Findings from Analysis of Nationwide Summary Statistics for 2005 Community Reinvestment Act Data Fact Sheet (July 2006)

The following analysis of nationwide summary statistics is based on data compiled by the Federal Financial Institutions Examination Council (FFIEC) for institutions reporting under the Community Reinvestment Act (CRA) regulations.

Background

The CRA is intended to encourage federally insured commercial banks and savings institutions to help meet the credit needs of the local communities in which they are chartered. The regulations that implement the CRA require commercial banks and savings institutions with total assets of $1 billion or more to collect and report data regarding their small business and small farm lending and community development lending.

The small business and small farm lending data reported under the CRA regulations differ from the data reported on home mortgage lending under the Home Mortgage Disclosure Act (HMDA) in several respects. Unlike the HMDA data, the CRA data include information only on loans originated or purchased, not on applications that are denied by the institution or for some other reason do not result in an origination. In addition, the CRA data do not include information about applicant income, sex, race, or ethnicity, although the CRA data do indicate whether a loan is extended to a borrower with annual revenues of $1 million or less. Finally, the CRA data are not reported application-by-application, as HMDA data are, but rather are aggregated into three loan-size categories and then reported at the census tract level.

CRA data are a valuable tool for many different types of analyses. At the same time, the interpretation of CRA data poses challenges. For example, lending institutions are asked to report the geographic location of the loan. If the proceeds are used in more than one location, the institution can record the loan location by either the location of the business headquarters or the location where the greatest portion of the proceeds are applied, as indicated by the borrower. However, these locations may have different socio-demographic and economic characteristics.

Furthermore, while CRA data provide information on extensions of credit in a geographic area, they do not indicate the amount or nature of the overall demand for credit. Caution should be used in drawing conclusions from analyses using only CRA data, as differences in local loan volume may reflect differences in local demand. Indeed, CRA performance assessments by the bank and thrift supervisory agencies focus on evaluating the volume and distribution of lending in the context of local credit needs.

General Description of the 2005 CRA Small Business and Small Farm Loan Data

For 2005, a total of 1,103 lenders reported on their originations and purchases of small business and small farm loans, including 891 commercial banks and 212 savings institutions (table 1). Nearly 2,000 lenders reported 2004 data last year (table 1). As a consequence of amendments to the CRA regulations in 2004 (by the Office of Thrift Supervision) and 2005 (by the Office of the Comptroller of the Currency, the Federal Reserve Board, and the Federal Deposit Insurance Corporation), banks and savings institutions with assets of less than $1 billion were not required to report data on their 2005 small business and small farm lending. However, institutions of that size may voluntarily report such information, and they must report the information if they elect to be evaluated as "large" institutions. Of the 1,103 institutions submitting data for 2005, 605 institutions (55 percent) were not required to report unless they elected to be evaluated as "large" institutions.

Reporting institutions' small business and small farm lending is a significant portion of total small business and small farm lending by commercial banks and savings institutions. Analysis of Call Report data on small loans to businesses and farms indicates that CRA reporters account for about 73 percent of the small business loans outstanding measured by number of loans (65 percent measured by dollars) and 25 percent of the small farm loans outstanding measured by number of loans (27 percent measured by dollars) extended by all commercial banks and savings institutions (table 1). Commercial banks and savings institutions with assets of $1 billion or more originated or purchased about 90 percent (by dollars) of the small business loans reported under CRA (table 3).

In the aggregate, about 8 million small business loans, totaling $272 billion, and almost 219,000 small farm loans, totaling almost $12.7 billion, were reported having been originated or purchased in 2005 (table 2). Unlike home mortgage lending, a well-developed secondary market for small business loans does not exist, and the CRA data reflect this.[1] Most reported small business and small farm loans were originations; less than 1 percent of the small business loans and less than 1 percent of the small farm loans were reported as purchases from another institution (derived from table 2).

The CRA data provide information about the size of small business and small farm loans. For small business loans, the maximum loan size reported is $1 million; for small farm loans, the maximum is $500,000. Measured by number of loans, almost 94 percent of the small business loans and almost 84 percent of the small farm loans were for amounts under $100,000 (table 2). Measured by dollars, the distribution differs: only 36 percent of the small business loan dollars and about 36 percent of the small farm loan dollars were extended through loans of less than $100,000 (table 2).

[1] The one exception is for small business loans guaranteed by the Small Business Administration. See "Report to Congress on Markets for Small Business and Commercial Mortgage Related Securities," Board of Governors of the Federal Reserve System and U.S. Securities and Exchange Commission (September 1996).

The CRA data also include information on how many of the reported loans were extended to businesses or farms with revenues of $1 million or less. About 47 percent of the number of reported small business loans (about 45 percent measured by dollars) and 83 percent of the number of reported small farm loans (about 77 percent measured by dollars) were extended to firms with revenues of $1 million or less (table 1).

Year-to-Year Comparison of Proportion of Small Business Loans to Smaller Firms

The proportion of small business loans extended to smaller firms, at 47 percent, is down from a high point of 60 percent in 1999, but is higher than the 38 percent in 2004. The overall decline in the share of lending to small firms since 1999 is primarily a consequence of a substantial increase in reported lines of credit, renewals of credit lines with larger limits, and credit card lending to larger firms. In addition, the decline reflects a change in the data collection practices of some banks that no longer request revenue-size information from business customers and as a result, no longer report which, if any, small business loans are to small businesses.

The Geographic Distribution of Small Business and Small Farm Lending

The availability of information about the geographic location of businesses and farms receiving credit provides an opportunity to examine the distribution of small business and small farm lending across areas grouped by their socio-demographic and economic characteristics. Information on the distribution of businesses and population provide some context within which to view these distributions.

CRA performance assessments include an analysis of the distribution of small business and small farm loans (of all types) across census tracts grouped into four neighborhood income categories: low-, moderate-, middle-, and upper-income. [2] Overall, the distribution of the number and the dollar amounts of small business loans across these categories parallels the distribution of population and businesses across these four income groups (tables 4.1 and 4.2).[3] For example, low-income census tracts include about 4.5 percent of the population and about 4.1 percent of the businesses, and received about 3.2 percent of the number and about 4.3 percent of the total dollar amount of small business loans in 2005.[4] Low- and moderate-income census tracts' shares of the number and dollar amount of loans remained about the same in 2005 as in 2004. The

[2] For purposes of the regulations, a low-income census tract has a median family income that is less than 50 percent of the median family income for the broader area (the metropolitan area containing the tract or the entire non-metropolitan area of the state); a moderate-income census tract, 50 percent to less than 80 percent; a middle-income census tract, 80 percent to less than 120 percent; and an upper-income census tract, 120 percent or more.
[3] Beginning with 1998 census data, institutions filing CRA data were allowed to report that the census tract location of a firm or farm receiving a loan was unknown. For 2004, 3.6 percent of the reported small business loans by number and 1.4 percent by dollar amount included such a designation.
[4] Data on the share of population across census tract income categories is derived from the 2000 Census of Population and Housing (most current available). Data on the share of businesses across census tract income categories is derived from information from Dun and Bradstreet files of businesses. Calculations exclude agricultural-related firms.

same year-over-year pattern is observed for lending in middle- and upper-income census tracts.

In the distribution of small business lending reported under the CRA across principal city, suburban, and rural areas, small business loans are heavily concentrated in U.S. principal city and suburban areas (about 86 percent of the number and almost 88 percent of the dollar amount of all small business loans), as are the bulk of the U.S. population and the number of businesses (tables 4.1 and 4.2). The majority of small farm loans (about 60 percent, measured by number of loans and dollars of loans) were extended in rural areas, while most of the rest were extended in the suburban portions of metropolitan areas (tables 4.3 and 4.4).

Community Development Lending

In addition to information about small business and small farm lending, institutions covered by the CRA data-reporting requirements disclose the number and dollar amount of their community development loans. Among the 1,103 institutions reporting for 2005, about 74 percent extended community development loans (derived from table 5). The number of institutions reporting community development loans fell sharply from 1,280 to 813 (36 percent), as did the overall number of reporters, because of the rule changes exempting institutions with assets of less than $1 billion from reporting. Nonetheless, the dollar volume of such lending was little changed from $51.2 to $52 billion, though the reported number of community development loans declined from 38,369 to 31,600 (table 5). As in 2004, larger lenders (assets of $1 billion or more) extended the bulk of community development loans in 2005.