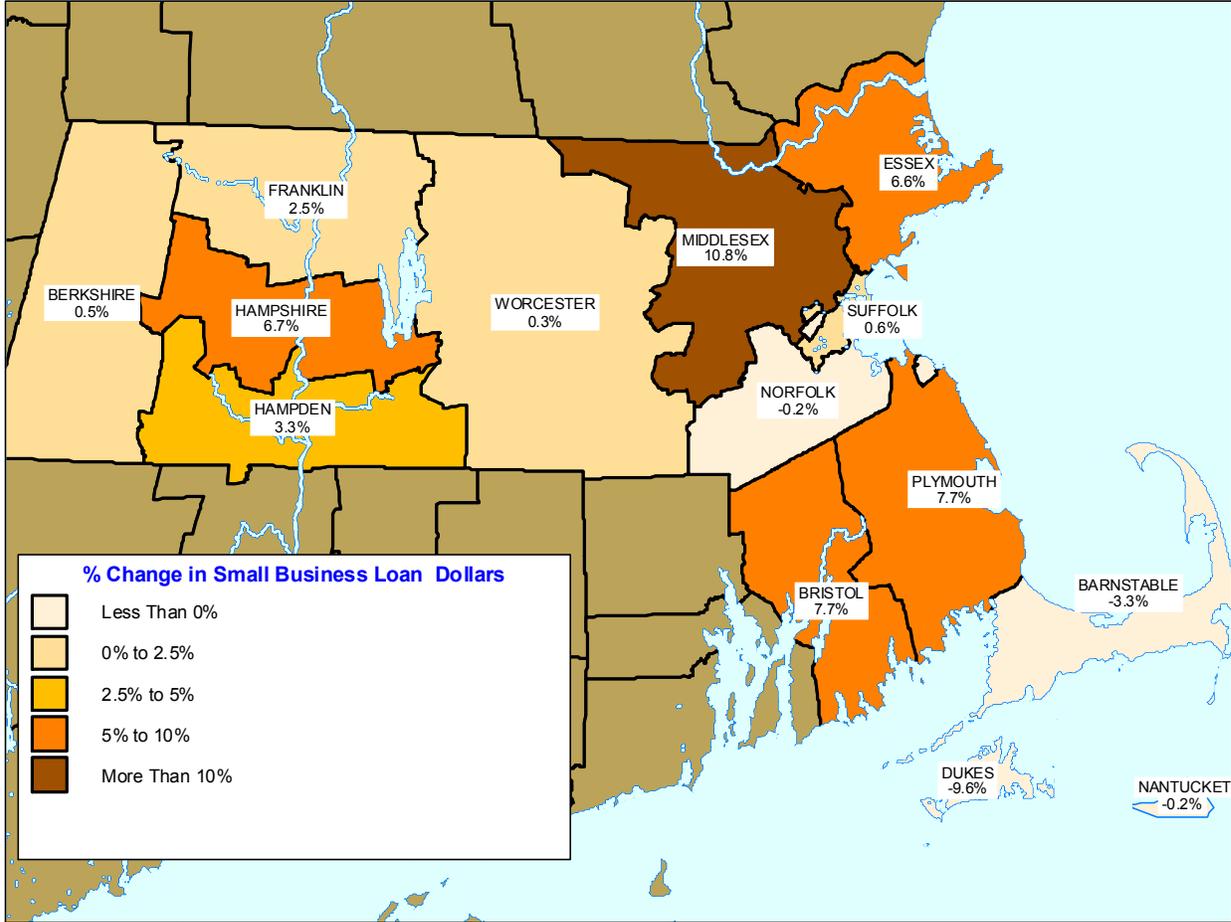


Middlesex County accounted for the highest rate of growth in 2007 in small business loan dollars although Essex County, and Norfolk Counties also saw large increases. Barnstable, Dukes, and Nantucket Counties reported overall declines in small business loan dollars in 2007.

Small business loan dollars in Middlesex County increased by \$157.3 billion or 10.8% from 2006 to 2007. Bristol County and Norfolk County each experienced overall increases of 7.7% in small business dollar volume, and Essex County experienced an increase of 6.6%.

	2007 Change in Number of Loans	% Change	2007 Change in \$ Amount of Loans (000s)	% Change
Barnstable	308	1.9%	-\$12,120	-3.3%
Berkshire	56	0.9%	\$546	0.5%
Bristol	660	3.1%	\$35,905	7.7%
Dukes	-11	-0.6%	-\$2,297	-9.6%
Essex	395	1.1%	\$43,147	6.6%
Franklin	403	16.1%	\$1,158	2.5%
Hampden	115	0.7%	\$10,399	3.3%
Hampshire	188	2.9%	\$8,006	6.7%
Middlesex	2,861	3.8%	\$157,275	10.8%
Nantucket	15	0.8%	-\$123	-0.2%
Norfolk	710	2.0%	\$50,977	7.7%
Plymouth	121	0.5%	\$3,006	0.6%
Suffolk	562	2.0%	\$2,008	0.3%
Worcester	1,283	4.2%	\$9,953	1.7%
State Totals	7,666	2.5%	\$307,840	5.1%

Map: Growth in small business loans dollars volume by county (2007)



## SMALL BUSINESS LOANS BY CITY & TOWN

Compared to the distribution of loans by county, there is somewhat greater variability between the relative distribution of small business loans and total population at the city and town level. Boston, which accounts for 9.3% of the state's population, received \$604 million in small business dollars in 2007 and accounted for 9.6% of the total loan dollars, while the cities of Worcester and Springfield, which account for 2.7% and 2.4% of the state's population respectively, received just 1.9% and 1.3% of the total loan dollars in the state. Other notable standouts from the 2007 data include the towns of Barnstable, Billerica, Newton, Waltham, and Woburn where small business loan volume significantly exceeded the levels that one might expect given the towns' relative contributions to the total population of the state.

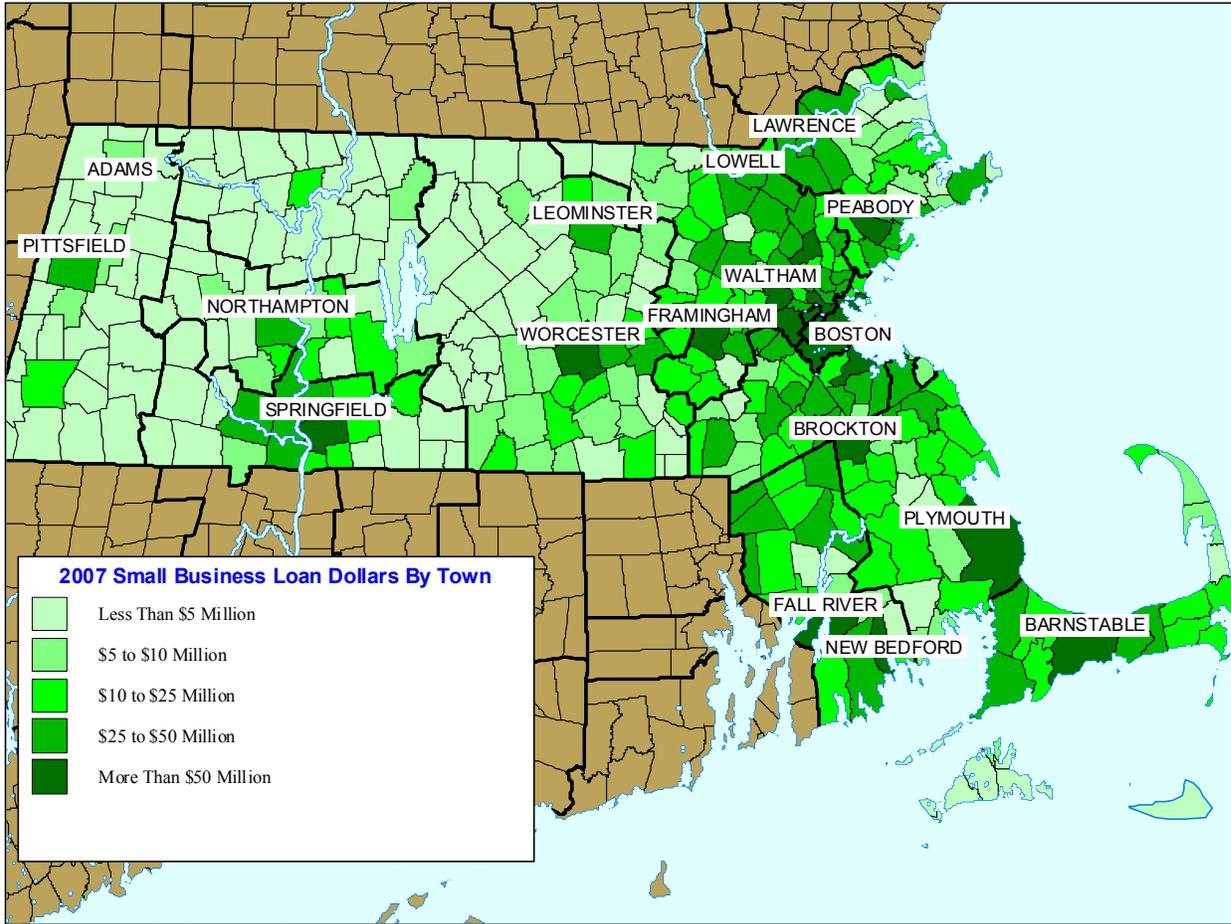
The following chart shows the total small business loans in 2007 for the top 50 Massachusetts cities and towns ranked by total population. Data for all cities and towns in Massachusetts can be found in the online appendix at [www.mcbc.info](http://www.mcbc.info).

TABLE: Small business loan volume in the 50 largest cities and towns in Massachusetts (2007)

	Number of Loans	Percent of Total	\$ Amount of Loans (000s)	Percent of Total	Total Population	Percent of Total
Boston	25,797	8.3%	\$604,832	9.6%	589,141	9.3%
Worcester	5,847	1.9%	\$119,803	1.9%	172,648	2.7%
Springfield	3,684	1.2%	\$80,278	1.3%	152,082	2.4%
Lowell	2,598	0.8%	\$39,695	0.6%	105,167	1.7%
Cambridge	5,534	1.8%	\$115,429	1.8%	101,355	1.6%
Brockton	2,693	0.9%	\$64,632	1.0%	94,304	1.5%
New Bedford	2,709	0.9%	\$69,724	1.1%	93,768	1.5%
Fall River	2,683	0.9%	\$63,243	1.0%	91,938	1.4%
Lynn	2,234	0.7%	\$41,270	0.7%	89,050	1.4%
Quincy	3,951	1.3%	\$77,821	1.2%	88,025	1.4%
Newton	5,946	1.9%	\$110,422	1.8%	83,829	1.3%
Somerville	2,666	0.9%	\$46,769	0.7%	77,478	1.2%
Lawrence	1,589	0.5%	\$38,739	0.6%	72,043	1.1%
Framingham	3,690	1.2%	\$72,580	1.2%	66,910	1.1%
Waltham	3,603	1.2%	\$88,232	1.4%	59,226	0.9%
Haverhill	2,060	0.7%	\$46,375	0.7%	58,969	0.9%
Brookline	3,195	1.0%	\$53,802	0.9%	57,107	0.9%
Malden	2,306	0.7%	\$36,451	0.6%	56,340	0.9%
Taunton	1,799	0.6%	\$38,037	0.6%	55,976	0.9%
Medford	2,420	0.8%	\$36,074	0.6%	55,765	0.9%
Chicopee	1,562	0.5%	\$36,944	0.6%	54,653	0.9%
Weymouth	2,214	0.7%	\$44,764	0.7%	53,988	0.8%
Plymouth	2,759	0.9%	\$55,534	0.9%	51,701	0.8%
Peabody	2,524	0.8%	\$55,871	0.9%	48,129	0.8%
Barnstable Town	3,623	1.2%	\$82,821	1.3%	47,821	0.8%
Revere	1,655	0.5%	\$17,685	0.3%	47,283	0.7%
Pittsfield	1,700	0.5%	\$37,991	0.6%	45,793	0.7%
Methuen	1,694	0.5%	\$28,066	0.4%	43,789	0.7%
Arlington	1,968	0.6%	\$30,538	0.5%	42,389	0.7%
Attleboro	1,671	0.5%	\$44,345	0.7%	42,068	0.7%
Leominster	1,781	0.6%	\$36,275	0.6%	41,303	0.6%
Salem	2,024	0.7%	\$45,665	0.7%	40,407	0.6%
Westfield	1,434	0.5%	\$31,418	0.5%	40,072	0.6%
Beverly	2,255	0.7%	\$48,839	0.8%	39,862	0.6%
Holyoke	1,080	0.3%	\$26,043	0.4%	39,838	0.6%
Fitchburg	1,226	0.4%	\$22,036	0.3%	39,102	0.6%
Billerica	1,894	0.6%	\$48,250	0.8%	38,981	0.6%
Everett	1,372	0.4%	\$29,303	0.5%	38,037	0.6%
Woburn	2,998	1.0%	\$99,111	1.6%	37,258	0.6%
Marlborough	1,881	0.6%	\$40,762	0.6%	36,255	0.6%
Chelsea	772	0.2%	\$24,038	0.4%	35,080	0.6%
Amherst	986	0.3%	\$15,650	0.2%	34,874	0.5%
Chelmsford	1,951	0.6%	\$40,464	0.6%	33,858	0.5%
Braintree	1,927	0.6%	\$44,986	0.7%	33,828	0.5%
Watertown	1,907	0.6%	\$39,672	0.6%	32,986	0.5%
Falmouth	1,966	0.6%	\$42,300	0.7%	32,660	0.5%
Natick	2,122	0.7%	\$49,620	0.8%	32,170	0.5%
Shrewsbury	1,656	0.5%	\$36,669	0.6%	31,640	0.5%
Andover	1,946	0.6%	\$40,088	0.6%	31,247	0.5%
Randolph	1,289	0.4%	\$26,550	0.4%	30,963	0.5%

The following map shows that small business loan dollars in Massachusetts in 2007 were relatively concentrated around the state's urban centers and the I-495/Route 128 high-tech corridor.

Map: Distribution of small business loan dollars in Massachusetts by town (2007)



There was also considerable variability in the year-over-year change in small loan volume in cities and towns across Massachusetts from 2006 to 2007. Boston experienced an increase in small business loan dollars of \$15.0 million or 2.5% in 2007, which accounted for less than 5% of the total statewide increase in small business loans dollars in 2007, while Worcester and Springfield experienced declines of 6.2% and 10.1% respectively. As a result, most of the growth in small business loan volume in 2007 took place outside the state's largest cities. The following chart shows the change in small business loans from 2006 to 2007 for the top 50 Massachusetts cities and towns ranked by total population. Data for all cities and towns in Massachusetts can be found in the online appendix at [www.mcbc.info](http://www.mcbc.info).

TABLE: Change in small business loans from 2006 to 2007 in the 50 largest cities and towns in Massachusetts

	2007 Change in Number of Loans	% Change	2007 Change in \$ Amount of Loans (000s)	% Change	Total Population	% of Total
Boston	535	2.1%	\$14,956	2.5%	589,141	9.3%
Worcester	283	5.1%	-\$7,977	-6.2%	172,648	2.7%
Springfield	-70	-1.9%	-\$9,031	-10.1%	152,082	2.4%
Lowell	-17	-0.7%	-\$2,522	-6.0%	105,167	1.7%
Cambridge	515	10.3%	\$24,343	26.7%	101,355	1.6%
Brockton	48	1.8%	-\$4,402	-6.4%	94,304	1.5%
New Bedford	160	6.3%	-\$1,411	-2.0%	93,768	1.5%
Fall River	171	6.8%	\$276	0.4%	91,938	1.4%
Lynn	32	1.5%	-\$1,173	-2.8%	89,050	1.4%
Quincy	173	4.6%	\$6,270	8.8%	88,025	1.4%
Newton	220	3.8%	\$12,743	13.0%	83,829	1.3%
Somerville	192	7.8%	\$4,574	10.8%	77,478	1.2%
Lawrence	101	6.8%	-\$1,194	-3.0%	72,043	1.1%
Framingham	103	2.9%	\$2,647	3.8%	66,910	1.1%
Waltham	187	5.5%	\$3,434	4.0%	59,226	0.9%
Haverhill	80	4.0%	\$5,217	12.7%	58,969	0.9%
Brookline	160	5.3%	\$5,763	12.0%	57,107	0.9%
Malden	190	9.0%	-\$8,599	-19.1%	56,340	0.9%
Taunton	-23	-1.3%	\$4,740	14.2%	55,976	0.9%
Medford	199	9.0%	-\$805	-2.2%	55,765	0.9%
Chicopee	79	5.3%	\$7,984	27.6%	54,653	0.9%
Weymouth	-16	-0.7%	\$1,253	2.9%	53,988	0.8%
Plymouth	-33	-1.2%	-\$1,399	-2.5%	51,701	0.8%
Peabody	-24	-0.9%	\$2,889	5.5%	48,129	0.8%
Barnstable Town	-20	-0.5%	-\$1,969	-2.3%	47,821	0.8%
Revere	107	6.9%	-\$2,390	-11.9%	47,283	0.7%
Pittsfield	47	2.8%	\$8,217	27.6%	45,793	0.7%
Methuen	15	0.9%	\$4,149	17.3%	43,789	0.7%
Arlington	123	6.7%	\$8,041	35.7%	42,389	0.7%
Attleboro	-34	-2.0%	-\$4,325	-8.9%	42,068	0.7%
Leominster	56	3.2%	-\$3,951	-9.8%	41,303	0.6%
Salem	9	0.4%	\$94	0.2%	40,407	0.6%
Westfield	115	8.7%	\$4,928	18.6%	40,072	0.6%
Beverly	108	5.0%	\$3,300	7.2%	39,862	0.6%
Holyoke	-33	-3.0%	-\$112	-0.4%	39,838	0.6%
Fitchburg	-37	-2.9%	\$206	0.9%	39,102	0.6%
Billerica	-69	-3.5%	\$8,033	20.0%	38,981	0.6%
Everett	-9	-0.7%	\$6,514	28.6%	38,037	0.6%
Woburn	50	1.7%	\$14,353	16.9%	37,258	0.6%
Marlborough	-26	-1.4%	\$1,669	4.3%	36,255	0.6%
Chelsea	-61	-7.3%	-\$7,473	-23.7%	35,080	0.6%
Amherst	107	12.2%	-\$2,092	-11.8%	34,874	0.5%
Chelmsford	28	1.5%	\$11,243	38.5%	33,858	0.5%
Braintree	-55	-2.8%	\$2,526	5.9%	33,828	0.5%
Watertown	70	3.8%	\$4,207	11.9%	32,986	0.5%
Falmouth	2	0.1%	\$9,714	29.8%	32,660	0.5%
Natick	4	0.2%	-\$4,391	-8.1%	32,170	0.5%
Shrewsbury	77	4.9%	\$752	2.1%	31,640	0.5%
Andover	65	3.5%	\$8,783	28.1%	31,247	0.5%
Randolph	133	11.5%	\$4,829	22.2%	30,963	0.5%

## **SECTION II**

**SMALL BUSINESS LENDING IN TRADITIONALLY UNDERSERVED AREAS:**

**A CRA PERSPECTIVE**

## INCOME LEVEL, RACE, & BUSINESS DEMOGRAPHICS

As noted at the beginning of this report, the goal of the CRA law is to encourage depository institutions to help meet the credit needs of the residents and small businesses in the communities in which they operate, particularly low and moderate income neighborhoods, consistent with safe and sound business operations. Since the CRA law places a specific emphasis on the distribution of loans by income level, lending performance is generally evaluated in the context of the demographic characteristics of a particular geographic area. While the CRA law does not specifically address the race of borrowers, a subject that is formally covered by federal fair lending laws, this report analyzes the distribution of small business loans by both the census tract income and the racial composition of local communities.

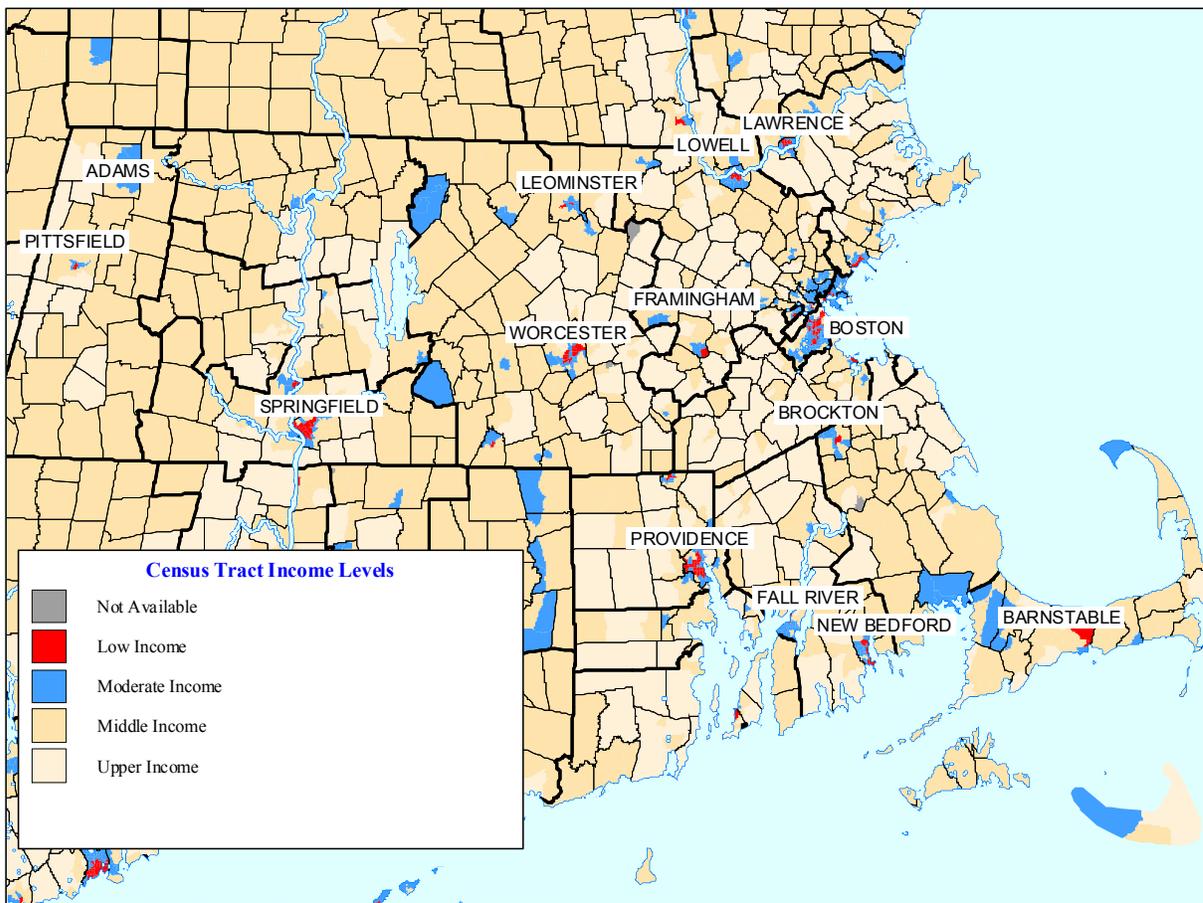
According to the most recent census data, there are 114 low income census tracts and 295 moderate income census tracts in Massachusetts, which account for 5.7% and 20.5% of the total population of the state.

TABLE : Population by income level in Massachusetts

Census Tract Income Level	Number of Census Tracts	Total Population	% of Total	Minority Population %
Low	114	364,959	5.7%	66.2%
Moderate	295	1,304,855	20.5%	35.9%
Middle	628	3,012,570	47.6%	10.3%
Upper	319	1,646,183	25.9%	7.7%
NA	5	3,983	0.1%	54.6%
Totals	1,361	6,332,550	100.0%	18.1%
Memo; Low & Moderate	409	1,669,814	26.4%	42.5%

Low income and moderate income areas are spread out over 63 cities and towns across the state, including 19 cities and towns that have both low and moderate income areas.

MAP : Low and moderate income census tracts are shown in red and blue below



The census data shows a strong correlation between race and income level in Massachusetts and across the country: areas with higher minority populations generally have lower income levels. Previous reports published by the MCBC on small business lending have noted a similar correlation between small business lending and income level: lower income areas and high minority areas generally have lower lending rates than higher income and lower minority areas.

Minorities account for approximately 18.1% of the total population of the state. Blacks, Hispanics, and Asians represent the largest minority groups. There are 72 high-minority census tracts across the state, where the minority population is more than 75% of the total population of the tract, and an additional 275 mixed-race census tracts that together comprise roughly 22.5% of the state’s population. Of the high minority tracts, 45 are located in Boston, 10 are located in Worcester, 8 are located in Lawrence, and the remaining 9 census tracts are located in Amherst, Chelsea, Holyoke, Lowell, and Worcester.

	Total Population	% of Total Population
Asian	238,191	3.8%
Black	318,193	5.0%
Hispanic	428,480	6.8%
Other Race	164,954	2.6%
White	5,182,732	81.8%
Total	6,332,550	100.0%
Memo: Total Minority	1,149,818	18.2%

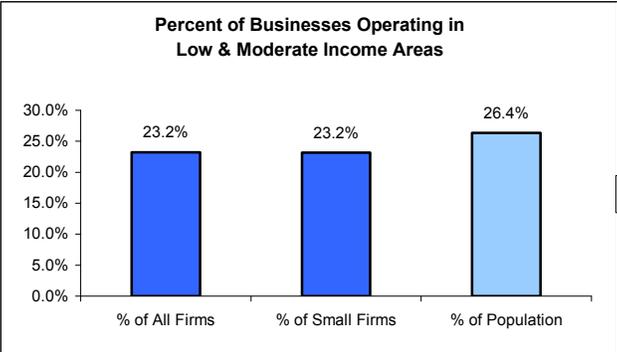
Neighborhood Description	Number of Census Tracts	Total Population	% of Total Population
High Minority (> 75% Minority)	72	248,866	3.9%
Mixed-Race	280	1,177,148	18.6%
White (> 75% White)	1,009	4,906,536	77.5%
Total	1,361	6,332,550	100.0%

In an effort to measure whether income or race is more important in determining the patterns of lending, we will utilize categories that take both income level and race/ethnicity into account. A finding of lower lending rates in high minority low income tracts than in white low income tracts would indicate that the racial makeup of the community is potentially the more important factor. The reverse finding, of higher lending rates in low income white tracts, would indicate that income level was potentially the more important factor. To simplify our analysis, we have combined low and moderate income tracts together as one group and combined middle and upper income tracts together as another group.

Neighborhood Description	Number of Census Tracts	Total Population	% of Population
High Minority & Low-Moderate	71	248,865	3.9%
Mixed-Race & Low-Moderate	209	908,459	14.3%
Mixed-Race & Middle-Upper	67	289,214	4.6%
White & Low-Moderate	129	512,490	8.1%
White & Middle-Upper	880	4,369,539	69.0%
Not Available	5	3,983	0.1%
Totals	1,361	6,332,550	100.0%

While the census bureau provides us with a reliable demographic information down to the census tract level, it is much more difficult to find data sources that quantify the number of firms that operate in a given area since these datasets are generally organized at the state or county level. The number of firms data is used in this report to calculate lending rates, in our case the dollar amount of loans per 100 firms, which allow us to compare small business lending activity between geographic areas and across demographic lines – such as lower income and higher income areas. Analyses that focus exclusively on loan volume can be dramatically affected by population changes and demographic shifts that occur over time, while the use of lending rates tends to neutralize such effects and provide a preferred mechanism for performing geographic or demographic comparisons.

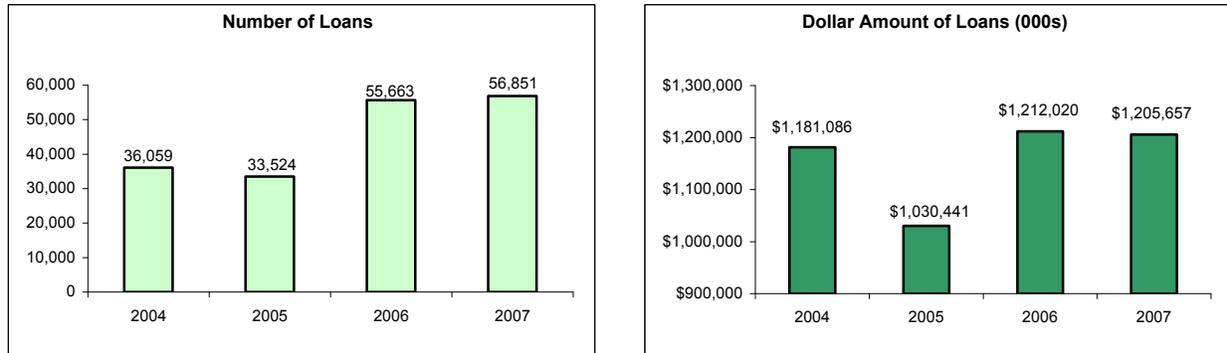
The source for the number of firms data used in this report is Dunn & Bradstreet, which compiles business demographic data by reviewing government business filings as well as direct surveys of business owners. The business information company estimates that 23.2% of all businesses in the state, and 23.2% of businesses with revenues under \$1 million, are located in low and moderate income areas. By way of comparison, low and moderate income areas account for a slightly higher percentage of the state's total population.



## SMALL BUSINESS LENDING IN LOWER INCOME AREAS

Borrowers in low and moderate income census tracts in Massachusetts received a total of 56,851 small business loans in 2007 for \$1.2 billion, which represents a slight increase in the number of loans compared to 2006 and a slight decrease in the dollar amount of loans.

TABLE : The number of small business loans in lower income areas in Massachusetts increased slightly in 2007, while the amount of loan dollars fell



Loans to small businesses in low and moderate income census tracts accounted for 18.3% of the total number of small business loans in the state in 2007 and 19.1% of the total dollars. While these percentages fall short of the levels one might expect given the size of population that live in low and moderate income tracts, they are essentially in line with comparable results in other New England states and the US as a whole.

TABLE : Small business loans in low and moderate income census tracts by state (2007)

	Number of Loans in Low Income & Moderate Income Census Tracts	% of Total	\$ Amount of Loans in Low Income & Moderate Income Census Tracts (000s)	% of Total	Total Population in Low Income & Moderate Income Census Tracts	% of Total
Massachusetts	56,851	18.3%	\$1,205,657	19.1%	1,669,814	26.4%
Connecticut	33,766	18.6%	\$809,261	22.2%	907,427	26.7%
Maine	6,669	11.6%	\$191,690	11.9%	159,771	12.6%
New Hampshire	8,418	12.3%	\$220,036	15.3%	190,757	15.5%
Rhode Island	8,288	17.7%	\$230,009	21.9%	269,754	25.7%
Vermont	3,118	10.9%	\$98,595	13.2%	71,481	11.8%
Totals	60,259	15.7%	\$1,549,591	18.3%	1,599,190	11.5%
US Total	2,409,193	17.9%	\$67,077,478	20.5%	71,541,392	25.4%

TABLE : Small business loans in Massachusetts by income level (2007)

Census Tract Income Level	Number of Loans	% of Total	\$ Amount of Loans (000s)	% of Total	Total Population	% of Population
Low	14,536	4.7%	\$407,405	6.5%	364,959	5.7%
Moderate	42,315	13.7%	\$798,252	12.7%	1,304,855	20.5%
Middle	145,526	47.0%	\$3,005,152	47.7%	3,037,077	47.8%
Upper	98,882	31.9%	\$2,010,834	31.9%	1,646,183	25.9%
NA	53	0.0%	\$2,529	0.0%	3,983	0.1%
Unknown	8,538	2.8%	\$78,801	1.3%	NA	NA
Totals	309,850	100.0%	\$6,302,973	100.0%	6,332,550	100.0%
Memo: Low & Moderate	56,851	18.3%	\$1,205,657	19.1%	1,669,814	26.3%

Note: The category "Unknown" includes all small business loans where the CRA reporter did not record the census tract location of the loan.

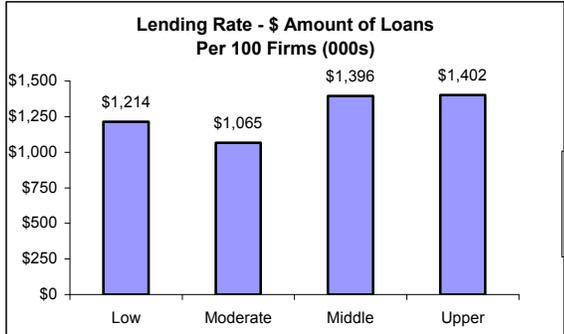
As previously noted, since lending rates utilize a combination of loan volume and the number of firms, they can be used to compare small business lending activity within a given geographic area or across different geographic areas regardless of population characteristics or other demographic factors. While loan volume can be dramatically affected by population changes and demographic shifts that occur over time the use of lending rates tends to neutralize such effects and provide a preferred mechanism for performing geographic or demographic comparisons.

As was the case in previous reports on small business lending, the lowest lending rates, measured in the amount of small loan dollars per 100 firms, were recorded in the lower income communities in Massachusetts in 2007 while the highest lending rates were recorded in higher income communities. Low and moderate income census tracts in Massachusetts received an aggregate \$1.1 million per 100 businesses, representing 82.4% of the overall lending rate across the state. Higher-income communities received an average \$1.4 million per 100 businesses, or 103.8% of the overall lending rate across the state. In each of the past four years, the lowest rates of lending were in either low or moderate income census tracts, while the highest rates of lending were in either middle or upper income areas.

TABLE : The lowest lending rates in Massachusetts were recorded in lower income areas in 2007

Census Tract Income Level	Lending Rate Per 100 Firms	% of Overall Lending Rate
Low	\$1,214	90.0%
Moderate	\$1,065	79.0%
Middle	\$1,396	103.5%
Upper	\$1,402	104.0%
Totals	\$1,349	100.0%
Memo: Low & Moderate Areas	\$1,111	82.4%

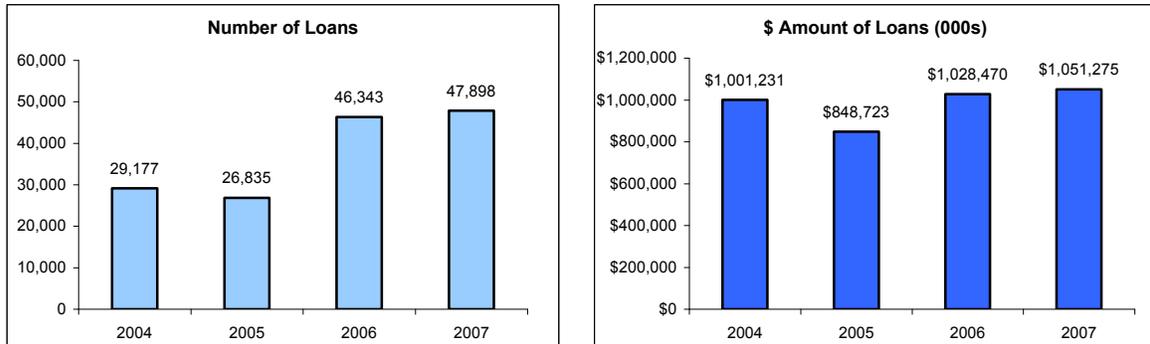
CHART: Massachusetts lending rates by income level (2007)



## SMALL BUSINESS LENDING IN HIGH MINORITY AREAS

Businesses in minority and mixed-race communities across the state received a reported 47,898 small business loans for \$1.1 billion in 2007, an increase in total volume compared to the previous year when businesses received 46,343 loans for \$1.0 billion.

CHART : The number of small business loans in minority and mixed-race census tracts across Massachusetts increased in 2007

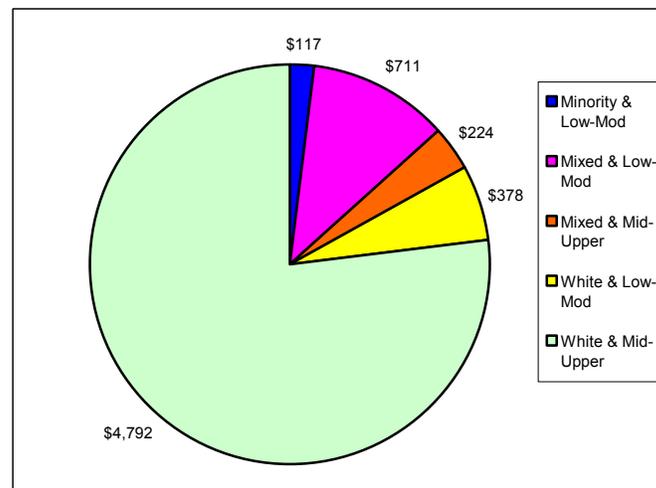


The communities with the highest minority populations in Massachusetts received 5,173 small business loans in 2007 for \$116.9 million, which represents 1.7% of the number of loans and 1.9% of the dollar amount of loans. Lower income mixed-race communities received 31,747 loans for \$710.6 million, representing 10.2% of the number of loans and 11.3% of the dollar amount of loans. While most neighborhood categories received less small business loans than one might expect given their total share of the state's total population, only higher income white communities received a larger relative share of loans in 2007.

TABLE : Most neighborhood categories received less than their total share of the state's total population – only higher income white neighborhoods had a larger relative share of loans

	Number of Loans	% of Total	\$ Amount of Loans (000s)	% of Total	Total Population	% of Total
Minority & Low-Mod	5,173	1.7%	\$116,940	1.9%	248,865	3.9%
Mixed & Low-Mod	31,747	10.2%	\$710,625	11.3%	908,459	14.3%
Mixed & Mid-Upper	10,978	3.5%	\$223,710	3.5%	289,214	4.6%
White & Low-Mod	19,931	6.4%	\$378,092	6.0%	512,490	8.1%
White & Mid-Upper	233,430	75.3%	\$4,792,276	76.0%	4,369,539	69.0%
NA	8,591	2.8%	\$81,330	1.3%	3,983	0.1%
Totals	309,850	100.0%	\$6,302,973	100.0%	6,332,550	100.0%

CHART : The communities in Massachusetts with the largest minority populations received \$117 million in small business loans in 2007

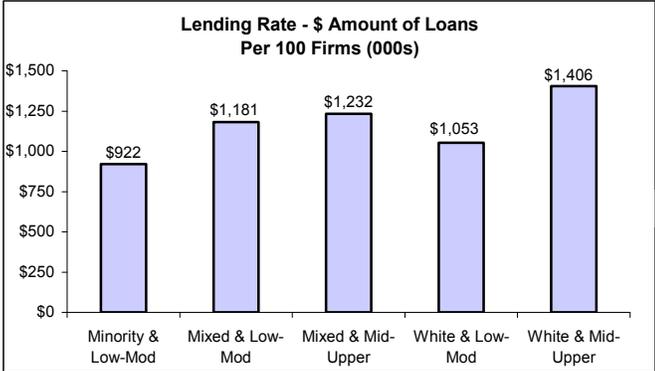


As was the case in previous reports on small business lending, the lowest lending rates, measured in the amount of small loan dollars per 100 firms, were recorded in the lower income high minority communities in Massachusetts in 2007 while the highest lending rates were recorded in higher income white communities. High minority census tracts in Massachusetts received \$922,000 per 100 businesses, representing 68.4% of the overall lending rate across the state. Higher-income white communities received an average \$1.4 million per 100 businesses or 104.3% of the overall lending rate. In each of the past four years, lower income minority neighborhoods in Massachusetts have reported lower rates of lending than lower income white neighborhoods. Readers are urged to use caution when interpreting the findings discussed in this report, given the strong correlation between high minority populations and low income levels.

TABLE : The lowest lending rates in Massachusetts were recorded in high minority and lower income areas in 2007

	Lending Rate Per 100 Firms (000s)	% of Overall Lending Rate
High Minority & Low-Moderate	\$922	68.4%
Mixed-Race & Low-Moderate	\$1,181	87.7%
Mixed-Race & Middle-Upper	\$1,232	91.5%
White & Low-Moderate	\$1,053	78.2%
White & Middle-Upper	\$1,406	104.3%
Totals	\$1,349	100.0%

CHART: Massachusetts Lending rates by income level and racial composition (2007)

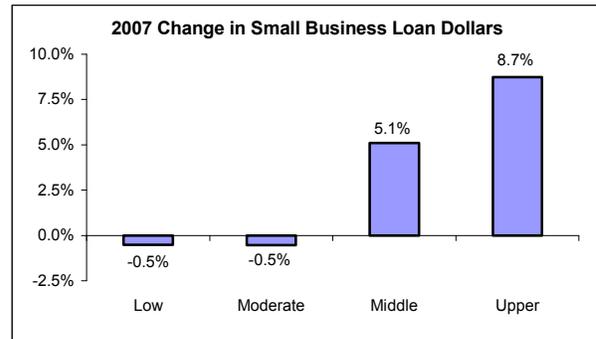


## SMALL BUSINESS LOAN GROWTH

Low and moderate income census tracts in Massachusetts experienced overall declines in small business loan dollars from 2006 to 2007, while middle and upper income census tracts experienced overall increases. Low and moderate income census tracts in Massachusetts each experienced overall declines of 0.5% in small business loan dollars in 2007, while middle income census tracts experienced an increase of 5.1% and upper income census tracts experienced an increase of 8.7%.

TABLE: Low and moderate income census tracts in Massachusetts experienced overall declines in small business loan dollars in 2007

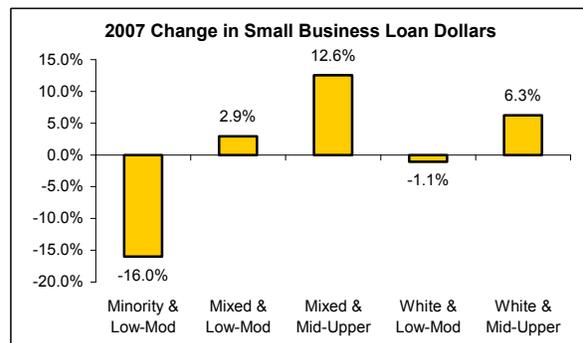
	2007 Change in Number of Loans	% Change	2007 Change in \$ Amount of Loans (000s)	% Change
Low	48	0.3%	-\$2,091	-0.5%
Moderate	1,140	2.8%	-\$4,272	-0.5%
Middle	3,535	2.5%	\$145,843	5.1%
Upper	681	0.7%	\$161,278	8.7%
NA	2,262	35.7%	\$7,082	9.5%
Totals	7,666	2.5%	\$307,840	5.1%
Memo: Low & Moderate	1,188	2.1%	-\$6,363	-0.5%



When the racial composition of the area is also taken into consideration, we find that small business loan volume in lower income minority neighborhoods declined at a much higher rate than in lower income white neighborhoods. Lower income minority areas experienced an overall decline of 16.0% in small business loan dollars in 2007, while lower income white areas experienced a decline of 1.1%.

TABLE: Lower income minority areas in Massachusetts experienced a significant decline in small business loan in 2007,

	2007 Change in Number of Loans	% Change	2007 Change in \$ Amount of Loans (000s)	% Change
Minority & Low-Mod	-211	-3.9%	-\$22,270	-16.0%
Mixed & Low-Mod	1,104	3.6%	\$20,102	2.9%
Mixed & Mid-Upper	662	6.4%	\$24,973	12.6%
White & Low-Mod	295	1.5%	-\$4,195	-1.1%
White & Mid-Upper	3,554	1.5%	\$282,148	6.3%
NA	2,262	35.7%	\$7,082	9.5%
Totals	7,666	2.5%	\$307,840	5.1%



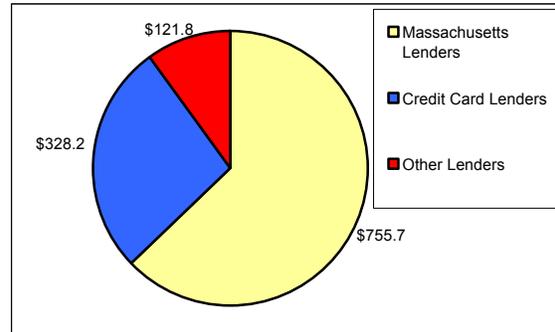
The economic revitalization of the traditionally underserved areas in Massachusetts depends to a large extent on small business lending. Given the bleak outlook for the state and national economies, and the likelihood of an overall slowdown in business lending, lower income area and high minority are likely to experience continued declines in small business loan volume lending in 2008.

## THE ROLE OF LOCAL LENDERS

As one might expect, Massachusetts-based lenders account for a the vast majority of small business loans dollars in low and moderate income census tracts across the state. Local lenders made a total of 5,112 loans for \$755.7 million in 2007, representing 9.0% of the total number of small business loans in low and moderate income areas and 62.7% of loan dollars.

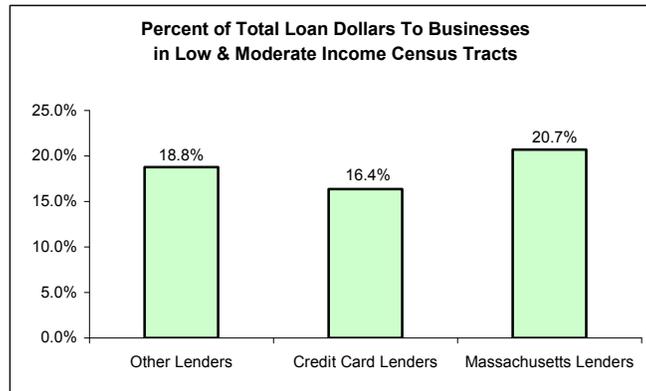
TABLE : Massachusetts-based lenders made 9.0% of the number of loans in low and moderate income areas and 62.7% of the dollar amount of loans.

	Number of Loans	% of Total	\$ Amount of Loans (000s)	% of Total
Massachusetts Lenders	5,112	9.0%	\$755,666	62.7%
Credit Card Lenders	49,273	86.7%	\$328,152	27.2%
Other Lenders	2,466	4.3%	\$121,839	10.1%
State Totals	56,851	100.0%	\$1,205,657	100.0%



Local lenders also historically make a slightly larger percentage of their loans in low and moderate income census tracts than other lenders. In 2007 Massachusetts-based lenders made 20.7% of overall small business loan dollars in low and moderate income areas across the state, compared to 16.4% for credit card lenders, and 18.8% for other lenders. The 2007 results are fairly typical of the results in previous years.

TABLE : Massachusetts-based lenders made a larger portion of their loans in low and moderate income tracts than other lenders (2007)



Massachusetts-based lenders reported overall declines in small business loan volume in lower income areas in 2007 of 7.0% in the number of loans and 4.0% in the dollar amount of such loans, while credit card lenders recorded overall increases of 2.3% and 13.8%.

TABLE : Change in small business loans in lower income areas in Massachusetts (2007)

	2007 Change in Number of Loans	% Change	2007 Change in \$ Amount of Loans (000s)	% Change
Massachusetts Lenders	-383	-7.0%	-\$31,347	-4.0%
Credit Card Lenders	1,116	2.3%	\$39,790	13.8%
Other Lenders	455	22.6%	-\$14,806	-10.8%
State Totals	1,188	2.1%	-\$6,363	-0.5%

It is important to note that the local lenders that are included in the 2007 CRA database are considered to be *CRA-covered* lenders in that most of their banking activities in Massachusetts are subject to CRA regulatory review. Out-of-state lenders and national credit card lenders that do not have a branch presence in Massachusetts are considered *non-covered* lenders in that their banking activities in Massachusetts are not subject to CRA regulatory review.

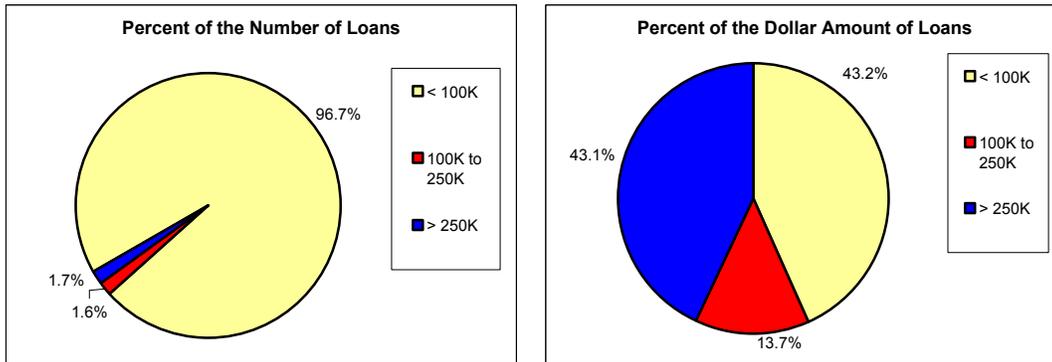
The following table shows the 2007 statewide small business loan volume in low income and moderate areas of the state for local lenders that are included in the 2007 CRA database. More detailed information on these lenders is provided in the online appendix at [www.mcbsc.info](http://www.mcbsc.info).

	Massachusetts Deposits 6/30/2007 (000s)	Number of Loans In Low Income & Moderate Income Areas	\$ Amount of Loans In Low Income & Moderate Income Areas (000s)	Average Loan Size (000s)
BANK OF AMERICA, N.A.	\$32,909,400	493	\$96,259	\$195
BELMONT SAVINGS BANK	\$313,072	6	\$267	\$45
BERKSHIRE BANK	\$1,402,457	57	\$6,786	\$119
BEVERLY NATIONAL BANK	\$360,056	32	\$4,812	\$150
BOSTON PRIVATE BANK & TRUST CO	\$1,720,089	54	\$16,157	\$299
BRISTOL COUNTY SAVINGS BANK	\$681,306	24	\$3,317	\$138
BROOKLINE BANK	\$1,318,704	20	\$3,601	\$180
CAMBRIDGE SAVINGS BANK	\$1,599,479	33	\$8,186	\$248
CAPE COD 5 CENTS SAVINGS BANK	\$1,411,806	54	\$9,534	\$177
CAPE COD COOPERATIVE BANK	\$355,222	41	\$5,670	\$138
CENTRAL COOPERATIVE BANK	\$376,082	9	\$3,148	\$350
CENTURY BANK & TRUST COMPANY	\$1,163,197	154	\$19,309	\$125
CITIZENS-UNION SAVINGS BANK	\$436,538	55	\$11,362	\$207
COMMERCE BANK & TRUST COMPANY	\$516,196	33	\$3,663	\$111
COMMONWEALTH NATIONAL BANK	\$210,208	43	\$6,352	\$148
COUNTRY BANK FOR SAVINGS	\$741,106	20	\$2,037	\$102
DANVERSBANK	\$972,925	34	\$10,103	\$297
EAGLE BANK	\$386,019	11	\$2,861	\$260
EAST BOSTON SAVINGS BANK	\$749,656	5	\$1,793	\$359
EAST CAMBRIDGE SAVINGS BANK	\$631,524	5	\$1,251	\$250
EASTERN BANK	\$4,884,322	423	\$65,528	\$155
EASTHAMPTON SAVINGS BANK	\$548,467	8	\$208	\$26
FIDELITY BANK	\$295,828	47	\$5,379	\$114
FLORENCE SAVINGS BANK	\$670,595	6	\$1,360	\$227
FRAMINGHAM CO-OPERATIVE BANK	\$249,274	25	\$5,372	\$215
GREENFIELD SAVINGS BANK	\$379,445	21	\$2,450	\$117
HAMPDEN BANK	\$328,230	30	\$3,559	\$119
LEGACY BANKS	\$554,102	21	\$2,767	\$132
MASSBANK	\$710,998	0	\$0	\$0
MELLON TRUST OF NEW ENGLAND	\$9,325,368	2	\$1,283	\$642
MIDDLESEX SAVINGS BANK	\$2,924,709	55	\$15,554	\$283
NORTH EASTON SAVINGS BANK	\$376,485	1	\$387	\$387
NORTHERN BANK & TRUST COMPANY	\$328,503	43	\$7,307	\$170
PEOPLESBANK	\$907,316	21	\$3,450	\$164
RBS CITIZENS, N.A.	\$23,713,359	1,162	\$118,189	\$102
ROCKLAND TRUST COMPANY	\$2,053,945	184	\$22,859	\$124
SALEM FIVE CENTS SAVINGS BANK	\$1,715,168	112	\$26,912	\$240
SLADE'S FERRY TRUST COMPANY	\$429,636	40	\$10,737	\$268
SOUTH SHORE SAVINGS BANK	\$605,620	15	\$1,538	\$103
SOUTHBRIDGE SAVINGS BANK	\$300,826	22	\$3,524	\$160
SOVEREIGN BANK	\$13,012,737	764	\$88,312	\$116
TD BANKNORTH NA	\$7,598,474	872	\$143,878	\$165
THE COOPERATIVE BANK	\$237,391	8	\$1,447	\$181
THE LOWELL FIVE CENT SAVINGS BANK	\$578,100	19	\$2,901	\$153
THE SAVINGS BANK	\$334,110	1	\$100	\$100
WATERTOWN SAVINGS BANK	\$1,149,809	13	\$3,646	\$280
WEBSTER FIVE CENTS SAVINGS BANK	\$358,230	14	\$551	\$39

**BREAKDOWN BY ORIGINAL LOAN AMOUNT**

The 2007 CRA small business loan data indicates that there is some variability in the breakdown by original loan amount in lower income areas in Massachusetts versus higher income areas, although the variance does not appear to be significant. Small business loans under \$100,000 accounted for 96.7% of the total number of loans in lower income areas in 2007 and 43.2% of the dollar amount of loans (versus 97.1% and 47.2% for all income groups in the state) while larger small business loans - those with an original amount between \$250,000 and \$1 million - accounted for just 1.7% of the number of loans and 43.1% of loan dollars (versus 1.5% and 47.2% statewide).

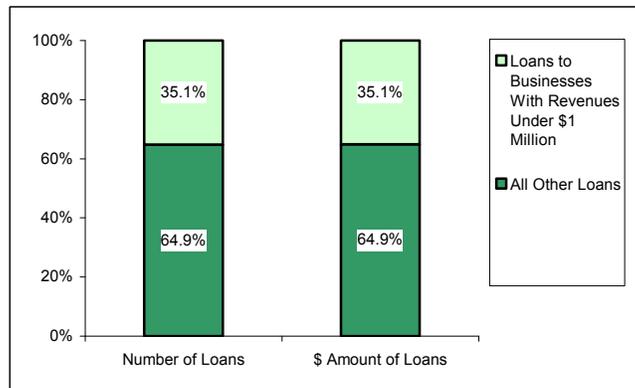
CHART: The breakdown of small business loans by original loan amount in lower income areas in Massachusetts mirrors the overall



**LOANS TO BUSINESSES WITH REVENUES UNDER \$1 MILLION**

The 2007 CRA small business loan data also indicates that there is some variability in the percentage of loans to businesses with annual revenues of \$1 million or less, although again the variance does not appear to be significant. In 2007, loans to businesses with annual revenues of \$1 million or less accounted for 35.1% of the number of loans in lower income areas and 35.1% of the dollar amount of loans (compared to 35.8% and 35.3% for all income groups statewide).

CHART: Loans to businesses with annual revenues under \$1 million accounted for just over one-third of all small business loans in lower income areas of Massachusetts in 2007



## DISTRIBUTION BY COUNTY

The 2007 CRA small business loan data indicates that there is considerable variability between the distribution by county of small business loans in lower income areas in Massachusetts and each county's relative lower income population. Barnstable County was the only county in 2007 where the percentage of small business loan dollars in lower income areas (16.6%) exceeded the percentage of the population living in lower income areas (8.8%). Suffolk County, which has the largest lower income population in the state, experienced the largest variance between the percentage of small business loan dollars (47.3%) compared to the percentage of the population living in lower income areas (66.6%).

TABLE : Distribution of small business loans in low and moderate income census tracts by county (2007)

	Number of Loans	Percent of County Totals	\$ Amount of Loans (000s)	Percent of County Totals	Total Population in Lower Income Areas	Percent of County Totals
Barnstable	2,084	12.5%	\$58,626	16.6%	19,553	8.8%
Berkshire	1,055	17.2%	\$21,765	18.9%	26,236	19.7%
Bristol	4,185	18.9%	\$100,133	19.9%	146,616	27.4%
Dukes	0	0.0%	\$0	0.0%	0	0.0%
Essex	5,754	16.1%	\$127,864	18.4%	184,281	25.5%
Franklin	423	14.6%	\$5,042	10.8%	12,040	17.8%
Hampden	4,421	27.5%	\$97,435	29.6%	152,859	33.9%
Hampshire	145	2.2%	\$2,746	2.1%	13,633	9.2%
Middlesex	14,682	18.6%	\$276,295	17.1%	377,754	25.8%
Nantucket	49	2.6%	\$1,979	3.3%	423	4.4%
Norfolk	455	1.3%	\$8,305	1.2%	13,933	2.1%
Plymouth	3,019	12.8%	\$68,216	14.1%	81,187	17.2%
Suffolk	14,629	50.1%	\$310,625	47.3%	459,589	66.6%
Worcester	5,950	18.8%	\$126,626	21.5%	181,710	24.3%
State Totals	56,851	18.3%	\$1,205,657	19.1%	1,669,814	26.4%

There was even greater variability from one county to the next with respect to the change in small business loan volume in lower income areas across the state.

Small business loan dollars in the lower income areas of Middlesex County increased by \$15.1 million or 5.8% from 2006 to 2007 while the dollar volume in the lower income areas Hampden County declined by \$12.9 million or 11.7%. Small business loan dollars in the lower income areas of Suffolk County declined by \$6.0 million or 1.9% from 2006 to 2007.

TABLE : Change in small business loan volume in lower income areas

	2007 Change in Number of Loans	% Change	2007 Change in \$ Amount of Loans (000s)	% Change
Barnstable	-17	-0.8%	\$494	0.8%
Berkshire	-1	-0.1%	\$2,182	11.1%
Bristol	167	4.2%	-\$446	-0.4%
Dukes	0	0.0%	\$0	0.0%
Essex	146	2.6%	\$631	0.5%
Franklin	7	1.7%	-\$3,526	-41.2%
Hampden	-213	-4.6%	-\$12,943	-11.7%
Hampshire	15	11.5%	-\$383	-12.2%
Middlesex	605	4.3%	\$15,083	5.8%
Nantucket	1	2.1%	\$387	24.3%
Norfolk	-46	-9.2%	-\$753	-8.3%
Plymouth	30	1.0%	\$690	1.0%
Suffolk	314	2.2%	-\$5,986	-1.9%
Worcester	180	3.1%	-\$1,793	-1.4%
State Totals	1,188	2.1%	-\$6,363	-0.5%

Lending rates in 2007 were lower in low and moderate income areas compared to higher income areas in 12 of the 13 counties in Massachusetts that have low or moderate income census tracts. The only county to deviate from this trend was Nantucket County, which has a relatively small population living in lower income areas.

The lending rates in lower income areas ranged from a low of \$460,000 per 100 firms in Franklin county to a high of \$3.1 million per 100 firms in Nantucket County.

TABLE : Lending rates in lower income areas (2007)

	Low & Moderate Income Areas		Middle & Upper Income Areas	
	Lending Rate Per 100 Firms (000s)	% of Overall Lending Rate	Lending Rate Per 100 Firms (000s)	% of Overall Lending Rate
Barnstable	\$1,516	136.4%	\$1,499	107.2%
Berkshire	\$832	74.9%	\$1,045	74.7%
Bristol	\$1,214	109.2%	\$1,678	120.0%
Dukes	NA	NA	\$778	55.6%
Essex	\$1,158	104.2%	\$1,402	100.3%
Franklin	\$460	41.4%	\$1,107	79.2%
Hampden	\$950	85.5%	\$1,391	99.5%
Hampshire	\$660	59.4%	\$1,231	88.0%
Middlesex	\$1,155	103.9%	\$1,434	102.5%
Nantucket	\$3,141	282.7%	\$3,037	217.1%
Norfolk	\$1,229	110.6%	\$1,371	98.0%
Plymouth	\$1,268	114.1%	\$1,451	103.8%
Suffolk	\$1,093	98.4%	\$1,344	96.1%
Worcester	\$1,014	91.2%	\$1,228	87.8%
State Totals	\$1,111	100.0%	\$1,398	100.0%

## DISTRIBUTION BY CITY & TOWN

There is also considerable variability between the relative distribution of small business loans in lower income areas and the percentage of the total population living in lower income areas. Lower income areas in Boston, which account for 66.3% of the city's population, received \$275.8 million in small business dollars in 2007 which accounted for 45.6% of the total loan dollars in the city. In comparison, lower income areas in the cities of Worcester and Springfield, where the lower income population totaled 55.0% and 59.0% respectively, received 58.8% and 63.6% of the total loan dollars in those cities.

The following table shows the 2007 small business loan volume in the largest cities and towns in Massachusetts that have low and moderate income census tracts ranked by the size of the lower income population. Data for all cities and towns in Massachusetts can be found in the online appendix at [www.mcabc.info](http://www.mcabc.info).

TABLE: Volume of small business loan in lower income areas by town (2007)

	Number of Loans	% of Total Loans in Town	\$ Amount of Loans (000s)	% of Total Loans in Town	Population in Lower Income Areas	% of Total Population
Boston	12,683	49.2%	\$275.768	45.6%	390,314	66.3%
Worcester	3,164	54.1%	\$70.391	58.8%	95,029	55.0%
Lowell	2,292	88.2%	\$35.648	89.8%	91,279	86.8%
Springfield	2,383	64.7%	\$51,046	63.6%	89,672	59.0%
New Bedford	1,966	72.6%	\$51,305	73.6%	71,437	76.2%
Fall River	1,891	70.5%	\$42,425	67.1%	65,619	71.4%
Lynn	1,540	68.9%	\$31,286	75.8%	65,183	73.2%
Lawrence	1,431	90.1%	\$34,259	88.4%	65,002	90.2%
Somerville	2,089	78.4%	\$35,215	75.3%	62,216	80.3%
Brockton	1,399	51.9%	\$32,657	50.5%	53,475	56.7%
Cambridge	2,447	44.2%	\$58,671	50.8%	47,085	46.5%
Everett	1,372	100.0%	\$29,303	100.0%	38,037	100.0%
Revere	1,270	76.7%	\$13,495	76.3%	36,439	77.1%
Malden	1,512	65.6%	\$27,209	74.6%	34,199	60.7%
Chelsea	676	87.6%	\$21,362	88.9%	32,836	93.6%
Holvoke	820	75.9%	\$21,876	84.0%	30,892	77.5%
Fitchburg	751	61.3%	\$12,260	55.6%	23,390	59.8%
Framingham	997	27.0%	\$27,081	37.3%	23,240	34.7%
Medford	1,041	43.0%	\$15,582	43.2%	22,781	40.9%
Wareham	967	100.0%	\$21,032	100.0%	20,335	100.0%
Haverhill	672	32.6%	\$12,977	28.0%	20,005	33.9%
Waltham	1,111	30.8%	\$20,593	23.3%	18,749	31.7%
Chicopee	501	32.1%	\$9,166	24.8%	16,990	31.1%
Marlborough	632	33.6%	\$9,822	24.1%	13,370	36.9%
Gloucester	579	34.6%	\$9,123	34.7%	12,505	41.3%
Pittsfield	614	36.1%	\$15,156	39.9%	12,023	26.3%
Athol	292	100.0%	\$4,858	100.0%	11,299	100.0%
Gardner	313	58.4%	\$5,616	63.6%	10,020	48.2%
Southbridge	288	63.7%	\$7,192	51.0%	9,997	58.1%
Amherst	56	5.7%	\$268	1.7%	9,931	28.5%
Taunton	328	18.2%	\$6,403	16.8%	9,560	17.1%
Salem	610	30.1%	\$13,668	29.9%	8,718	21.6%
Quincy	284	7.2%	\$6,550	8.4%	8,598	9.8%
Greenfield	317	43.8%	\$4,132	27.6%	7,847	43.2%
North Adams	248	64.8%	\$4,395	70.0%	7,508	51.1%
Woburn	454	15.1%	\$9,546	9.6%	7,429	19.9%
Plymouth	653	23.7%	\$14,527	26.2%	7,377	14.3%
Leominster	426	23.9%	\$12,622	34.8%	7,313	17.7%
Barnstable Town	1,037	28.6%	\$38,164	46.1%	7,178	15.0%
Webster	210	37.3%	\$1,756	21.3%	6,786	41.3%
Adams	193	82.5%	\$2,214	89.3%	6,705	76.1%
Watertown	252	13.2%	\$2,258	5.7%	6,587	20.0%
Soencer	157	36.5%	\$4,586	51.6%	6,032	51.6%
West Springfield	420	30.4%	\$11,745	39.3%	5,859	21.0%
Bourne	272	24.1%	\$4,362	14.6%	5,746	30.7%
Dracut	304	26.5%	\$3,046	17.2%	5,533	19.4%
Westfield	167	11.6%	\$1,928	6.1%	5,341	13.3%
Weymouth	171	7.7%	\$1,755	3.9%	5,335	9.9%
Warren	88	100.0%	\$1,348	100.0%	4,776	100.0%
Beverly	577	25.6%	\$19,784	40.5%	4,773	12.0%

Lower income areas in Boston experienced a 0.5% increase in small business loan dollars from 2006 to 2007, while lower income areas in Worcester and Springfield experienced declines of 10.7% and 20.8% respectively.

The following table shows the change small business loan volume from 2006 to 2007 in the largest cities and towns in Massachusetts that have low and moderate income census tracts ranked by the size of the lower income population. Data for all cities and towns in Massachusetts can be found in the online appendix at [www.mcbs.info](http://www.mcbs.info).

TABLE: Change in small business loan volume in lower income areas by town (2007)

	2007 Change in Number of Loans	% Change	2007 Change in \$ Amount of Loans (000s)	% Change	Population in Lower Income Areas	% of Total Population
Boston	276	2.2%	\$1.351	0.5%	390,314	66.3%
Worcester	127	4.2%	-\$8,434	-10.7%	95,029	55.0%
Lowell	-31	-1.3%	-\$3,018	-7.8%	91,279	86.8%
Springfield	-90	-3.6%	-\$13,410	-20.8%	89,672	59.0%
New Bedford	95	5.1%	-\$157	-0.3%	71,437	76.2%
Fall River	99	5.5%	-\$480	-1.1%	65,619	71.4%
Lynn	1	0.1%	-\$3,173	-9.2%	65,183	73.2%
Lawrence	126	9.7%	-\$2,357	-6.4%	65,002	90.2%
Somerville	157	8.1%	\$2,905	9.0%	62,216	80.3%
Brockton	16	1.2%	-\$1,457	-4.3%	53,475	56.7%
Cambridge	268	12.3%	\$16,015	37.5%	47,085	46.5%
Everett	-9	-0.7%	\$6,514	28.6%	38,037	100.0%
Revere	93	7.9%	-\$886	-6.2%	36,439	77.1%
Malden	95	6.7%	-\$6,000	-18.1%	34,199	60.7%
Chelsea	-55	-7.5%	-\$6,451	-23.2%	32,836	93.6%
Holbrook	-43	-5.0%	\$1,438	7.0%	30,892	77.5%
Fitchburg	-19	-2.5%	-\$2,285	-15.7%	23,390	59.8%
Framingham	25	2.6%	\$1,408	5.5%	23,240	34.7%
Medford	34	3.4%	-\$3,699	-19.2%	22,781	40.9%
Wareham	33	3.5%	\$1,435	7.3%	20,335	100.0%
Haverhill	-30	-4.3%	-\$94	-0.7%	20,005	33.9%
Waltham	62	5.9%	\$2,206	12.0%	18,749	31.7%
Chicopee	30	6.4%	\$2,440	36.3%	16,990	31.1%
Marlborough	-26	-4.0%	-\$1,087	-10.0%	13,370	36.9%
Gloucester	-42	-6.8%	-\$1,191	-11.5%	12,505	41.3%
Pittsfield	10	1.7%	\$4,564	43.1%	12,023	26.3%
Athol	54	22.7%	\$1,585	48.4%	11,299	100.0%
Gardner	28	9.8%	-\$1,407	-20.0%	10,020	48.2%
Southbridge	3	1.1%	\$2,439	51.3%	9,997	58.1%
Amherst	11	24.4%	-\$149	-35.7%	9,931	28.5%
Taunton	-27	-7.6%	\$191	3.1%	9,560	17.1%
Salem	67	12.3%	\$836	6.5%	8,718	21.6%
Quincy	5	1.8%	\$905	16.0%	8,598	9.8%
Greenfield	18	6.0%	-\$3,310	-44.5%	7,847	43.2%
North Adams	0	0.0%	-\$1,036	-19.1%	7,508	51.1%
Woburn	59	14.9%	-\$872	-8.4%	7,429	19.9%
Plymouth	-19	-2.8%	\$712	5.2%	7,377	14.3%
Leominster	-26	-5.8%	\$2,154	20.6%	7,313	17.7%
Barnstable Town	-71	-6.4%	-\$912	-2.3%	7,178	15.0%
Webster	17	8.8%	-\$1,068	-37.8%	6,786	41.3%
Adams	-11	-5.4%	-\$1,346	-37.8%	6,705	76.1%
Watertown	-1	-0.4%	-\$36	-1.6%	6,587	20.0%
Spencer	29	22.7%	\$3,578	355.0%	6,032	51.6%
West Springfield	-78	-15.7%	-\$2,855	-19.6%	5,859	21.0%
Bourne	26	10.6%	-\$382	-8.1%	5,746	30.7%
Dracut	-39	-11.4%	-\$110	-3.5%	5,533	19.4%
Westfield	-25	-13.0%	-\$244	-11.2%	5,341	13.3%
Weymouth	-51	-23.0%	-\$1,658	-48.6%	5,335	9.9%
Warren	-13	-12.9%	\$506	60.1%	4,776	100.0%
Beverly	6	1.1%	\$5,625	39.7%	4,773	12.0%

As one might expect, lending rates were generally lower in lower income area compared to higher income areas although there was considerable variability by town. The lending rate in the lower income areas in Boston totaled \$1.1 million per 100 firms in 2007 compared to a lending rate of \$1.4 million per 100 firms in the higher income areas. The lending rate in the lower income areas of Worcester totaled \$1.1 million per 100 firms in 2007 compared to \$1.2 million in the city’s higher income areas. The lending rate in the lower income areas of Springfield totaled \$879,000 per 100 firms in 2007 compared to \$1.2 million in the city’s higher income areas.

The following table shows the small business lending rates for 2007 in the largest cities and towns in Massachusetts that have low and moderate income census tracts ranked by the size of the lower income population. Data for all cities and towns in Massachusetts can be found in the online appendix at [www.mcbc.info](http://www.mcbc.info).

TABLE: Small business lending rates by town (2007)

	Low & Moderate Income Areas		Middle & Upper Income Areas	
	Lending Rate Per 100 Firms (000s)	% of Overall Lending Rate	Lending Rate Per 100 Firms (000s)	% of Overall Lending Rate
Boston	\$1,094	98.4%	\$1,386	99.1%
Worcester	\$1,080	97.2%	\$1,240	88.7%
Lowell	\$815	73.4%	\$922	65.9%
Springfield	\$879	79.1%	\$1,175	84.1%
New Bedford	\$1,311	118.0%	\$1,835	131.2%
Fall River	\$1,205	108.5%	\$1,906	136.4%
Lynn	\$1,078	97.0%	\$1,048	74.9%
Lawrence	\$1,104	99.4%	\$2,046	146.3%
Somerville	\$1,015	91.4%	\$1,345	96.2%
Brockton	\$1,145	103.0%	\$1,638	117.2%
Cambridge	\$1,453	130.7%	\$968	69.3%
Everett	\$1,321	118.9%	NA	NA
Revere	\$824	74.2%	\$647	46.3%
Malden	\$1,266	114.0%	\$966	69.1%
Chelsea	\$1,368	123.1%	\$1,738	124.3%
Holyoke	\$1,213	109.1%	\$1,139	81.4%
Fitchburg	\$756	68.1%	\$1,375	98.4%
Framingham	\$1,516	136.5%	\$1,171	83.8%
Medford	\$1,074	96.7%	\$1,196	85.6%
Wareham	\$1,404	126.4%	NA	NA
Haverhill	\$896	80.7%	\$1,849	132.3%
Waltham	\$1,233	111.0%	\$1,743	124.7%
Chicopee	\$1,048	94.3%	\$1,691	120.9%
Marlborough	\$855	76.9%	\$1,370	98.0%
Gloucester	\$848	76.3%	\$1,287	92.1%
Pittsfield	\$959	86.3%	\$1,129	80.7%
Athol	\$802	72.2%	NA	NA
Gardner	\$823	74.1%	\$760	54.4%
Southbridge	\$1,058	95.2%	\$2,317	165.7%
Amherst	\$120	10.8%	\$953	68.2%
Taunton	\$786	70.7%	\$1,404	100.4%
Salem	\$1,400	126.0%	\$1,561	111.6%
Quincy	\$1,780	160.2%	\$1,370	98.0%
Greenfield	\$494	44.5%	\$1,776	127.0%
North Adams	\$698	62.8%	\$558	39.9%
Woburn	\$1,438	129.4%	\$2,419	173.1%
Plymouth	\$1,415	127.3%	\$1,457	104.2%
Leominster	\$1,543	138.9%	\$1,272	91.0%
Barnstable Town	\$1,884	169.6%	\$1,274	91.1%
Webster	\$367	33.1%	\$1,248	89.2%
Adams	\$545	49.1%	\$384	27.5%
Watertown	\$1,008	90.7%	\$1,569	112.2%
Spencer	\$1,656	149.0%	\$1,076	77.0%
West Springfield	\$1,262	113.6%	\$1,237	88.5%
Bourne	\$796	71.6%	\$2,119	151.6%
Dracut	\$684	61.6%	\$1,323	94.6%
Westfield	\$377	33.9%	\$1,645	117.6%
Weymouth	\$570	51.3%	\$1,435	102.6%
Warren	\$717	64.5%	NA	NA
Beverly	\$2,046	184.2%	\$1,339	95.8%

## CONCLUSION

The challenges facing small businesses today are substantial. The financial crisis that began in the fall of 2008 has restricted the flow of credit that businesses rely on to fund their operations and expansion plans. The recession is expected to worsen in the months ahead and most segments of the economy are bracing for a prolonged contraction.

For lenders, the economic challenges are likely to cause loan demand to fall and collateral values to decline. At the same time, lenders have generally tightened underwriting standards in a reaction to the excesses that led to the ongoing mortgage crisis. The combination of these elements point toward a continuation of the current credit crisis. The rate of growth of CRA-reported small business loans in Massachusetts fell in 2007 and is likely to fall further in 2008, both here in Massachusetts and across the country.

Local lenders account for the majority of small business loan dollars in Massachusetts and have historically made a larger percentage of their loans than other lenders in lower income areas. While local lenders play a vital role in Massachusetts, they continue to lose market share to national credit card companies and out-of-state lenders which enjoy certain statutory and regulatory advantages.

A review of the CRA database shows that lower income areas in Massachusetts, which account for roughly one-quarter of the state's population, have historically experienced lower lending rates and slower rates of lending growth than higher income areas. Lower income areas are also traditionally more vulnerable than higher income areas during economic downturns and are usually the areas hardest hit by recessions and slowest to recover.

Given the current economic challenges, it is clear that small business lenders, technical assistance providers, community-based organizations, legislators, and regulators must continue to build on their efforts to bring lenders and borrowers together and leverage public and private resources to support small business development.