



MASSACHUSETTS COMMUNITY & BANKING COUNCIL

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MCBC Releases New Report on Massachusetts Small Business Lending

Increases Seen in Small Business Lending by Local Community Banks and Credit Unions

Boston, (December 8, 2011). The Massachusetts Community & Banking Council (MCBC), a coalition of community organizations and financial institutions, has issued its thirteenth consecutive report on small business lending patterns. The report, *Small Business Lending in Massachusetts, 2007-2010*, 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 2010 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 on MCBC's website at www.mcbc.info.

"It is impressive to see that local community banks and credit unions have been able to increase lending to small businesses even during these difficult economic times," said Esther Schlorholtz, director of community investment at Boston Private Bank & Trust Company and co-chair of MCBC's Economic Development Committee. "It continues to be critical that lenders, government officials and nonprofit business advisors support small businesses as they generate a significant number of jobs and offer important services in our communities."

Among the report's important findings:

Loan Volume

- *The volume of CRA-reported small business loans in Massachusetts in 2010 totaled 97,124 loans for \$3.5 billion, down slightly from the previous year when small businesses in the state received 102,841 loans for \$3.7 billion. CRA reported small business loans in Massachusetts declined by 5.6% and 4.9% in 2010 in terms of the number and dollar amount of loans respectively, which was substantially smaller than the declines experienced in the rest of the country.*

- *Local community banks, many of which are not included in the CRA database, reported 69,725 small business loans for \$10.1 billion as of June 30, 2011, compared to 66,625 loans for \$9.8 billion as of June 30, 2010. Small business loans at local community banks increased by 6.2% and 3.0% in terms of the number and dollar amount of small business loans during the twelve months ended June 30, 2011, which also substantially exceeds the national averages.*
- *Credit unions in Massachusetts reported 4,747 small business loans for \$1.1 billion as of June 30, 2011, compared to 4,290 loans for \$12.0 billion as of June 30, 2010. Member business loans at local credit unions increased by 10.7% and 6.2% in terms of the number and dollar amount of loans during the twelve months ended June 30, 2011.*

Lenders

- *The CRA data shows that local CRA lenders, including the large commercial banks that have a physical presence inside Massachusetts but are headquartered outside the state, originated a total of 16,877 small business loans for \$2.5 billion in 2010 representing 17.4% of the total number of small business loans in Massachusetts and 72.2% of small business loan dollars. Local CRA lenders account for the substantial majority of small business lending activity in Massachusetts and increased their overall market share in 2010 for the third consecutive year after years of declines primarily at the hands of large commercial banks and out-of-state credit card lenders. In 2010, local CRA lenders saw their share of small business loan dollars increase to 72.2% compared to 57.9% a few years ago.*
- *The most recent CRA data shows that local community banks have experienced either an increase in small business loan dollars or smaller declines than the large US banks that operate in the state in each of the past three years. 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. The Call Report data also shows that in each of the past three years Massachusetts community banks have outperformed their counterparts in other states in terms of small business loan growth just as they have the nation's largest commercial banks with assets over \$10 billion.*
- *Local community banks have established 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 46.3% of small business loan dollars in Massachusetts in 2010 while their larger commercial bank competitors accounted for 25.9% of small business loan dollars.*
- *Over the past four years, the average size of a CRA-reported small business loan at local community banks has increased while the average size of a loan at the large commercial banks has declined. The average size of a small business loan at local community banks increased from \$160,468 in 2007 to \$181,932 in 2010 while the average loan size at the large commercial banks has declined from \$136,958 to \$114,743.*
- *Credit card lenders reported an estimated total of 72,725 small business credit card loans in Massachusetts in 2009 for \$460.7 million, which accounted for 74.9% of the total number of CRA-reported small business loans and 13.1% of loan dollars. Credit card lenders experienced declines of 5.2% and 5.6% in the number and dollar amount of small business*

loans in 2010, following declines of 61.9% and 67.1% respectively in 2009.

- *Other out-of-state CRA lenders originated 7,149 small business loans in Massachusetts in 2010 for \$490.3 million, which accounted for 7.7% of the total number of reported small business loans and 14.7% of loan dollars. As was the case for credit card lenders in Massachusetts, other out-of-state lenders in Massachusetts also experienced substantially more modest declines in small business lending volume in 2010 compared to 2009. Other out-of-state lenders reported overall declines in 2010 of 3.1% and 8.5% in the number and dollar amount of CRA-reported small business loans respectively, following declines of 20.5% and 20.2% respectively in 2009.*

Lending in Traditionally Underserved Areas

- *Businesses in low- and moderate-income census tracts in Massachusetts received a total of 17,799 small business loans for \$730.2 million in 2010, compared to the previous year when borrowers in low- and moderate-income census tracts received 18,244 loans for \$740.4 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, and the dominance of local lenders increased in 2010 as lending by out-of-state lenders declined. Local CRA lenders made a total of 3,407 loans for \$542.8 million in 2010, representing 19.1% of the total number of small business loans in low- and moderate-income areas and 74.3% of loan dollars, compared to 17.7% of the number of loans 73.4% of loan dollars in 2009.*
- *For the third straight year, lower-income areas in Massachusetts experienced a smaller percentage decline in small business loan dollars in 2010 than was experienced in higher-income areas, which helped to slightly narrow the lending gap that has traditionally existed between lower-income areas and higher-income areas. Low- and moderate-income census tracts in Massachusetts experienced an overall decline of 1.4% in small business loan dollars from 2009 to 2010 while middle- and upper-income census tracts experienced declines of 5.2% and 5.3% in small business lending dollars respectively.*
- *Low- and moderate-income census tracts continued to receive a smaller share of small business loans in 2010 than one might expect given the local demographics. Low- and moderate-income census tracts, which account for 26.3% of the total population of Massachusetts, received 18.3% of the total number of CRA-reported small business loans in the state in 2010 and 20.8% of the total loan dollars, compared to 17.7% and 20.0% respectively for the previous year.*
- *The lowest lending rates in Massachusetts were recorded in moderate-income communities in 2010 while the highest lending rates were in middle-income communities. Low-income census tracts in Massachusetts received an aggregate \$738,000 per 100 businesses, representing 98.1% of the overall lending rate across the state while moderate-income census tracts received an aggregate \$644,000 per 100 businesses, representing 85.7% of the overall lending rates across the state.*
- *In terms of racial composition, the lowest lending rates were recorded in lower-income high minority communities in Massachusetts in 2010 while the highest lending rates were recorded in higher-income white communities. High minority census tracts in Massachusetts*

received \$493,000 per 100 businesses, representing 65.5% of the overall lending rate across the state. Higher-income white communities received an average \$771,000 per 100 businesses or 102.5% of the overall lending rate.

- *Lending rates in high minority communities declined sharply in 2010 while most other neighborhoods experienced more modest changes in loan volume.* The overall lending rate in high minority census tracts in Massachusetts declined by 19.5% in 2010 while the lending rate in lower income white neighborhoods increased by 2.8%. The lowest small business lending rates have been in either low- or moderate-income census tracts and high minority census tracts in each of the past four years.

Geographic Distribution

- *A review of the CRA data from the 15 largest metropolitan areas across the country also shows that greater Boston experienced slightly less of a decline in CRA-reported small business loan dollars in 2010 than most major cities across the country.* While each of the 15 largest metro areas experienced modest declines in small business loan origination volume in 2010, Boston ranked relatively close to the top (6th out of 15) in terms of the smallest decline in CRA-reported small business loan dollars in 2010. The 2010 results represent the second consecutive year where Boston ranked at or near the top third in terms of small business loan growth. In the previous year, Boston ranked 4th out of 15 in terms of the smallest decline in CRA-reported small business loan dollars.
- Three of the fourteen counties in Massachusetts (Bristol, Essex, and Franklin) experienced modest increases in CRA-reported small business lending volume in 2010. On a percentage basis, the declines in small business loan dollars ranged from a 30.7% decline in Dukes County to a 12.7% increase in Franklin County. In terms of dollar amounts, the changes in small business loan volume from 2009 to 2010 ranged from a decline of \$62.9 million in Suffolk County to an increase of \$10.2 million in Bristol County.
- The city of Boston, which accounts for 9.3% of the state's population, received \$301.4 million in CRA-reported small business dollars in 2010 and accounted for 8.7% 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 2.1% and 1.3% of the total loan dollars in the state.

“We continue to hear from businesses that accessing capital is still a challenge to their growth and sustainability,” said Andre Porter, executive director of the Massachusetts Office of Small Business and Entrepreneurship. “Our focus is on leveraging every public and private resource available to help small business owners not only access capital, but also to inform them of the various technical assistance support available to help stabilize and grow their businesses..”

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 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 is funded through the financial support of member financial institutions. MCBC 2011 members include: Abington Bank, Avon Co-operative Bank, Bank of America, Blue Hills Bank, Boston Private Bank & Trust Company, Braintree Cooperative Bank, Cambridge Savings Bank, Central Bank, Chelsea Bank, Citi, Citizens Bank, Eagle Bank, East Cambridge Savings Bank, Eastern Bank, Everett Co-operative Bank, Fiduciary Trust company, HarborOne Credit Union, Industrial Credit Union, Leader Bank, N.A., Mass Bay Credit Union, Medical Area Federal Credit Union, North Cambridge Co-operative Bank, People's United Bank, Sovereign Bank/Santander, Stoneham Bank – A Cooperative Bank, TD Bank, The Bank of Canton and Winchester Co-operative Bank.

MCBC's 2011 Community Partners include: Chelsea Neighborhood Developers, 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 Metropolitan Boston Housing Partnership, and the Somerville Community Corporation.

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