Introduction

The national press and local newspapers typically report the damage from the Great Recession of 2008 with statistics and stories the average adult can readily relate to: lost jobs, lost homes, and lost retirement savings. The recession’s impact on the nation’s small businesses and their owners seems to receive less frequent and less probing coverage, at least outside of specialized or academic publications. Of course, not everyone is a small business owner. But given that by some estimates small businesses employ half the private workforce and have generated over half of net new jobs, the fate of such firms should concern us all.

This series of reports is about loans, or “debt capital” in the parlance, a very necessary ingredient to the continued success of a small firm. Many small businesses and owners do not have good access to private equity outside their own pockets or those of their friends, family, or close associates. Thus they continue to be dependent on traditional debt capital from banks (along with other forms of business finance) to maintain cash flow over normal business cycles, to fund the development of new products and processes in order to stay competitive, and to seize opportunities. When debt capital dries up, some businesses fail and others miss out on opportunities to grow. In the end people miss out on jobs that might have been retained or created.

Because the welfare of small businesses matters to the economy, and because small businesses are still reliant on traditional debt capital, this report examines trends in bank lending to small businesses in Allegheny County and its peers during and since the recession.

The analysis was conducted on seven years of data, from 2007 to 2013, for Allegheny County and fifteen other “urban county areas” areas, all selected from the benchmark regions used by Pittsburgh Today (http://pittsburghtoday.org/).

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<tr>
<th>Core City</th>
<th>Counties and independent cities included in the “urban county area”</th>
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<td>Pittsburgh, PA</td>
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<td>Baltimore, MD</td>
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<td>Cleveland, OH</td>
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<td>Kansas City, MO</td>
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<td>Charlotte, NC</td>
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<td>Richmond, VA</td>
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Scope

As noted in Part I., conducting a comprehensive assessment of economic, demographic, small business, or banking industry trends and how they might have influenced lending in each area was not within the scope of effort available for this report. Instead the series offers:

a quick, dirty, and very aggregate analysis of a limited number of economic indicators for each urban county area, including population, employment, unemployment, and employment in the finance and banking sectors (covered in Part I);

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2 For more on why these areas were selected, see “Small Business Lending in Allegheny County: Part I”, Center for Economic Development, Carnegie Mellon University, April 2015, pp. 2-3. Link: [http://www.heinz.cmu.edu/download.aspx?id=6739](http://www.heinz.cmu.edu/download.aspx?id=6739)
an assessment of patterns and trends in the number, amount, and recipients (by firm size) of small business loans in each area based on data from the Community Reinvestment Act (CRA), (Parts II and III); and

a brief and high level look at patterns and trends in business establishments by size in each area, with a focus on smaller businesses, including non-employers such as sole proprietors (Part IV).

Most figures presented are annual or annualized, and for the time period from 2007 to 2013. Most percentage figures are presented in or rounded to the nearest percent or tenth of a percent. In the text urban county areas are referred to by their central cities for easier reading. Although this series purposely sticks with relatively aggregated data, more detailed investigations may follow depending on public interest and the time available to the Center for continued research.

**The Story So Far...**

Part I. of the series attempted to provide some context for loan trends, and compared Pittsburgh to its peers by population, employment, unemployment, and banking presence. The good news is that Pittsburgh did not lose as many jobs as most of its peers during the recession, and it ended the 2007-2013 period with more employment than it started with, with significant growth in its banking sector and an unemployment rate below the national average. The not so good news is that its estimated population remained flat, and its unemployment rate, while still under the national rate, slipped against its peers by 2013.³

"As for its peers, Charlotte remains a top peer competitor to Pittsburgh in the banking business. The numbers suggest that Pittsburgh had yet to overtake Charlotte in banking employment, and Charlotte’s population and overall employment growth between 2007 and 2013 outpaced our own. However from 2007-2013 Pittsburgh’s banking industry enjoyed a larger increase, and it ended 2013 with a lower unemployment rate. Like Pittsburgh, St. Louis and Cincinnati experienced little population growth, but notched significant gains in banking employment. As of 2013 however, neither St. Louis nor Cincinnati had managed to recover the employment levels they enjoyed before the recession, while Pittsburgh did and (again) enjoyed a lower unemployment rate than both. Philadelphia, like Pittsburgh, also did relatively well during the worst of the recession and it enjoyed stronger population growth. However it also suffered a large drop in banking employment, and a ballooning unemployment rate relative to its peers.

Perhaps the peer to be most envious of is Minneapolis. It enjoyed a trifecta of above average population growth, employment growth, and banking growth, while ending 2013 with the only unemployment rate out of the group under 5%. On the other end of the stick are Cleveland and Detroit, suffering large population and general employment losses, and even stiffer banking employment losses over the study period."⁴

This report compares Pittsburgh to its peers based on trends in loan originations under the CRA, including smaller and larger loans. The third report for the series will compare trends in loans by firm size, and the fourth will examine patterns and trends in small business establishments at a high level.⁵ The series will conclude with key findings and suggestions for further research. Comments and suggestions from local policymakers, practitioners, and academics interested in this space are very welcome and should be sent to glagana@andrew.cmu.edu.

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³ “Small Business Lending in Allegheny County: Part I” pp. 4-6.
⁴ ibid. p 4.
⁵ In our first report we stated that loans and loans by firm size would both be addressed in Part II. However we now plan to cover the analysis of loans by firm size to Part III, while the analysis of patterns and trends in firm size will now be covered in Part IV.
How did we compare against our peers this time? The numbers suggest that there is bad news, good news, better news, and mysterious news to share about small business lending in Pittsburgh.

The bad news is actually for everyone. If Wall Street stocks have “recovered” from the events of 2008-2009, loans for small businesses on Main Street have not. Based on the data used for this analysis, nationwide the number of small business loans reported by banks dropped by 66% from 2007 to 2009. The value of these loans also fell, by 43%. While by 2012 the Dow Jones Industrial Average recovered what it had lost during the recession, by one measure 2013 the nations’ banks still only disbursed less than half the number of small business loans they did in 2007.

The good news is that small business lending in Pittsburgh fared well compared to its peers. In Part I. we wondered if Pittsburgh’s relatively favorable economic performance vs. its peers would be accompanied by positive trends in small business lending. Now we know the answer.

Pittsburgh did not avoid the carnage. By 2013 we received only 41% of the small business loans we had in 2007. But since we “lost less” than many our peers, by 2013 Pittsburgh passed Cleveland, Baltimore, and Detroit, moving up in rank from sixth to third place for number of loans behind St. Louis and Minneapolis. Meanwhile Charlotte and Cincinnati finished 2013 with the same ranks they started with in 2007, 7th and 11th place, respectively.

When one looks at the value of the loans disbursed, and not just their numbers, the news gets better. In 2007 St. Louis, Minneapolis, and Detroit held the top three ranks for the total value of loans received; Pittsburgh ranked sixth behind Charlotte and Baltimore. Like loan numbers, loan values dropped during the recession, but not as hard - especially in Pittsburgh. As a result by 2013 Pittsburgh moved from sixth to second in total loan value, passing Baltimore, Charlotte, Detroit, and Minneapolis, while St. Louis held on to first place.

Of course such rankings are related to the size of area population and economies. The St. Louis area has a large economy, so we should expect it to absorb more loans than Richmond. An alternative way to compare lending is to assess the extent to which areas “recovered” the level and value of business loans that they started with in 2007. By this measure Pittsburgh also performed “fair to pretty well”. As already mentioned, by 2013 Pittsburgh received 41% of the loans it started with in 2007, ranking it 8th in loan recovery, right in the middle of the pack. However, those loans enabled Pittsburgh to receive 74% of the loan dollars it had in 2007, placing us third behind Indianapolis and Columbus, but still ahead of several competitors with a strong or growing banking sectors including St. Louis (5th), Cincinnati (10th), Minneapolis (12th) and Charlotte (13th).

The not so good news is that Pittsburgh’s total loan values mostly declined from 2007-2012, ticking up noticeably only in 2013. If Pittsburgh did not fall as hard, neither did it show signs of steady or sustained year to year growth in loan value, at least for the period and data examined.

The mysterious news is that average loan values for Pittsburgh appear to be outliers compared to those of its peers. For example, the average value per “larger loan” for Pittsburgh was slightly but consistently smaller than almost every peer for every year examined. Despite the fact that larger Pittsburgh loans were slightly smaller than their peers, the volume and total value of them did not fall as hard, enabling Pittsburgh to move from 7th place to 2nd place for total value of larger loans between 2007 and 2013, trailing only St. Louis. Meanwhile the average value per “smaller loan” (under $100K) was substantially higher than any of its peers. As a result of this advantage Pittsburgh moved up from 3rd place to 1st place in smaller loan values between 2007 to 2013, passing Minneapolis in the process.

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6 This ranking differs noticeably from the top three cities in employment (Detroit, Baltimore, and Minneapolis), population (Detroit, Philadelphia, and Minneapolis) and even banking presence (Charlotte, Pittsburgh, and Minneapolis) for 2013 identified in Part I. of this series.
Eat our “not declining as badly” dust Minneapolis! Still, while we can pat ourselves on the back for the moves up in rank, Pittsburgh seems to be struggling to switch to a higher gear on lending. And what’s up with our average loan values? Should we proud or concerned? For now we’ll savor the flavor of this mystery until the series concludes.
This analysis presents trends in the number and size (in dollars) of small business loans for fifteen urban county areas including Allegheny County PA. The data is limited to loans under $1M in value reported by banks to regulators under the Community Reinvestment Act. This information represents a very significant portion of, if not the totality of small business lending in the United States.

The analysis is limited to bar and line charts of magnitudes, means, and proportions. The data used is both annualized and aggregated, and we did not attempt more sophisticated statistical techniques. Our primary intent is descriptive, and for the most part we avoid interpreting, theorizing, or hypothesizing about the results. Certain findings raised questions that we will highlight at the end of this series as opportunities for further research. The report concludes with a rundown of the caveats, exclusions, and limitations of the data used.
The chart below shows the number of loans per urban area per year, sorted by 2013 levels, and it underscores how dramatic the impact of the financial crisis and ensuing recession was on the market for small business loans. Loans offered to small businesses in these areas dropped sharply from 2007 to 2008, then plunged between 2008 and 2009. The low point was 2010, followed by comparatively modest increases in 2011 and 2012 in most areas, and some very small but still observable declines by 2013.

In 2007 the top ranking three areas for number of loans were Minneapolis, Detroit, and St. Louis, with Pittsburgh in sixth place. By 2013 Minneapolis and St. Louis still ranked first and second in number of loans, but Pittsburgh "passed" Cleveland, Baltimore, and Detroit, moving up in rank from sixth to third. Pittsburgh’s rank increased because it lost fewer loans than these three peers over the period.

The first report of this series noted that by 2012 most of the areas had turned the corner on employment, and that by 2013 seven had “recovered” the employment levels they enjoyed in 2007. No so for small business loans. By 2013 the number of loans issued for all areas and the country had fallen by over 50% from where they started in 2007.

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7 This ranking differs noticeably from the top three cities in employment (Detroit, Baltimore, and Minneapolis), population (Detroit, Philadelphia, and Minneapolis) and even banking presence (Charlotte, Pittsburgh, and Minneapolis) for 2013 identified in Part I. of this series.
The chart below illustrates the relative severity of the collapse using 2007 lending levels as a baseline. The trends indicate that early on, each area experienced broadly similar declines. However by 2009 some had certainly dropped harder than others. Between 2007 and 2009, the number of loans dropped by 66% across the whole of the United States (yellow line). For the study areas, lending levels dropped by 49% (for Minneapolis) up to 71% (for Baltimore) from where they started in 2007.

Most areas outperformed the national trend, with only Philadelphia, Kansas City, Baltimore, and Detroit dipping under it for all or part of the period. While lending levels began to recover after 2011, by 2013 every area was still below 50% of the number of loans made in 2007. By 2013, the effective percent declines in loans from 2007 ranged from 52% for Minneapolis to 67% for Detroit. Nationally loans declined by 64% for the same period, and of of the group only Detroit did worse than the nation.

Despite its moving up in rank, Pittsburgh was by no means spared. By 2013 the number of loans it received had effectively dropped by 58% of 2007 levels, from about 46,000 loans to 19,000. In other words, by 2013 Pittsburgh had only 41% of the number of loans it did in 2007.

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9 Percentages here refer to “percent change from baseline”. In other words, the magnitude of the decline in the number of loans for Baltimore between 2007 and 2011 was equal to 71% of 2007 loan levels. This is not to be confused with the “leftover” magnitude of 2011 levels expressed as a percentage of 2007 levels, which in this case would be 29%.
The next chart shows the dollar value attached to loans above, sorted by 2013 levels, in millions of nominal dollars. Eyeballing the chart confirms that as with the number of loans, the total loan values dropped for all areas for the first few years of the time period. However, the degree and pattern of decline varied more noticeably by area. For example, St. Louis and Pittsburgh only saw small declines in loan value from 2007 to 2008, while Milwaukee actually saw a slight increase. By comparison all areas saw sharp drops in loan numbers for the same period. While loans numbers for 15 of 16 areas “troughed” in 2010, only ten did so for loan values. Loan values for St. Louis, Detroit, Cleveland, Columbus, Cincinnati, and Indianapolis actually ticked up in 2010 although most saw values bump down and up in the years following.

In 2007 St. Louis, Minneapolis, and Detroit held the top three ranks for loan values, while Pittsburgh ranked sixth with $1.3B disbursed. By 2013 this dropped to $1.1B. Because it did not decline as severely as its peers, by 2013 Pittsburgh ranked second in total loan value, passing Baltimore, Charlotte, Detroit, and Minneapolis, while St. Louis still ranked first.

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10 That is, unadjusted for inflation.
This chart shows the percentage change from 2007 levels, this time in 2007 (real) dollars. The chart confirms that loan values did not fall as sharply as loan numbers. Recall that in 2009 the number of loans had declined by 66% nationwide, with study area loan values dropping between 49% and 71%. By comparison values dropped by 43% nationwide, from 20% to 48%.

Most areas fared better than the nation in retaining loan values, but Charlotte, and especially Baltimore did worse, at least for several years - especially 2010 (Philly and Boston saw greater declines than the nation in 2010). The chart also shows that, unlike loan numbers, area loan value trends diverged noticeably after 2009. For example, just as Boston, Philadelphia, Charlotte and Baltimore hit bottom in 2010 Columbus, Cleveland, and Indianapolis bounced back that same year, if temporarily.

By 2013 national lending values were still down 44% from 2007 levels. Columbus fared well since 2010, and was down just 18% by 2013. Baltimore was hit the hardest, dropping by 60% of 2007 levels in 2010, and still down 54% as of 2013. While nowhere near recovery of 2007 loan values, as of 2013 half of the areas were on rising trajectories, including Pittsburgh. However, the ride remained bumpy, with only three exhibiting consecutive increases since 2011.

Pittsburgh fared much better in maintaining its level of loan values vs. its peers. First, its level of loan value did not drop as sharply as its peers early on. By 2009 values had dropped by just 20% of 2007 levels, bumped around 22-23% through 2011, dropped to 30% by 2012, and finally ticked up somewhat in 2013. The good news is that for 2013, Pittsburgh received 74% of the loan dollars it started with in 2007, and it ranked third in “recovery” behind Indianapolis (75%) and especially Columbus (82%). The not so good news is that Pittsburgh’s trend mostly declined from 2007-2012, ticking up noticeably only in 2013. If Pittsburgh did not fall as hard, neither did it show signs of steady or sustained year to year growth in loan value, at least for the period examined.
“Microloan” vs. “macroloan” trends

Why did the number of loans drop more sharply than loan values? Part of the answer is that low value loans dropped more sharply than high value loans. The chart below displays the numbers of loans per year, by loan size, for all the areas combined. It shows that most loans were microloans - under $100K in value (nominal dollars). Microloans made up about 90% or more of all loans during the period examined, regardless of year. The chart also confirms that the number of microloans dropped harder than macroloans — loans from $100K to $1M in value. By 2013 the number of microloans disbursed dropped to 39% of 2007 levels, while the number of macroloans was still 84% of 2007 levels.

CRA guidelines require that small business loans (which by definition are $1M or less in value) be reported separately by three size categories: less than $100K, from $100K to less than $250K, and from $250K to $1M. Loans less than $100K in value are called microloans, and loans from $100K to $1M are called macroloans (which includes both of the larger size categories). The analysis that follows examines both.
These next two charts show the number of loans by area as a percentage of 2007 levels. As the number of microloans dominated the number of macroloans by a ratio of 9:1, most of the changes for “all loans” were in fact driven by changes in microloans. This is why this chart looks very similar to the chart on page 7.
Trends in macroloans, shown in the chart below, are a little more interesting. While macroloan values did drop, they did not drop as hard as microloans, or as uniformly. The difference in overall “drop” is also striking, in that by 2013 the range of declines (by area) between microloans and macroloans did not even really overlap. In fact, unlike with microloans, the number of macroloans actually jumped over 2007 levels for several areas during the period. From 2007-2008 Columbus, Minneapolis, St. Louis, and Kansas City actually saw increases in the number of macroloans, before plunging thereafter. By 2010, Columbus and Cleveland actually enjoyed higher levels of macroloans than they did in 2007. Cleveland’s levels eventually fell to earth by 2013, but Columbus is a clear outlier here, receiving 20% more macroloans in 2013 than it started with in 2007.

Columbus and Cleveland were not the only outliers. After 2008 all areas saw macroloan numbers plunge, except Pittsburgh! If Pittsburgh had yet to recover the number of macroloans it had in 2007 by 2013, it never fell far, and ended 2013 with 94% of the number of macroloans it started with in 2007.

While macroloans did not fall as far as microloans overall, by 2013 only one area (Columbus) had “recovered.” By 2013 Cleveland, Columbus, Boston, Indianapolis, and Pittsburgh were just under 2007 levels, but none appeared to exhibit year to year upward momentum yet. Denver Milwaukee, St. Louis, Richmond, Cincinnati, Kansas City, and Detroit were between below 10 and 30% of 2007 levels by 2013, yet each of these area actually declined from 2012 to 2013, save for Denver and St. Louis. Baltimore, Charlotte, and Philadelphia took the most damage, but were at least on strong upward trajectories by 2013. If Pittsburgh did not match Columbus or Cleveland’s post-recession recovery in macroloans, it was the only area that did not fall hard into 2010. Despite its relatively favorable “performance” over the study period, the number of macroloans for Pittsburgh trended gradually but steadily downward for most of the period examined.

We already noted that overall loan value trends were more divergent (for each area) than for loan trends. Macroloan trends, by the numbers, were also more divergent from microloan trends. Just as microloans dominate trends in loan numbers,
macroloans heavily influence trends in loan values. The appearance of the trends for the percent change charts for total loan value and number of macroloans are strikingly similar. The reason for this is that while microloans outnumbered macroloans 9:1, the total value of macroloans exceeded that of microloans.

The chart below shows the difference in total loan value between micro and macroloans from year to year, for all areas, in real (2007) dollars. In 2007 the total value of macroloans for all areas was $11.7B, compared to $6.7B for microloans. While macroloans comprised between just 5 or 10% of total loans during the period, they represented between 64 to 76% of total loan values, depending on the year.

The total value of microloans fell harder than the value of macroloans, which is not surprising given that the number of these loans also fell harder. However in the case of microloans, the drop in value was not as severe as the drop in the number of loans, even when inflation is accounted for. By 2013 the number of microloans was 61% under 2007 levels. In real dollars, microloan values were 54% below 2007 levels. Conversely by 2013 the number of macroloans was 16% under where it was in 2007. Yet the total value of these loans dropped further, to under 22% of values in 2007.
In order for microloan values to fall less steeply than the number of microloans, the average value of the microloans remaining must increase as the number decreases. This is basically what happened, in that where the average microloan values for all areas in real dollars grew by 20% by 2009, and remained relatively high thereafter.

This story was reversed for macroloans. The scale is necessarily different here, but the trend is apparent. The size of macroloans loans dropped in real dollars after 2007. By 2013 loan values in this category were 10% under what they were in 2007 in real dollars.
The chart below suggests that trends in the average value of macroloans did not vary much by geography. Average values did not range widely (the range of values per area was $28 to $53K, depending on the year), and most area trends followed similar paths. The range of values for any given year was from $28K to $53K depending on the year. Despite the broad similarities, one thing stands out: while the difference is small, the average value of a Pittsburgh macroloan was consistently lower than most of its peers. Only Columbus saw lower macroloan values from 2011-2013.
Pittsburgh was even more of an outlier with respect to *microloan* values. Pittsburgh started with a higher average microloan value than most of its peers in 2007, although its advantage was modest. After 2008 microloan values for Pittsburgh surged above and beyond every peer, and stayed above them through 2013.
These last two charts show the total value of loans for microloans and macroloans respectively, in nominal dollars, sorted by 2013 values.

The first shows that **Pittsburgh ranked second in 2007 for total micro values, but ended up in first place by 2013, passing Minneapolis in the process**. Detroit, Baltimore, Charlotte, and Denver also lost ranks in microloan value, while Columbus, Cleveland, and St. Louis moved up in rank. Since Pittsburgh’s number of microloans dropped about as hard as the rest of the pack, and its recovery rate from 2007 was middling, its move up in ranking can be attributed mainly to the higher than average value per microloan that it enjoys vs. its peers.
This final chart shows total macroloan values in nominal dollars for each area, in millions. It shows that Pittsburgh started in seventh place in macroloan value, but because its number of macroloans did not fall by much, it managed to move to 2nd place by 2013, with St. Louis still first. This happened despite the fact that its average macroloan values were consistently lower than its peers (if not by much).
**Next Steps**

The third report of this series will examine the loan data by size of recipient business, with special attention to small businesses with under $1M in revenue. Will Pittsburgh’s favorable overall performance in microloan lending translate to sturdy support to the “smallest of businesses”? Which if any of its peers will do better? Tune in to [www.cmu.edu/ced](http://www.cmu.edu/ced) over the summer to find out.

**Data definitions, caveats and exclusions**

This report relies on data on small business loans collected from banks for regulatory purposes under the Community Reinvestment Act (CRA). We only opted to use some of this data, and the data is not perfect. This section goes over some important definitions, caveats, and exclusions associated with the data we used for the report.

**Small business loans vs. small businesses**

Per CRA guidelines, small business loans are loans whose original amounts are $1 million or less and described by the lending bank as “commercial and industrial loans” or “loans secured by nonfarm or nonresidential real estate” in required reporting to federal regulators. These loans flow mostly - if not exclusively - to small businesses. CRA guidelines require that the number of small business loans to small businesses be reported separately. Small businesses are defined as having gross annual revenues of less than $1M. So while every small business loan reported under the CRA is under $1M in value, not every loan necessarily goes to a small business, at least as defined by the CRA.

**Not every bank loan is reported**

Not every small business loan is reported under CRA requirements. Banks with assets under an inflation adjusted threshold of $1B in assets (currently about $1.2B) are not required to report. Some do anyway, but many of the smaller depository institutions that do not are still important lenders for the communities they serve. Examples include smaller independent commercial banks, savings and loan associations, and credit unions serving both rural and urban communities. That said CRA reported loans still make up a large portion of all small business loans. By federal estimates, in 2012 loans from CRA reporting banks represented 87% of the number of small business loans outstanding, and 68% of their value.

**Not every reported loan is “new” or even a loan**

Figures reported under the CRA technically include not just “new bank loans” but also loan renewals, refinanced loans, and new lines of credit, including business credit card accounts.

Renewals occur when the maturity date of an existing loan with an outstanding balance is extended. Refinancing a loan is what it sounds like: an existing and still outstanding loan is replaced with a new loan with new terms (ex: interest rate, principal, maturity). Figures for renewed and refinanced loans are typically reported along with new business loans as “loan originations”, even if no additional funds are loaned under the new terms. Any increase in old loan amounts are also reported as loan originations under the CRA.

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13 Technically, a case where a firm with $1M in revenues received a large loan (>$1M) would not be reported under CRA. Presumably this case is rare.

New or renewed lines of credit are also included in the data, whether used during the reporting period or not. Increases in a line of credit also count as a separate origination. New credit card accounts for businesses count as originations too, but only for the business that opens the account, not for each card attached to the account.\(^{15}\)

In other words, not every loan or dollar reported under the CRA is actually a loan, but is at minimum a form of credit that a business does, will, or at least could draw upon in the future.\(^{16}\) A separate analysis of each of these forms of credit was not possible, as the data used for this analysis lumps them together.

**Farms loans excluded**

The CRA also requires banks to report small loans to farms separately from other businesses. Reporting of farm loans is not as complete under the CRA as it is for small business loans. Since this report focuses on traditional bank lending to businesses in urbanized counties, we excluded farm loan data from our analyses. In any case by federal estimates the number of total farm loans (reported and unreported) is comparatively small. In 2012 farm loans were only 3% of the number and about 6% of the value of loans to other types of businesses.\(^{17}\)

**Loan purchases excluded**

Banks are also required to report both loan originations and purchases each year. As already noted, originations can be new loans, renewals, refinanced loans, or new lines of credit. Loan purchases are loans with outstanding balances purchased by one bank from another. The analyses in this report exclude purchases, as they are less relevant to our research than originations. In any event purchases also make up a small share (typically under 5%) of business loans.\(^{18}\)

**Community development loans excluded**

The CRA also requires lenders to report certain types of loans as community development loans. Community development loans can be, but are not always, directed at small businesses. Regulations stipulate that a loan can be classified as a community development loan if its primary purpose is “community development”. This term is defined by the CRA to include loans that support: affordable housing for low-and-moderate income (LMI) individuals, community services for the same, revitalization or stabilization of underserved communities meeting certain criteria, and financing small farms or business that meet certain criteria, including firms with $1M or less in sales.\(^{19}\) Loans classified by lenders in regulatory reporting for the CRA as community development loans are not typically reported as small farms or small business loans. While some portion of community development loan funds surely goes to small businesses, it is difficult to isolate the number and value of these loans vs. funds for other purposes.

The number and value of community development loans reported to the CRA are smaller than the figures reported for small business loans, but the amounts are still substantial. For example, while banks reported about 5M small business loans with $202B value in 2013, they reported over 24,000 community development loans with $65B in value.\(^{20}\) Thus the average community development loan appeared to be over $2M in 2013, far exceeding the CRA’s definition for small business loans (max. of $1M).

However, community development loans can be deployed for multiple purposes, particularly if they are used to fund a community

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15 As noted in CRA reporting guidelines, “if an institution agrees to issue credit cards to a business’s employees, the institution reports all of the credit card lines opened on a particular date for that single business as one small business loan origination rather than reporting each individual credit card line, assuming the criteria in the “small business loan” definition in the regulation are met.” Per the guide, one new account, or one expansion of an existing account, equals a loan: “The credit card program’s ‘amount at origination’ is the sum of all of the employee/business credit cards’ credit limits opened on a particular date. If subsequently issued credit cards increase the small business credit line, the added amount is reported as a new origination.” See “A Guide to CRA Data Collection and Reporting: Edition Effective for 2013 CRA Data Submissions”, p 13. accessed Jan 8 2015.
16 It actually gets even more complicated than described here, but the CRA guide cited in the footnote above is a helpful resource on the subject.
development corporation’s activities. Loan funds can also be broken up to support more than one business as part of a large scale development or revitalization project. Since not all community development loan funds are directed at small businesses, and since we had no easy way to identify fund uses, we opted to exclude this data from the analysis.

The charts below summarize what we included and excluded from CRA related data for this report, including community development lending, using figures reported for 2013. Even with the amorphous blob of community development loans lumped in with reported small business loans (including farms), 94% of reported loans are still due to small business loan originations, the data category used for this analysis. Again these include new loans, renewals, refinanced loans, and lines of credit (tapped and untapped). When compared by dollar value, small business loan originations falls to 71% of the total, mainly due to the relatively large value of community development loans disbursed (23% in 2013). Again, we assume that a large but undefined portion of community development loans do not end up in the hands of small business, and instead go to housing projects, community based organizations, CDCs, etc.

### Number of CRA related loans, 2013

- Small business, originations: 94%
- Small business, purchases: 3%
- Small farms, originations and purchases: 2%
- Community development loans: 1%

### Dollar value of CRA related loans, 2013

- Small business, originations: 71%
- Small business, purchases: 4%
- Small farms, originations and purchases: 23%
- Community development loans: 1%

_Private banks are not the only source of loans for small businesses, and loans are not the only way to finance business activities._

Several federal programs provide loans to businesses which are not fully reportable under the CRA. In the report “Small Business Lending Deserts and Oases”, the National Community Reinvestment Coalition (NCRC) assessed small business lending across the country. Its analysis included not only reportable loans under the CRA, but also funds provided by the Small Business Administration, and the U.S. Treasury Departments CDFI (Certified Development Financial Institution) Fund. Programs examined included the SBA 7(a) loan guarantee program, the SBA microloan program, and the CDFI Fund’s small business lending and microloan programs. The same report also reported an estimate of nonprofit lender originated microloans. Many of the funds disbursed from these sources are not reported under the CRA, or are only partially reported.

These programs are crucial tools for extending credit to worthy enterprises that might not otherwise qualify for bank financing, including those serving low income communities. But as the NCRC report notes, the number of loans they generate is small compared to the number reported under the CRA. While about 5M loans were reported by CRA covered banks in 2012, the report notes that by comparison the total loans reported for the same year for programs above were: 44,376 small business loans under the SBA 7 (a) program; 3,493 loans made under the SBA’s Microloan program; 13,000 small business loans and 33,708 microloans under

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21 Ibid.
23 For example, funds provided by private banks guaranteed under the SBA 7(a) program may or may not be reported to the CRA depending on the circumstances of the lender and loan. Nonprofit microloan lending would not be reportable.
24 National Community Reinvestment Coalition Analysis, pp. 22.
the CDFI Fund, and an estimated 36,936 microloans from nonprofit microenterprise lending programs. While the absolute number of loans they generated is indeed substantive (133K loans is nothing to sneeze at), added together they still only amount to about 2.5% of CRA reported farm and business loans.

Federally regulated depository institutions, and government and nonprofit programs are not the only source of small business loans. Other sources of loans include non-depository finance companies, brokerage firms, family, friends, and other businesses, including the firm’s suppliers. Finally, debt is not the only means of financing the activities of a business enterprise. While not every method is available to every business (or as available as debt capital), these include equity financing (including venture capital and angel investments for technology based companies), grants from government, non-profit, foundation, and corporate sources, bonds, leases, crowd funding and the list goes on.

**The reported “location” of loan uses is sometimes incorrect**

Last and least, loan origination data are subject to possible loan location error. Per CRA guidelines, loan location is reported at the census tract level, i.e the census tract “where the main business facility or farm is located or where the loan proceeds otherwise will be applied, as indicated by the borrower”. However, erroneous locations can occasionally result in the data, for example, when the tract of the recipient’s company headquarters location is reported to the CRA instead of the operations site where the loan funds will actually be applied. While the prevalence of this error is unknown, the fact that our analysis focuses on larger areas than census tracts (ex: counties or larger) likely mitigates the problem.

To sum up, CRA data does not cover all means of financing business activities, nor does it cover all bank lending. Some of what it does cover is not technically “new lending” as is commonly understood, and some of the data on lending collected by the CRA includes business lending which is difficult to isolate from loans for other purposes. Our analysis uses only CRA data on loan originations for small businesses, which if imperfectly representing the full picture of the flow of debt capital to small business, still represents a large, relevant, and important share of the same.

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25 National Community Reinvestment Coalition Analysis, pp. 22-43.
26 This is by no means a complete list of omitted federal and nonprofit sources of small businesses loan. Other sources include state loan guarantee programs, state, local, and nonprofit revolving loan fund programs, the federal SBA 504 program, HUD Section 108 program.
27 “Small Business Lending in the United States: 2012”, Office of Advocacy, Small Business Administration, July 2013, pp 2, 15. See https://www.sba.gov/sites/default/files/files/sbl_12study.pdf, accessed 1/19/2015. The report notes that: “depository lenders hold about 60 percent of the total loans to small business borrowers from traditional sources of credit (excluding owner loans); the remaining 40 percent of loans...are from finance companies, brokerage firms, family, friends, and other businesses.” Business owners occasionally rely on personal (as opposed to business) credit cards to finance start-up costs, small operating expenses, and other needs.
About this Report

This report was prepared by the Center for Economic Development. Andrea Zimmer and Greg Lagana conducted the data analysis, and Greg Lagana authored the final report. Its conclusions and opinions are the CED’s alone. This report does not represent the conclusions, views, or official positions of Carnegie Mellon University or any of its corporate officers.

About the CED

The School of Public Policy and Management at the Heinz College at Carnegie Mellon University exists to improve the ability of public, non-profit and private organizations to address the most difficult challenges facing society. Established in 1968, Heinz takes a broad interdisciplinary approach that combines systems analysis, quantitative analysis, and information technology to address policy questions.

The Center for Economic Development at the College exists to help local institutions address challenges in the Pittsburgh region and the Commonwealth of Pennsylvania. Since its inception under the College in 1987, the Center has also followed an interdisciplinary approach to help the region and state confront problems and opportunities in economic, workforce, and community development. Through objective research and technical tools, the Center helps clients manage change through policy, strategy, and programming. Our toolkit includes economic, demographic, geographic, and institutional data analysis, economic and statistical modeling, survey design and analysis, performance measurement, and program design and evaluation.

Since 2008, with the assistance of its twelve EDO partners and eight C-level Executive Fellows, the CED has also provided a steady pipeline of academic, extracurricular, and experiential learning opportunities for master’s students interested in economic development in the U.S. context.

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