Dis-Credited:
Disparate Access to Credit for Businesses in the Chicago Six County Region

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About the Author

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Executive Summary

This report examines geographic patterns of access to bank capital for businesses in the Chicago six county region, with a focus on smaller loans and other types of credit, amounts under $1 million, that are more likely to benefit smaller, local businesses that create economic opportunity within neighborhoods. For small neighborhood businesses to grow, they need to be able to access capital, and one common source of capital for small businesses are loans, lines of credit, and business credit cards (collectively, “small loans”) issued by banks and other financial institutions.

Data from all regulated financial institutions shows the impact of the Great Recession on the availability of credit. Lending to businesses declined by 4.8 percent nationally between 2008 and 2011. The dollar volume of small loans to businesses declined even more sharply than lending to businesses generally, down about 14.6 percent nationally between 2008 and 2011. Data from large banks, with assets over about $1 billion, showed an even more drastic decline, with the dollar volume of small loans from those banks down 39.2 percent between 2008 and 2010. In the Chicago region, the dollar volume of small loans from large banks declined 33.2 percent over that same period.

Analyzing the data from large banks by the income level and racial/ethnic characteristics of the neighborhoods shows clear disparities in both the number and dollar volume of loans to businesses. The analysis shows that:

- **The lower the income level of the tract, the less likely businesses were to receive loans.** Businesses in low-income Census tracts were less than half as likely, and businesses in moderate-income tracts were less than two-thirds as likely, to have received loans as the average for all businesses. Had loans in the Chicago region been made in proportion to the percentage of businesses in the tract, businesses in low-income tracts would have received over 21,900 more loans totaling over $817 million more than they actually received between 2008 and 2012.
- **The higher the percentage of minority residents in the tract, the less likely businesses were to receive loans.** In the Chicago region, businesses in tracts that were 80 percent or more minority constituted 8.0 percent of businesses, but they received only 3.8 percent of loans by both number and dollar volume. Had loans in the Chicago region been made in proportion to the percentage of active businesses in the tract, businesses in tracts that are 80 percent or more minority would have received over 34,800 more loans totaling nearly $1.5 billion more than they actually received between 2008 and 2012.
- **In the Chicago region, businesses in lower-income tracts were less likely to receive loans than businesses in higher-income tracts, regardless of whether the tract is majority white or majority minority.** Only about two in seven businesses in low-income, majority minority tracts received loans, compared with nearly three in five businesses in upper-income, majority minority tracts. About two in five businesses in low-income majority white tracts received loans, compared with three in four businesses in upper-income majority white tracts.
- **In the Chicago region, businesses in majority white tracts were more likely to receive loans than businesses in majority minority tracts of the same income level.** Businesses in majority white tracts in all four income levels were more likely to have

received loans than businesses in majority minority tracts within the same income level. Only about one in three businesses in moderate-income, majority minority tracts received loans, compared with nearly half of businesses in moderate-income, majority white tracts.

The report concludes with policy recommendations to address the disparities in the pattern of small loans to businesses and for improved data to allow more conclusive analysis of whether banks are meeting the business credit needs of the communities in which they operate.

- Examiners of bank performance under the Community Reinvestment Act (CRA) should analyze lending performance in low- and moderate-income tracts more stringently to provide banks more incentive to meet business credit needs.
- Local governments should use responsible banking ordinances that link government bank deposits to community reinvestment performance to encourage banks to make more small loans to businesses in low- and moderate-income neighborhoods.
- Congress should increase funding for Community Development Financial Institutions and the New Markets Tax Credit program.
- Prudential regulators should expand business loan data reported under CRA to include all loan applications, the amount requested, action on the application, and the amount originated to more accurately show the level of demand and how well CRA-reporting institutions are meeting the demand.
- The Consumer Financial Protection Bureau should require reporting of detailed business lending data under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and expand the number of reporting institutions to include lenders with assets below $1 billion.

Introduction

Small, local businesses create economic opportunity within neighborhoods. Local businesses can increase local employment opportunities, and that can, in turn, lead to higher levels of income growth within the neighborhood. Local businesses can also provide residents with a means of wealth building: entrepreneurship. Proponents of government support for small businesses have contended that ". . . small business ownership provides an opportunity for minorities, women, and immigrants to increase their income and independence and to move into the economic mainstream of the American economy."[1]

For small neighborhood businesses to grow, they need to access capital. Some business owners have personal assets, such as home equity or investments, or personal lines of credit that they can tap to meet the needs of their businesses. Those personal sources of capital, however, may not be as available to people in low- and moderate-income neighborhoods or communities of color because they are less likely to have significant equity in their homes or other assets that can be used to support a business. The downturn in the housing market and lack of recovery in some lower-income neighborhoods and communities of color have exacerbated the situation by leaving many homeowners underwater, with negative equity in their homes, [2] depriving them of the equity they may have accumulated before the crash that could have been used to support a business.

Apart from personal wealth, common sources of capital for small businesses are loans, lines of credit, and business credit cards issued by banks and other financial institutions.[3] Bank loans to businesses are an important element for success because businesses that have access to adequate levels of capital grow more rapidly, hire more workers, and make more investments than businesses that do not have access.[4] Conversely, a decline in the availability of bank loans for businesses, especially smaller businesses, would be a serious impediment to the recovery of lower-income neighborhoods and communities of color that were most adversely affected by the Great Recession. Although some economists question the impact of bank loans on the net long-term growth of jobs throughout the national economy, bank loans can have important local benefits, which is why they are frequently seen as a tool to promote the local job growth necessary for neighborhood recovery.

This report examines bank lending to businesses in the Chicago six county region. The purpose is to see the extent to which banks are meeting the credit needs of businesses throughout the region. The focus of the report is on the smaller value loans that are most likely to support smaller, local businesses that provide employment and wealth-building opportunities for local residents.

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[1] Dilger, Robert Jay, 2013. *Small Business Administration and Job Creation*. Congressional Research Service 7-5700, www.crs.gov.

[2] Cowan, Spencer and Katie Buitrago. *Struggling to Stay Afloat: Negative Equity in Communities of Color in the Chicago Six County Region.* Woodstock Institute, March 2012.

[3] Business loans, lines of credit, and business credit cards are collectively reported to the Federal Financial Institutions Examination Council (FFIEC), which oversees financial institution reporting to regulatory agencies, as "loans." For consistency, this report will, therefore, use the term "loan" to refer to extensions of credit to businesses that would be reported as a loan to the FFIEC.

[4] Cole, Rebel A., 2012. *How Did the Financial Crisis Affect Small Business Lending in the United States*. A report prepared for the Small Business Administration, Office of Advocacy. Downloaded 4/11/2014 from www.sba.gov/advocacy.

Background

The Great Recession's impact on business lending was reduced access to capital generally, even more so for small loans from large banks. The Great Recession was, and, to a certain extent, still is marked by a tightening of access to credit. Business owners and Senior Loan Officers both reported credit becoming restricted between 2008 and 2010, with some difference of opinion about more recent conditions in the credit market. Loan officers surveyed thought conditions were loosening, while business owners tended to feel that they had not improved significantly.[5]

One indicator of the availability of bank loans can be found in the quarterly Consolidated Reports of Condition and Income (call reports) that regulated financial institutions file with the Federal Financial Institutions Examination Council (FFIEC). Because every national bank, state member bank, insured nonmember bank, and savings association must file quarterly call reports, the reports provide the most complete data on bank loans for businesses, but they reveal only national trends or the performance of individual institutions. Based on call report data for the quarter ending on June 30th of each year,[6] the total dollar volume of bank loans to businesses declined by 4.8 percent nationally between 2008 and 2011. Smaller businesses, which are more dependent on bank loans than larger businesses, were even more negatively affected.[7] The dollar volume of reported small loans to businesses, loans in amounts of under $1 million that are more likely to be extended to a small businesses,[8] declined even more sharply than bank loans to businesses generally, down about 14.6 percent nationally between 2008 and 2011. The dollar volume of small loans to businesses dropped from 30.8 percent of all bank loans to businesses in 2008 to 27.9 percent in 2011.

Another source of data on bank loans for businesses is the reports that large financial institutions submit under Community Reinvestment Act (CRA) regulations. Although not as comprehensive as the call report data,[9] CRA business loan data include small loans to businesses and allow for more detailed analysis by neighborhood because business loans are reported at the census tract level. Analysis of CRA data shows an even more precipitous decline in small loans to businesses by the large financial institutions filing CRA reports. The total number and volume of CRA-reported small loans to businesses dropped from nearly 10.7 million loans[10] totaling $295.6 billion in 2008 to 4.3 million loans (down 60.3 percent) totaling $179.6 billion (down 39.2 percent) in 2010, with a modest rebound in 2011 and 2012, as shown in Chart 1. The fact that CRA-reported small loans to businesses declined even more severely than small

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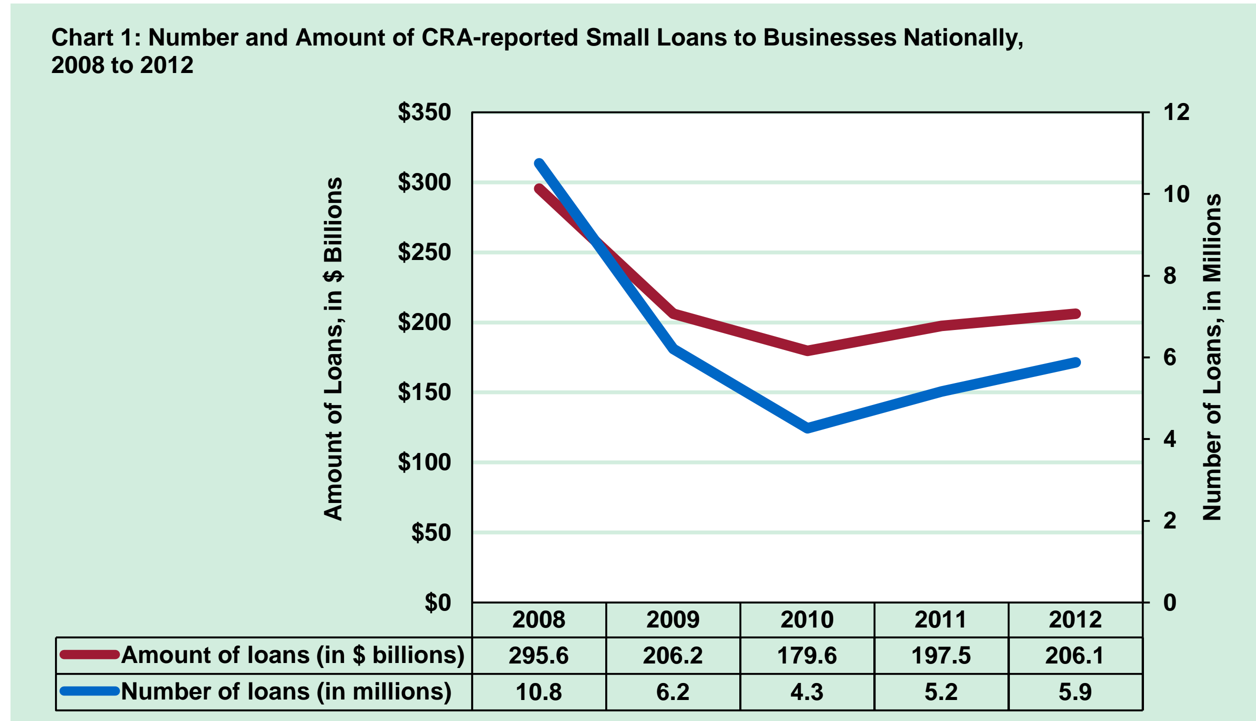
[5] NFIB Research Foundation, 2012. *Small Business, Credit Access, and a Lingering Recession*. Downloaded from www.NFIB.com March 25, 2014.
[6] The June call reports are the ones in which small loans to businesses are reported.
[7] Cole (2012).
[8] Analysis of call report data shows that about 90 percent of the small loans reported are for amounts under $100,000.
[9] Large financial institutions, with assets over approximately $1 billion, are required to report on their business lending activity, while smaller financial institutions may report voluntarily. Between 2008 and 2012, CRA reporting institutions provided approximately 85.2 percent of small credit to businesses by the number of businesses and 67.7 percent of small credit to businesses by dollar volume.
[10] In general, banks report multiple extensions of credit to one business as a single loan and total the amounts, according to FFIEC instructions, with limited exceptions. The number of loans, therefore, represents approximately the number of businesses receiving any of the types of credit reported as loans.

loans to businesses in the call reports suggests that larger banks as a segment of the industry made even fewer small loans to businesses than the financial services industry as a whole.

Chart 1: Number and Amount of CRA-reported Small Loans to Businesses Nationally, 2008 to 2012

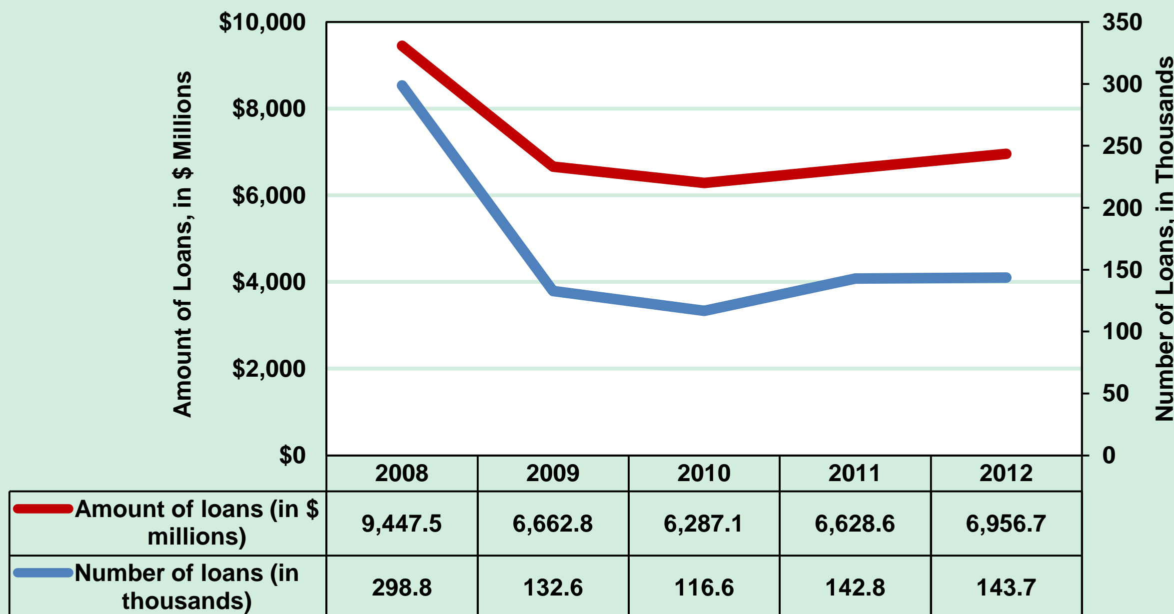


	2008	2009	2010	2011	2012
Amount of loans (in $ billions)	295.6	206.2	179.6	197.5	206.1
Number of loans (in millions)	10.8	6.2	4.3	5.2	5.9

Source: FFIEC CRA Reports, 2008-2012

The Chicago six county region experienced a similar decline in small loans to businesses reported under the CRA. The number of loans in the region dropped from 298,784 totaling $9.4 billion in 2008 to 116,625 loans (down 61.0 percent) totaling $6.3 billion (down 33.2 percent) in 2010, with a modest rebound in lending in 2011 and 2012, as shown in Chart 2.

Chart 2: Number and Amount of CRA-reported Small Loans to Businesses in the Chicago Six County Region, 2008 to 2012



	2008	2009	2010	2011	2012
Amount of loans (in $ millions)	9,447.5	6,662.8	6,287.1	6,628.6	6,956.7
Number of loans (in thousands)	298.8	132.6	116.6	142.8	143.7

Source: FFIEC CRA Reports, 2008-2012

Methodology

One of the purposes of the CRA is to provide an incentive for covered financial institutions to meet the credit needs of low- and moderate-income neighborhoods. While the CRA data show the amount of credit provided and the income level of the census tract, they do not provide any data on the need or demand for credit in the geography. For the analysis in this report, therefore, it was necessary to estimate the need by combining the CRA data with other business data at the census tract level.

Assuming demand for business loans is roughly proportional to the number of businesses in a given area, the need can be approximated by data on the number of active businesses in each area. Business address data are available nationally and for the Chicago region from the Department of Housing and Urban Development and the United States Postal Service (HUD/USPS) vacancy database. That database includes the number of business addresses and number of vacant businesses in each census tract. By subtracting the number of vacant business addresses from the total number of business addresses in each census tract, we can estimate the relative demand for business loans per tract based on the number of active business addresses in each census tract. The CRA-reported data from the FFIEC shows the number and dollar volume of small loans to business in each census tract. Finally, the FFIEC also provides data on the income level of each census tract[11] as part of the CRA examination process for regulated financial

[11] The income ranges are: Low, less than 50 percent of Area Median Income (AMI) or less than about $37,000; Moderate, 50 to less than 80 percent of AMI or between about $37,000 and $58,500; Middle, 80 to less than 120 percent of AMI or between about $58,500 and $88,000; Upper, 120 percent of more of AMI or above about $88,000. The limits are adjusted annually, and so the limits above are approximate and vary from year to year.

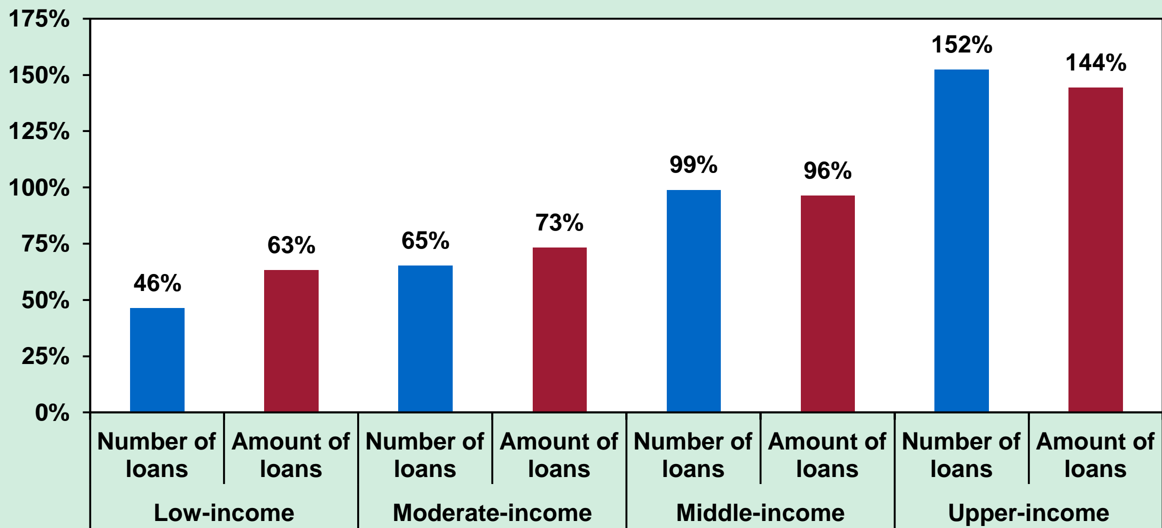
institutions. The three data sets can be combined to show how the estimated need, based on the percentage of businesses, compares with the number and dollar volume of CRA-reported small loans to businesses, in terms of the percentage of businesses that received loans and as a relative percentage of all CRA-reported small loans, in census tracts within each income range.

Findings

Analysis of small loans to businesses shows that the lower the income level of the tract, the less likely businesses were to receive loans. On average over the period between 2008 and 2012, only about 28 percent of businesses in low-income tracts and 40 percent of businesses in moderate-income tracts received loans, both nationally and in the Chicago region, while just over 60 percent of all businesses received loans. That means businesses in low-income tracts were less than half as likely, and businesses in moderate-income tracts were about two-thirds as likely, to receive loans as the average for all businesses.

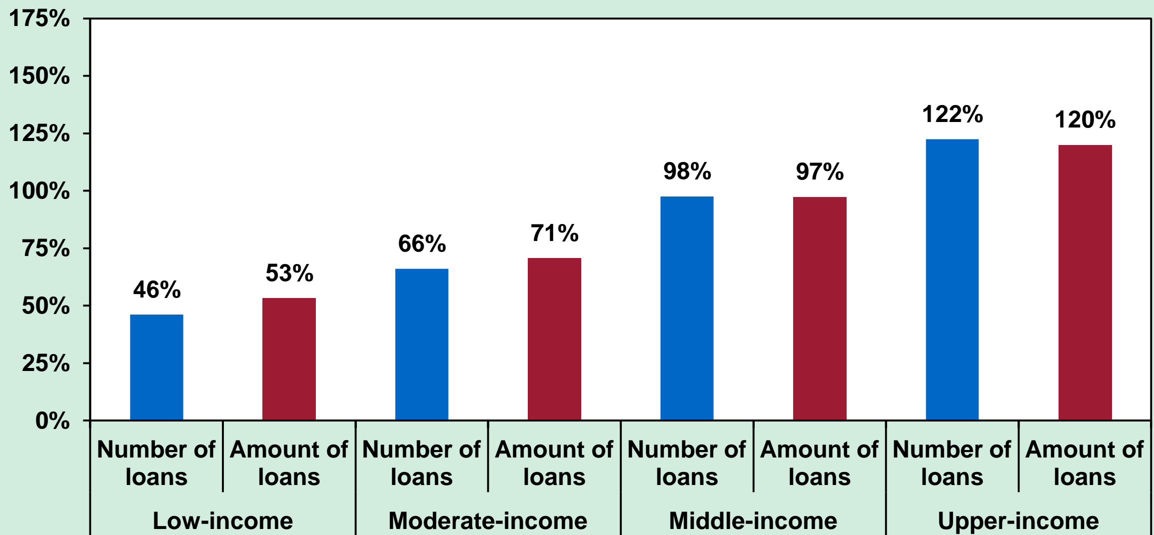
Nationally, businesses in low-income tracts constituted 7.3 percent of all businesses, and they received 3.4 percent of loans by number and 4.6 percent of loans by volume based on the averages for the period between 2008 and 2012. In other words, businesses in low-income tracts received 46 percent of the number of loans and 63 percent of the volume of loans they would have received if loans had been made in proportion to the share of all businesses, as shown in Charts 3 and 4. In the Chicago region, businesses in low-income tracts constituted 4.9 percent of all businesses, and they received 2.2.percent of loans by number and 2.6 percent of loans by volume over the same period. That is, they received 46 percent of the number of loans and just 53 percent of the dollar amount they would have received if loans had been made in proportion to their share of all businesses, as shown in Charts 3 and 4. Charts 3 and 4 also show that businesses in moderate-income census tracts nationally and in the Chicago region received a disproportionately lower share of CRA-reported loans, in both the number and volume of loans.

Chart 3: The Ratio of the Percentage of CRA-reported Small Loans, by Number and Amount of Loans, to the Percentage of Businesses, Nationally, by Census Tract Income, 2008-2012



Sources: Woodstock Institute analysis of FFIEC CRA Reports, 2008-2012; HUD/USPS Vacancy Data, 2008-2012

Chart 4: The Ratio of the Percentage of CRA-reported Small Loans by Number and Amount to the Percentage of Businesses in the Chicago Region, by Census Tract Income, 2008-2012

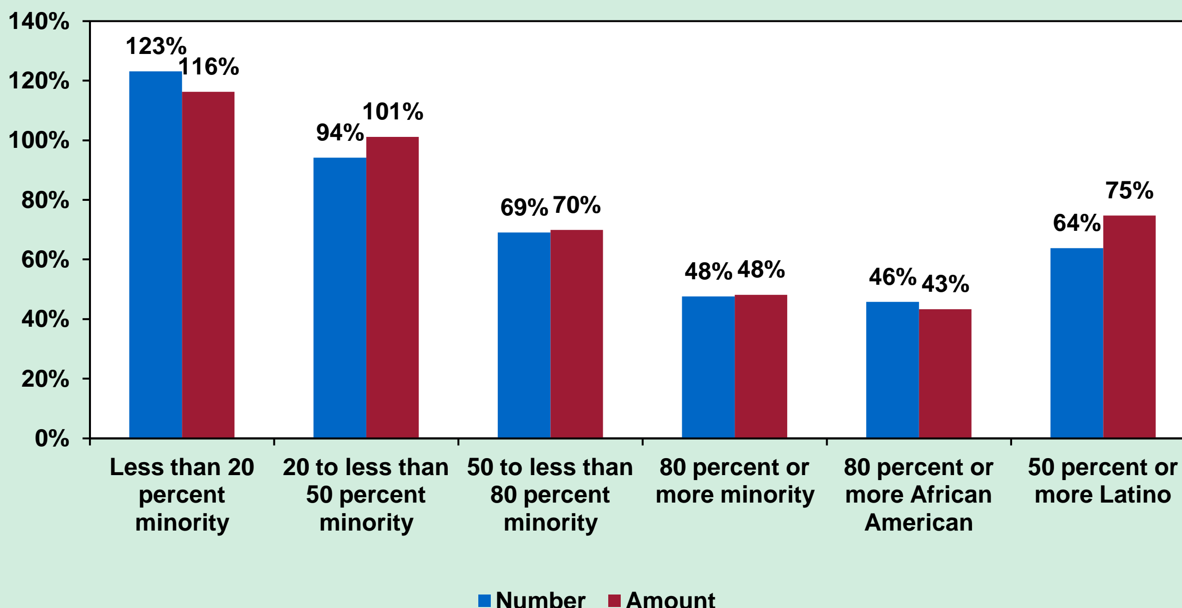


Sources: Woodstock Institute analysis of FFIEC CRA Reports, 2008-2012; HUD/USPS Vacancy Data, 2008-2012

Lack of access to credit created a credit gap of over $817 million in low-income communities and $1.8 billion in moderate-income communities. Analysis of the CRA business loan data shows that reporting financial institutions are not lending to businesses in lower-income tracts in proportion to the percentage of businesses that are in those tracts. In the Chicago region, the disparity in CRA business lending is even greater than the national figures in both low- and moderate-income tracts. Had loans in the Chicago region been made in proportion to the percentage of active businesses in the tract, businesses in low-income tracts would have received over 21,900 more loans totaling over $817 million more than they actually received between 2008 and 2012. Businesses in moderate-income tracts in the Chicago region would have received over 49,100 more loans totaling over $1.8 billion more than they actually received between 2008 and 2012.

Business lending data for the Chicago region also show a clear pattern of disparity with respect to both the number and volume of loans by the racial characteristics of the census tracts. Businesses in census tracts that are 80 percent or more non-white represent 8.0 percent of all business addresses in the Chicago six county region, and they received 3.8 percent of CRA-reported loans by both number and volume of loans, about 48 percent of their proportionate share of loans, as shown in Chart 5. Chicago region businesses in tracts that are between 50 and 80 percent minority represent about 10.5 percent of businesses and received about 7.2 percent of loans by number and 7.3 percent of loans by volume, or about 70 percent of the loans they would have received if the loans had been made in proportion to their share of all businesses.

Chart 5: The Ratio of the Number and Amount of CRA Small Loans to the Percent of Businesses in the Chicago Six County Region, by Race and Ethnicity, 2008-2012



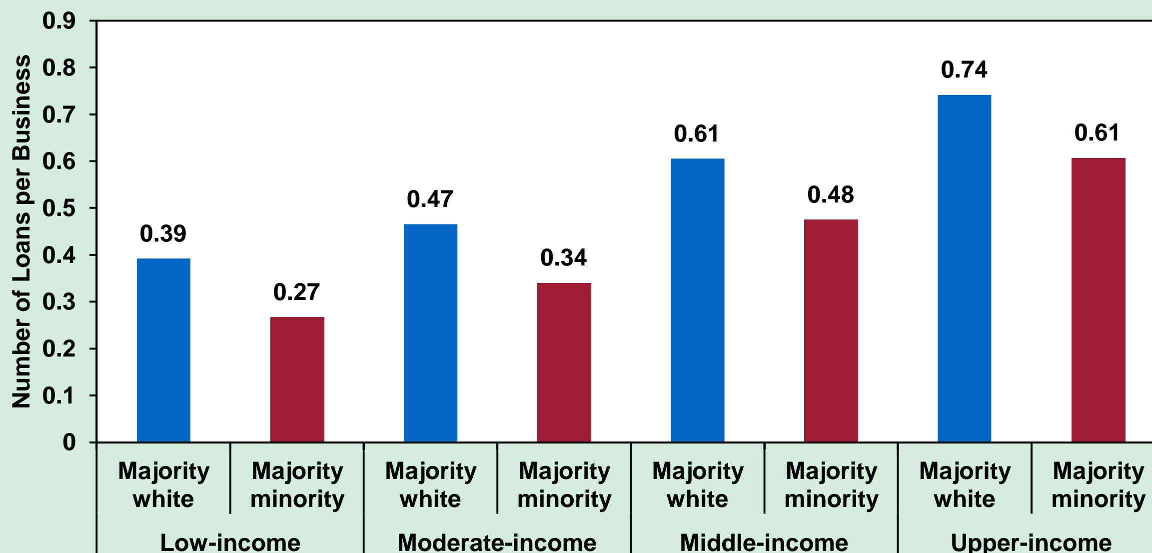
Sources: Woodstock Institute analysis of FFIEC CRA Reports, 2008-2012; 2010 Decennial Census; HUD/USPS Vacancy Data, 2008-2012

Lack of access to credit created a credit gap of over $2.6 billion in majority minority communities. Had loans in the Chicago region been made in proportion to the percentage of active businesses in the tract, businesses in tracts that are 80 percent or more non-white would have received over 34,800 more loans totaling nearly $1.5 billion more than they actually received between 2008 and 2012. Businesses in tracts that are between 50 and 80 percent non-white would have received nearly 27,000 more loans totaling more than $1.1 billion than they actually received between 2008 and 2012.

In the Chicago region, businesses in majority white tracts were more likely to receive loans than businesses in majority minority tracts of the same income level. Analyzing the data aggregated by the income (low-, moderate-, middle-, and upper-income) and racial composition (majority white, majority minority) of the census tracts within the Chicago region shows that the pattern of disparity by income level persists, regardless of the racial makeup of the tract. The data also show that, in every income category, businesses in predominantly minority census tracts were less likely to receive loans than were businesses in predominantly white census tracts.[12] Businesses in low-income, majority white tracts received an average of 0.39 loans per business (about two loans for every five businesses), while those in low-income, majority minority tracts received an average of 0.27 loans per business (about two loans for every seven businesses). The businesses in the low-income, majority minority tracts were about 32 percent less likely to receive loans than were businesses in low-income, majority white tracts.

In the Chicago region, businesses in lower-income tracts were less likely to receive loans than businesses in higher-income tracts, regardless of whether the tract is majority white or majority minority. Businesses in lower-income tracts were less likely to receive loans than businesses in higher-income tracts, regardless of race,[13] based on the number of loans, as shown in Chart 6. For example, businesses in moderate-income, majority white tracts received 0.47 loans per business per year (about one loan for every two businesses), while businesses in middle-income, majority white tracts received 0.61 loans per business per year (about three loans for every five businesses). That means businesses in the moderate-income, majority white tracts were about 23 percent less likely to receive loans than were businesses in middle-income, majority white tracts.

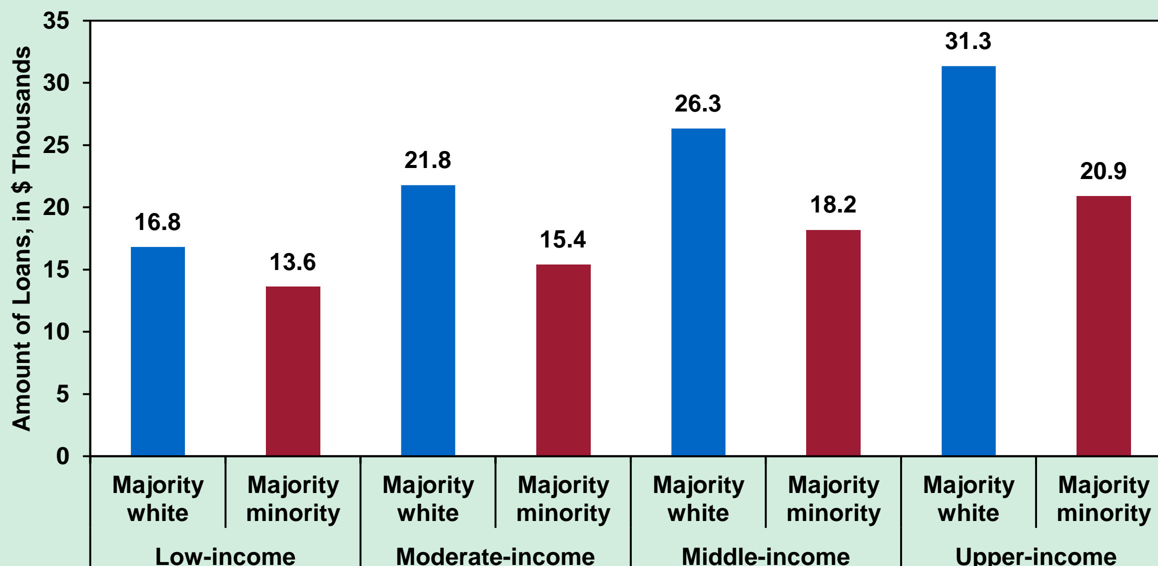
[12] This is comparing blue bars to red bars within income ranges.
[13] This is comparing blue bars to blue bars and red bars to red bars across income ranges.



Sources: Woodstock Institute analysis of FFIEC CRA Reports, 2008-2012; 2010 Decennial Census; HUD/USPS Vacancy Data, 2008-2012

Not only are businesses in lower-income tracts less likely to receive loans, the loans they receive are for smaller amounts, as shown in Chart 7. For example, businesses in the moderate-income, majority white tracts received average loans of about $21,800, or about 17 percent less than the average loans of about $26,300 that businesses in the middle-income, majority white tracts received. The data also show that, in every income category, businesses in majority minority census tracts receive loans that are for smaller amounts than loans received by businesses in tracts of the same income level that are majority white. For example, businesses in the low-income, majority minority tracts received average loans of about $13,600, which were about 19 percent less than the average loans of about $16,800 that businesses in low-income, majority white tracts received. The disparity in loan amount by the racial composition of the census tract is so large that businesses in upper-income, majority minority tracts received smaller loans, an average of $20,900 per business, than businesses in moderate-income, majority white tracts received, an average of $21,800 per business.

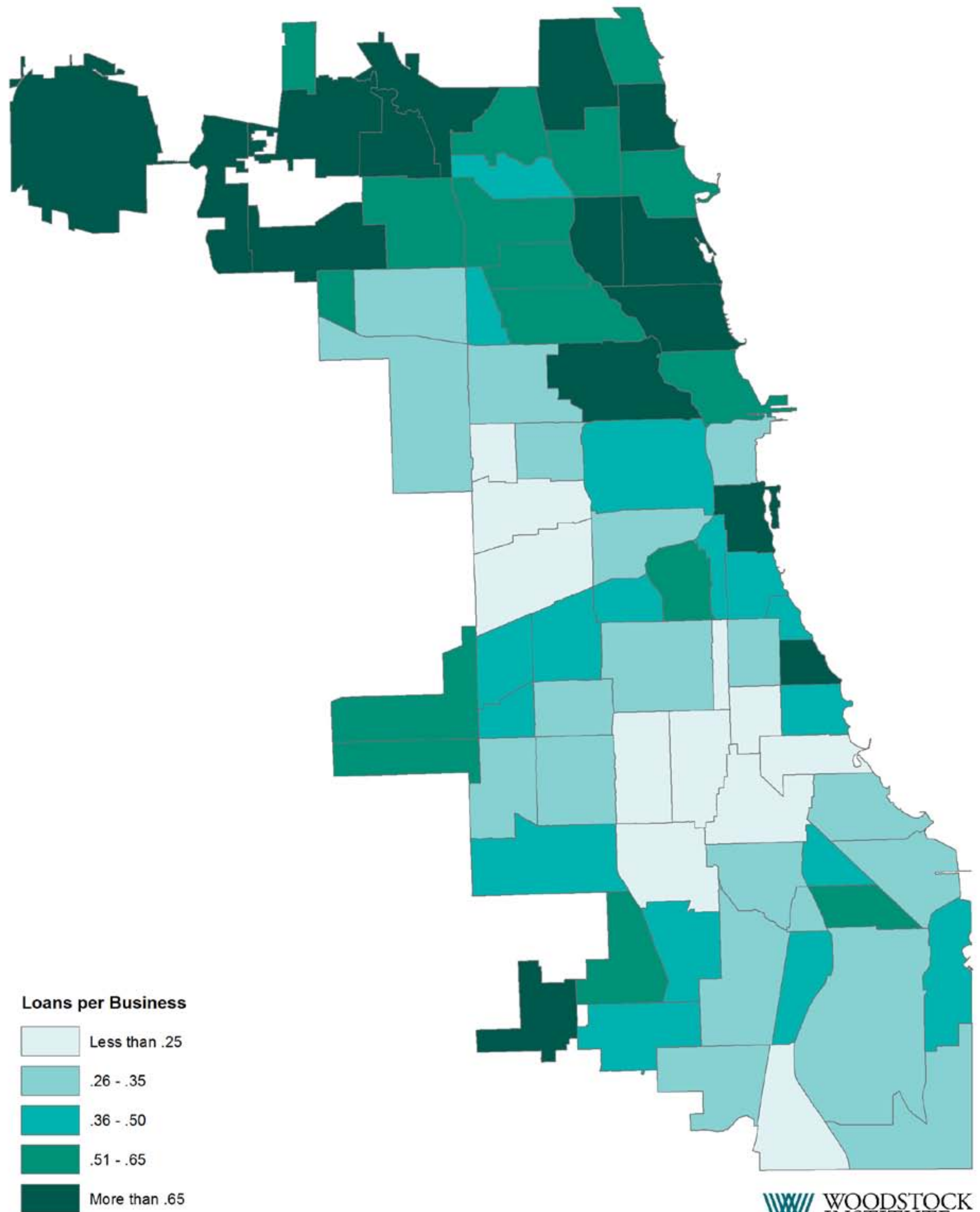
Chart 7: Average Annual Amount of Small Loans per Business in Chicago Six County Region by Income and Race, 2008-2012



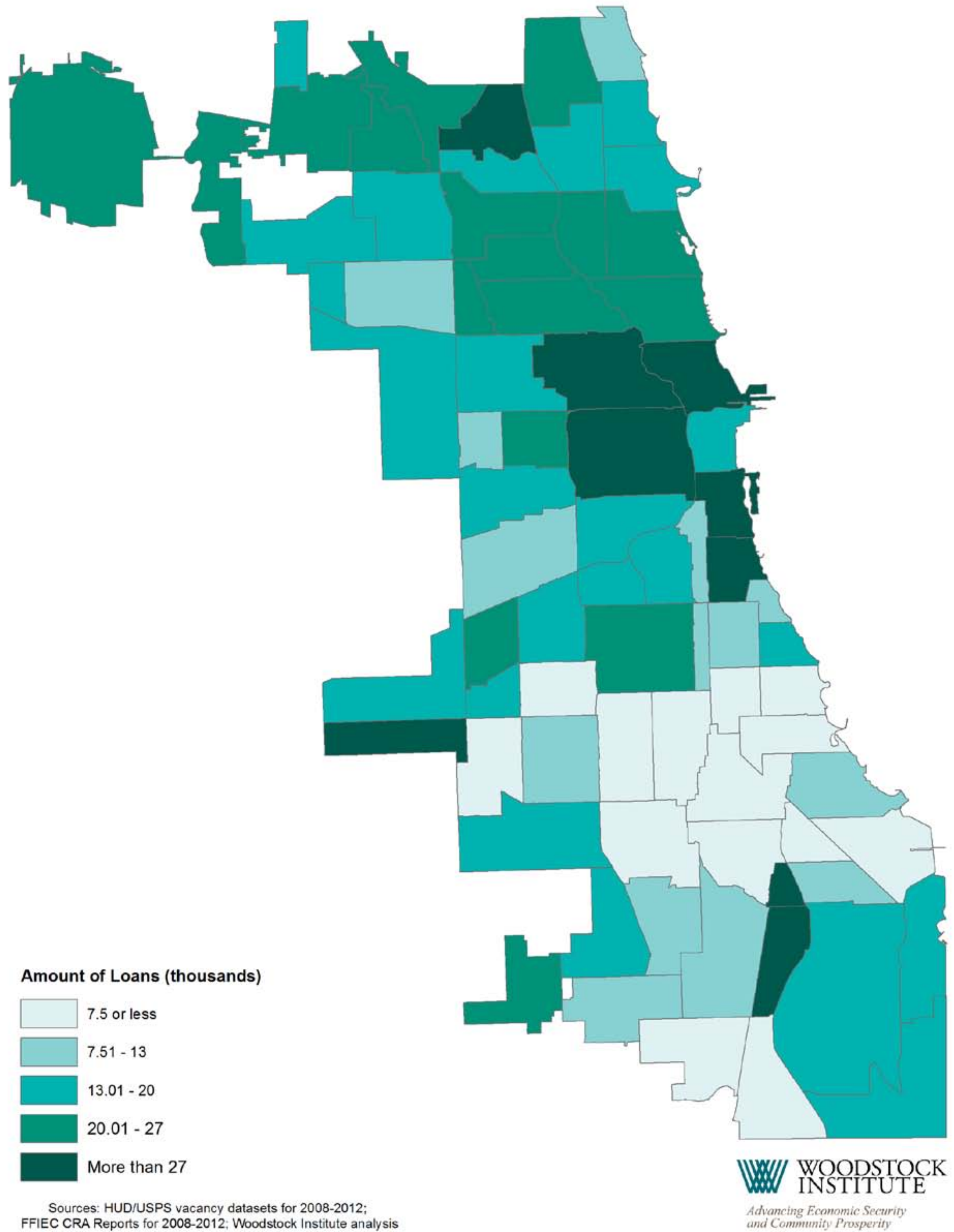
Sources: Woodstock Institute analysis of FFIEC CRA Reports, 2008-2012; 2010 Decennial Census; HUD/USPS Vacancy Data, 2008-2012

Significant disparities in lending to businesses exist at the Chicago Community Area level. Finally, aggregating the data by Community Area for the City of Chicago shows disparities in lending, with businesses in some neighborhoods receiving loans at much lower rates and for smaller amounts than businesses in other neighborhoods received, as shown in Appendix A. For example, there was an average of 0.11 loans per business in Riverdale, or about one loan for every nine businesses, and the average loan amount was about $4,400. In Lincoln Park, the average was 0.84 loans per business, or about five loans for every six businesses, and the average loan was for about $26,600. In general, the highest average number of loans per business are in the northern part of the city, south of the Interstate 55 corridor, and in the southwest adjacent to the suburbs, with fewer loans per business in the south and west sides of the city, as shown on Map 1. The average amount of loans per business showed a similar pattern with respect to higher amounts in the north part of the city and south of the I-55 corridor, but some community areas in the west also received high average loan amounts per business, as shown on Map 2. For example, businesses in North Lawndale received only 0.23 loans per business (less than one loan for every four businesses), but the average amount of those loans was nearly $19,000 per business.

Map 1: Average Annual Number of CRA-reported Loans by City of Chicago Community Area, 2008-2012



Map 2: Average Annual Amount of CRA-reported Loans by City of Chicago Community Area, 2008-2012



Discussion of Findings

Analysis of CRA data from large financial institutions clearly shows disparities in the origination of small loans to active businesses by both the income level and racial composition of the census tract. CRA reporting institutions are making fewer loans per business, and the loans are in smaller amounts per business, in lower-income census tracts and tracts with higher percentages of non-white population. For example, the finding that fewer than two in seven businesses in low-income, majority minority census tracts received a loan means that five in seven did not. For moderate-income, majority minority tracts, only one in three businesses received a loan. Because the term "loan" includes lines of credit and business credit cards as well as traditional loans, the finding is that five in seven businesses in those low-income, majority minority census tracts, and two in three in moderate-income, majority minority tracts, did not even have a business credit card from any of the major providers, such as Capital One or American Express. The findings suggest that the CRA is not attaining its purpose of having large financial institutions meet the business credit needs of low-and moderate-income neighborhoods.

The lack of access to loans from large financial institutions has at least two potentially damaging impacts on businesses in those neighborhoods, with negative spillover effects on residents. First, without access to capital, businesses are less able to expand and hire additional workers, reducing the level of services and economic opportunity in the neighborhood. Second, business owners needing loans may have to use alternative lenders, such as OnDeck Capital or Kabbage, which provide high-cost loans with interest rates as high as 200 percent.[14] The reliance on alternative lenders may be even greater for entrepreneurs from lower-income neighborhoods than for entrepreneurs from higher-income neighborhoods because they may be less likely to have significant equity in personal assets, such as a house, or personal credit cards with high available credit limits to use as a substitute for business loans. The high cost of alternative loans drains capital from the business, reduces growth, and can lead to the same cycle of debt that traps consumers with payday loans.

[14] Ami Kassar: Why the SBA Won't Partner with Alternative Lenders in the *Wall Street Journal*, April 29, 2014, and Ami Kassar: Know the True Cost of Cash-Advance Loans in the *Wall Street Journal*, May 14, 2014. According to the May 14th article, OnDeck Capital recently sold a portfolio of loans with an average APR of 54 percent.

Policy Recommendations

Make CRA examinations more rigorous. One way to improve the performance of CRA-reporting financial institutions in making small loans to businesses in low- and moderate-income census tracts is for CRA examiners to place more emphasis on the business lending part of the exam than they currently do in determining CRA ratings. The change, however, should not be a zero-sum approach, placing more weight on business lending and diminishing the importance of the other types of lending, such as mortgages, in the lending component of the exam. Instead, examiners need to be more stringent in the scoring of performance with respect to all types of lending. According to one analyst, over 96 percent of banks receive a satisfactory CRA rating or better.[15] When only two business out of seven in low-income tracts, and two in five businesses in moderate-income tracts, have a loan, line of credit, or credit card from a large financial institution, rating the performance of 96 percent of financial institutions as satisfactory seems to set very low expectations.

Use responsible banking ordinances to reward banks that lend to businesses in low- and moderate-income neighborhoods. Local governments should use responsible banking ordinances that link government bank deposits to community reinvestment performance to encourage financial institutions to make more small loans to businesses in low- and moderate-income neighborhoods. As part of a revitalization strategy, for example, municipal deposits could be placed with lenders that do the most to provide credit to businesses in neighborhoods targeted for revitalization. The effect would be to use the deposits to make private capital available to support economic development in the neighborhood.

Support and increase funding for Community Development Financial Institutions (CDFIs) and the New Markets Tax Credit (NMTC) Program. CDFI's are financial institutions with a mission to serve communities that are traditionally distressed or underserved by mainstream financial institutions. The NMTC Program provides private-sector investors a credit against federal income taxes for investments in Community Development Enterprises (CDEs), corporations with a primary mission to serve or provide investment capital in low-income communities. Both CDFIs and CDEs are important sources of business capital in low-income neighborhoods and communities of color, but they can serve only a small fraction of the need. Community organizations and advocates need to work to support and increase funding for CDFIs and the NMTC Program to enable CDFIs and CDEs to expand the level of investment they bring to their service areas.

Provide more comprehensive data under the CRA to allow for independent evaluation of bank performance. Currently, CRA business lending reports do not include some key data that would allow for a more precise estimate of how well, or poorly, the large financial institutions are meeting the goals of the Act, which is to meet the credit needs of the community. The CRA-reported data cover only loans that are actually made, for example, but do not include business loan applications that did not lead

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[15] Thomas, Kenneth H., Comptroller Curry: How About Some Real CRA Reform?, in *American Banker*, April 9, 2014.

to a loan being made. The data, therefore, do not show how many businesses sought credit but were denied. Nor does the CRA dataset include the amount of the loan applied for, which shows the level of demand for business loans. The CRA data aggregate loans originated into three categories, $100,000 or less, $101,000 to $250,000, and $250,000 to $1,000,000, but do not report the actual amount of the loan to allow analysis of the difference between the level of demand and the dollar amount of loans originated. Those changes, including all loan applications, the amount requested, action on the application, and the amount originated would much more accurately show the level of demand and how well CRA-reporting institutions are meeting the demand.

Require more comprehensive business lending data from lenders. As an complement to changing CRA reporting requirements, data on small loans to businesses should also be reported to the Consumer Financial Protection Bureau (CFPB).[16] Not only could the CFPB require more detailed information, it could also require more lenders to report. Currently, only lenders with assets of over approximately $1 billion report small loans to businesses. While CRA-reporting lenders do make the majority of business loans, non-reporting institutions still make about a third of all loans by dollar volume. The CFPB should include more smaller lenders in its database to allow a more comprehensive analysis of how well regulated financial institutions are meeting the credit needs of businesses in low-income neighborhoods and communities of color.

[16] The CFPB has the authority to gather the data under the provisions of Section 1071 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank). The purpose of Section 1071 of Dodd-Frank is to "facilitate enforcement of fair lending laws and enable communities, governmental entities, and creditors to identify business and community development needs and opportunities of women-owned, minority-owned, and small businesses." This mandate is broader than the CRA and could allow the CFPB to require lenders to report even more detailed information about loan applicants and business loans.

Appendix A. Data Limitations in Estimating the Demand for Small Loans for Businesses

Estimating the demand for business loans is complicated. Because CRA reports do not include any indicators of the level of demand for business loans, this analysis is based on a proxy, the number of active business addresses in a neighborhood. That proxy provides a measure of relative demand on the assumption that the higher the number of active businesses in a census tract, the higher the demand for business loans. The proxy clearly underestimates the number of actual businesses in a given area, however, because not every business has a separate mailing address. Over 78 percent of all businesses in the United States have no employees; over half are home-based, and less than one business in five is incorporated.[17] Most small businesses, therefore, are sole proprietorships that operate without a separate legal entity to conduct the business, such as a corporation, or address separate from the residential address of the owner.

The demand for small loans also varies as the result of other factors that have been shown to affect businesses' demand for loans, such as the size of the business. If some of those factors are correlated with differences between businesses in lower-income or predominantly minority neighborhoods and those in higher-income or predominantly white neighborhoods, then any disparities in the lending data may be partially attributable to those differences. For example, analysis of data on the number of employees per business by census tract shows that businesses in low- and moderate-income census tracts have, on average, fewer employees than businesses in middle- and upper-income census tracts.[18] The average number of employees per business is 11.9 in low-income tracts, 11.3 in moderate-income tracts, 14.3 in middle-income tracts, and 16.1 in upper-income tracts. According to the 2011 survey of businesses with employees, owners of smaller firms were less likely than owners of larger firms to have tried to obtain a loan, [19] and so that may explain some of the disparity.

Another complicating factor for reporting institutions, one that affects the level of business lending that those institutions do report, is identifying which loans are for a business. Without the formal corporate structure or address, identifying a potential borrower as a business seeking a loan is a problem. For example, a person might borrow money to buy a computer and printer to help process orders, keep the books, and edit and print photographs for a small, part-time, home-based business as a wedding photographer, as well as for non-business purposes. That loan, which is to a business owner, could justifiably be considered and reported as a personal loan because the owner is personally liable to repay the loan and the proceeds are being used for both business and personal purposes.

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[17] Data from the Small Business Administration, Office of Advocacy (www.sba.gov/advocacy), September 2012 Frequently Asked Questions, downloaded April 10, 2014.

[18] The analysis is based on data from the Longitudinal Employer-Household Dynamics (LEHD) program for 2008 and 2009. Those two years are the latest compiled on the 2000 census tract geographies, and those geographies are also used for CRA reporting for those years. The 2010 and 2011 LEHD data are reported on the 2010 census geographies, but the CRA data for 2010 and 2011still use the 2000 geographies. LEHD employment data are not yet available for 2012.

[19] NFIB Research Foundation, 2012. See fn 4.

The fourth complicating factor is determining how much capital businesses are actually seeking because bank loans are only one source of capital for small businesses. Many small business operators also use personal credit cards and home equity lines of credit as alternatives to business loans. These alternatives are commonly provided by banks, and yet they are not reported in the CRA data as business loans even though they are used to provide access to capital for the business owner. In addition, businesses may have lines of credit from suppliers, essentially making the supplier a non-bank source of capital. The demand these alternatives represent, therefore, is not reported as demand for a bank loan despite the fact that the business owner might prefer to have a bank loan.

The need for better business loan demand data is clear. The estimates of demand in this report can provide some insight and show disparities, but they cannot account for the demand from home-based businesses and sole proprietorships that do not have separate business addresses or from businesses that would like a bank loan but which use alternative sources of capital instead. One partial solution would be to have CRA reports include all loan applications, not just those resulting in loans being originated, the amount of the loan applied for, and the amount originated. The Home Mortgage Data Act (HMDA) requires lenders to report all mortgage applications, the amount requested, and the action taken on the application, and so those data allow analysis of the extent to which various lenders are meeting the demand for mortgage credit. The CRA business lending data should contain at least that level of information.

Those changes, including all loan applications, the amount requested, action on the application, and the amount originated, would much more accurately show the level of demand and how well CRA-reporting institutions are meeting the demand. The data would then allow analysis to show which lenders are more likely to approve small loans for businesses in low- and moderate-income census tracts and how the origination rates in those tracts compare with the rates in higher-income tracts. The data would show the aggregate demand: how the dollar amount loaned compared with the amount requested. Analysis of HMDA data can show the difference in the probability of a loan application resulting in a mortgage origination, for example, and how that relates to the income level or racial profile of the census tract in which the property was located, confirming or refuting allegations of *de facto* redlining. Given the purpose of the CRA, that type of analysis for small loans to businesses would seem to be the minimum necessary to have an informed assessment of whether the Act is serving its purpose.

More detailed CRA data, including basic loan information such as the interest rate and loan term, would provide even more insight. Analysis of HMDA data showed a clear pattern of high-cost, subprime lending in low-income neighborhoods and communities of color before the collapse of the housing market, providing evidence of potential violations of fair lending laws. Adding loan terms to the CRA-reported business lending data may show similar patterns with respect to business loans, with businesses in low-income neighborhoods or communities of color consistently receiving less favorable loan terms than their counterparts in more affluent or predominantly white neighborhoods receive.

Appendix B. Average Number and Amount of Small Loans to Businesses by Chicago Community Area

Community Area	Avg. Number of Loans Per Business	Avg. Loan Amount Per Business ($1,000s)	Community Area	Avg. Number of Loans Per Business	Avg. Loan Amount Per Business ($1,000s)
Albany Park	0.50	14.35	Lincoln Square	0.63	16.38
Archer Heights	0.42	26.07	Logan Square	0.59	21.32
Armour Square	0.42	11.63	Loop	0.31	19.51
Ashburn	0.46	17.37	Lower West Side	0.33	15.36
Auburn Gresham	0.20	5.01	McKinley Park	0.47	19.61
Austin	0.27	13.67	Montclare	0.52	15.08
Avalon Park	0.40	7.22	Morgan Park	0.41	9.81
Avondale	0.51	21.59	Mount Greenwood	0.72	20.90
Belmont Cragin	0.33	10.40	Near North Side	0.62	33.81
Beverly	0.62	16.78	Near South Side	0.92	34.93
Bridgeport	0.61	17.25	Near West Side	0.44	28.36
Brighton Park	0.41	15.39	New City	0.30	21.07
Burnside	0.30	33.80	North Center	0.86	26.16
Calumet Height	0.54	9.20	North Lawndale	0.23	18.79
Chatham	0.26	4.88	North Park	0.57	29.85
Chicago Lawn	0.27	8.93	Norwood Park	0.76	20.75
Clearing	0.60	27.21	Oakland	0.49	9.28
Douglas	0.49	40.62	O'Hare	0.79	25.08
Dunning	0.81	17.93	Portage Park	0.61	14.76
East Garfield Park	0.31	23.55	Pullman	0.35	29.59
East Side	0.39	16.89	Riverdale	0.11	4.40
Edgewater	0.75	17.20	Rogers Park	0.51	12.65
Edison Park	0.51	18.20	Roseland	0.29	8.32
Englewood	0.15	3.92	South Chicago	0.29	6.82
Forest Glen	0.80	24.47	South Deering	0.32	14.85
Fuller Park	0.17	12.62	South Lawndale	0.22	9.70
Gage Park	0.30	6.47	South Shore	0.32	8.88
Garfield Ridge	0.52	17.78	Uptown	0.55	13.01
Grand Boulevard	0.31	9.47	Washington Park	0.17	5.27
Greater Grand Crossing	0.18	6.33	Washington Heights	0.35	7.65
Hegewisch	0.35	14.68	West Elsdon	0.48	19.16
Hermosa	0.41	20.03	West Englewood	0.18	5.58
Humboldt Park	0.30	17.56	West Garfield Park	0.19	8.44
Hyde Park	0.44	6.81	West Lawn	0.33	6.19
Irving Park	0.63	21.73	West Pullman	0.31	7.26
Jefferson Park	0.75	24.59	West Ridge	0.74	20.70
Kenwood	0.83	13.89	West Town	0.73	28.48
Lakeview	0.73	22.12	Woodlawn	0.25	4.77
Lincoln Park	0.84	26.56			

Appendix C. Average Number and Amount of Small Loans to Businesses by County and Cook County Subregion

County	Average Number of Loans Per Business	Average Loan Amount Per Business ($1,000s)
Cook	0.56	23.10
North Cook	0.87	32.78
Northwest Cook	0.76	32.76
South Cook	0.38	16.65
Southwest Cook	0.59	23.64
West Cook	0.57	22.84
DuPage	0.69	31.69
Kane	0.61	31.36
Lake	0.74	34.24
McHenry	0.66	30.02
Will	0.60	25.52
Grand Total (Six County Region)	0.60	26.04