The Small Business Lending Problem

New Study Examines Impediments and Incentives in Small Business Lending

Washington DC- Facing unemployment at 9.5 percent, and poor private sector job increases in July, a timely report by the National Community Reinvestment Coalition (NCRC), Does CRA Small Business Lending Increase Employment: An Examination on a County Level, examines successful incentives and impediments to small business lending. The study suggests that banks were encouraged by the Community Reinvestment Act to increase lending to small businesses, driving job creation. The study also reveals racial inequalities: minority communities receive less small business lending even when controlling for median incomes.

“While Wall Street returns to record bonuses and growing profits, aided by a taxpayer bailout, too little has been done to bring down a shameful 9.5% unemployment rate and spur private sector hiring. It is essential that the Senate passes the Small Business Lending Fund Act of 2010 this week; the $30 billion fund will go a long way to spur small business lending. But a fund is not the only thing needed: we need to root out impediments to small business lending, and find ways to put capital to work serving small businesses,” said John Taylor, president and CEO of NCRC.

“Our study shows that the Community Reinvestment Act encourages small business lending that fuels job creation. While the Senate Bill requires banks to submit a plan outlining how they will lend to small businesses in their communities, it does not set goals for lending to the fastest growing business communities, including women and minority-owned businesses. Also, the plan to reach borrowers should be publicly available, not confidential only for review by the bank’s regulator as specified in the bill,” said Taylor.

The NCRC study looked at 2006 lending data. The findings are also consistent with a Department of Commerce study released in January of this year titled: “Disparities in Capital Access between Minority and Non-Minority-Owned Businesses,” which concluded that minority-owned firms are less likely to receive loans than non-minority firms.

Some of the specific findings in NCRC’s study include:

- There is a positive correlation between small business lending and employment; the more small business lending in a county, the higher the employment rate.
• Almost 55 percent of the small businesses received loans in counties with less than 20 percent African Americans but that this ratio declined to 48 percent in counties with 30 percent or more African Americans, on average.

• Employment rates are lower in counties with higher percentages of minorities and African Americans. The average employment rate is 2 percentage points higher for counties with less than 20 percent African Americans than in counties with more than 30 percent African Americans.

The full study can be downloaded here.

The NCRC study suggests that legislative and regulatory strengthening of CRA will increase responsible small business lending and job growth. CRA expansion is deficit neutral because it leverages private commitments. CRA should also explicitly evaluate lending and services to minority communities since our findings reveal less access to small business loans in minority communities (currently CRA exams evaluate lending to low- and moderate-income communities but not minority communities). A provision in the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed into law last week by the President, requires publicly available data on the race and gender of small business borrowers which will allow greater transparency in the small business lending marketplace.

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