

CBAC 2017 | PREVIEW
**FDIC SMALL BUSINESS
LENDING SURVEY**

November 1, 2017

Federal Deposit
Insurance
Corporation

Division of Insurance
and Research

Division of Depositor
and Consumer
Protection



Why the Need for a Small Business Lending Survey?

- Small businesses an important component of U.S. economy
- Small businesses rely on bank financing
- But bank small business lending understudied due to lack of data

Small Business Lending Survey (SBLs) is Nationally Representative

- The *only nationally representative* survey of banks and small business lending
- Universe: 5,979 U.S. banks with branches in 50 states and DC
- Sample: 1,961
- Responses: 1,174 (60%)
- Small Banks defined <10B

SBLS Developed in Partnership with Community Banks

- Cognitive & Usability Testing
 - Four rounds of one-on-one discussions
 - 51 Banks, mostly community banks
 - 11 States
 - 45 Towns and Cities
- Questions focus on 2015 activities
- Survey fielded 2016 and 2017

Topics Covered by the SBLS

- Small business borrower characteristics
- Market area and competitors
- Perceived competitive advantages
- Loan products & underwriting
- Practices to generate and maintain small business lending relationships
- Expectations
- Small business C&I originations and outstanding loans, for some banks

SBLS: CBAC Preview

- I. Measuring Small Business Lending by Small Banks
- II. The Nature of Small Business Lending by Small Banks
- III. What Makes Small Banks Special?

2016
Small
Business
Lending
Survey

SBLS Insights

I. Measuring Small Business Lending by Small Banks

1. Relying on Call Report proxy understates small business lending by Small Banks

2. Today we show three different ways Survey demonstrates small business lending by Small Banks is understated

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CALL Report Proxy Understates Small Business Lending by Small Banks

2015 Q4 Call Report: Small Loans to Businesses		
C&I Loans with Loan Amount ≤ \$1M: \$118B	Commercial Real Estate Loans with Loan Amount ≤ \$1M	Agricultural Production and Farmland Loans with Loan Amount ≤ \$500K

All banks able to report data collected by Call Report proxy

Small Banks (<10B): 3 to 15% of C&I Originations Secured by 1-4 Family Residential Properties

2015 Q4 Call Report: Small Loans to Businesses			
C&I Loans with Loan Amount <= \$1M: \$118B	Commercial Real Estate Loans with Loan Amount <= \$1M	Agricultural Production and Farmland Loans with Loan Amount <= \$500K	Loans Secured by 1-4 Family Residential Properties
			(a) But for C&I purposes: \$16B

Banks 1B to 10B: 20% of Outstanding CALL C&I Loans Originated at >1M to Small Businesses (Revenues <1M)

2015 Q4 Call Report: Small Loans to Businesses				
C&I Loans with Loan Amount > \$1M				Loans Secured by 1-4 Family Residential Properties
(b) To Small Businesses (by Banks 1B to 10B): \$21B	C&I Loans with Loan Amount ≤ \$1M: \$118B	Commercial Real Estate Loans with Loan Amount ≤ \$1M	Agricultural Production and Farmland Loans with Loan Amount ≤ \$500K	(a) But for C&I purposes: \$16B

Banks <1B: 77 to 86% say “Largely All” of Their C&I Lending is to a Small Business

C&I Loans with Loan Amount > \$1M	2015 Q4 Call Report: Small Loans to Businesses			Loans Secured by 1-4 Family Residential Properties
	(c) To Small Businesses (by Banks <1B): \$93M	C&I Loans with Loan Amount ≤ \$1M: \$118B	Commercial Real Estate Loans with Loan Amount ≤ \$1M	
(b) To Small Businesses (by Banks 1B to 10B): \$21B				

CALL Report Proxy Understates Small Business Lending By Small Banks By At Least \$38B

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***Small Business
C&I Lending
Understated
by at Least
\$38B***

SBLS Insights

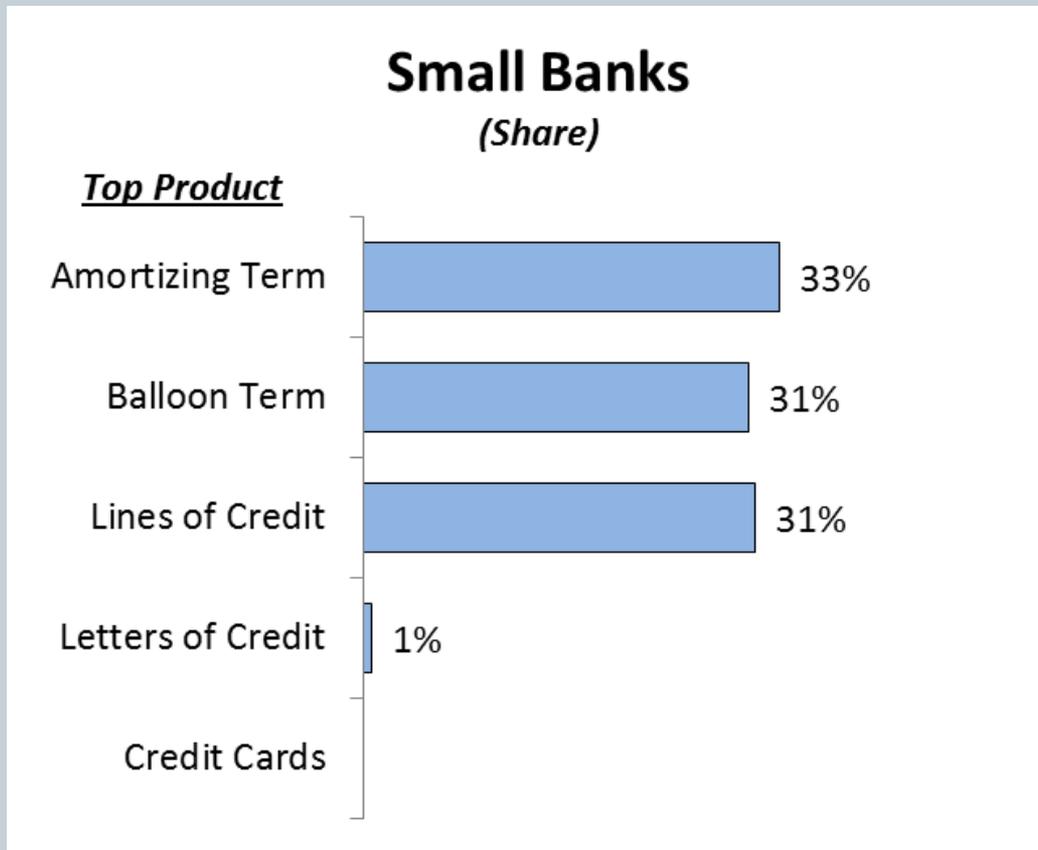
II. The Nature of Small Business Lending by Small Banks

1. Small Banks offer loan products for various purposes, focus on traditional underwriting and owner & business characteristics, and lend to startups

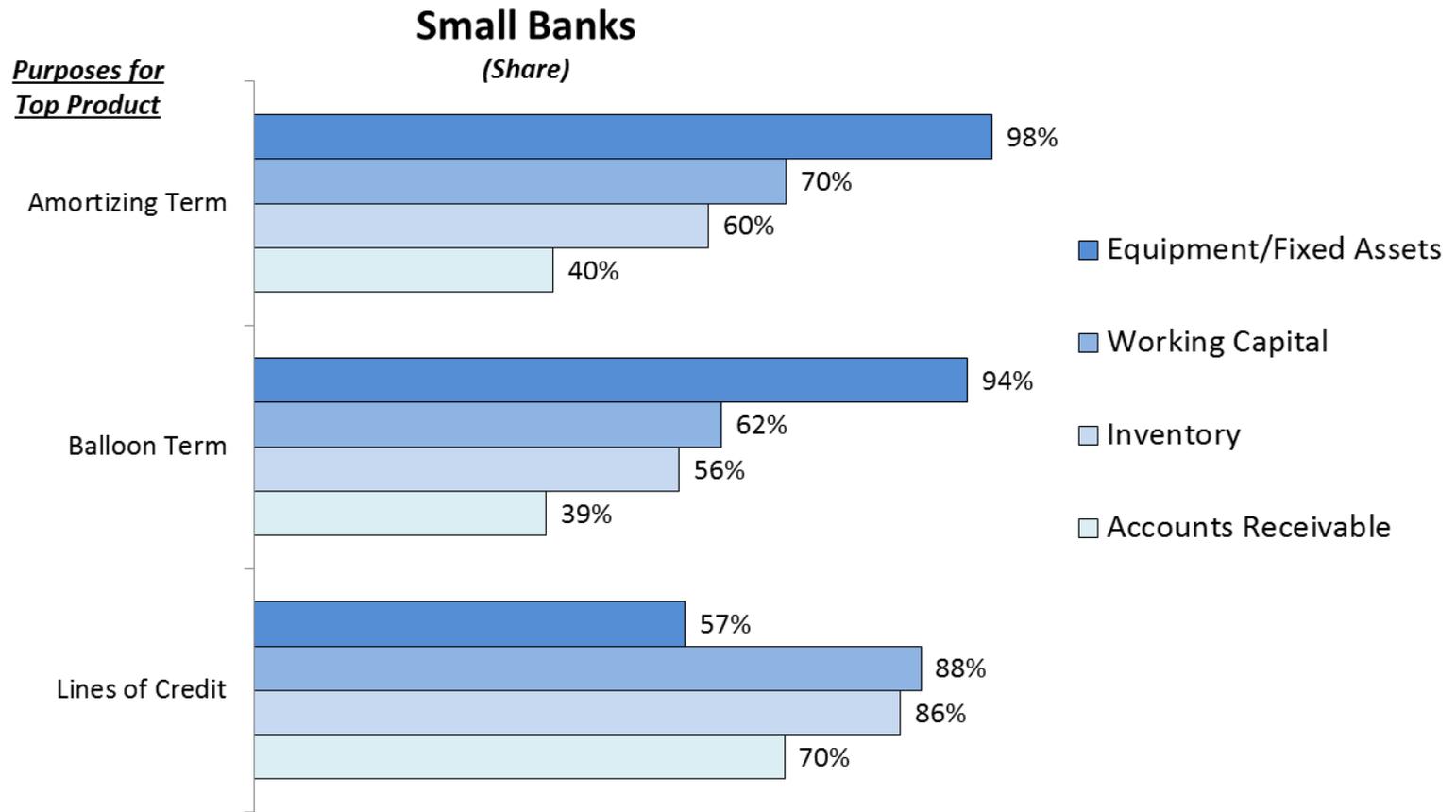
2. Small Banks interact locally and are high touch, relying on staff intensive interpersonal engagement

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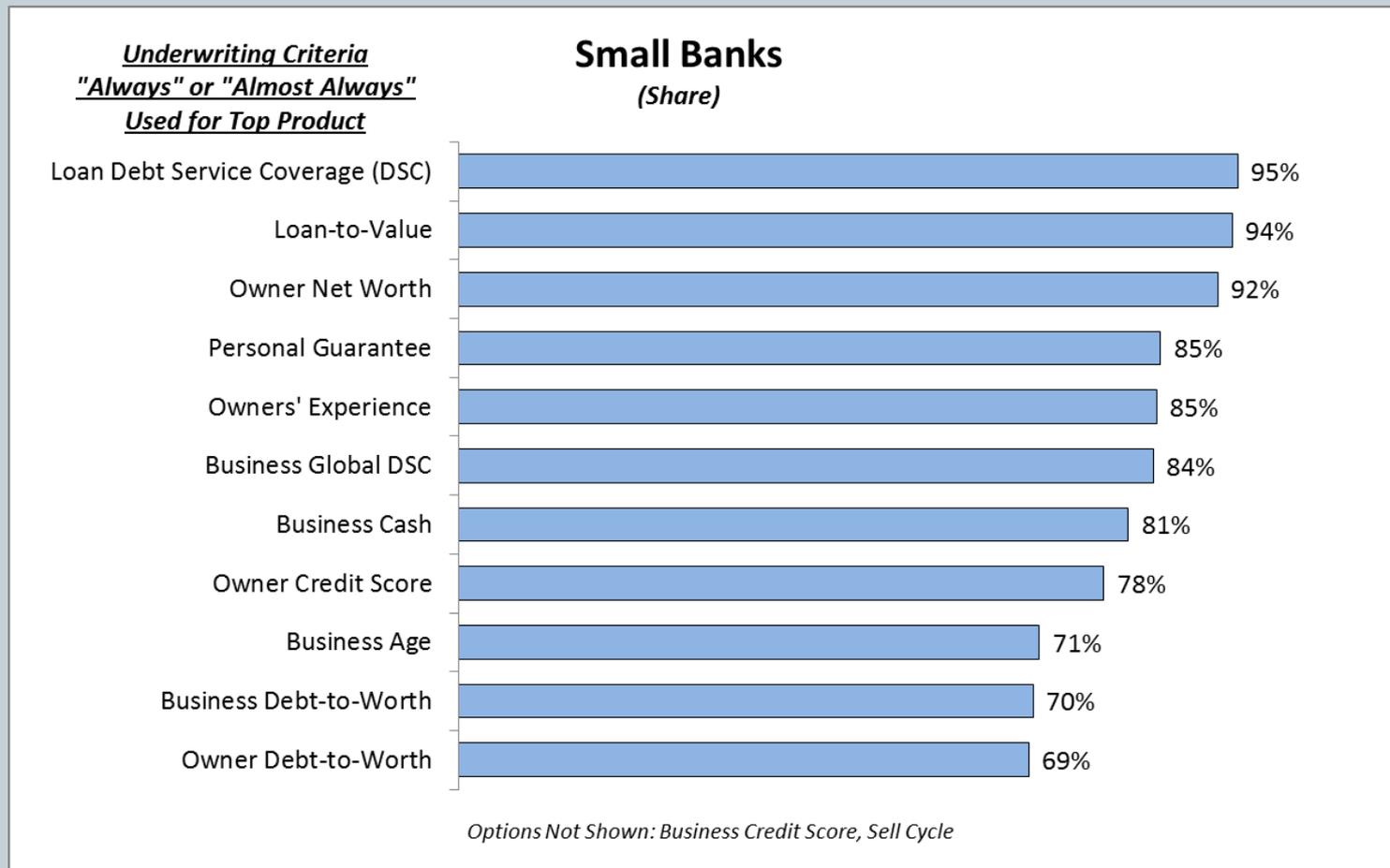
Small Banks Equally Likely to Have Amortizing Term Loans, Lines of Credit & Balloon Term Loans as Top Small Business Product



Term Loans Most Often Used for Equipment/Fixed Assets LOCs for Working Capital & Inventory

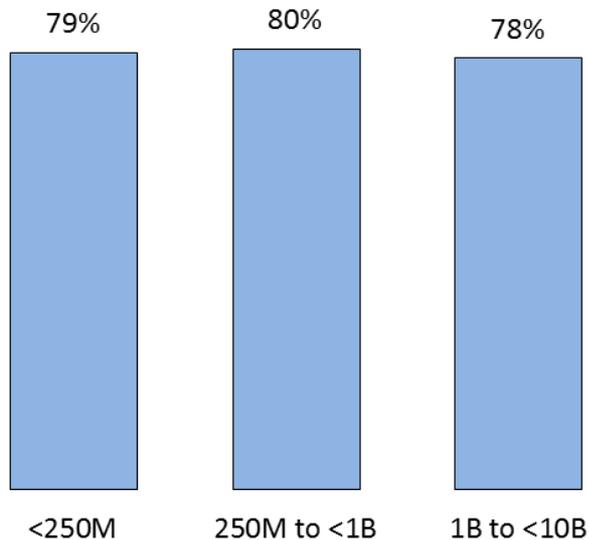


Small Banks Focus on Traditional Underwriting Criteria and Owner & Business Characteristics

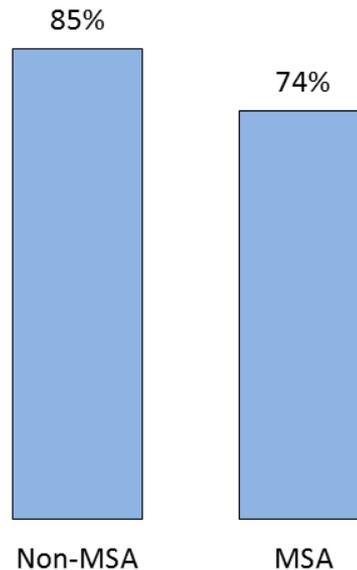


Most Small Banks Lend to Startups Especially Small Banks in Non-MSA Areas

Small Banks
Share That Lends to Startups, By Bank Size

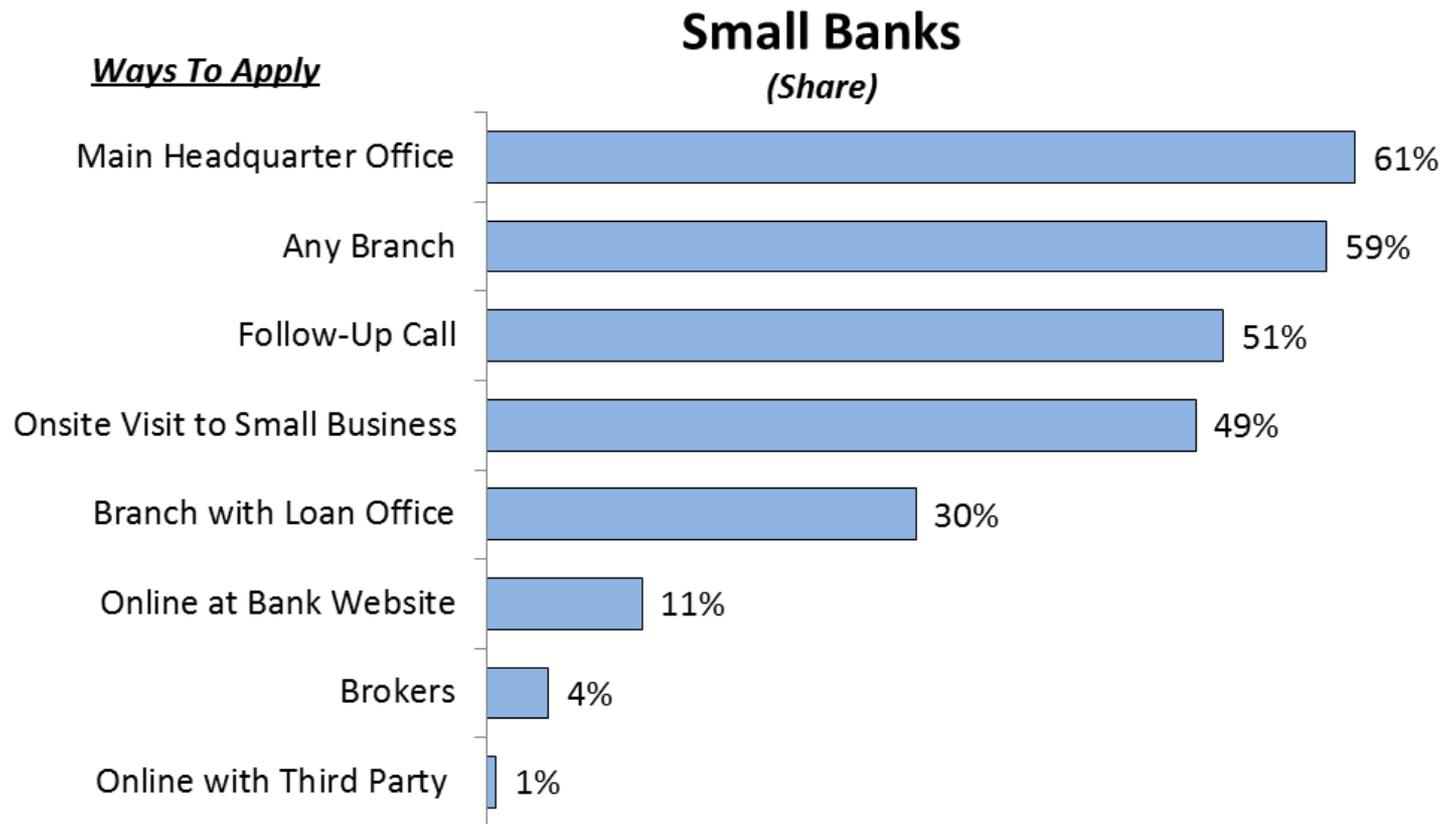


Small Banks
Share By MSA Status

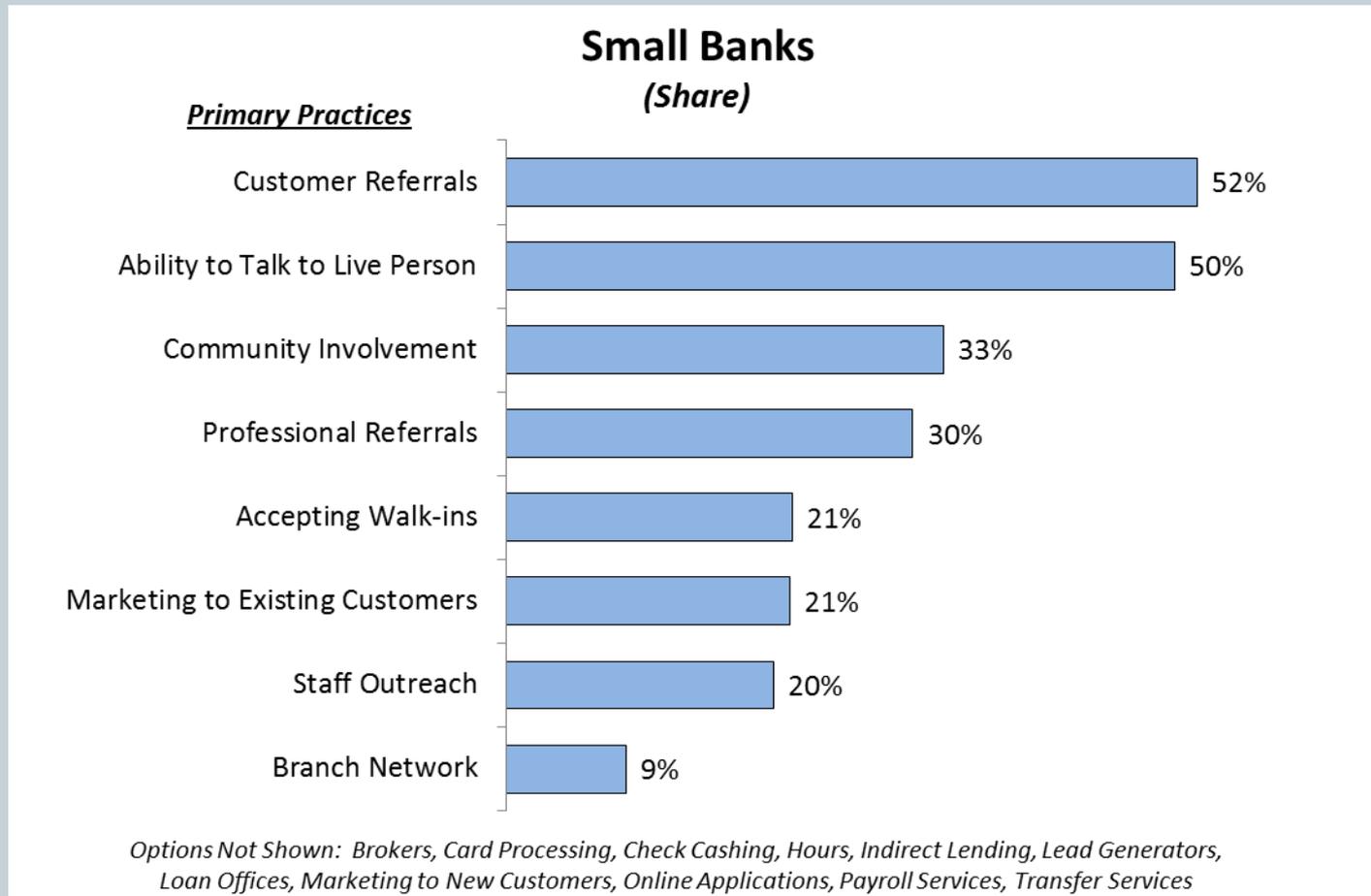


*The median Small Bank defines a startup to be a new small business **2 years of age or less***

Small Banks Primarily Accept Small Business Loan Applications at Branches and with Staff, not Online



Small Banks Generate and Maintain Relationships Through High Touch Practices



SBLS Insights

III. What Makes Small Banks Special?

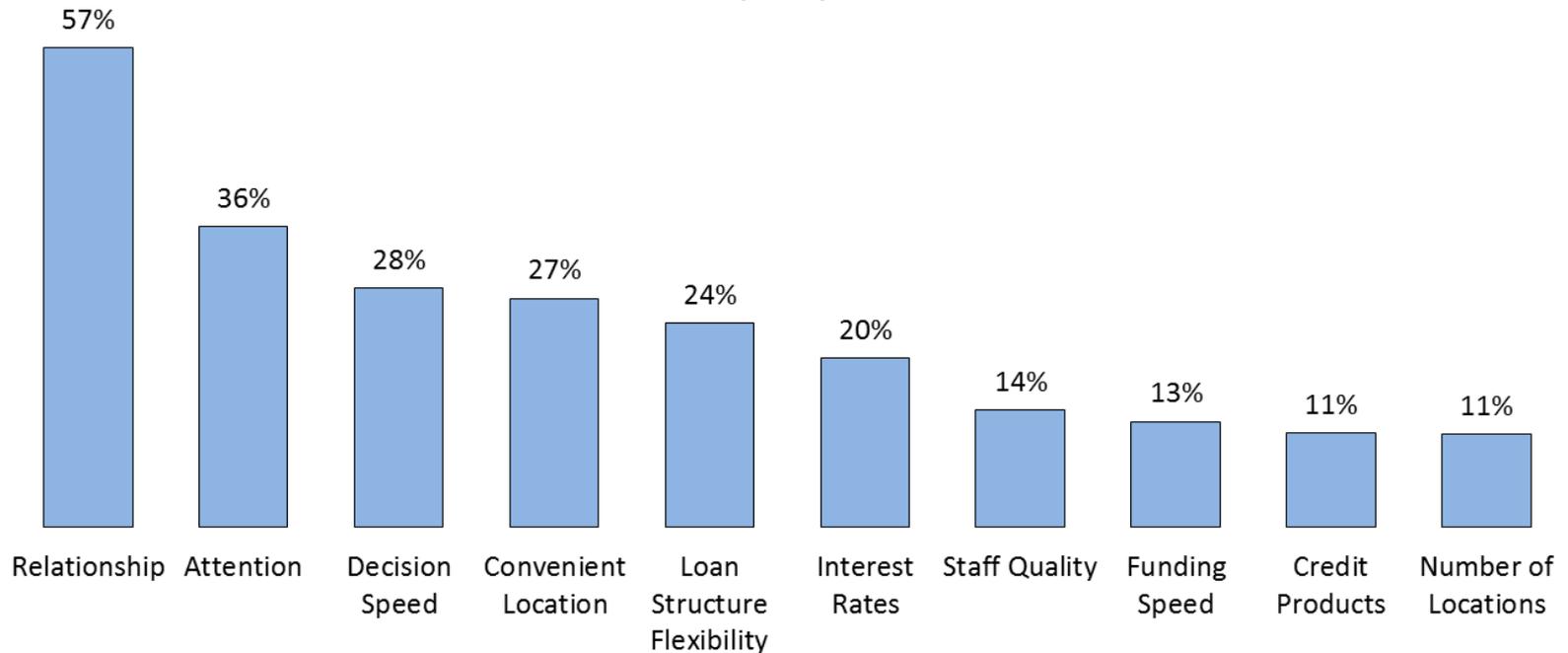
- 1. Small Banks are seen as relational, attentive, fast, and flexible*
- 2. Small Banks have distinct advantages over Large Banks, and are more able to customize*
- 3. Small Banks are major competitors for small business lending, and even Large Banks think so*

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Small Banks Say Bank Competitors <1B Compete Using Relationship, Attention & Decision Speed

Small Banks

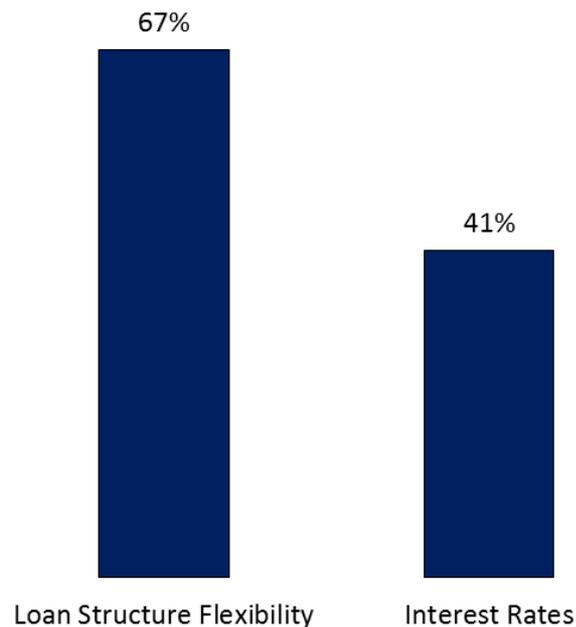
Primary Competitive Advantage of Top Competitor That is a Bank <1B
(Share)



Options Not Shown: Collateral, DSC, Fees, LTV, Mobile Banking, Remote Deposit, Term

Large Banks Say Bank Competitors 1B to <10B Compete Using Loan Structure Flexibility

Large Banks
Primary Competitive Advantage of Top Competitor That is a Bank 1B to <10B
(Share)



Options Not Shown: Attention, Collateral, Credit Products, DSC, Fees, Convenient Location, Number of Locations, LTV, Mobile Banking, Relationship, Remote Deposit, Decision Speed, Funding Speed, Staff Quality, Term

Small Banks More Likely to See Themselves Attentive, Fast, Flexible

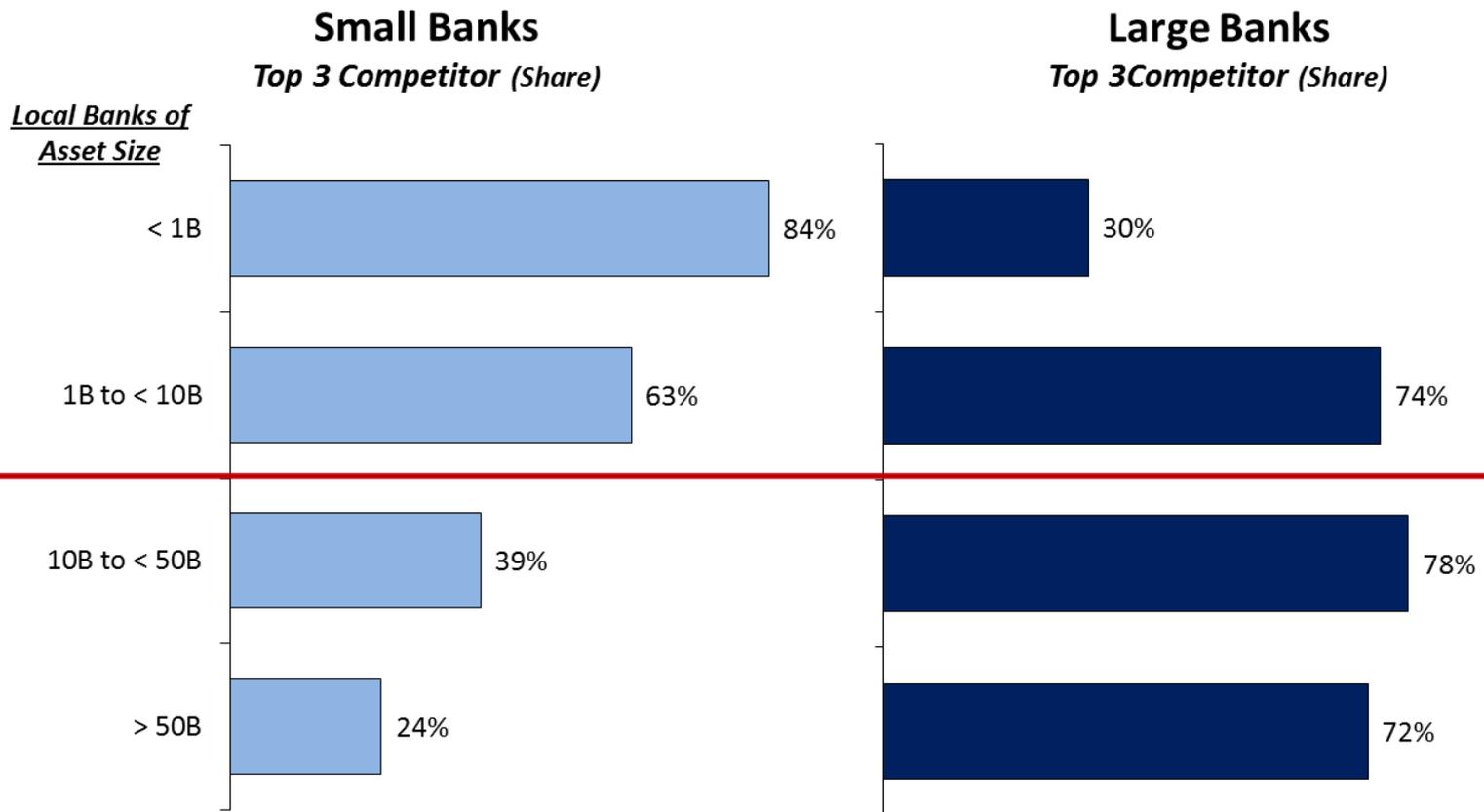
Own Primary Competitive Advantage	Small Banks	Large Banks	Who Is More Likely to Report Advantage?
Relationship	59%	57%	Same
Staff Quality	30%	33%	
Personal Attention	58%	43%	Small Banks
Decision Speed	49%	24%	
Loan Structure Flexibility	25%	20%	
Number of Locations	2%	22%	Large Banks
Credit Products Offered	8%	18%	
Convenient Locations	11%	16%	

Options not Shown: Collateral, DSC, Fees, Interest Rates, LTV, Mobile Banking, Remote Deposit, Speed, Funding Term.

Small Banks Customize Large Banks Standardize

- Small Banks are much less likely to use standardized small business loan products (9 vs 65%)
- Small Banks are much less likely to use thresholds to define small businesses (28 vs 85%)
- Small Banks are much less likely to use minimum loan amounts (15 vs 70%)

Local Small Banks are Major Competitors for Small Business Lending



SBLS Insights: Takeaways

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II. The Nature of Small Business Lending by Small Banks

- 1. Small Banks offer loan products for various purposes, focus on traditional underwriting and owner & business characteristics, and lend to startups*
- 2. Small Banks interact locally and are high touch, relying on staff intensive interpersonal engagement*

III. What Makes Small Banks Special?

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- 2. Small Banks have distinct advantages over Large Banks, and are more able to customize*
- 3. Small Banks are major competitors for small business lending, and even Large Banks think so*

2016 Small Business Lending Survey

TECHNICAL NOTES

- Data weighted to reflect bank universe
- Values are not be reported when the number of responses did not meet disclosure review thresholds for protecting respondents' identities
- Reported percentages do not necessarily add to 100 if questions allow more than one answer or if certain categorical response options do not meet the disclosure review thresholds for protecting respondents' identities

TECHNICAL NOTES

- Call Report Proxy Understatement Extrapolation for C&I Loans Collateralized by 1-4 family Residences:
 1. We first extrapolated total C&I originations in 2015 using the lower bound of the 95 percent confidence interval of the ratio of survey reported 2015 C&I originations to 2015 Q4 call report portfolio holdings.
 2. We then extrapolated the share of total C&I originations collateralized by 1-4 family residences by taking the lower bound of the 95 percent confidence interval of the survey reported 1-4 family secured C&I originations divided by total survey reported C&I originations, and applying this ratio to the extrapolated total 2015 C&I originations from (1).
 3. These extrapolations were computed separately for banks with assets less than \$250M, banks with assets between \$250M and \$1B, and banks with assets between \$1B and \$10B.

TECHNICAL NOTES

- Call Report Proxy Understatement Extrapolation for C&I Loans of >\$1M by Banks with Assets Between \$1B and \$10B:
 1. We used the lower bound of the 95 percent confidence interval of the survey estimated mean share of C&I loans of >\$1M that were made to businesses with total annual revenues of \leq \$1M
 2. We then applied the lower bound mean share calculated in (1) to the total dollar volume of C&I loans of >\$1M reported in the 2015 Q4 call report.

TECHNICAL NOTES

- Call Report Proxy Understatement Extrapolation for C&I Loans of >\$1M by Banks with Assets Less than \$1B:
 1. We used 50% as a conservative interpretation of “almost all” C&I lending to small businesses.
 2. For each bank, we computed the dollar volume of C&I loans that would constitute 50% of their total C&I loan portfolio as of 2015 Q4, and computed the amount of C&I loans of >\$1M included in the 50%. For banks whose C&I loans of <=\$1M already constitute 50% or more of their total C&I portfolio, the amount of C&I loans of >\$1M included in the 50% is \$0.
 3. We then ranked ordered the banks by the amount of C&I loans of >\$1M included in the 50%, from smallest to largest. (Where some banks will have \$0 values because already more than half of their C&I portfolio are in loans of <=\$1M.)

(continued)

TECHNICAL NOTES

- Call Report Proxy Understatement Extrapolation for C&I Loans of >\$1M by Banks with Assets Less than \$1B (cont'd):
 4. In the Survey, for banks with less than \$250M in assets, 86% report that “largely all” of their C&I lending is to small businesses. Therefore, we summed the C&I loan dollars of >\$1M included in the 50%, for the lowest 86% of these ranked banks.
 5. In the Survey, for banks with \$250M to \$1B in assets, 77% report that “largely all” of their C&I lending is to small businesses. Therefore, we summed the C&I loan dollars of >\$1M included in the 50%, for the lowest 77% of these ranked banks.