SECTION 5. Loan Products and Underwriting Practices

This section explores whether and to what extent the established view of small business lending—that small and large banks differ in their small business lending models—is supported by differences in loan products offered and approaches to underwriting. Understanding differences that may exist is a prerequisite for understanding how small businesses' access to credit may be affected as the U.S. banking industry changes. For example, knowing whether large banks base extensions of credit on quantifiable information may be particularly important to start-ups and other small businesses that lack a long track record of performance.[47] Therefore, to explore how small and large banks manage their small business lending, the survey asked about the small business loan products offered by banks and about banks' underwriting practices.

Specifically, the survey asked what loan products are offered by small and large banks; what needs these products meet; what underwriting criteria are evaluated; what collateral is accepted; for what reasons the bank is willing to make underwriting exceptions; does the bank require a minimum loan amount and use standardized loan products; and finally, does the bank lend to start-ups, and if so, does it underwrite such loans differently from loans made to established small businesses.

5.1 What Loan Products Does Your Bank Offer to Small Businesses?

The survey examines whether the different small business lending models of small and large banks as suggested by the established view result in different loan products being offered by the two sizes of banks. For example, one result of large banks' heavy reliance on quantifiable information may be that more large banks than small banks offer credit cards, which in turn could reduce the willingness of large banks to offer loans requiring greater staff input.

Specifically, the survey asked banks what commercial and industrial loan products they offered to small businesses in 2015 and which of these were their top product by loan volume.[48] The results show that there are few differences in the loan products that small and large banks offer to small businesses and that there are certain core loan products used by nearly all banks to extend such credit. The results also show, however, that the top products of small and large banks differ.

Figure 5.1, Panel A, shows that large majorities of both small and large banks are equally likely to offer the same loan products to small businesses, namely, lines of credit (94.6 percent and 97.9 percent), amortizing term loans (91.1 percent and 95.9 percent), and balloon term loans (84.5 percent and 79.0 percent). Although majorities of both small and large banks offer letters of credit, large banks are more likely to offer this product to their small business customers (73.2 percent for small banks, 87.5 percent for large banks).

As expected, the most notable difference is in the share of small and large banks that offer credit cards to small businesses. Large banks are more than three times as likely as small banks to offer credit cards (68.8 percent and 21.0 percent), a finding that is consistent with the established understanding that large banks rely more on automation and predetermined limits in their decisionmaking about small business loans. The underwriting of credit cards typically uses quantifiable information (such as credit scores), which can be evaluated quickly and does not

[47] See Berger et al., "Function Follow Form?," for example.

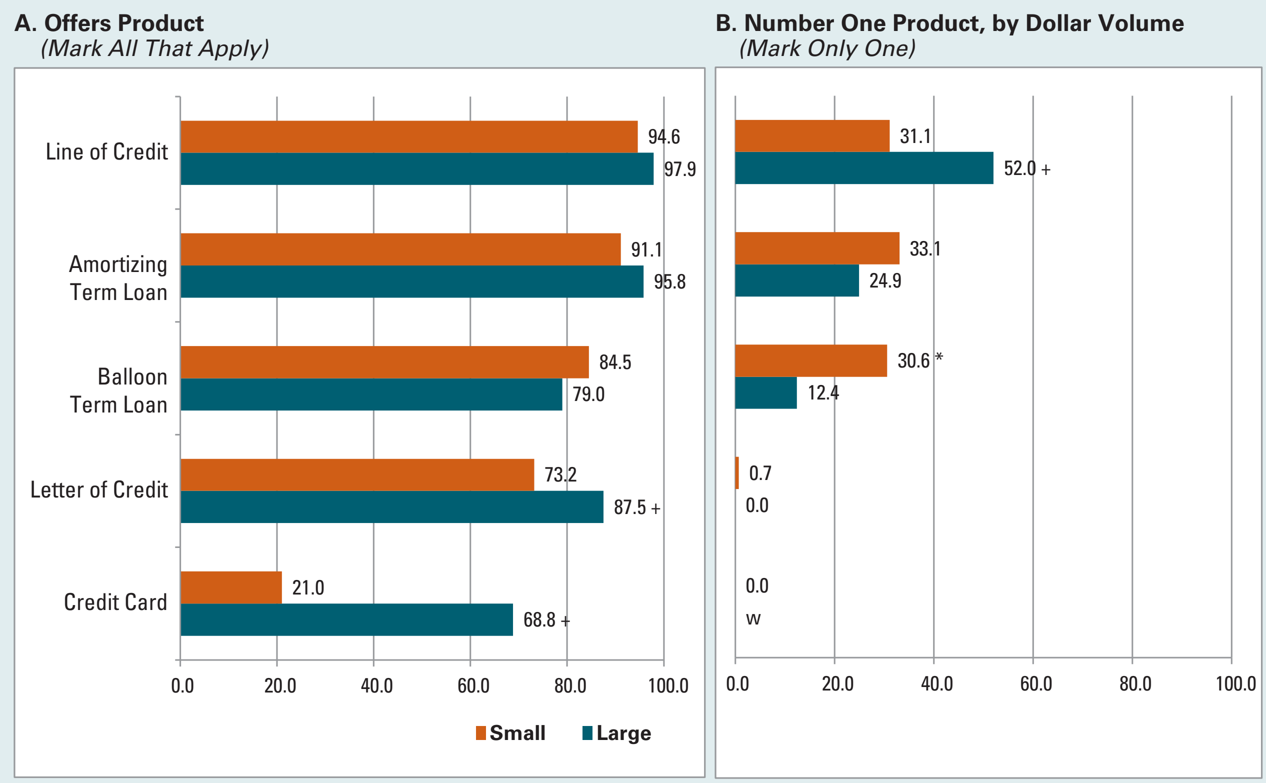
[48] A list of five products was provided; banks were also given a write-in option.

require interaction with bank staff or specialized information about the business or the local market.

In identifying their top C&I loan product to small businesses, both small and large banks cite only one of three: amortizing term loans, balloon term loans, and lines of credit. Figure 5.1, Panel B, shows that small banks are equally likely to indicate any one of the three as their number one product by volume, with about a third of small banks citing each as their top one.[49] Large banks, on the other hand, are more likely (52.0 percent) to indicate that lines of credit are their number one product by volume; amortizing term loans are a distant second (24.9 percent), and balloon term loans an even more distant third (12.4 percent). Further, lines of credit are more likely to be the top product for a larger share of large banks than small banks (52.0 percent and 31.1 percent), while balloon term loans are the top product for a larger share of small banks (30.6 percent and 12.4 percent).[50]

Overall, these results—that there are core loan products used by all banks to extend credit to small businesses but that the top products differ for the two types of banks—could imply either that the small businesses that borrow from one size bank have different needs from the small businesses that borrow from the other size bank, or that small and large banks have distinct advantages in providing

Figure 5.1: Percentage of Banks That Offer This Loan Product to Small Businesses



Source: SBLS Question 19.

Notes: Entries marked with a "w" indicate that the number of responses falls below the allowable reporting threshold for protecting respondents' identities. At the statistical significance of 10 percent, "*" denotes that small banks are more likely than large banks to offer this loan product to small businesses; "+" that large banks are more likely than small banks. In Panel A, banks may select multiple answers; results will not sum to 100.0 percent. In Panel B, banks were asked which is their number one product used by small businesses, by dollar volume of originations in 2015.

[49] The testing of differences between the shares of small banks indicating one of these three products over another as their number one loan product by volume did not reveal statistically significant differences.

[50] There is no statistically significant difference between small and large banks in their likelihood of having amortizing term loans as their top product.

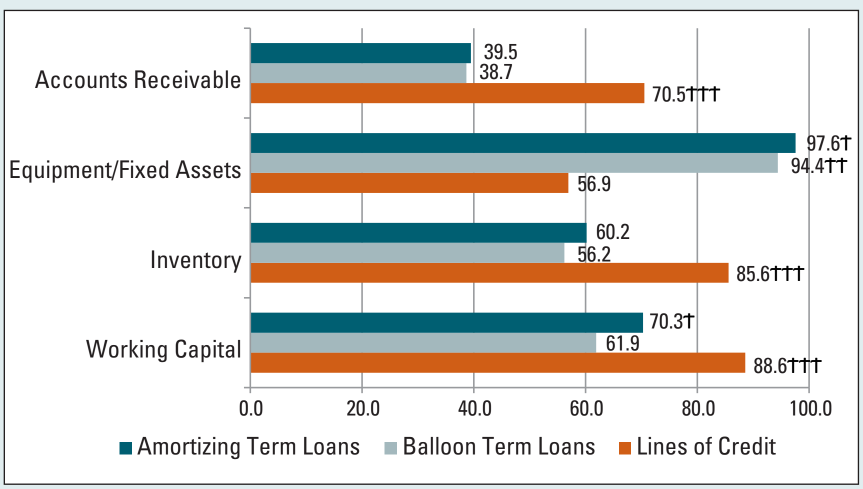
balloon term loans (small banks) or lines of credit (large banks).

5.2 For What Purposes Do Small Businesses Use These Products?

Small businesses use credit to meet different needs. Some are longer term, such as equipment purchases, and others are shorter term, such as accounts receivable, and different loan products may be better suited for one purpose over another. Thus, the survey asked about the purposes for which the top loan products are used. While there is substantial overlap in the purposes for which all types of loans are extended, the results (see Figure 5.2) show that term loans (both amortizing and balloon) are most often extended for longer-term purchases of equipment or other fixed assets and that lines of credit are most often extended for shorter-term purposes. Because the findings reveal that small and large banks generally do not differ much in the purposes for which specific loan products are extended, the results for small and large banks are combined here.

Specifically, almost all banks with amortizing or balloon term loans as their top product report that these loans are typically used to support the financing of longer-term asset purchases such as equipment (97.6 percent for amortizing term loans, 94.4 percent for balloon term loans).[51] By contrast, about half, 56.9 percent, of banks with lines of credit as their top product see these loans as financing equipment purchases. Instead, lines of credit are more often used to finance day-to-day operations, such as accounts receivable (70.5 percent), inventory (85.6 percent), and working capital (88.6 percent).[52] These shares are between 18 and 30 percentage points higher than for banks whose top product is either of the two types of term loans. While small sample sizes prohibit detailed comparisons between small and large banks split by top loan product for term loans, an analysis

Figure 5.2: Percentage of Banks That Cite This as the Purpose for Which Their Number One Loan Product to Small Businesses Was Used
(All Banks Combined)



Source: SBLS Question 22C.

Notes: At the statistical significance of 10 percent, "†" denotes that amortizing term loans are more likely than balloon term loans and lines of credit to be used to purchase equipment/fixed assets, and more likely than balloon term loans to be used for working capital; "††" that balloon term loans are more likely than lines of credit to be used to purchase equipment/fixed assets; "†††" that lines of credit are more likely than amortizing and balloon term loans to be used for accounts receivable, inventory, and working capital. Banks may select multiple answers; results will not sum to 100.0 percent.

51 Statistically, the share of banks that report financing equipment/fixed assets with amortizing term loans is significantly higher than the share of banks that report any of the other three loan purposes, tested separately. This is true for both small banks and large banks. The number of large banks with balloon term loans as their top product fell below the threshold for protecting respondents' identities, and therefore the difference between small and large banks could not be tested.

52 When lines of credit are a bank's number one product, there are statistically significant differences among loan purposes except between working capital and inventory.

(not shown) of the loan purposes for lines of credit shows that both small and large banks are more likely to use lines of credit for shorter-term purposes.

These results, coupled with the tendency of large banks to extend lines of credit more often than small banks do, suggest that small banks may play a larger role in financing long-term investments by small businesses. It is therefore possible that the continuing shift from small banks to large banks could pose problems for small businesses that are attempting to grow.

5.3 Which Underwriting Criteria Are Used by Your Bank to Evaluate Small Business Borrowers?

The survey investigates differences in the underwriting criteria used by small and large banks because the established view implies separate approaches to small business lending. And differences in criteria may produce differences in access to loans. For example, if large banks satisfy their evaluation criteria by requiring standard information, some small businesses may find it harder than others to provide such information. Specifically, the survey asked banks to indicate how often they use specific underwriting criteria to evaluate small businesses for their top loan product.[53]

The results show that banks of all sizes assess a wide variety of underwriting criteria in evaluating small businesses for loans, and the set of criteria does not typically differ by bank size. Figure 5.3 shows that, for 11 of the 14 possible criteria provided by the survey, large majorities of both small and large banks "always" or "almost always" evaluate each criterion. The findings suggest that banks of all sizes use most of the quantifiable information available to them to evaluate the creditworthiness of their small business applicants.

However, some differences between small and large banks exist. Small banks are statistically more likely than large banks to evaluate traditional loan and owner characteristics, namely, loan debt-service coverage (95.7 percent and 78.5 percent), loan-to-value (95.0 percent and 74.3 percent), owner net worth (93.2 percent and 82.9 percent), and owner debt-to-worth (70.0 percent and 57.5 percent). Large banks are more likely than small banks to evaluate personal guarantees (95.7 percent and 86.2 percent), owner credit score (91.6 percent and 79.2 percent), and business age (87.4 percent and 71.3 percent). The largest difference between small and large banks is in the use of business credit score. Whereas 64.1 percent of large banks indicate that they always or almost always evaluate business credit score, only 14.8 percent of small banks do. Further, business credit score is the criterion least often cited by small banks. Overall, these differences suggest that firms whose owners have a lower credit score and fewer outside resources, and firms that are younger, may be more likely to obtain funding at a small bank.

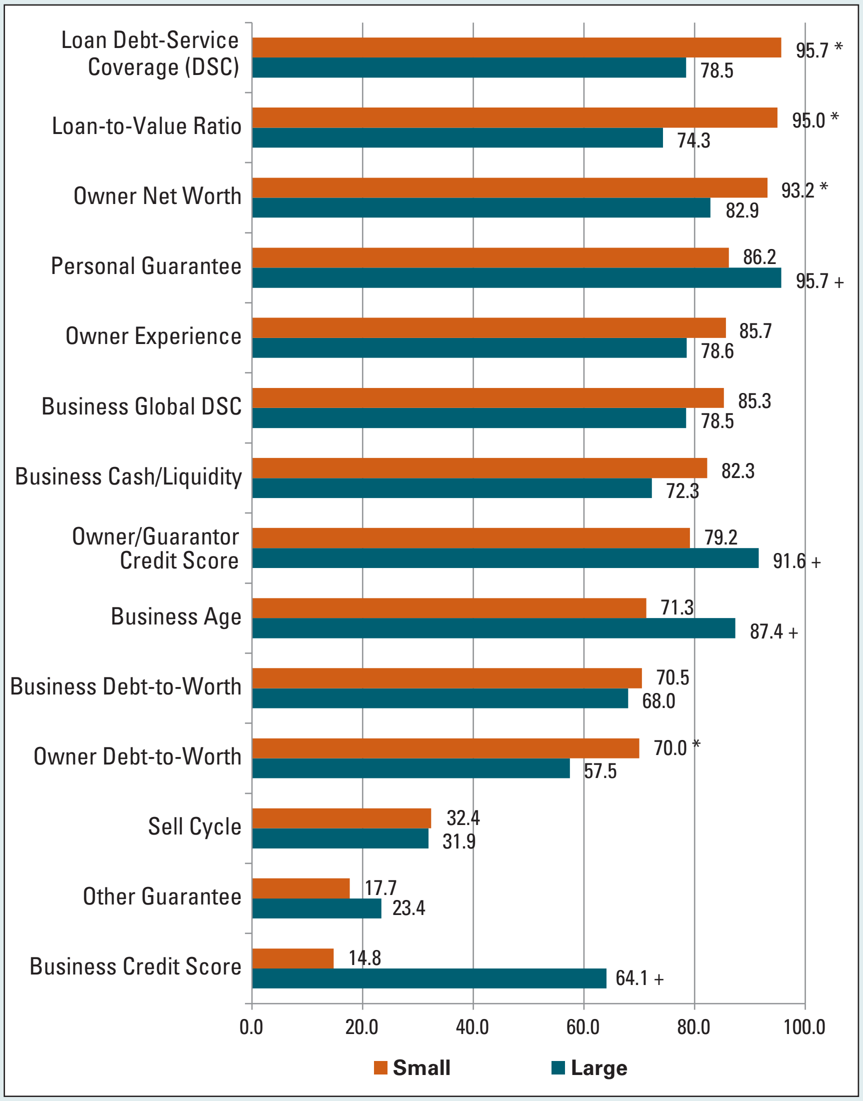
5.4 What Collateral Does Your Bank Accept from Small Businesses?

Another aspect of underwriting that may reflect the distinct approaches of small and large banks to small business lending is the collateral accepted. For example, the standardized approach of large banks may make them reluctant to lend against collateral whose value is not easily established or that is not easily sold. Differences, if any, in the types of collateral typically accepted will bear on the question of whether, as the local composition of banks changes, certain types of firms will have more trouble securing a small business loan. Thus, the survey asked banks to describe what collateral they commonly accept—or to indicate if they commonly accept no collateral—for their top loan product.[54]

[53] The survey asked whether the underwriting criteria they use are the same across the types of products they offer, even if the limits for approval are different. Majorities of both small and large banks (91.1 percent and 66.5 percent) say they use the same underwriting criteria across loan products. Since the same criteria are used across products, the discussion here of underwriting criteria combines answers across the three top loan products. Note, however, that although majorities of both small banks and large banks say they use the same underwriting criteria across products, the proportion of large banks doing so is considerably smaller than the proportion of small banks—a result implying that large banks are more likely to use different standards by product.

[54] Banks were offered eight collateral options, and were also given a write-in option.

Figure 5.3: Percentage of Banks That "Always" or "Almost Always" Use This Underwriting Criterion to Evaluate Small Business Loan Applicants for Their Number One Loan Product to Small Businesses



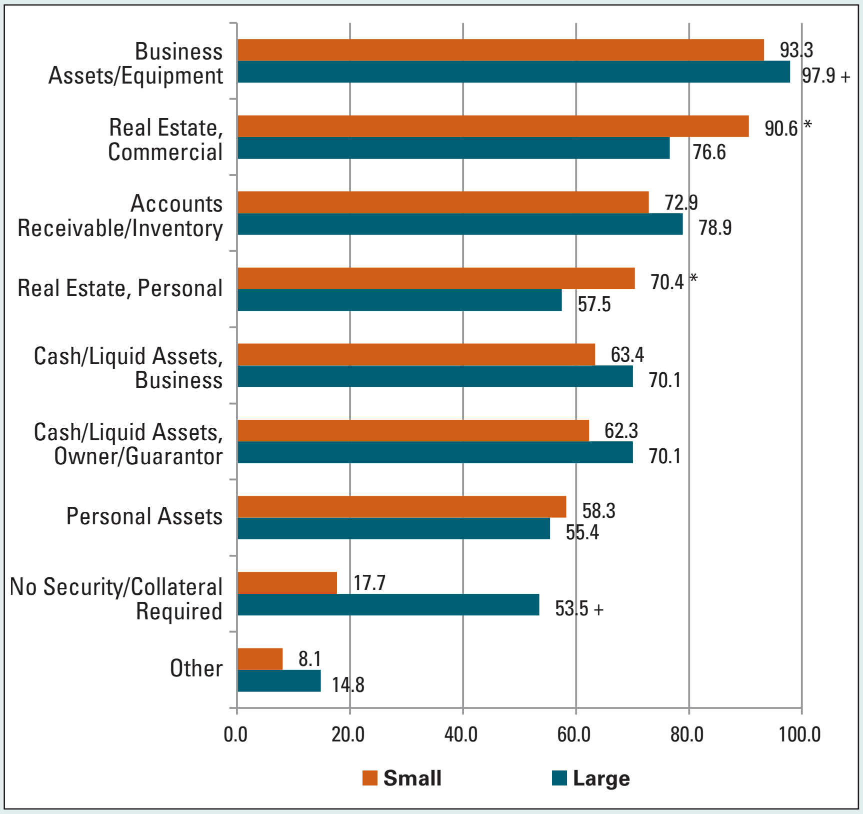
Source: SBLS Question 22E.

Notes: At the statistical significance of 10 percent, "*" denotes that small banks are more likely than large banks to "always" or "almost always" use this underwriting criterion to evaluate loan applicants for their number one loan product to small businesses; "+" that large banks are more likely than small banks. Banks may select multiple answers; results will not sum to 100.0 percent.

The results, which are reported in Figure 5.4, show that majorities of both small and large banks accept nearly all types of collateral. However, there are a few small statistical differences. Large banks are slightly more likely than small banks to accept business assets (97.9 percent and 93.3 percent). Small banks are more likely than large banks to accept real estate collateral, both commercial real estate (90.6 percent and 76.6 percent) and personal real estate (70.4 percent and 57.5 percent). The widespread acceptance of real estate–related collateral and the "localness" of small banks' small business borrowers (discussed in Section 3) reinforce the notion that small banks are tied to the outcomes of their local communities.

There is also one large difference: large banks are three times as likely as small banks to commonly accept no collateral for their small business loans (53.5 percent and 17.7 percent). This result is consistent with the expectation that small banks rely more heavily on collateral to mitigate the risk of lending to small businesses, since large banks are better able to mitigate risks by lending in multiple markets and making a high volume of loans. This result is also consistent with findings that large

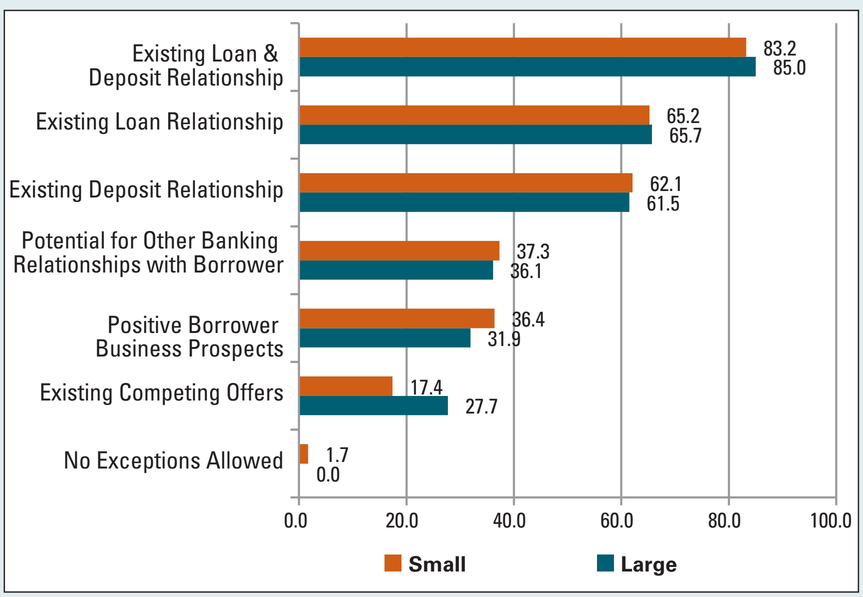
Figure 5.4: Percentage of Banks That Commonly Accept This Collateral for Their Number One Loan Product to Small Businesses



Source: SBLS Question 22D.

Notes: At the statistical significance of 10 percent, "*" denotes that small banks are more likely than large banks to commonly accept this collateral for their number one loan product to small businesses; "+" that large banks are more likely than small banks. Banks may select multiple answers; results will not sum to 100.0 percent.

Figure 5.5: Percentage of Banks That Cite This as a Typical Reason to Make Exceptions to Loan Policy for Their Number One Loan Product to Small Businesses



Source: SBLS Question 22F.

Notes: At the statistical significance of 10 percent, "*" denotes that small banks are more likely than large banks to cite this as a typical reason to make exceptions to loan policy for their number one loan product to small businesses; "+" that large banks are more likely than small banks. Banks may select multiple answers; results will not sum to 100.0 percent.

banks are more likely to lend to large, mature firms, which typically have more established credit records.[55]

5.5 When Is Your Bank Willing to Make an Underwriting Exception for a Small Business?

Under certain circumstances, banks may be willing to make exceptions to their internal underwriting policy. The use of exceptions, therefore, is another area in which small and large banks may have distinct approaches to small business lending. Small banks collect nonstandard data while regularly interacting with small firms, and this "soft" information may be used to grant exceptions to underwriting policy. In contrast, large banks' reliance on standard information and predetermined thresholds makes it hard to predict a basis on which exceptions would be made. Thus, the survey asked banks to cite the circumstances under which they are willing to deviate from their usual underwriting practices.[56] Perhaps surprisingly, both small and large banks reported that exceptions to underwriting policy are most likely considered because of a previous relationship with the small business borrower. Further, the results show that small and large banks have statistically equal percentages for each of the reasons for allowing exceptions to underwriting policy.

Figure 5.5 shows that large majorities of both small banks (83.2 percent) and large banks (85.0 percent) say that a combined existing loan and deposit relationship is a reason to make an exception to underwriting policy. In addition, about two-thirds of both small and large banks say that an existing loan relationship (65.2 percent and 65.7 percent) or an existing deposit relationship (62.1 percent and 61.5 percent) alone is a reason to make an exception. These findings, while consistent with the expectations for small banks, are somewhat unexpected for large banks.[57] Nonetheless, they suggest that maintaining relationships in conducting small business lending is important to both small and large banks.

About one-third each of small and large banks also consider potential for other banking relationships with borrower (37.3 percent and 36.1 percent) and positive business prospects for the borrower (36.4 percent and 31.9 percent) as reasons for underwriting exceptions, and smaller shares take into account existing competing offers (17.4 percent and 27.7 percent).

5.6 Does Your Bank Require Minimum Loan Amounts and Use Standardized Loan Products?

An important potential difference between small and large banks stemming from their distinct approaches is the way they manage loan requests from small businesses, and specifically whether they apply preset criteria. Two common preset criteria are a required minimum loan amount and the use of standardized loan products. Small banks' use of nonstandard information may lead to greater flexibility and willingness to customize loans according to the individual needs of a small business. Large banks' use of predominantly standard data may enable a high-volume, economies-of-scale model, with the fixed administrative costs of underwriting covered by the use of a required minimum loan amount or minimized by the use of standardized products that have a preset structure and preset offered terms. Therefore, the survey explores differences between small and large banks in the use of loan amount floors and standardized small business loan products.[58] The results show that large banks are indeed more likely to use both.

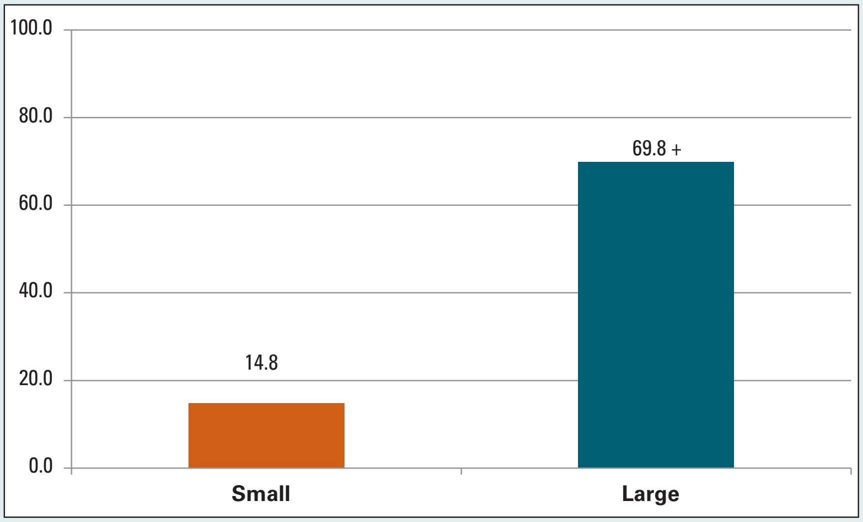
[55] See, for example, Haynes, Ou, and Berney, "Small Business Borrowing," or Berger et al., "Function Follow Form?"

[56] Banks were provided with a list of eight possible options, and were also given a write-in option. Although large majorities of both small and large banks reported "Strong Mitigating Factors," the option is dropped in this discussion because it was subsequently deemed to include almost all the other options.

[57] Note, however, that the survey asked about reasons for exceptions rather than the frequency with which banks make exceptions.

[58] Standardized loan products are ones in which the terms of the loans are preset and the criteria for suitability and approval are easily measurable and predetermined.

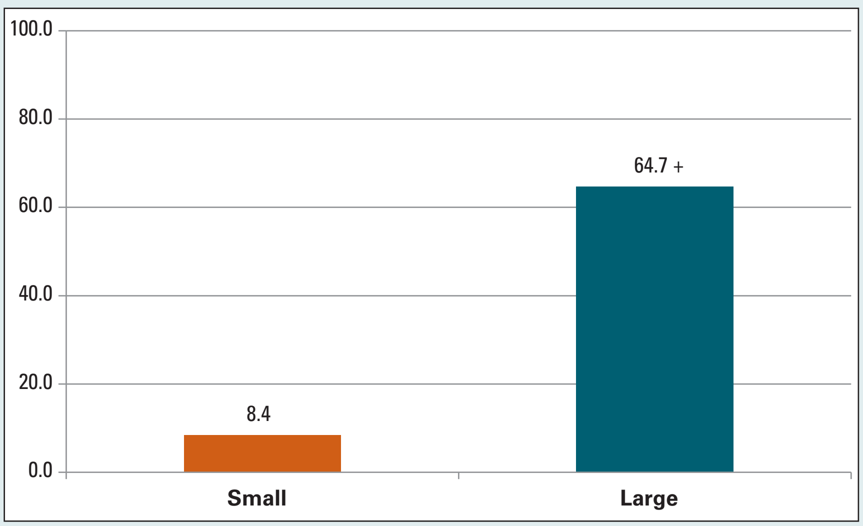
Figure 5.6: Percentage of Banks That Require a Minimum Loan Amount for Their Number One Loan Product to Small Businesses



Source: SBLS Question 22B.

Notes: At the statistical significance of 10 percent, "+" denotes that large banks are more likely than small banks to require a minimum loan amount for their number one loan product to small businesses.

Figure 5.7: Percentage of Banks That Use Standardized Small Business Loan Products



Source: SBLS Question 5.

Notes: At the statistical significance of 10 percent, "+" denotes that large banks are more likely than small banks to use standardized small business loan products.

Figure 5.6 shows the share of banks that require a minimum loan amount for their top loan product to small businesses. Only a small share (14.8 percent) of small banks require a minimum loan amount for their top loan product to small businesses, compared with a majority (69.8 percent) of large banks. This finding suggests that a small business needs to request a loan of a certain size at most large banks before the bank is willing to consider making a loan. The findings also support the view that small banks remain flexible when evaluating a potential small business borrower.

Figure 5.7 shows the share of banks that use standardized loan products. As expected, a majority of large banks (64.7 percent) use such products. While only a modest share (8.4 percent) of small banks use standardized products, within the group of small banks as a whole there are differences by size. In fact, the likelihood of using standardized loan products grows with size. Only 3.8 percent of banks with less than $250 million in assets use standardized loan products (not shown), but 11.6 percent of banks with assets between $250 million to $1 billion do, and

27.3 percent of banks with assets between $1 billion and $10 billion do as well.[59] The advantages to small businesses from using standardized loan products are that the underwriting can be quicker to process and the products can offer more competitive interest rates. The disadvantages are that only a subset of small businesses may be able to satisfy the standard criteria required to qualify for them, and the small businesses seeking the loans may prefer loan terms different from the ones offered.

5.7 Does Your Bank Lend to Start-Ups, and if so, Do You Underwrite the Loans Differently from Loans for Established Small Businesses?

New small businesses—start-ups—are central to the concern about whether small and large banks' distinct approaches to small business lending produce differences in access to small business loans. When start-ups survive, they create more net jobs in the United States than businesses of any other age group, and start-ups have higher rates of employment growth and productivity growth than older firms. The likelihood of their survival increases with their access to credit.[60] Yet start-ups lack much of the standardized information used to underwrite loans, and therefore the nonstandard information used by small banks may be especially important for new firms' access to bank credit. As noted above, several studies conclude that large banks are less likely than small banks to lend to small, young firms, and more likely to lend to large, mature firms.[61] To address the issue of how the growth in large banks' share of bank assets might affect start-ups' ability to access financing, the survey asked banks about their underwriting practices for loans to new small businesses.

Most banks define start-ups as younger than two years,[62] and the survey finds that most banks make loans to start-ups. Figure 5.8 shows that 79 percent of small banks and 73.2 percent of large banks make such loans. The statistically equal likelihood of small and large banks lending to start-ups is somewhat surprising, given the advantages that small banks are thought to have in using nonstandard information to overcome the data constraints of new businesses. However, a reported willingness to lend does not necessarily indicate the level of actual lending to start-ups.

To minimize the risk associated with lending to an untested new business, banks may require start-ups to meet additional underwriting criteria, and this requirement, in turn, may create substantial barriers to actually obtaining a loan. Thus, the survey asked banks an open-ended question to describe any differences between the underwriting criteria used for start-ups and those used for established small businesses.

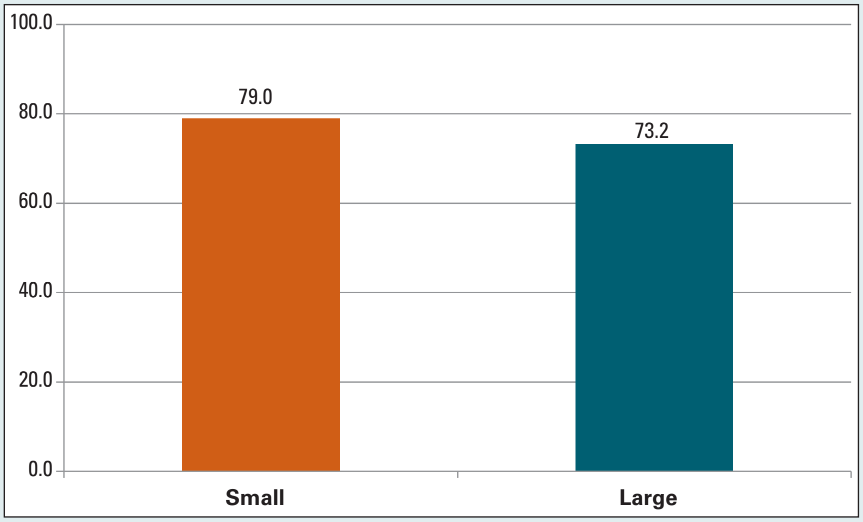
59 These differences are statistically significant.

60 On net job creation, see Tim J. Kane, "The Importance of Startups in Job Creation and Job Destruction," Kauffman Foundation Research Series, Firm Formation and Economic Growth, July 2010, http://dx.doi.org/10.2139/ssrn.1646934. On employment growth, see John Haltiwanger, Ron S. Jarmin, and Javier Miranda, "Who Creates Jobs? Small versus Large versus Young," *Review of Economic and Statistics* 95, no. 2 (2013): 347–61, https://doi.org/10.1162/REST_a_00288. On productivity growth, see Alon et al., "Older and Slower." On the relationship between survival and access to credit, see Alicia M. Robb and David Robinson, "The Capital Structure Decision of New Firms," *Review of Financial Studies* 27, no. 1 (2014): 153–79; Jeongsik J. Lee and Wei Zhang, "Financial Capital and Startup Survival," *Academy of Management Proceedings* 2011, no. 1 (2017), https://doi.org/10.5465/ambpp.2011.65869494; Traci Mach and John D. Wolken, "Examining the Impact of Credit Access on Small Firm Survivability," Federal Reserve Board, Finance and Economics Discussion Series, Working Paper No. 35 (2011), http://dx.doi.org/10.2139/ssrn.1956696; and Rebel A. Cole and Tatyana Sokolyk, "How Do Firms Choose Legal Form of Organization? Evidence from the Kauffman Firm Surveys," Working Paper (July 16, 2018), https://ssrn.com/abstract=2028176.

61 Again, see, for example, Haynes, Ou, and Berney, "Small Business Borrowing," or Berger et al., "Function Follow Form?"

62 The survey finds that the median age under which both small and large banks state they define a start-up is two years. The mean age is also two years. However, small banks have slightly more variance across quartiles. Whereas large banks at the 25th and 75th percentile consider businesses under two years of age to be a start-up, small banks at the 25th percentile consider businesses under one year of age to be a start-up, and those at the 75th percentile consider businesses under three years of age to be a start-up. (See SBLS Question 21a.)

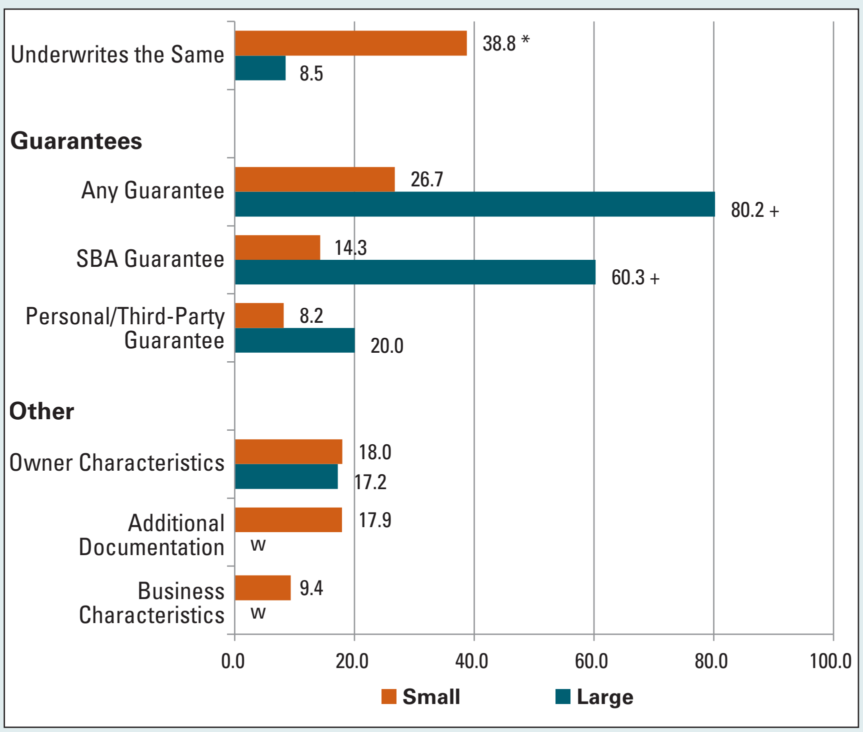
Figure 5.8: Percentage of Banks That Make C&I Loans to Start-Up Small Businesses



Source: SBLS Question 21C.

Notes: At the statistical significance of 10 percent, small and large banks are equally likely to make C&I loans to start-up small businesses.

Figure 5.9: Percentage of Banks That Underwrite Start-Up Small Businesses Differently from Established Small Businesses, Using a Practice in This Category



Source: SBLS Questions 21C1 and 21C1a.

Notes: Entries marked with a "w" indicate that the number of responses falls below the allowable reporting threshold for protecting respondents' identities. At the statistical significance of 10 percent, "*" denotes that small banks are more likely than large banks to underwrite start-up small businesses differently from established small businesses using this practice; "+" that large banks are more likely than small banks. Underwriting categories aggregate individual bank responses to an open-ended question; results will not sum to 100.0 percent. Although banks were asked this question only if they had responded "yes" to whether they underwrite start-up small businesses differently from established small businesses, the numbers reported in the figure show percentage shares for all banks.

Most banks underwrite loans to start-ups differently from how they underwrite other small business loans, but large banks are much more likely to do so than small banks. Figure 5.9 shows that less than 10 percent of large banks report using the same underwriting procedures for start-ups as for established small businesses, whereas a substantial share of small banks use the same procedures (38.8 percent).

Large banks are also much more likely than small banks to mention looking for guarantees as part of their additional underwriting process for start-ups. More than 80 percent of large banks say they explore *some* form of additional guarantee, including Small Business Administration (SBA) guarantees, compared with only 26.7 percent of small banks. Large banks show particular interest in SBA support, with 60.3 percent mentioning these programs as an additional criterion, compared with only 14.3 percent of small banks.

In contrast, small banks describe using more diverse and generally "softer" additional criteria for underwriting start-ups. These include requiring additional documentation such as business plans (17.9 percent), or looking at business characteristics such as the start-up's industry or the quality of its management (9.4 percent).[63] Whereas small and large banks are equally likely (18.0 percent and 17.2 percent) to describe aspects of owner characteristics in their additional criteria, small banks use a greater variety of terms in this category, such as education, training, or personal credit history.[64] These differences between small and large banks suggest that small banks are more flexible in underwriting start-up loans.

5.8 Conclusions

This section investigates whether small and large banks differ in how they conduct their small business lending, and if they do differ, whether some small businesses are potentially better served by small banks. Inasmuch as some small banks have been shown to use a wider range of information to underwrite loans, one would expect that start-ups and less established small businesses are more likely to gain access to credit from these small banks. Although the survey results show differences between small and large banks that suggest the possibility that less established small businesses may benefit more from the approach used by small banks, the results also indicate a high degree of commonality between the approaches taken by the two sizes of banks.

The survey supports the understanding that small banks are relationship lenders and approach small business lending in a more flexible and customized, case-by-case way compared with large banks; and a result of this approach may be that less established firms are more likely to receive credit. Small banks are found less likely than large banks to use minimum loan amounts on their top products or to rely on standardized loan products. And small banks are more likely than large banks to accept real estate collateral, a practice that is consistent with small banks' having a more intimate knowledge of their local communities. Further, small banks often lend to start-ups using the same underwriting criteria they use for established small businesses; alternatively, they often evaluate a wide set of additional information, including relationship-based soft information such as owner's experience or the management team's skills.

The survey also supports the understanding that large banks are transactional lenders and rely on standardization in their small business lending decisionmaking, thus facilitating a high-volume, economies-of-scale business model and perhaps screening for more established firms—the ones most likely to meet the standards and to have the quantifiable data to show that they do. Large banks are much more likely than small banks to evaluate business credit score, require minimum loan amounts, and use such standardized loan products as credit cards. Further, when large banks do lend to start-ups, the criteria they use are almost always different from the criteria they use for established small businesses, particularly with respect to requests for outside guarantees.

Yet, despite the findings suggesting that small and large banks use distinct models for small business lending, there are also notable areas of commonality. The most surprising commonality is that for both sizes of banks, existing relationships are a

63 However, the significance of the difference between the shares of small and large banks that consider additional documentation or business characteristics cannot be reported, because the number of large banks doing so falls below the threshold for protecting respondents' identities.

64 This diversity mirrors the varied ways in which small banks describe their small business borrowers (as discussed in Section 2), and may reflect how small banks are more attuned to the local economic environment or to the individual borrower.

dominant reason for allowing exceptions to loan policy. In addition, small and large banks generally offer the same types of loan products, use similar underwriting criteria to evaluate small business borrowers, and accept the same collateral, with a few exceptions. Thus, although small and large banks may approach small business lending using distinct business models, as seen in Section 4 and as shown here, the process appears to involve many common elements and be somewhat relational in nature for both small and large banks.