

Small Business Lending
in
Massachusetts
2007-2015

EXECUTIVE SUMMARY

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The CRA data for the year ended December 31, 2015 shows that small business lending in Massachusetts increased at a modest pace from 2014 to 2015, the fifth consecutive year of moderate growth although lending levels remain well below the levels achieved prior to the recent financial crisis. Other more current data sources, including quarterly Call Report data through June 30, 2016, which includes local community banks that are not included in the CRA database, and data compiled by the SBA through September 30, 2016, also showed continued increases in small business lending across the state including in some cases increases to levels above the highs achieved prior to the financial crisis. A review of some of the current economic conditions that influence small business lending shows that the economic climate in Massachusetts and across the country has continued to improve.

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.

This report is the 18th report on small business lending commissioned by the Massachusetts Community & Banking Council (MCBC). The report reviews recent small business lending trends in Massachusetts with an emphasis on traditionally underserved areas across the state. The report also reviews changes in economic conditions and other factors that affect small business lending. The report primarily utilizes two sources of small business lending data: annual data collected under the Community Reinvestment Act (CRA) and quarterly Call Report data. A more detailed discussion of the sources of data is provided in the section entitled Data Sources at the end of this report, and additional detailed data on small business lending trends in Massachusetts is available in the online appendix at www.mcbc.info.

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

LOAN VOLUME

- **The annual CRA data shows that small business lending volume in Massachusetts increased modestly in 2015 in terms of both the number and dollar amount of loans.** On a percentage basis, the CRA data showed a 10.7% increase in the number of small business loans and a 5.5% increase in the dollar amount of loans. The volume of CRA-reported small business loan originations in Massachusetts in 2015 totaled 125,847 loans for \$4.9 billion, compared to the previous year totals of 118,950 loans for \$4.5 billion. The 2015 increase represents the fifth consecutive annual increase in loan dollars although loan volume remains 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, shows a small increases in the dollar volume of small business loans at Massachusetts banks and thrift institutions over the past year but a modest decline in the number of loans.** The volume of small business loans on the books of local community banks totaled 83,910 loans for \$11.631 billion as of June 30, 2016, compared to 85,884 loans for \$10.600 billion as of June 30, 2015. On a percentage basis, the Call Report data showed a 0.3% increase in the dollar amount of small business loans but a 2.3% decline in the number of loans.
- **According to the US Small Business Administration (SBA), loans guaranteed by the SBA also expanded strongly for the third straight year in Massachusetts during the fiscal year ended September 30, 2016 raising the agency's lending volume to record levels.** SBA loans

in Massachusetts totaled \$559.2 million during the most recent fiscal year which represents a 19.3% increase compared to the previous year. On a national basis, SBA lending increased at a more modest 3.5% rate to \$28.9 billion.

- **Credit unions in Massachusetts reported 6,878 small business loans for \$2.1 billion as of June 30, 2016, compared to 6,169 loans for \$1.7 billion as of June 30, 2015.** Member business loans at local credit unions increased by 11.5% and 18.7% in terms of the number and dollar amount of small business loans during the twelve months ended June 30, 2016.
- **When compared to other states, the national CRA data shows that Massachusetts experienced larger overall percentage increases in the number and dollar amount of loans than most states in 2015.** Massachusetts, which has the 14th largest state population in the country, ranked 11th in terms of the largest percentage change in small business loan dollars from 2014 to 2015 and 24th in terms of the percentage change in the number of loans.

LENDERS

- **The CRA data shows that local CRA reporters originated a total of 36,155 small business loans for \$3.4 billion in 2015 which represented 28.7% of the total number of small business loans in Massachusetts and 69.8% of small business loan dollars.** The 2015 results represented the fifth consecutive year of increases in both the number and dollar amount of loans for local CRA reporters.
- **Local CRA reporters increased their share of the Massachusetts small business loan market in the immediate wake of the recent financial crisis but have not added to their gains over the past few years.** In 2015 local CRA reporters accounted for 69.8% of small business loan dollars in the state which is up compared to 57.9% level recorded in 2007 but down compared to the 72.2% high reached in 2010.
- **A closer examination of the data of local CRA reporters shows that community banks in Massachusetts lost market share in 2015 to large commercial banks that operate in the state in terms of small business lending, which represents a departure from the trend over the past few years.** In 2015, local community banks accounted for 48.6% of small business loan dollars in Massachusetts compared to 47.7% in the previous year, while the large commercial banks with branches in the state accounted for 31.6% of the total compared to 26.8% in the previous year.
- **The average size of a CRA-reported small business loan at a local community bank declined in 2015 for the third straight year, while the average size of a loan at a large commercial bank with branches in the state declined for the sixth straight year.** The average size of a small business loan at local community banks dipped from \$190,840 in 2014 to \$176,510 in 2015 although the average loan size remains above the levels preceding the recent financial crisis.
- **Credit card lenders reported an estimated 76,641 small business credit card loans in Massachusetts in 2015 for \$674.0 million, which represents a decline compared to the previous year and still well below the levels generated in the years leading up to the recent financial crisis.** The decline was influenced to a large extent by an the acquisition of credit card accounts by one of the large commercial banks that operates in Massachusetts. The transaction involved several thousand credit card accounts and accounted for most, and perhaps all, of the decline in credit card lending totals. Small business credit card loans accounted for 60.9% of the total number of CRA-reported small business loans in the state in 2014 and 13.7% of loan dollars.
- **Other out-of-state CRA lenders reported 13,051 small business loans in Massachusetts in 2015 for \$805.7 million, which represents a large increase compared to the previous year**

and which substantially exceeds the levels reached before the recent financial crisis. Small business loans by other out-of-state CRA lenders accounted for 10.4% of the total number of small business loans in the state in 2015 and 16.4% of loan dollars.

LENDING IN TRADITIONALLY UNDERSERVED AREAS

- **Businesses in low and moderate income census tracts in Massachusetts received a total of 24,816 small business loans in 2015 for \$984.5 million, which represents a modest increase in terms of both the number and dollar amount of loans compared to the previous year.** Low and moderate income census tracts in Massachusetts experienced overall increases of 4.4% and 3.3% in small business loan dollars from 2014 to 2015 while middle and upper income census tracts experienced increases of 11.3% and 9.9%. While small business loan dollars in low and moderate income census tracts have increased moderately over the past several years, the volume remains well below the highs achieved in 2007.
- **Local CRA lenders continued to account for the vast majority of small business loans dollars in low and moderate income census tracts in Massachusetts in 2015.** Local CRA lenders made a total of 7,485 loans for \$713.7 million in 2015, which accounted for 72.5% of the small business loan dollars in lower income areas in the state.
- **Low and moderate income areas in Massachusetts experienced relatively modest increases in small business loan dollars in 2015, while middle and upper income areas experienced larger increases.** Low and moderate income census tracts in Massachusetts experienced overall increases of 4.4% and 3.3% in small business loan dollars from 2014 to 2015 while middle and upper income census tracts experienced increases of 11.3% and 9.9%.
- **Low and moderate income census tracts in Massachusetts continued to receive a somewhat smaller share of small business loans in 2015 than one might expect given the local demographics.** Low and moderate income census tracts, which account for 27.2% of the total population of Massachusetts, received 20.9% of the total number of CRA-reported small business loans in the state in 2015 and 21.9% of the total loan dollars.
- **The lowest lending rates in Massachusetts, measured in the amount of loan dollars per 100 firms, were recorded in moderate income communities in 2015 although the lending rates between income groups fell within a relatively narrow range of values.** Low and moderate income census tracts received an aggregate \$827,000 and \$804,000 per 100 businesses respectively, while middle and upper income census tracts in Massachusetts received an aggregate \$882,000 and \$838,000 per 100 businesses. The 2015 results represent the fifth time in the past eight years when the lowest overall lending rates were in low or moderate income census tracts.
- **When compared to other states, the national CRA data shows that Massachusetts experienced smaller percentage increases in the number and dollar amount of loans in low and moderate income areas than many states in 2015.** Massachusetts, which has the 15th largest population in the country living in low and moderate income areas, ranked 26th in terms of the largest percentage increase in loan dollars from 2014 to 2015 and 26th in terms of the percentage change in the number of loans.
- **When the racial composition of the area is also taken into consideration, the 2015 CRA data shows that high minority communities with lower income populations, which represent the vast majority of high minority census tracts, experienced an 8.8% increase in small business loan dollars from 2014 to 2015.** In comparison, mixed race communities and white communities in lower income areas experienced increases of 1.1% and 8.3% in small business loan dollars respectively from 2014 to 2015.

- **The overall dollar volume of small business loans in communities in Massachusetts with the largest immigrant populations has recovered from the lows reached in the aftermath of the recent financial crisis but remains well below recent highs.** Businesses in communities where the immigrant populations is 40% or more of the local population, which includes neighborhoods in just over a dozen towns around the greater Boston area, received 3,301 small business loans for \$128.4 million in 2015.

GEOGRAPHIC COMPARISONS

- **Twelve of the fourteen counties in Massachusetts experienced increases in CRA-reported small business lending volume in 2015.** The largest percentage increases in small business loan dollars were in Dukes, Franklin, Nantucket Counties while the largest dollar increases were in Bristol, Norfolk, and Plymouth Counties. Essex and Hampshire Counties were the only counties that experienced declines in small business loan dollars in 2015.
- The distribution of small business loans by county in Massachusetts generally follows each county's percentage of the total state population. In terms of dollar amounts, the volume of small business loans in 2015 ranged from \$1.2 billion in Middlesex County, which accounts for 23.0% of the state's total population, to \$16.1 million in Dukes County, which accounts for 0.3% of the state's total population
- 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, due in part to the large number of cities and towns that make up the Massachusetts small business loan market. The city of Boston, which accounts for 9.4% of the state's population, received \$515.3 million in CRA-reported small business dollars in 2015 and accounted for 12.4% 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 2.2% and 1.6% of the total loan dollars in the state.