

**Small Business Lending in
Minority Neighborhoods
in Massachusetts
2007-2016**

EXECUTIVE SUMMARY

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This report reviews the small business lending trends in minority neighborhoods in Massachusetts from 2007 to 2016 with comparisons to lending trends in majority white neighborhoods and with comparisons to local demographic characteristics. For the purposes of this report, minority neighborhoods are defined to be those neighborhoods where minorities represent the majority (i.e. more than 50% of the local population). Such neighborhoods, defined in terms of census tracts, have expanded substantially over the past thirty years in both Massachusetts and many other parts of the country as the overall minority population has grown.

The topic of bank lending in minority neighborhoods has been an important focus for banks and regulators for decades due to the fact that such communities have been associated with redlining in the past and have historically experienced higher application denial rates than majority white areas. The topic has gained heightened attention in the wake of the financial crisis of 2008 and has been at the center of United States Justice Department complaints against several banks in recent years as well as more rigorous scrutiny during fair lending examinations.

The primary goal of this report is to contribute to improved credit flows to small businesses across Massachusetts, particularly in minority neighborhoods, by presenting a careful *description* of small business lending trends that 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.

- The number and size of minority neighborhoods in Massachusetts has increased significantly over the past few decades as the state's minority population growth has outpaced white population growth. In 1990 there were just 106 minority census tracts in the state accounting for 8.0% of the total census tracts in the state and 5.7% of the state's population, compared to 246 such census tracts today representing 16.7% of total census tracts and 15.2% of the total population. In terms of population numbers, there are currently over 1 million Massachusetts residents living in minority census tracts in the state, compared to under 350,000 resident in 1990.
- Census tracts where minorities represent the majority population are located in 8 of the 14 counties that make up the Commonwealth, including Bristol, Essex, Hampden, Middlesex, Norfolk, Plymouth, Suffolk, and Worcester Counties.
- Lenders originated a total of 12,119 small business loans for \$452.8 million in minority areas in Massachusetts in 2016, representing 8.5% of the total number of CRA-reported loans in the state and 9.0% of the total dollar amount of loans. The volume of small business loan originations in 2016 was more or less in line with the percentage of firms in minority areas (9.0%) but was somewhat less than one might expect based on the percentage of the population in minority areas (13.6%).
- While the number of loans originated in minority areas remains below the levels that were reached before the financial crisis, the dollar amount of originations in minority areas are at an all-time high. Originations in minority areas increased by 134.3% in terms of the number of loans and by 143.1% in terms of the dollar amount of loans since 2010 when loan volume reached its recent lows, compared to increases of 43.6% and 38.1% in white areas.
- The average small business loan size in minority areas in Massachusetts was \$37,000 in 2016 compared to \$35,000 in majority white areas. The average loan size in both minority areas and majority white areas trended up during the years immediately following the recent financial crisis (from 2007 to 2013) but the trend reversed beginning in 2014 as the average loan size edged down slightly from 2014 to 2016. The data suggest that smaller loan amounts, likely in the form of small business credit card loans, have experienced a degree of recovery.

- Businesses received \$873,000 per 100 firms in minority areas in Massachusetts in 2016 compared to \$871,000 in majority white areas and the overall differences in lending rates have generally narrowed over the past five years. At the same time, majority white areas in Massachusetts have experienced overall higher lending rates compared to minority areas in 7 of the past 10 years.
- Massachusetts, which has the 23rd largest population in the country living in minority areas, ranked 24th in terms of the number of loans in 2016 and 26th in terms of the dollar amount of loans. When measured as a percentage of total loans in the state, Massachusetts ranked 31st in terms of the percentage of the number of loans in minority areas and 34th in terms of the percentage of the dollar amount of loans.
- From 2012 to 2016, small business loan volume has increased more in minority areas compared to white areas in 4 of the 8 counties in Massachusetts that have minority areas. Minority areas in Essex, Middlesex, Plymouth, and Suffolk counties recorded larger increases in loans in minority areas compared to white areas, while Bristol, Hampden, Norfolk, and Worcester Counties recorded larger increases in white areas.
- Small business lending rates in 2016 were higher in minority areas compared to majority white areas in 5 of the 8 counties in Massachusetts that have minority areas including Bristol, Essex, Middlesex, and Worcester. Lending rates were higher in majority white areas in Hampden, Norfolk, Plymouth, and Suffolk Counties.