



MASSACHUSETTS COMMUNITY & BANKING COUNCIL

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MCBC Releases New Report on Massachusetts Small Business Lending

Boston, November, 2014. The Massachusetts Community & Banking Council (MCBC), a coalition of community organizations and financial institutions, has issued its sixteenth consecutive report on small business lending patterns. The report, *Small Business Lending in Massachusetts, 2007-2013*, reviews recent small business lending trends across the state with an emphasis on traditionally underserved areas. The report also reviews changes in economic conditions and other factors that affect small business lending. The report was prepared for MCBC by Stuart Ryan of BankMaps LLC.

The report analyzes 2013 lending data of loans of \$1 million or less collected under the Community Reinvestment Act (CRA) along with quarterly Call Report data. In addition to the data in the report, MCBC is also providing data on all Massachusetts cities and towns in a set of on-line tables. Both the report and the on-line tables are available in the Publications section of MCBC's website at www.mcbc.info.

“During these trying economic times, remarkably community banks and credit unions have been able to increase lending dollars provided to small businesses in our community. It is amazing this has occurred for the third consecutive year in spite of the challenging economic environment,” said Kevin B. Noyes, Community Development and CRA Officer at People's United Bank and co-chair of MCBC's Economic Development Committee. “We must be mindful to remain supportive of small businesses as they are the cornerstones of our local communities. “

Among the report's important findings:

Loan Volume

- *The annual CRA data shows that small business lending volume in Massachusetts increased modestly in terms of the dollar amount of loans in 2013 but declined slightly in terms of the number of loans.* The volume of CRA-reported small business loan originations in Massachusetts in 2013 totaled 107,428 loans for \$4.3 billion, compared to the previous year totals of 118,657 loans for \$4.1 billion. The 2013 increase in loan dollars represents the third consecutive year of moderate growth although small business loan origination levels remain well below the levels achieved prior to the recent financial crisis.

- *The most recent quarterly Call Report data, which includes local community banks that are not included in the annual CRA database, also shows that the dollar volume of small business loans at Massachusetts banks and thrift institutions increased over the past year while the number of loans declined. The volume of small business loans on the books of local community banks totaled 70,624 loans for \$10.6 billion as of June 30, 2014, compared to 73,734 loans for \$10.4 billion as of June 30, 2013.*
- *Credit unions in Massachusetts reported 5,675 small business loans for \$1.5 billion as of June 30, 2014, compared to 5,458 loans for \$1.4 billion as of June 30, 2013. Member business loans at local credit unions increased by 4.0% and 9.5% in terms of the number and dollar amount of small business loans during the twelve months ended June 30, 2014.*

Lenders

- *The CRA data shows that local CRA reporters originated a total of 21,525 small business loans for \$3.1 billion in 2013, which represented 20.0% of the total number of small business loans in Massachusetts and 72.1% of small business loan dollars. While the volume of small business loans of local CRA reporters appears to have recovered from recent lows, origination activity remains below the levels achieved before the recent financial crisis.*
- *A closer examination of the data of local CRA reporters shows that local community banks have generally outperformed the large commercial banks that operate in the state in recent years and local community banks extended their gains in 2013. The reasons behind this shift are complex but may be related to the regulatory and internal pressures felt by the nation's largest banks in the wake of the financial crisis to deleverage their balance sheets, tighten their underwriting standards, and improve their capital positions.*
- *Local community banks maintained a substantial market advantage over the large commercial banks that have a physical presence in Massachusetts but are headquartered outside the state, and accounted for 48.7% of small business loan dollars in Massachusetts in 2013 while their larger commercial bank competitors accounted for 23.4% of small business loan dollars.*
- *Over the past seven years, the average size of CRA-reported small business loans at local community banks has increased while the average loan size at the large commercial banks has declined. The average size of a CRA-reported small business loan at a local community bank has increased from \$160,468 in 2007 to \$191,164 in 2013 while the average loan size at the large commercial banks has declined from \$136,958 to \$93,697.*
- *Credit card lenders reported an estimated 74,223 small business credit card loans in Massachusetts in 2013 for \$580.3 million, which is well below the levels generated during the years leading up to the recent financial crisis. Small business credit card loans accounted for 69.1% of the total number of CRA-reported small business loans in the state in 2013 and 13.6% of loan dollars.*
- *Other out-of-state CRA lenders reported 11,680 CRA-reported small business loans in Massachusetts in 2013 for \$609.3 million, which is more or less in line with the levels reached before the recent financial crisis. Small business loans by other out-of-state CRA lenders accounted for 9.3% of the total number of CRA-reported small business loans in the state in 2012 and 14.4% of loan dollars.*

Lending in Traditionally Underserved Areas

- *Businesses in low and moderate income census tracts in Massachusetts received a total of 21,353 small business loans in 2013 for \$964.3 million, compared to the previous year when such borrowers received 23,368 loans for \$896.0 million.*
- *Local CRA lenders continued to account for the vast majority of small business loans dollars in low and moderate-income census tracts across the state. Local CRA lenders made a total of 4,534 loans for \$714.0 million in 2013, representing 21.2% of the total number of small business loans in low and moderate-income areas and 74.0% of loan dollars.*
- *Lower income areas in Massachusetts experienced substantial increases in small business loan dollars in 2013, while middle and upper income areas experienced more modest increases. Low and moderate-income census tracts in Massachusetts experienced overall increases of 17.8% and 2.4% in small business loan dollars from 2012 to 2013 while middle and upper income census tracts experienced increases of 1.4% and 2.8%.*
- *Low and moderate-income census tracts in Massachusetts received a smaller share of small business loans in 2013 than one might expect given the percentage of the low and moderate-income population, which is consistent with the national trend. Low and moderate-income census tracts, which account for 28.9% of the total population of Massachusetts, received 19.9% of the total number of CRA-reported small business loans in the state in 2013 and 22.6% of the total loan dollars.*
- *The lowest lending rates in Massachusetts, measured in the amount of loan dollars per 100 firms, were recorded in upper income communities in 2013 for the second consecutive year. Low and moderate-income census tracts received an aggregate \$827,000 and \$738,000 per 100 businesses respectively, while middle and upper income census tracts in Massachusetts received an aggregate \$752,000 and \$707,000 per 100 businesses. The 2013 results represent the second time in the past six years when the lowest overall lending rates were not in low or moderate-income census tracts.*
- *The lowest lending rates in Massachusetts in 2013 were recorded in white communities, which marks a change compared to previous years when the lowest lending rates were in high minority communities. High minority census tracts in lower income areas in Massachusetts received \$792,000 per 100 businesses while high minority census tracts in middle and upper income areas in Massachusetts, which account for just a handful of census tracts, received \$794,000 per 100 businesses. In comparison, lower income white communities received an average \$681,000 per 100 businesses while middle and upper income white communities received \$721,000. With the exception of the current period reviewed, lower income minority neighborhoods in Massachusetts have experienced lower lending rates than lower income white neighborhoods in six of the past seven years.*

Geographic Distribution

- *A review of the annual CRA data from the 15 largest metropolitan areas across the country shows that greater Boston ranked 10th in 2013 compared to other major metropolitan areas across the country in terms of the volume of CRA-reported small business loan dollars per 1,000 residents, and 12th in terms of the change in loan dollars from 2012 to 2013.*

- *Nine of the 14 counties in Massachusetts experienced increases in CRA-reported small business lending volume in 2013.* On a percentage basis, the changes in small business loan dollars ranged from a 29.4% increase in Barnstable County to an 8.6% decrease in Nantucket County. In terms of dollar amounts, the changes in small business loan volume from 2012 to 2013 ranged from an increase of \$87.3 million in Middlesex County to a \$28.9 million decrease in Essex County.
- The city of Boston, which accounts for 9.4% of the state’s population, received \$463.0 million in CRA-reported small business dollars in 2013 and accounted for 11.2% of the total loan dollars, while the cities of Worcester and Springfield, which account for 2.8% and 2.3% of the state’s population respectively, received 1.6% and 1.7% of the total loan dollars in the state.

“It is very encouraging to see an increase in loan volume across the majority of Massachusetts counties and this hopefully bodes well for our small businesses and our overall economic recovery,” said Andre Porter, Executive Director of the Massachusetts Office of Small Business and Entrepreneurship. “Accessing capital is still a challenge for many small businesses but MCBC’s 2013 report shows that we are heading in the right direction and getting closer to pre-recession loan activity.”

About the Massachusetts Community & Banking Council

The Massachusetts Community & Banking Council (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.

MCBC is funded through the financial support of member financial institutions. MCBC 2014 members include: Abington Bank, Avon Co-operative Bank, Bank of Canton, Blue Hills Bank, Boston Private Bank & Trust Company, Braintree Cooperative Bank, Cambridge Savings Bank, Chelsea Bank, Citi, Citizens Bank, Colonial Federal Savings Bank, Dedham Savings, Eagle Bank, East Cambridge Savings Bank, Eastern Bank, Equitable Bank, Everett Co-operative Bank, Industrial Credit Union, Leader Bank, N.A., Mass Bay Credit Union, North Cambridge Co-operative Bank, People’s United Bank, Randolph Savings Bank, RTN Federal Credit Union, Santander, SaugusBank, Stoneham Bank – A Cooperative Bank, TD Bank, The Cooperative Bank, The Savings Bank, Winchester Co-operative Bank, and Winchester Savings Bank.

MCBC’s 2014 Community Partners include ACCION, City of Boston through the Boston Redevelopment Authority, Community Teamwork, Inc., DotWell, Dudley Square Main Streets, ESAC, the Fair Housing Center of Greater Boston, Interise, the Massachusetts Affordable Housing Alliance, the Massachusetts Association of CDCs, the Massachusetts Housing Partnership, the Metropolitan Boston Housing Partnership, the Somerville Community Corporation, and The Neighborhood Developers.

Further information on MCBC is available on MCBC website at www.mcbc.info.