2024
FDIC Small Business Lending Survey

FDIC FEDERAL DEPOSIT INSURANCE CORPORATION

ACKNOWLEDGMENTS

Insights from the Small Business Lending Survey (SBLS) are a result of contributions of a large number of U.S. banks. The Federal Deposit Insurance Corporation (FDIC) sincerely thanks the approximately 1,300 banks that responded to the survey.[1] Without their invaluable participation, it would not have been possible to provide a nationally representative picture of banks' small business lending practices or to compare the experiences of different types of banks.

In addition, approximately 50 banks across the U.S. participated in interviews with FDIC staff, helping to ensure that the questions in the SBLS were understandable, answerable, and relevant to the banking industry. These conversations were necessary because the SBLS was specifically designed to cover topics not already addressed by other data sources. Another approximately ten banks tested the functionality of the web interface used to collect survey responses. The FDIC thanks these approximately 60 banks for giving generously of their time and expertise to the development of the final survey questionnaire.

The survey content also benefited from a review by a panel of experts from academia and other government agencies. Specifically, we thank Allen Berger (University of South Carolina), Christa Bouwman (Texas A&M), Claire Brennecke (Consumer Financial Protection Bureau), Ralph De Haas (European Bank for Reconstruction and Development), Tim Dore (Federal Reserve Board), Brian Headd (Small Business Administration), Victoria Jackson (Small Business Administration), Claire Kramer Mills (Federal Reserve Bank of New York), Traci Mach (Federal Reserve Board), Anjan Thakor (Washington University in St. Louis), Greg Udell (Indiana University), and James Wilcox (University of California, Berkeley) for sharing their knowledge and expertise.

Multiple divisions of the FDIC collaborated to complete this study. Staff from the FDIC's Division of Insurance and Research (DIR) led and coordinated the development, implementation, and analysis of the survey, and the writing and publication of the survey report. The project was completed under the direction of Smith Williams, Chief of Special Studies in DIR. Yan Lee was responsible for the day-to-day management of the project from 2019 until 2022, when she left DIR to accept a position in the FDIC's Division of Depositor and Consumer Protection (DCP). DIR staff member Nick Frazier managed the project from 2022 through 2024. DIR staff members Jacob Goldston and Nick Frazier were the primary authors of the report. DIR staff Yosh Halberstam, Julie Ma, and Alex Rodrigue and DCP staff Abraham Leventhal and Noah Shult provided valuable research and analytical support. Kathy Zeidler and Clayton Boyce from DIR edited the text, and Lynne Montgomery from DIR coordinated the report layout. Nancy Cho from the FDIC's Graphic Design and Printing Branch prepared the survey report for publication and provided design support; Donna Vogel from DIR helped with web design. Manuel Cabeza and Rashida Gofney of the Legal Division assisted with the Paperwork Reduction Act requirements and approvals from the Office of Management and Budget. Sarah Chung, Kimberly Morris, William Piervincenzi, and Kimberly Yen of the Legal Division conducted a review of the report. In addition, several senior DIR officials provided helpful guidance throughout various phases of the project, including George French, Philip Shively, Rosalind Bennett, Jonathan Pogach, and Karyen Chu.

Colleagues in the Division of Complex Institution Supervision and Resolution (CISR), the Division of Risk Management Supervision (RMS), and the Division of Finance (DOF) provided outreach to banks that helped improve the overall rate of participation of banks in the 2022 survey compared to the rate of participation in the 2016 survey. We thank from CISR, Aimee Fuller and the staff of dedicated bank examiners; from RMS, Alicia Marks, Patricia Colohan, Tom Lyons, Lynn Dallin, Pete Hirsch, and the staff in the Large Bank Supervision Branch; and from DOF, Donna Saulnier.

Finally, we thank staff at the U.S. Census Bureau, which the FDIC contracted to help develop the survey, build the web interface, conduct the data collection, and protect respondent identities from disclosure.

Pat Mitchell
Director, Division of Insurance and Research

[1] In line with Census Bureau guidelines on preventing disclosure, only approximate counts of participating banks can be provided publicly and names of individual banks cannot be shared.

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KEY TERMS

The 2022 Small Business Lending Survey instrument provided banks with specific definitions for certain terms to facilitate a uniform understanding among respondents. The terms below reflect those definitions and others used within the context of this report.

Branch Footprint: The survey generally asked banks to consider all physical offices that provide services to small business lending customers. The branch footprint is the set of physical offices of a bank.

Geographic Market: Defined in the 2022 survey instrument as the physical area or areas where a bank's small business borrowers are generally located. For the full definition used in the survey, see Part IIA in Appendix B.

Business Purpose Lending: Defined in the 2022 survey instrument to help banks determine which part of their lending activity should be used when answering the survey. Generally, the definition implies loans made for business-related uses in which loan repayment depends on the financial health and success of the business borrower. For the full definition used in the survey, see Part IA in Appendix B.

FinTech: Defined in the 2022 survey instrument as new business processes that use recent technological innovations to alter or improve how financial services are conducted. For the full definition used in the survey, see Part IE of Appendix B.

FinTech Bank: A bank that uses FinTech in at least one stage of its loan origination process. See Section 4.1 for more details.

FinTech Lender: A nonbank online lender.

Hard Information: Information about a borrower or business that is typically quantifiable or numerical and therefore easily transmitted between bank decision-makers. Examples include credit scores, financial statements, and the value of collateral. Banks can often collect this information with little or no personal interaction with the borrower.

High-Touch Practices: Business practices that emphasize staff interaction with customers. For more details, see Section 6.2.

Large Bank: A bank with $10 billion or more in assets.

Nonbank: A credit union or non-depository institution that provides financial services.

Relationship Lending: A way of lending that incorporates or emphasizes soft or difficult-to-quantify underwriting information, such as information obtained from personal relationships between loan officers and borrowers. This lending is typically associated with smaller banks. Banks may engage in high-touch or personalized lending practices but still not emphasize soft information when underwriting loans. For more detail, see "Relationship and Transactional Lending" in Section 1.

Small Bank: A bank with less than $10 billion in assets.

Small Business: Defined in the 2022 survey instrument as any business that meets a bank's internal definition of a small business. See Section 2.1.

Soft Information: Information about a borrower or business that is difficult to quantify or represent numerically and therefore is not easily transmitted between bank decision-makers. Examples include soundness of a business plan, experience in the industry, and knowledge of general market conditions.

Transactional Lending: A way of lending that relies on hard or numerical information when underwriting. This lending is typically associated with larger banks. For more details, see "Relationship and Transactional Lending" in Section 1.

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EXECUTIVE SUMMARY

Banks have historically played a key role in supporting small businesses, which in 2023 accounted for 99.9 percent of all firms, 46.4 percent of private sector employment, and 43.5 percent of gross domestic product in the United States.[2] Banks sustain the health and growth of small businesses by providing them with credit and other financial services.[3] The Federal Deposit Insurance Corporation's (FDIC's) report on the 2016 Small Business Lending Survey (FDIC 2018) found that banks almost universally emphasize a relationship-oriented approach to lending that is high-touch and staff-intensive. However, recent advances in technology have the potential to increase the prevalence of more transactional types of lending. Further, ongoing consolidation in the banking industry and increasing competition for small business lending from credit unions and other nonbanks may change the practices and comparative advantages of banks. These trends raise questions about how the evolving role of banks may affect small businesses' access to credit.

To improve our understanding of how the banking industry has adjusted to these changes, the FDIC conducted the nationally representative 2022 Small Business Lending Survey (SBLS). From a sample size of 2,000, about 1,300 banks—more than a quarter of all banks in the nation—responded, yielding a 68 percent survey response rate. Due to its size, nationally representative survey design, and high response rate, the SBLS is the only survey that allows researchers to make inferences about small business lending in the U.S. banking industry and to explore and highlight key differences within the industry, such as the differences between small and large banks. (This report defines banks with less than $10 billion in assets as small and banks with at least $10 billion in assets as large.)

The 2022 survey asked banks about their small business lending process, including their use of technology, their procedures for underwriting and approving loans, their geographic market and competition for small business borrowers, and their practices for developing relationships. It delved deeper into areas covered in the 2016 survey to better understand the fundamentals of the bank approach to small business lending and to gauge how lending practices vary within the industry. Several new topics probed how recent industry and economic changes have affected small business lending by banks.

The 2022 SBLS asked banks to consider their lending to borrowers that meet the bank's internal definition of a small business and to consider a wide range of lending to small businesses, including owner-occupied commercial real estate and traditional commercial and industrial loans. This approach captured small business lending that may be missed by other well-known regulatory or conventional definitions.

Overall, the 2022 survey finds that technology has not replaced the relationship-oriented and staff-intensive nature of small business lending that is focused locally around branches. However, small and large banks continue to manage the risks of lending to small businesses differently for smaller loans, with small banks relying on soft information gathered through relationships to a greater extent than large banks do.[4]

Most banks lend to small businesses and retain the risk

Almost all banks participate in small business lending, which commonly includes loans of at least $1 million.

- Nearly all banks make loans up to $1 million to small businesses.
- Half of banks make loans up to $3 million to small businesses.

2 U.S. Small Business Administration, Office of Advocacy, Frequently Asked Questions, March 2023.
3 On the advantages of banks relative to other external credit options, see Udell (2008) and Beck, Demirgüç-Kunt, and Maksimovic (2005).
4 For a discussion of "hard" versus "soft" information, see "Relationship and Transactional Lending" in Section 1.

Banks generally retain the risk of the small business loans they make.

- About one in five small banks and one in three large banks sold a small business loan on the secondary market.
- Small business loans with a risk-limiting government guarantee, such as the guarantee provided by the Small Business Administration (SBA), are a significant part of lending for only a small minority of banks.
- Among the top factors that limited additional bank participation in SBA lending is that a bank's customers qualified for traditional credit products.

Approval structures are fairly flat and approval times are generally fast, especially for small and simple loans

Approval structures are typically flat, with executives and board members often directly involved at small banks.

- Almost all banks give signature authority on small loans to first-level decision-makers.
- Nearly three in four banks have at most three levels of approval, even for larger and more complex-loans.
- At small banks, approval for larger loans often involves the bank's executive officers or the board of directors.

Approval times are fast, especially for small loans at large banks.

- Three in ten banks, including more than half of large banks, can approve a small and simple loan within one business day.
- Three in four banks can approve a small and simple loan within five business days.
- Three in four banks approve their typical loan within ten business days.

Technology has not replaced staff-intensive and relationship-oriented practices

About half of banks were using or considering using FinTech in their small business lending process.

- In 2022, three in ten banks used FinTech within their lending process and an additional two in ten were discussing or developing its use.
- Banks most commonly use FinTech to help with regulatory compliance and for steps taken after loan approval, such as closing, performance and servicing, and portfolio analytics.
- Large banks are somewhat more likely than small banks to use FinTech, but the greater difference is in the breadth of use across the lending process.

Banks emphasize in-person and high-touch practices for developing relationships.

- The vast majority of banks engage in high-touch practices and believe these practices to be crucial for generating and maintaining relationships.
- Banks emphasize relationships even when the banks differ in size, underwriting practices, and FinTech usage.

The competitive advantages of banks reflect their investments in staff and local communities.

- Banks perceive their primary competitive advantages to be customer service, relationships with customers, and speed of service.
- Both small and large banks use a relationship-oriented approach based on customer service and cultivating relationships and describe the approach as a key competitive edge.

Outside of credit cards, automated lending remains uncommon in the industry and is used almost exclusively for smaller loans.

- One in ten banks have a credit-scoring system that can partially or fully automate the underwriting of some non-credit-card lending.

- Less than one in thirty banks use a credit-scoring system to auto-approve loans, and less than one in one hundred banks will auto-approve a loan of $250,000.

Lending is largely local and focused around branch locations

The small business borrowers of a bank are generally located close to the bank's branch locations.

- About one-third of banks report that the general location of their small business borrowers is within 20 miles of a branch, and two-thirds of banks report the general location is within 60 miles.
- About four in five banks define their geographic market for small business lending based on their branch footprint and, on average, their market extends 40 miles from their branch locations.
- This reported market distance is largely independent of size, top lending product, and technology use.

Branches and on-site visits are key conduits for small business credit.

- Banks use and highly value branch locations and on-site visits as ways to generate and maintain small business lending relationships.
- While remote communication methods such as email, file transfer, and video conference are ubiquitous, they often supplement rather than replace in-person interaction.
- Very few banks allow borrowers to complete a loan application entirely through an online portal.

The primary factors limiting the extent of geographic markets relate to competitive pressures and the challenges of maintaining relationships.

- The most commonly cited factor limiting banks' markets is that borrowers outside their market prefer to borrow from closer banks.
- A majority of banks identify operational issues related to maintaining relationships and gathering information about the small business borrower as limiting their market.
- Banks operating in more-competitive areas report a geographic market that is, on average, nine miles smaller than banks operating in less-competitive areas.
- Alternative explanations such as technological investment, asset size, and underwriting practices rarely explain differences in market size.

Banks typically compete with similarly sized or smaller local banks, though competition with nonbanks seems to be increasing

Banks generally compete with banks of a similar or smaller size.

- More than nine in ten banks compete often with another bank for small business lending.
- Relatively few small banks compete often with large banks.
- Conversely, most large banks compete often with banks of all sizes.

Banks rarely compete intensively with banks that do not have a branch presence in their market.

- The majority of banks only compete often with banks that have a branch presence in their market, while one in five banks compete often with local and non-local banks.
- Banks are more likely to compete with a non-local bank when the competitor bank is large.

Competition with credit unions and other nonbanks seems to have increased.

- The majority of banks at least occasionally compete with credit unions and other nonbanks, and regular competition with credit unions and FinTechs seems more common than in 2016.
- Small banks are more likely to compete with credit unions, while large banks are more likely to compete with FinTech lenders, credit card issuers, and other financing companies.
- Banks cite pricing as the primary advantage of credit unions, while banks cite customer-facing technology, convenience, and speed of service as competitive advantages for FinTechs.

There are key differences between small and large banks in small business lending

Compared to large banks, small banks generally use more soft information in their underwriting process.

- Small banks are more likely than large banks to use a wide variety of soft information, especially loan officer assessments, when evaluating loan applications.
- Nine in ten small banks, but only four in ten large banks, have loan decision-makers meet with applicants.

Most large banks make smaller loans using techniques that emphasize information from credit bureaus rather than more qualitative factors.

- The majority of large banks, compared with only one in ten small banks, view credit bureau information as the most important aspect of a small loan.
- A substantial minority of large banks have credit-scoring systems that allow them to automatically approve small loans based entirely on hard information.

Small banks are perceived by other banks as more flexible and able to lend to marginal borrowers. Large banks are more likely than small banks to make small loans without collateral.

- Small banks have perceived advantages in lending flexibility, such as flexibility in pricing or loan structure, in collateral requirements, and in their willingness to accept alternative forms of documentation.
- Small banks also have perceived advantages in lending to marginal borrowers or those who lack documentation, which may include start-ups.
- Large banks may be better at serving small businesses that lack collateral, as large banks are more likely to make loans of $25,000 or less without requiring collateral.

To manage the risk of lending to start-ups, large banks more often rely on government guarantees, while small banks more often use soft information gleaned from meeting with applicants.

- Six in ten large banks that are SBA lenders lend to start-ups, compared with only a quarter of non-SBA lender large banks.
- Small banks are more likely than large banks to use the information they gain from meetings with applicants to make start-up loans.
- Overall, small banks are somewhat more likely than large banks to lend to start-ups.

SECTION 1
Introduction

Small businesses are a vital part of the U.S. economy. In 2023, there were more than 33 million small businesses in the United States, accounting for 99.9 percent of all firms, 46.4 percent of private sector employment, and 43.5 percent of gross domestic product.[5] The survival and growth of small businesses depends on access to credit, and banks are a primary source of credit to small firms. Results from a 2022 Federal Reserve survey show that banks provided financial services to 87 percent of small firms and remain their most common source of credit among financial service providers.[6] This is likely because of banks' expertise in judging the creditworthiness of small businesses even when such businesses lack standard evidence of their quality.[7] Yet despite the importance of banks to small businesses and the importance of small businesses to the economy, comprehensive information about bank small business lending remains scarce.[8]

Understanding the fundamentals of bank small business lending can help regulatory agencies, policymakers, academics, and other stakeholders better gauge both how changes in the economy affect small businesses' access to credit and how banks may better meet the credit needs of small firms.

To advance this understanding, the Federal Deposit Insurance Corporation (FDIC) conducted the Small Business Lending Survey (SBLS) in 2016 and in 2022 to collect high-quality data on small business lending practices for a large, nationally representative sample of U.S. banks.

The 2022 survey, conducted between June 2022 and January 2023, built on the success of the 2016 survey, which helped identify several areas for further analysis. For example, the 2022 survey delved more deeply into the lending practices of banks to highlight the many broad similarities across the industry in lending to small businesses and to capture important differences. The 2022 survey also covered new topics that reflect industry and economic changes since the 2016 survey, perhaps most notably those due to the COVID-19 pandemic (see "Impact of the Pandemic on Survey Results" box in this section).

As discussed in Section 2, banks vary substantially in how they distinguish small businesses and in the products they offer to small firms. So a key decision when discussing small business lending is how to define it. To allow for lending that may be missed by well-known regulatory or conventional definitions, the 2022 survey took a less-specific approach than the 2016 survey, which focused on commercial and industrial lending. Specifically, the 2022 survey asked banks to consider all borrowers that meet the bank's internal definition of a small business. Similarly, the 2022 survey asked banks to consider a wide range of potential lending, including owner-occupied real estate as well as traditional commercial and industrial loans.[9] In certain cases, however, the survey directed banks to consider only certain types of lending, generally excluding credit card lending and lending through the Paycheck Protection Program.

A more inclusive definition of small business lending facilitates comparisons between small and large banks (in this report, small banks are those with less than $10 billion in assets and large banks are those with at least $10 billion in assets). While parts of the small business lending process can look remarkably similar across all banks, there remain some key differences as banks increase the scale

5 U.S. Small Business Administration, Office of Advocacy, Frequently Asked Questions, March 2023.
6 The report contains findings from a survey of firms with between 1 and 499 employees. Of firms seeking credit, 43 percent had applied to a large bank (at least $10 billion in deposits) and 30 percent to a small bank. Online lenders were the next largest lender type with 22 percent. See Federal Reserve Banks (March 2023).
7 On the advantages of banks relative to other external credit options, see Udell (2008) and Beck, Demirgüç-Kunt, and Maksimovic (2005).
8 On the importance of small businesses to the economy, see Alon, Berger, and Hackney (2018).
9 For additional details on the definition of *business purpose lending* used in the survey see Key Terms.

of their operations (see Section 2 and Section 3). Understanding these differences is critical given the trends in the banking industry since the Great Recession.

One such trend is bank consolidation. Consolidation has dramatically affected the structure of the banking industry and contributed to a sharp decline in the number and asset share of small banks. Between 2008 and 2023, the number of small banks in the United States declined almost 46 percent and their share of total assets in the industry decreased 7 percent. However, small banks have long held an outsized role in lending to small businesses. At the end of 2023, small banks held nearly 42 percent of small commercial and industrial and commercial real estate loans to businesses despite holding only 15 percent of industry assets.[10]

The results of the 2016 SBLS—found in FDIC (2018)—and the consensus in academic research agree that small and large banks differ in the types of information on which they base lending decisions (see "Relationship and Transactional Lending" box in this section). The implication is that the continued decline in the number of small banks could have significant adverse effects on access to credit for small businesses and threaten a key strength of the U.S. economy. This concern is most acute for firms that have relatively less quantifiable evidence of their creditworthiness—for example, start-ups. This report highlights differences in the practices of small and large banks and considers implications for how consolidation might affect the provision of credit by the banking industry.

Another trend is the closure of bank branches. Between 2017 and 2022, the number of bank branches fell by 12 percent. Large banks reduced their total branch footprint by about 20 percent, while the number of small bank branches remained roughly stable.[11] The closure of nearby branches may reduce small businesses' access to credit and make it more difficult for banks to form and maintain relationships within local communities. The 2022 SBLS investigated how banks define their markets and what role branches play in their small business lending process (see Sections 5 and 6). Understanding the importance of branches in providing small business credit facilitates a better appreciation of how branch closures affect general credit access and highlights where closures are likely to have the greatest impact.

A third trend is the increased prevalence of financial technology, or FinTech, in small business lending. FinTech presents both an opportunity and a challenge, as banks may adopt new technologies to streamline their small business lending but may also face increased competition from nonbank FinTech firms (see Section 5). Further, the growing role for technological solutions may threaten or complement the traditional model of relationship-oriented lending (see Section 4). Similarly, the resulting flexibility or inflexibility of such systems could change the types of customers that obtain credit, including by expanding credit to new customers.

The SBLS helps address the question of how banks manage their small business lending in the context of these trends.

The SBLS is the only survey to provide nationally representative findings that reflect a broad view of the practices of the entire industry, including both small and large banks.[12] This level of detail can be gleaned from the survey results because of the size and representativeness of the sample, rigorous testing of the survey questions, and high response rate.[13] The 2022 survey had a sample response rate of

[10] All numbers are from bank Consolidated Reports of Condition and Income (Call Reports). Small loans to business are the outstanding balances as of December 31, 2023, on commercial and industrial and commercial real estate loans less than $1 million at origination.

[11] Numbers taken from Hinton, Hoffman, Kasper, and Lu (2023). The numbers conditional on bank size reflect merger-adjusted changes in the number of bank offices. The process of "merger-adjusting" accounts for differences that result from the effects of mergers.

[12] Few other surveys of small business lending survey banks. These other surveys cover fewer topics than the SBLS and often use non-representative samples of only small banks, which prevents comparisons between different-sized banks.

[13] For example, the survey samples a disproportionately high number of large banks, which is corrected in analysis through the use of statistical weighting of responses, resulting in findings that are nationally representative of U.S. banks (see Appendix A). The survey instrument was developed in consultation with experts at the U.S. Census Bureau and benefited from suggestions by approximately 50 banks of all sizes across the United States that provided feedback on draft versions of the survey through one-on-one interviews in 2021. The survey also benefited from comments by a panel of experts from academia and other government agencies (see Acknowledgments).

68 percent, with about 1,300 banks, or more than a quarter of all eligible banks, responding.[14]

Topics covered in the 2022 survey included banks' loan approval and underwriting processes, markets and competition, use of financial technology, and lending to start-up firms.[15] This report details results and findings from the 2022 survey responses. Generally the report focuses on the banking industry as a whole unless significant differences between groups of banks were observed.

Section 2 of the report covers the fundamentals of small business lending by banks, and Section 3 explains the underwriting and approval process for small business loans. Section 4 focuses on the use of FinTech in bank small business lending, specifically which banks use FinTech and how they incorporate it in small business lending. Section 5 considers how banks define their markets for small business lending, who their competitors are within those markets, and how competition has changed since the 2016 SBLS. Section 6 explores the practices that banks use to generate and maintain relationships with their small business customers and the competitive advantages of banks. Section 7 covers bank lending to start-ups.

RELATIONSHIP AND TRANSACTIONAL LENDING

The consensus explanation in academic research for the role of banks in small business lending is that banks have a unique ability to generate information that allows them to identify creditworthy small firms and, by extension, profitable small business loans.[a] Although banks are thought to use a variety of methods to identify high-quality small businesses, small and large banks are widely considered to hold distinct advantages in how they process information. As a result, small and large banks are expected to manage their small business lending programs differently.

Small banks are thought to hold an advantage in gathering and using "soft" information, defined as information that is difficult to quantify or transmit between individuals. Small banks obtain this information through direct, repeated interactions with prospective borrowers and through knowledge of the local community. Because small banks are usually closely held organizations with few managerial layers between bank owners and loan officers, the loan officer may be more motivated to gather and use soft information when deciding whether to grant a business loan.[b] Further, small banks are typically located in the communities they serve, which lowers the cost of forming a relationship with the firm and of gathering knowledge of the local market.[c] Small banks are therefore considered more flexible in meeting credit needs and better able to engage with small businesses on a case-by-case basis. For these reasons, small banks as a group are typically called relationship lenders.

Large banks are thought to take advantage of economies of scale to gather and use large amounts of quantifiable, or "hard," information about current and prospective borrowers. This reliance on hard information requires that bank management specify the types of data used as well as the metrics for determining small business quality, usually well before any business applies for a loan. Accordingly, the lending decisions of large banks are more likely than those of small banks to be based on the strength of financial variables.[d] Further, since the information used by large banks is quantifiable, it can be

[a] Udell (2008).
[b] Berger and Udell (2002).
[c] Berger and Udell (2002) and Stein (2002).
[d] Cole, Goldberg, and White (2004).

[14] For more on the methodology of the survey and response rates, see Appendix A.
[15] For an informational copy of the survey instrument, see Appendix B.

submitted and shared electronically, which may reduce the need for decision-makers in large banks to be in close proximity to the small business. This structure facilitates a high-volume small business lending model and is often called transactional lending.

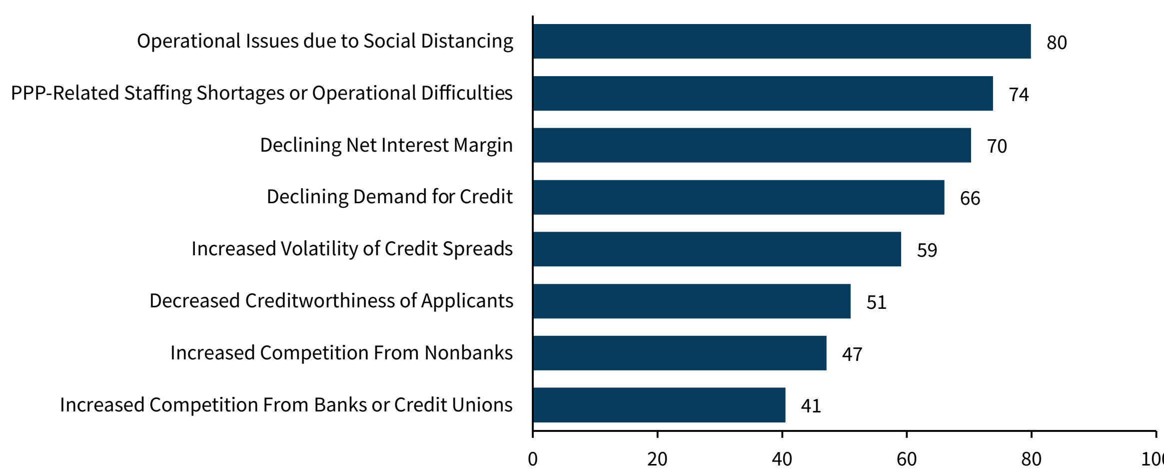
Simply because banks use different models to process loan information does not necessarily mean they will use different strategies to interact with current and prospective small business borrowers. As documented in the 2016 Small Business lending Survey report (FDIC 2018), a high-touch, staff-intensive approach to customer relationships does not necessarily mean that a bank incorporates or emphasizes soft information in its underwriting. Similarly, the adoption of consumer-facing technology such as mobile apps does not necessarily mean that banks use a more transactional approach for credit decisions, though they may incorporate data gathered through those interactions into their underwriting. Rather, certain effective practices in generating and maintaining relationships with small business customers are nearly universal in banking, even if banks differ in how those relationships factor into credit decision-making.

IMPACT OF THE PANDEMIC ON SURVEY RESULTS

The 2022 Small Business Lending Survey (SBLS) is a survey about the typical small business lending practices of banks. The COVID-19 pandemic changed the economic environment including during the survey period. In answering the survey questions, banks were encouraged to ignore temporary disruptions or changes to small business lending practices due to the pandemic. The ability of respondents to make these adjustments was a topic explored during virtual testing of survey questions with banks.[a] Banks responded to the survey in 2022, and some questions referred to lending activity in calendar year 2021; thus, all responses partially reflect the wide-ranging impact of the pandemic.

FIGURE 1.BOX1

Percentage of Banks That Faced Selected Challenges During the COVID-19 Pandemic

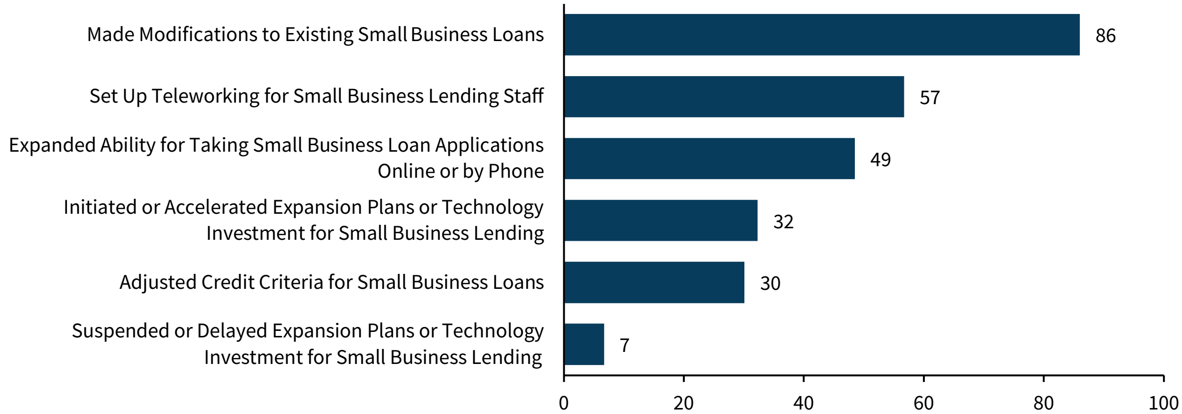


Source: SBLS 2022 Question III.A1.

Note: Results reflect a response of either “experienced somewhat” or "experienced as a serious problem" to question III.A1. "PPP" is the Paycheck Protection Program. This analysis includes only banks that reported engaging in small business lending in Question I.A1.

[a] For example, in most cases the survey asked banks to exclude pandemic-specific activity, such as Paycheck Protection Program (PPP) lending or competition based solely on PPP loans.

FIGURE 1.BOX2
Percentage of Banks That Took Specific Actions During the COVID-19 Pandemic



Source: SBLS 2022 Question III.A2.
Note: This analysis includes only banks that reported engaging in small business lending in Question I.A1.

The survey asked specific questions about banks' experiences during the pandemic to better understand the challenges and how banks responded to them. As shown in Figure 1.BOX1, banks reported confronting a range of issues during the pandemic. Unsurprisingly, the virus and social distancing measures challenged the traditional high-touch and in-person approach for interacting with small business customers: four in five banks reported operational difficulties due to social distancing. For 74 percent of banks, pandemic-related issues may have been compounded by implementation of the Paycheck Protection Program (PPP), which caused well-documented logistical and operational difficulties. Most banks also faced challenges with declining net interest margins, a decline in demand for traditional credit, and increased volatility of credit spreads.

The survey also documented actions banks took in response to these challenges. Ninety percent of banks reported participating in at least one round of PPP lending.[b] As shown in Figure 1.BOX2, 86 percent reported modifying some existing small business loans. About half of banks adopted or expanded methods of remote communication, such as allowing small business lending staff to telework (57 percent) and allowing customers to apply for loans online or by phone (49 percent). Notably, the majority of banks (70 percent) did not see a need to change their typical credit criteria or standards in response to market changes. While these adjustments had a large and potentially long-lasting impact on business practices, high-touch and in-person practices remain essential in small business lending (see Sections 5 and 6).

[b] Percentage of banks that participated in at least one round of PPP lending is computed using the percentage of banks that answered yes for either round in question III.A3.

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SECTION 2
Fundamentals

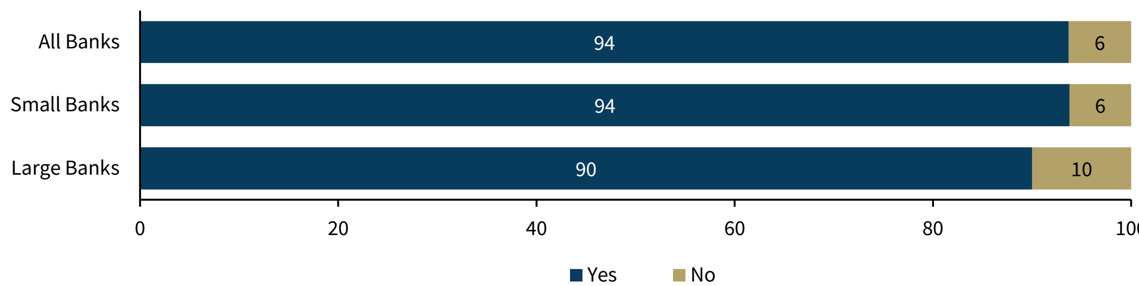
Almost all banks lend to small businesses; 94 percent of small banks and 90 percent of large banks reported making at least some small business loans in 2021 (Figure 2.1).[16]

2.1 Defining Small Businesses

While small and large banks are equally likely to report lending to small businesses, they may not define small businesses the same way. To provide insight into these differences, the 2022 SBLS asked banks whether their internal definition of small businesses uses two common financial measures: the gross annual revenue (GAR) and the aggregate loan exposure (ALE) of the businesses. Figure 2.2 shows that large banks are much more likely than small banks to use these measures to identify small business borrowers. Almost 60 percent of large banks use ALE and about half of large banks use GAR, compared with less than 16 percent of small banks that use either measure in their internal definition. This distinction likely reflects the need for large banks to direct customers and applications to specific units within the bank, while smaller banks may be more likely to consider all of the businesses they serve as small businesses. In the 2016 SBLS, almost 80 percent of small banks considered “largely all” of their commercial and industrial (C&I) lending to be to small businesses.[17]

Banks also use specific quantitative limits for these measures in their definition of small businesses. For banks that use ALE, $1 million or less is the most common limit, reported by about 8 percent of small banks and 33 percent of large banks (Figure 2.2). A significant portion of large banks (22 percent) define small businesses as having ALE between $1 million and $5 million, while only 2 percent of small banks do so. For banks that use GAR to identify small businesses, 14 percent of large banks and 11 percent of small banks use a limit of $1 million or less.[18] Only 4 percent of small banks use GAR greater than $1 million to identify a small business, compared with 37 percent of large banks. The notable differences in the use of GAR limits above $1 million between large and small banks may reflect differences in scale in

FIGURE 2.1
Percentage of Banks That Made Loans to Small Businesses in 2021, by Bank Size



Source: SBLS 2022 Question I.A1.
Note: Banks were asked about their lending in the 2021 calendar year. None of the differences shown here are significant at the 10 percent level.

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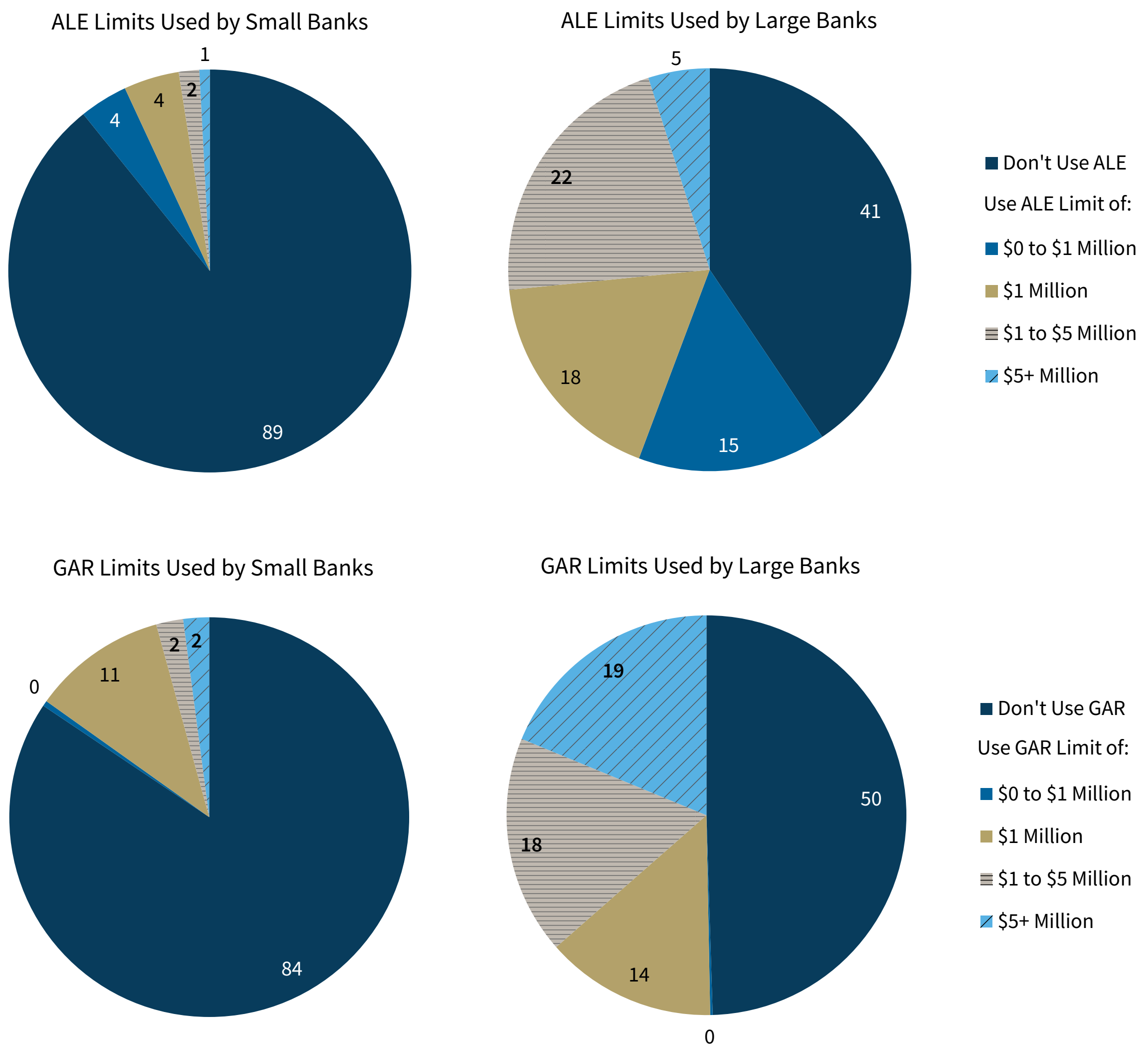
[16] Subsequent analysis includes only banks that reported engaging in small business lending in Question I.A1. Thus, in all other analysis, the approximately 6 percent of banks responding “no” to that question are excluded from the calculations. For comparison, 95 percent of banks had at least some commercial and industrial (C&I) loans with an origination amount less than or equal to $1 million at the end of 2021.

[17] FDIC (2018).

[18] During this period, banks with total assets of more than $1.322 billion were generally obligated under the Community Reinvestment Act to make regulatory filings with data on aggregated C&I lending to businesses with GAR less than $1 million, which may contribute to an increased salience for that limit.

FIGURE 2.2
Percentage of Banks That Used Certain Financial Measures to Define Small Businesses, by Bank Size



Source: SBLS 2022 Questions I.A3, I.A4, I.A5, and I.A6.
Note: The financial measures are "Aggregate Loan Exposure" (ALE) and "Gross Annual Revenue" (GAR).
Results may not sum to 100 percent due to rounding.

which large banks are disproportionately more likely to have small business customers with GAR well above $1 million.

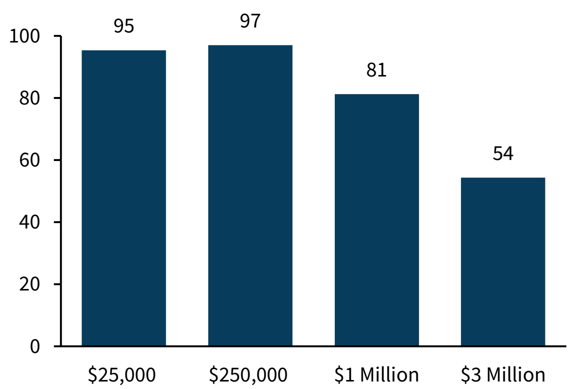
In line with the wide range in financial limits by which banks define small businesses, the sizes of loans banks make to small businesses also vary. Regulators have long used loan size to classify small business lending. But as shown in FDIC (2018), the FDIC's report on the 2016 SBLS, this approach may lead to misstatements of small business lending.[19] Small loans do not necessarily go to small businesses, and small businesses do not necessarily take out small loans. To evaluate banks' willingness to make large loans to small businesses, the 2022 survey asked banks whether they would typically make a loan for four amounts: $25,000, $250,000, $1 million, and $3 million.

[19] This history notably includes the use of C&I lending with amounts at origination up to $1 million as a measure of small business lending in bank Call Reports and for Community Reinvestment Act evaluations. For more, see Goldston and Lee (2020).

Unsurprisingly, nearly all banks make loans of $25,000 and $250,000 to businesses their bank considers small (Figure 2.3). As loan size increases, the share of banks typically making such loans to small businesses decreases. Even so, 81 percent of banks regularly make loans of about $1 million and 54 percent regularly make loans of about $3 million. These findings indicate that the majority of banks regularly make loans to small businesses of $1 million or more and that these loans meet the wide-ranging credit needs of small firms. The findings also reinforce the idea that using loan limits to define small business lending could fail to capture the full extent of bank small business lending.

FIGURE 2.3

Percentage of Banks That Made Small Business Loans of Specific Sizes



Source: SBLS 2022 Question I.C2.
Note: Banks were asked whether, in their normal course of business, they made loans of this approximate size to small businesses.

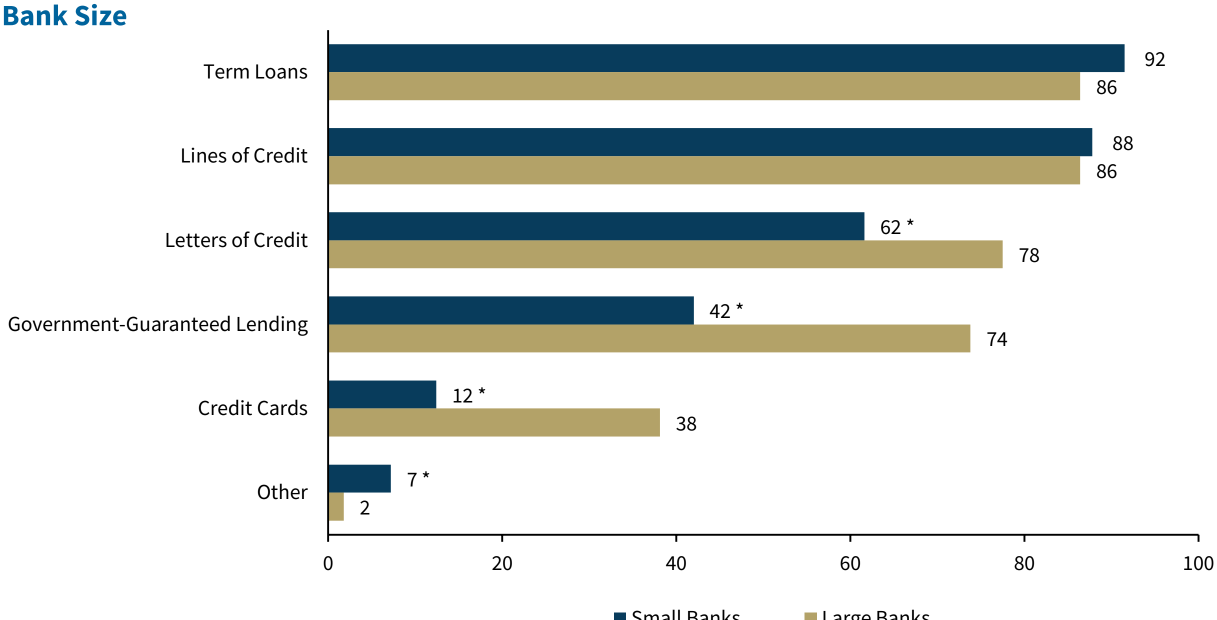
2.2 Small Business Lending Products

Banks offer several types of lending products to serve the needs of their small business customers. The survey asked banks whether they originated loans to small business customers using any of the following five general product types: credit cards, government-guaranteed lending, letters of credit, lines of credit, and term loans.

The survey finds that large banks are more likely than small banks to offer a greater array of products to small business customers (Figure 2.4). Virtually all banks offer term loans and lines of credit, but small banks are less likely than large banks to offer other loan products. For example, about three-quarters of large banks offer letters of credit and government-guaranteed loans, compared with 62 percent of small banks that offer letters of credit and 42 percent

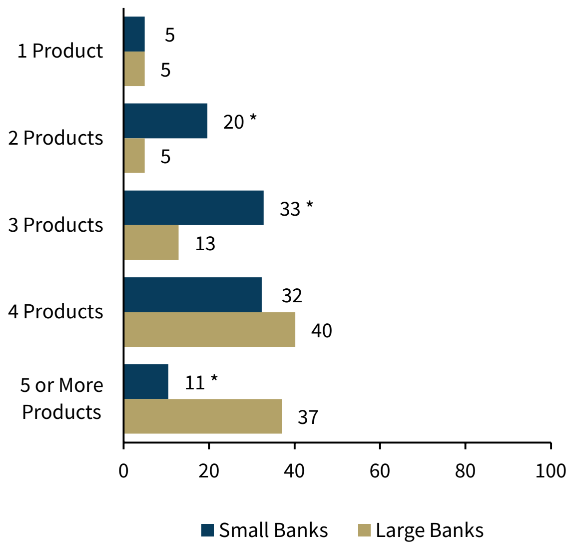
FIGURE 2.4

Percentage of Banks That Offered Specific Types of Lending Products to Small Businesses, by Bank Size



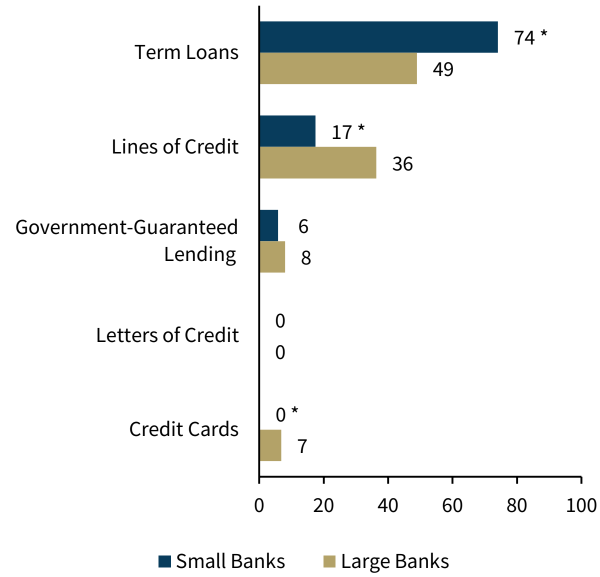
Source: SBLS 2022 Question SN4.
Note: Credit cards refer to lending in which the bank issues and holds the portfolio.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

FIGURE 2.5
Percentage of Banks That Offered a Certain Number of Small Business Lending Products, by Bank Size



Source: SBLS 2022 Question SN4.
Note: The average number of products offered to small business borrowers is approximately three. Results may not sum to 100 percent due to rounding.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

FIGURE 2.6
Percentage of Banks Citing Each Small Business Lending Product as Their Top Dollar Product, by Bank Size



Source: SBLS 2022 Question SN5.
Note: Top dollar product is defined as bank's highest ranked product by dollar volume of originations among product types the bank originated to small business borrowers. The "other product" answer option is omitted. Credit cards refer to lending in which the bank issues and holds the portfolio.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

that offer government-guaranteed loans. Offering a credit card managed from the bank's own portfolio is relatively rare for small banks (12 percent) but relatively common for large banks (38 percent).

The larger scale of operations at large banks, as shown in Figure 2.4, likely increases the probability of these banks offering a particular loan product. Government-guaranteed loans, for example, allow banks to effectively manage risk for smaller-dollar lending or to use secondary markets to generate a relatively quick return on capital. But this type of lending often requires significant investments in specialized staff, which may be cost prohibitive at smaller scales of operation (see Sections 2.4, 2.5, and 7.2). Other factors may also contribute to the differences in the types of small business loans small and large banks offer. For example, credit card lending tends to rely heavily on credit scores and other types of hard information, which more closely aligns with the underwriting practices used by large banks (see Section 3.5).

Although large banks are more likely to offer a greater array of loan products to small business customers, the vast majority of banks, large and small, offer more than one product (Figure 2.5). The average number of products originated across all banks is three, but this statistic masks substantial differences between small and large banks.[20] Most large banks (77 percent) originate loans in at least four of the different product types, compared with less than half of small banks (43 percent). However, a broader product offering does not necessarily translate into more flexibility in small business lending. Greater flexibility is a competitive advantage more typically associated with small banks (see Section 6.3).

Small and large banks also differ in what they consider their top lending product. Figure 2.6 shows the percentage of small and large banks indicating whether a product was their top product

[20] Average number of products originated across banks is computed using the mean number of product types that banks reported they originate in response to Question SN4.

as measured by dollar volume of originations. While most banks offer term loans and lines of credit, term loans are the top product for 74 percent of small banks and 49 percent of large banks. Lines of credit are the top product for 36 percent of large banks but only 17 percent of small banks. A relatively small share of banks—6 percent of small banks and 8 percent of large banks—report government-guaranteed loans as their top product. Notably, 7 percent of large banks indicate their top product to small businesses by volume is credit cards, while hardly any small banks report the same.

For multiple parts of the survey, the questions focused on the bank's "focal lending product," which refers to the bank's top loan product other than credit cards or government-guaranteed lending. This approach avoids mixing results from common loan products with those from specialized and qualitatively different products. Results were analogous to those for the top product overall (Figure 2.7). Term loans are the most common focal lending product overall and for both small and large banks, although large banks are more likely than small banks to report lines of credit as their focal lending product.

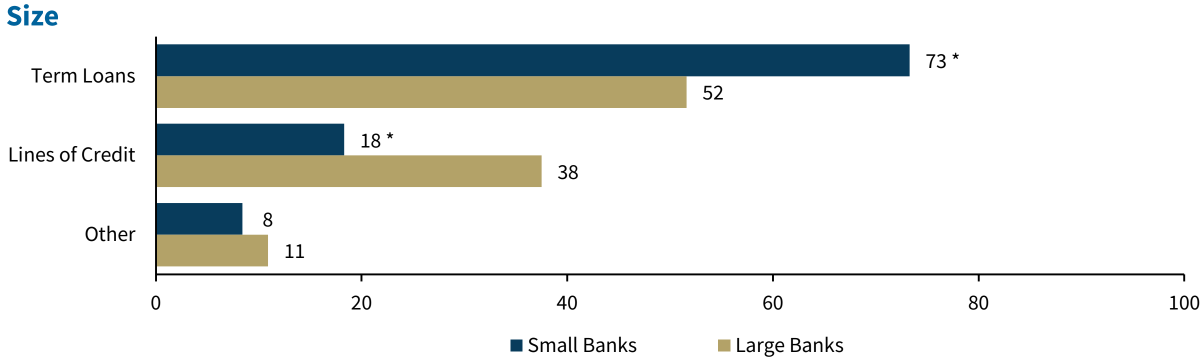
2.3 Primary Use of Loans by Type

The survey asked banks to report the primary use of their focal lending product for loans of four sizes: $25,000 (small loans), $250,000 (medium loans), and $1 million or $3 million (large loans).[21]

The survey finds that small term loans of $25,000 are most commonly used for equipment (65 percent), while large term loans of $1 million or $3 million are mainly used for owner-occupied commercial real estate (CRE) (81 percent) (Figure 2.8). Medium term loans are used roughly evenly for equipment (36 percent) and CRE (42 percent). Lines of credit are more often used for liquidity purposes, with working capital, inventory, and funding of accounts receivable making up the bulk of the uses for all sizes of loans. A quarter of banks report using large lines of credit for owner-occupied CRE.

FIGURE 2.7

Percentage of Banks Citing Each Focal Lending Product as Their Top Dollar Product, by Bank Size

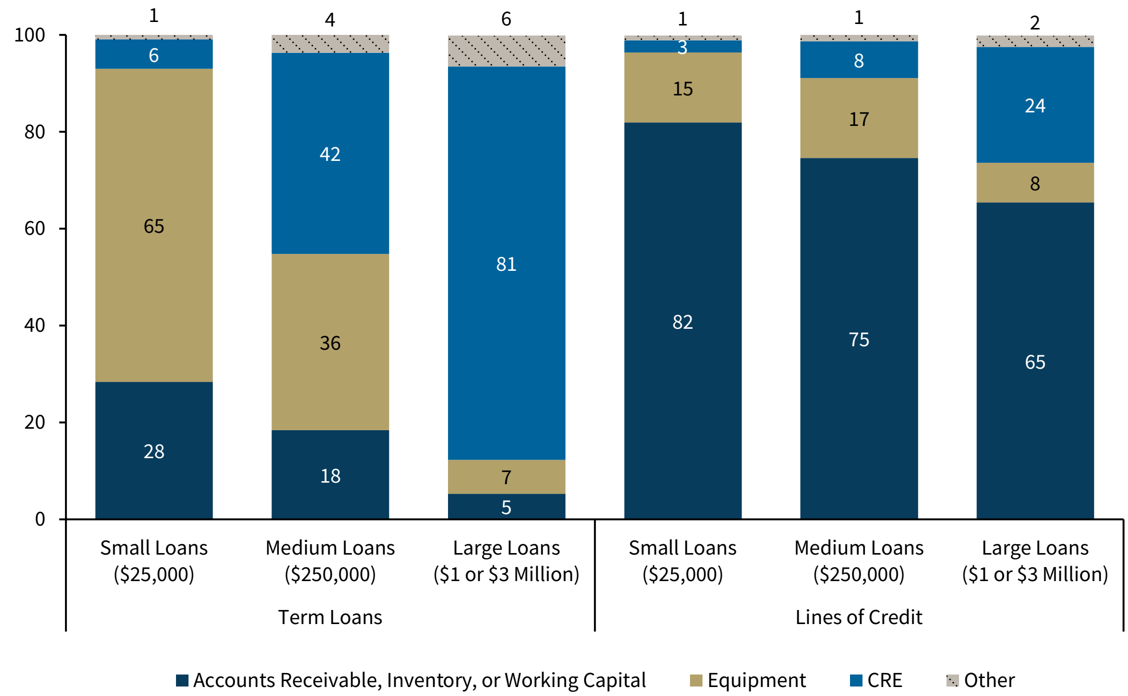


Source: SBLS 2022 Question SN5.
Note: This figure shows the focal product for questions keyed to a specific product. The focal product is the bank's highest ranked product by dollar volume of originations among product types the bank originated to small business borrowers, excluding credit cards and government-guaranteed lending (see Appendix A for more information). Results may not sum to 100 percent due to rounding.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

[21] Banks that made $3 million loans were asked about their $3 million loans, whereas banks that made $1 million loans but not $3 million loans were asked about their $1 million loans. Responses for $1 million and $3 million loans are combined to form the "large loans" category.

FIGURE 2.8

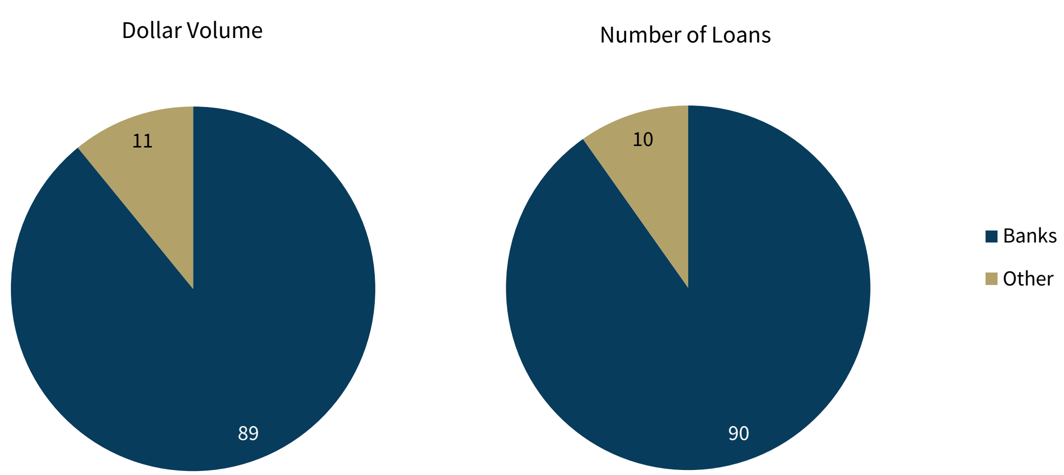
Percentage of Banks Citing Each Loan Purpose as Most Common, by Product Type and Loan Size



Source: SBLS 2022 Questions IC.3, IC.9, IC.15, and IC.21.
Note: Responses were combined to form the "large loan" category. Banks that made $3 million loans were asked about their $3 million loans, whereas banks that made $1 million loans but not $3 million loans were asked about their $1 million loans. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information). Results may not sum to 100 percent due to rounding.

FIGURE 2.9

Percentage of SBA 7(a) Loans Originated in 2021, by Type of Institution



Source: SBA 7(a) data.
Note: "SBA" is the Small Business Administration, which administers several programs that facilitate lending to qualifying small businesses. SBA 7(a) loans are originations from the SBA's largest program that offers a partial guarantee of the loan principal.

2.4 Government-Guaranteed Lending

Government-guaranteed lending refers to loans in which a government entity agrees to cover a portion of the loss if the borrower defaults. Typically, these guarantees help encourage or expand credit in targeted communities. Guaranteed loan programs play a dominant role in the consumer credit market for residential mortgages, where most loans are eligible for a form of guarantee from a government or quasi-government agency. In contrast to the residential mortgage market, the overall volume of government-guaranteed lending remains a small part of small business lending.[22]

The most prominent guaranteed loan program in the U.S. small business lending market is the Small Business Administration (SBA) 7(a) Loan Program. The 7(a) program offers a guarantee, typically for 50 to 85 percent of the loan principal, as long as the loan meets certain criteria.[23] The SBA administers the program through approved lenders that take the application and help underwrite and fund the loan.

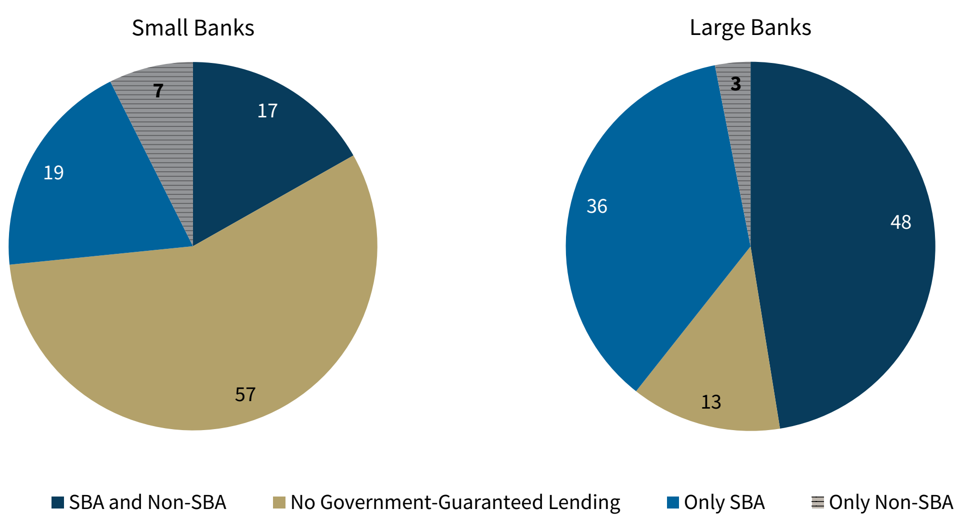
As a mainstay of the financial system, banks serve as a primary intermediary for administering government-guaranteed small business loan programs. In 2021, banks originated 89 percent of 7(a) loans by dollar volume and 90 percent by number of loans (Figure 2.9).[24]

While banks are central to the SBA program, less is known about how such programs fit into a bank's overall lending operations. Thus, the survey included several questions that explore how banks incorporate government-guaranteed loan products into their small business lending.

To gauge the prevalence of bank participation in government-guaranteed lending, the survey asked banks whether they originated loans through any program offering a government guarantee.[25] As

FIGURE 2.10

Percentage of Banks Originating Government-Guaranteed Loans, by Type of Loan and Bank Size



Source: SBLS 2022 Questions SN2A, SN2B, and III.B1.
Note: "SBA" is the Small Business Administration, which administers several programs that facilitate lending to qualifying small businesses. Results may not sum to 100 percent due to rounding.

22 Gopal and Schnabl (2022) estimate that SBA lending accounted for about 8 percent of all C&I lending in 2016.
23 Most notably, the SBA requires a 7(a) borrower to be unable to obtain reasonably priced credit from a traditional source.
24 Author calculations from SBA data on the 7(a) program.
25 This analysis restricts the answers to government-guarantee programs other than the Paycheck Protection Program (PPP). The 2022 survey asked specific questions about banks' participation in the PPP, and the results from these questions can be found in Section 1. The timeframe for the question is calendar year 2021. Given the prominence of the SBA in the small business market, the survey separately asked banks about their lending through SBA and non-SBA programs.

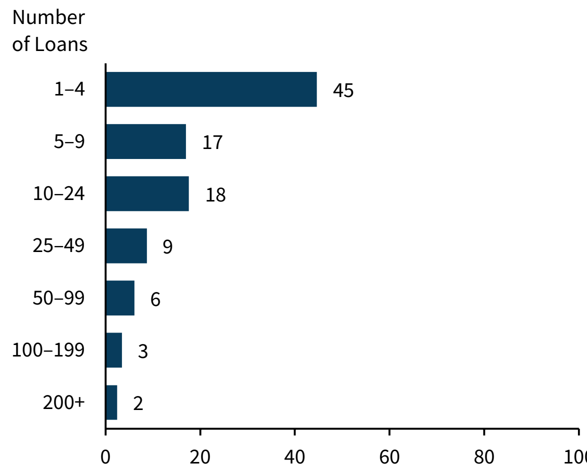
shown in Figure 2.10, fewer than half of small banks participate in government-guarantee loan programs that target small business borrowers, while nearly all large banks do. About 43 percent of small banks and 87 percent of large banks participate in at least some government-guaranteed lending. SBA programs are the most popular small business government-guaranteed program banks use, with 36 percent of small banks and 84 percent of large banks participating. Bank participation in only a non-SBA guarantee program is comparatively rare (7 percent of small banks and 3 percent of large banks).

The majority of banks (62 percent) that made SBA 7(a) loans in 2021 made fewer than 10 such loans, and only 2 percent of banks made more than 200 7(a) loans (Figure 2.11). These results are consistent with the relatively small number of banks that cite government-guaranteed loans as their primary small business loan product (Figure 2.6). Further, these results suggest that banks can use the SBA program to supplement their regular lending or as a mainstay product, and participation does not seem to be inherently limited to large banks due to economies of scale.

To understand the reasons driving the differences in participation in guaranteed lending, the survey asked banks about factors that limit their involvement in the SBA 7(a) program, including concerns about compliance, operating and staffing costs, and lack of need. The relatively high cost of participation, in terms of obtaining required expertise and personnel, and a lack of perceived need are the most common factors limiting participation (Figure 2.12). About half of small banks (48 percent) and 20 percent of large banks cite difficulty obtaining the required expertise and personnel to start or expand their SBA program. A similar share of small banks (48 percent) and a third of large banks report that applicants qualify for other loan products and do not need an SBA guarantee. Relatively less common concerns are compliance with origination and servicing guidelines and start-up or administrative costs of participation.

Despite these concerns, government-guaranteed lending plays an important role in small business lending. As noted in Section 7.2, large banks seem to use government-guaranteed loans to manage risk

FIGURE 2.11
Percentage of SBA-Lender Banks Reporting SBA 7(a) Loans Originated in 2021



Source: SBA 7(a) data.
Note: "SBA" is the Small Business Administration, which administers several programs that facilitate lending to qualifying small businesses. SBA 7(a) loans are originations from the SBA's largest program that offers a partial guarantee of the loan principal. Results include only those banks that made at least one SBA 7(a) loan in 2021, which is the calendar year and not the SBA's fiscal year.

when lending to applicants without a strong credit history. In fact, 37 percent of SBA originations in 2021 went to businesses two years old or less.[26]

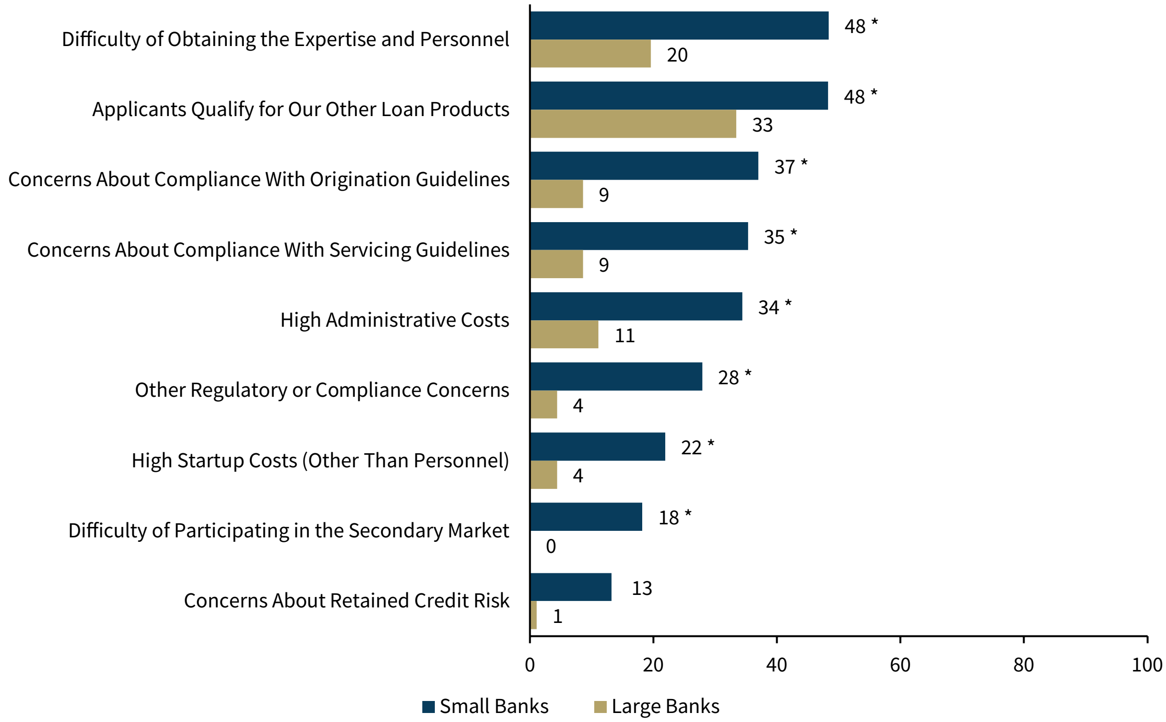
2.5 Sales of Small Business Loans

Another way banks can manage the credit risk of a small business loan portfolio is by participating in the secondary market for small business loans, where lenders can sell loans they originated, either individually or through securitization. A large secondary market for loans can quickly increase liquidity by allowing banks to recoup a portion of the principal and issue additional loans. The secondary market in residential mortgage financing is widely credited with expanding the availability of credit, principally through the participation of government-sponsored enterprises that support market functioning. Within small business lending, the most prominent secondary market is for the guaranteed portion of SBA 7(a) loans. The secondary market for traditional small business lending products is less centralized and difficult to quantify. Accordingly, the

[26] Author calculations from SBA data.

FIGURE 2.12

Percentage of Banks Listing Selected Factors as Limiting Their Participation in SBA Programs, by Bank Size



Source: SBLS 2022 Question III.B2.
Note: Question asked respondents to exclude the Paycheck Protection Program (PPP) when answering.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

survey asked whether banks had sold various types of loans with and without a government guarantee.

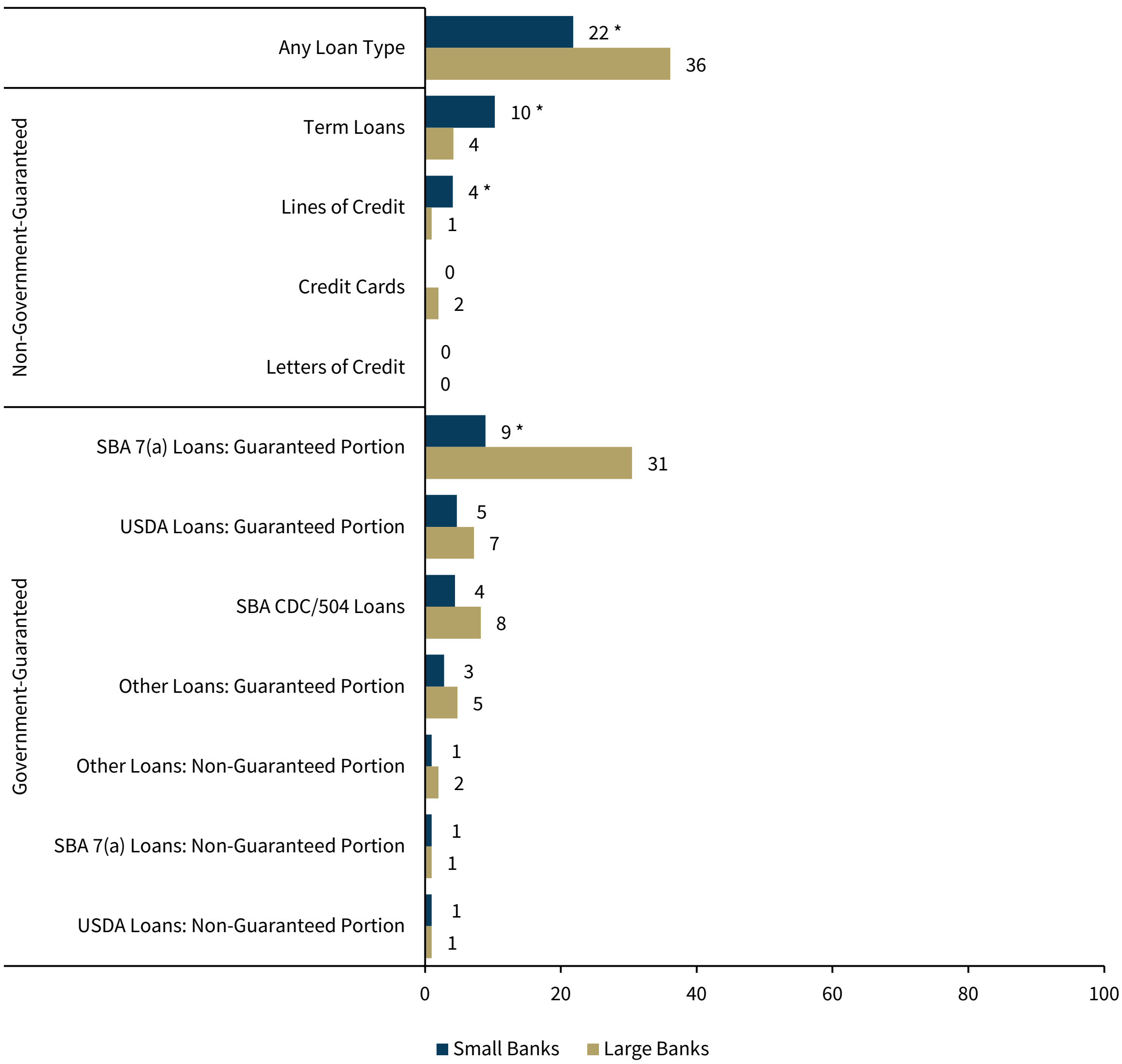
Most banks did not sell any portion of their loans in 2021. Only 22 percent of small banks and 36 percent of large banks sold at least one small business loan (Figure 2.13). The higher prevalence of sales among large banks likely reflects the fixed costs of participating in the secondary market and the greater likelihood of originating government-guaranteed loans, particularly SBA loans (see Section 2.2). These findings also suggest that, as in the residential mortgage market, government guarantees play an important role in the secondary market for small business loans. Almost all large banks and a significant share of small banks that sell loans sell a government-guaranteed portion. However, small banks are significantly more likely than large banks to sell traditional credit products, including term loans and lines of credit. Overall, these findings suggest a relatively modest role for the secondary market in small business lending.

2.6 Conclusion

Survey results show that almost all banks participate in small business lending, though not necessarily by offering the same products or providing the same services. Banks also define small businesses differently, with large banks more likely to use rigid definitions based on gross annual revenue or aggregate loan exposure. Banks commonly offer relatively large loans of $1 million or more to businesses they consider small, as well as smaller loans of $25,000 or less. Depending on the loan size and specific product, these loans might be used for equipment or owner-occupied commercial real estate (in the case of term loans), or for working capital or other liquidity purposes (in the case of lines of credit).

While banks originate the bulk of government-guaranteed small business loans, government-guaranteed lending and the secondary market do not make up a large share of most banks' small business lending. But government guarantees and the secondary market, especially in conjunction, can be an important part of banks' role in the small business lending market. The relatively limited role for government-guaranteed lending and secondary markets in small business lending underscores the unique expertise of banks in providing small business credit and may reflect the importance of soft information and relationships when evaluating loan applications from small businesses.

FIGURE 2.13
Percentage of Banks That Sold Specific Types of Small Business Loans, by Bank Size



Source: SBLS 2022 Question III.C1.
Note: Credit cards refer to lending in which the bank issues and holds the portfolio. "SBA" is the Small Business Administration, which administers several programs that facilitate lending to qualifying small businesses. SBA 7(a) loans are originations from the SBA's largest program that offers a partial guarantee of the loan principal. "SBA CDC/504" is the 504 loan program intermediated through Certified Development Companies (CDCs), which facilitates longer-term lending to qualifying small businesses. "USDA" is the United States Department of Agriculture, which administers several programs that facilitate lending to qualifying small businesses.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

SECTION 3
Loan Underwriting and Approval

The generation, use, and transmission of information are key components of small business lending, allowing bank decision-makers to identify profitable loans. The consensus of academic research on the loan production process suggests that small and large banks differ in the types of information on which they base loan decisions and the requirements they place on borrowers.[27] However, results from the 2016 SBLS, found in FDIC (2018), show that banks of all sizes typically use similar information in the production of small business loans. The 2022 SBLS delved more deeply into differences in the small business loan-production process, particularly in the types of information gathered and the transmission and use of that information, and how these processes differ by bank size and loan size.

As discussed in Section 1, research on bank lending distinguishes between two types of information: hard and soft. Hard information "is quantitative, is easy to store, and can be transmitted in impersonal ways," while soft information "is difficult to completely summarize in a numeric score, … requires a knowledge of its context to fully understand, and … becomes less useful when separated from the environment in which it was collected."[28] For example, a credit score from a credit bureau is a hard form of information, while a business plan explained to a loan officer is a soft form of information. Banks that rely on hard information can more easily separate information-collection and decision-making tasks, while banks that rely on soft information generally must assign these tasks to one person or a small group of people with specialized knowledge of an industry or geography.[29]

The research also suggests that small banks use more soft information than large banks do.[30] This is typically because smaller banks have a flatter organizational structure, with fewer layers of management or strong and close connections between personnel who gather information and those who make decisions, allowing for easier communication of soft information compared to large banks.[31] Such differences between small and large banks loom large in the context of the consolidation of the banking sector: as large banks make up a collectively larger share of the banking industry, firms that can provide the types of information large banks typically rely on to approve loans may benefit, while firms that cannot may lose access to credit.

To better understand the types of information banks generate, how that information is transmitted, who receives it, and how information may vary across loan sizes at a given bank, the 2022 SBLS contained two sequences of questions about loan underwriting and approval, both of which were keyed to the bank's top lending product, other than credit cards and government-guaranteed loans. The first sequence explored the approval process at banks, including the types of bank personnel involved and how banks delegate approval authority. The second sequence asked about the information banks use to make underwriting decisions for loans of $25,000, $250,000, and $1 million or $3 million, and for what purposes such loans are used.[32]

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27 See "Relationship and Transactional Lending" in Section 1.

28 Liberti and Petersen (2019).

29 The distinction between soft and hard information can be somewhat malleable. For example, a loan officer might read an applicant's business plan and assign it a numeric rating, thus "hardening" the soft information in the business plan; conversely, the hard numbers in financial statements may require knowledge of the loan applicant's industry in order to understand whether the statements are good or bad.

30 Liberti and Petersen (2019).

31 For example, Berger, Frame, and Miller (2005) find that small banks are better able than large banks to collect and act on soft information. Likewise, Cole, Goldberg, and White (2004) provide evidence suggesting that large banks are more likely than small banks to use standard criteria (i.e., hard information) obtained from financial statements in the loan decision process.

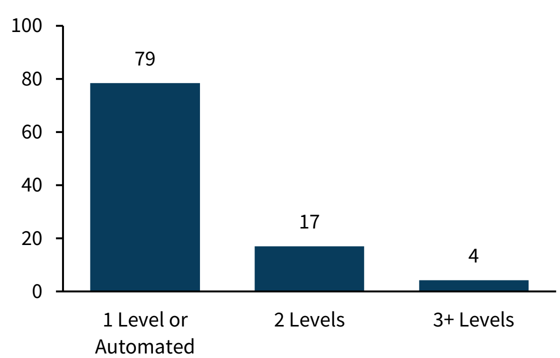
32 Banks were initially asked whether they made loans of $25,000, $250,000, and $1 million or $3 million to small businesses in their normal course of business (as discussed in Section 2). Only banks that made loans of those amounts were asked about their underwriting practices. To reduce survey burden, banks that made $3 million loans were asked about their $3 million loans, while banks that made $1 million loans but not $3 million loans were asked about their $1 million loans.

3.1 Levels of Approval

Small business loan sizes vary widely. The 2022 SBLS documents loans ranging from $25,000 to $3 million (see Section 2). A larger loan will tend to receive more scrutiny as it is a larger amount of money at risk for the lender. In a recent study, loans above $50,000 or $100,000 were found to require more detailed financial information than loans below that amount.[33] The study shows that small business applicants preferred to apply for loans just below the limit than supply the additional information needed for more credit, demonstrating the friction and additional burden created by requiring certain types of information.

To investigate the approval process for different-sized loans to small businesses, the survey asked banks to provide the number of levels of approval for a small and simple small business loan and for a large and complicated small business loan that may have credit policy exceptions.[34] These numbers were used to calculate the minimum and maximum number of levels of approval expected for a small business loan. The results, reported in Figures 3.1 and 3.2, show that 79 percent of banks use a minimum of one level of approval, while 73 percent of banks use three or more levels at a maximum.[35] Few banks (12 percent) have a loan process for small business loans that could require five or more levels of approval.

FIGURE 3.1
Percentage of Banks Reporting Each Minimum Number of Levels of Loan Approval



Source: SBLS 2022 Question I.B6.
Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

Banks were also asked which factors were likely to influence the number of levels of approval for a loan to a small business. Unsurprisingly, the most commonly reported factor—cited by 80 percent of banks—was loan size (Figure 3.3). The second most commonly reported factor was insufficient debt service coverage ratio, cited by 67 percent of banks. More than half of banks said loan applications from customers outside of the bank's primary lending area (57 percent) or lack of experience lending in the business's industry (53 percent) would influence the levels of approval. Being a repeat customer rarely helped lower the number of levels of approval, with only 21 percent of banks willing to lower the number of levels of approval for a previous deposit relationship and 26 percent for a previous lending relationship.

3.2 Signature Authority and Approver Role

The survey also asked banks about the typical role of approvers (whether the approver is typically a loan officer, senior loan officer, executive, or board member), the typical signature authority (the ability to authorize a loan of a certain size without being subject to higher levels of review) for each level of approval, and whether the approver meets with the applicant.

Responses to the signature authority question provide more context on the above-mentioned finding that large loans undergo more levels of approval than small loans. As shown in Figure 3.4, a very large share of banks (89 percent of small banks and 85 percent of large banks) give signature authority to first-level decision-makers for loans of $25,000. Far fewer banks give first-level decision-makers signature authority for loans of $250,000 or more (43 percent of small banks and 58 percent of large banks).[36]

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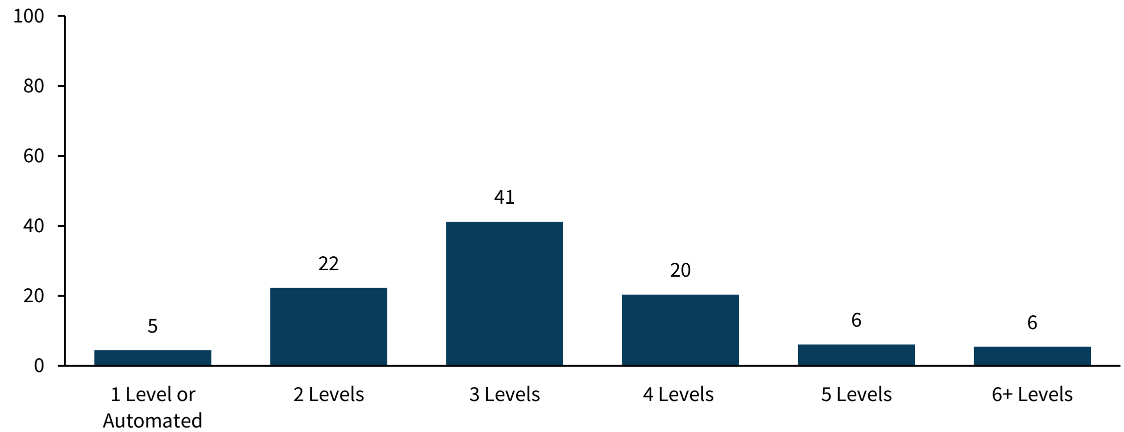
33 Witzen (2022).
34 These questions were keyed to the bank's top lending product other than credit cards and government-guaranteed loans.
35 Forty-one percent use three levels, 20 percent use four levels, 6 percent use five levels, and 6 percent use six or more levels, summing to 73 percent.
36 Some banks may skip lower levels of approval for larger loans rather than go through multiple levels of approval, in which case these numbers represent a lower bound on the percentage of banks in which a certain size loan requires only a single reviewer.

FIGURE 3.2

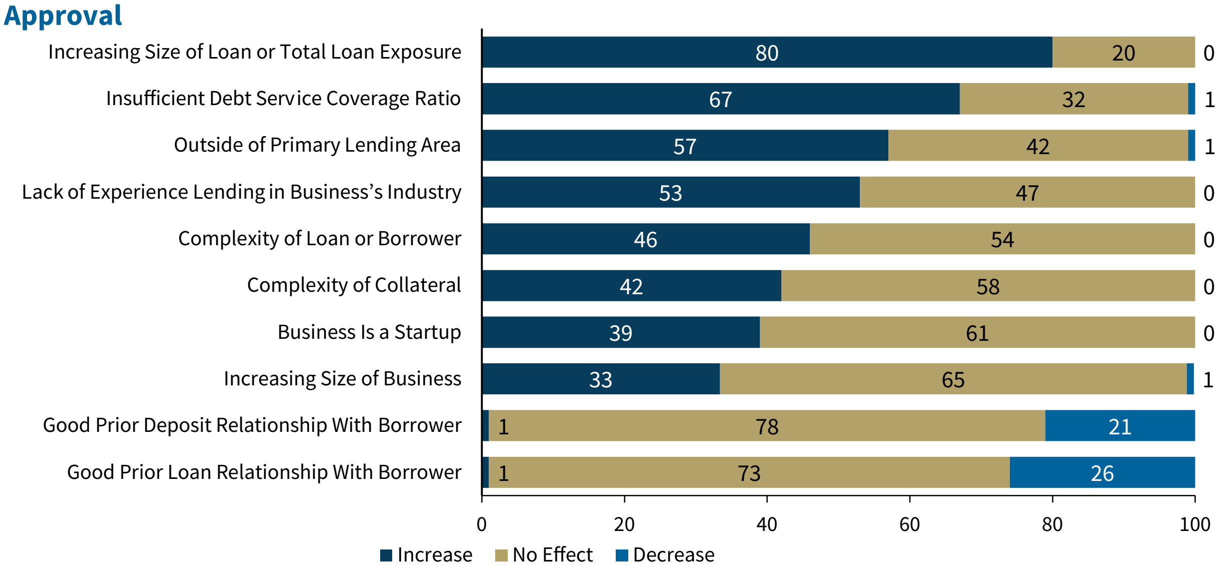
Percentage of Banks Reporting Each Maximum Number of Levels of Loan Approval



Source: SBLS 2022 Question I.B7.
Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

FIGURE 3.3

Percentage of Banks Citing Selected Factors as Influencing Number of Levels of Loan Approval



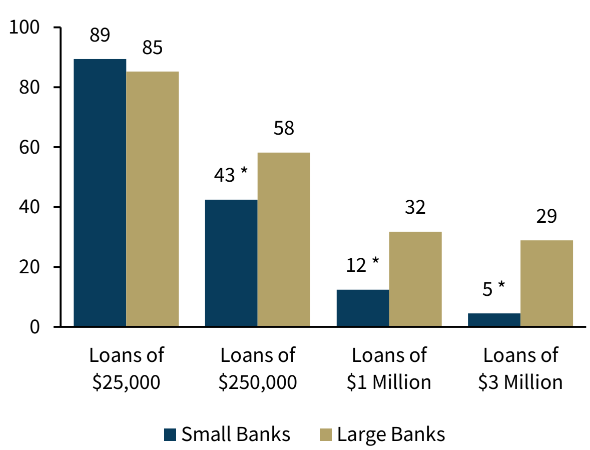
Source: SBLS 2022 Question I.B5.
Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information). Results may not sum to 100 percent due to rounding.

Signature authority for loans of $1 million or more is sharply different at small and large banks. Only one in eight small banks typically give signature authority to first-level decision-makers for loans of $1 million or more, compared with nearly a third of large banks (Figure 3.4). For nearly half of small banks, the first two levels in the bank's approval structure typically lack signature authority for a $1 million loan, compared with only one in eight large banks (Figure 3.5). This finding is unsurprising since a $1 million loan is a larger share of assets to a small bank than to a large bank and thus may merit a larger degree of scrutiny.

Small banks are much more likely than large banks to have an executive or the board of directors involved in the approval of small business loans. Figure 3.6 shows that 76 percent of small banks involve an executive in decision-making for small business loans and 62 percent involve a board member or the board as a whole if the loan is sufficiently large and complex. The shares are sharply lower at large banks: 42 percent of large banks involve an executive and 9 percent involve a board member in

FIGURE 3.4

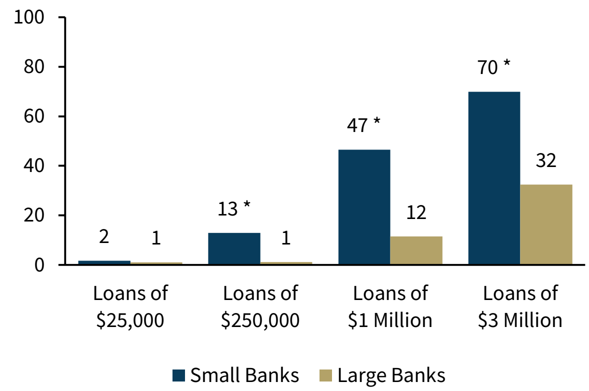
Percentage of Banks Vesting Signature Authority for Various Loan Sizes With the First Level of Loan Approval, by Bank Size



Source: SBLS 2022 Questions I.B12 and I.B13.
Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

FIGURE 3.5

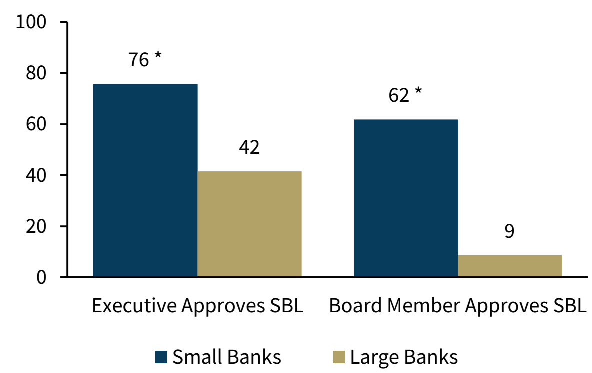
Percentage of Banks Vesting Signature Authority for Various Loan Sizes With the Third or Higher Level of Loan Approval, by Bank Size



Source: SBLS 2022 Questions I.B22, I.B23, I.B27, and I.B28.
Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

FIGURE 3.6

Percentage of Banks Where Some Small Business Loans Are Approved by Executives or Board Members, by Bank Size



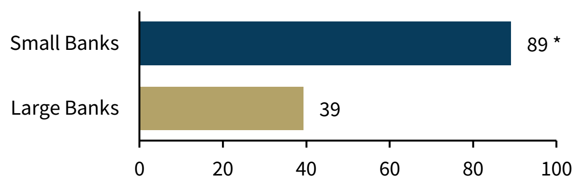
Source: SBLS 2022 Questions I.B9, I.B10, I.B14, I.B15, I.B19, I.B20, I.B24, and I.B25.
Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

the decision-making for small business loans. These findings provide some nuance to the conventional wisdom that small banks have flatter organizational structures than large banks. Although senior managers at small banks are closer to the inner workings of small business lending, small banks still may have more levels of approval for larger loans.

3.3 Meetings Between Decision-Makers and Applicants

One way small banks seem to have a flatter organizational structure than large banks is in the way they gather information. Small banks are much more likely than large banks to have meetings directly between small business loan applicants and decision-makers. Nearly 90 percent of small banks meet with applicants, compared with less than 40 percent of large banks (Figure 3.7). These meetings may allow small banks to lend more flexibly, particularly to start-up businesses (see Section 7), since the meetings may yield valuable soft information that can compensate for a lack of hard information. In-person meetings, as opposed to virtual meetings or teleconferences, further emphasize the importance of banks' proximity to small business borrowers (discussed further in Section 5).

FIGURE 3.7
Percentage of Banks Where Decision-Makers Meet With the Loan Applicant at Some Level of Approval, by Bank Size



Source: SBLS 2022 Questions I.B11, I.B16, I.B21, and I.B26.
Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

Bank size and meetings are negatively correlated across broad categories of small and large banks (Figure 3.8). Ninety-five percent of banks with less than $500 million in assets meet with applicants, compared with only 65 percent of banks with $3 billion to $10 billion in assets. Among the largest banks—those with more than $50 billion in assets—the practice of meeting with applicants is fairly rare, used by less than a quarter of such banks. These findings are concerning within the context of the trend in bank consolidation. As banks become larger, fewer small businesses will have the opportunity to make their case directly to decision-makers.

3.4 Length of Time to Loan Approval

A bank's decision-making structure may influence how long it takes for loans to be approved, which is important to borrowers. Small businesses place a high premium on speed in lending; according to surveyed banks, lending speed is second only to customer service in importance to small business borrowers (see Section 6.5). The Federal Reserve Banks' 2016 Small Business Credit Survey found that a long wait for loan approval was one of the most frequent issues small businesses face when looking for credit.[37]

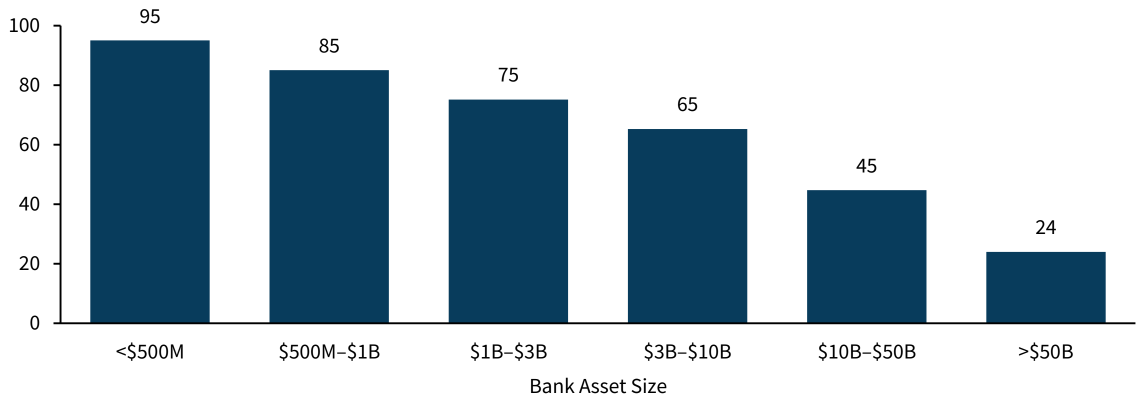
The 2022 SBLS asked banks about the typical minimum approval time for a small and simple loan and a large and complex loan, as well as the overall typical approval time.[38] The survey also asked banks to report factors that influence approval times.

Most banks approve small and simple loans quickly; more than three-quarters of banks report they can approve these loans in a week or less (Figure 3.9). Three-quarters of banks report that they approve the typical small business loan in two weeks or less (Figure 3.10). Approval for a very large or complex loan can take four to six weeks (Figure 3.11).

[37] Federal Reserve Banks (2017). This report focuses on microbusinesses which it defines as small businesses with four or fewer employees.
[38] As before, the survey questions were keyed to the bank's top product other than credit cards or government-guaranteed loans, so the lower-end approval times are not due to credit cards.

FIGURE 3.8

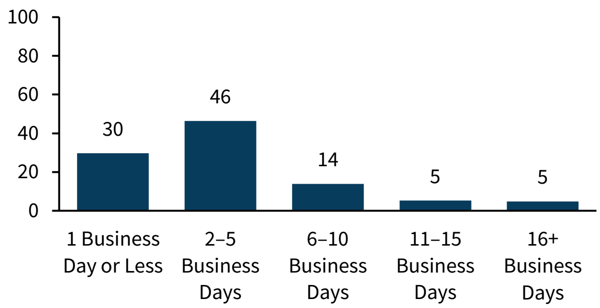
Percentage of Banks Where Decision-Makers Meet With the Loan Applicant at Some Level of Approval, by Disaggregated Bank Size



Source: SBLS 2022 Questions I.B11, I.B16, I.B21, and I.B26.
Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

FIGURE 3.9

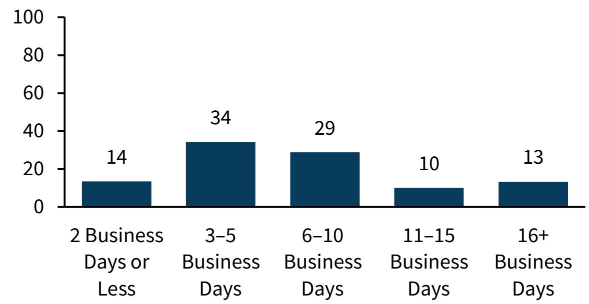
Percentage of Banks Reporting Each Minimum Number of Business Days Until Loan Approval



Source: SBLS 2022 Question I.B2.
Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

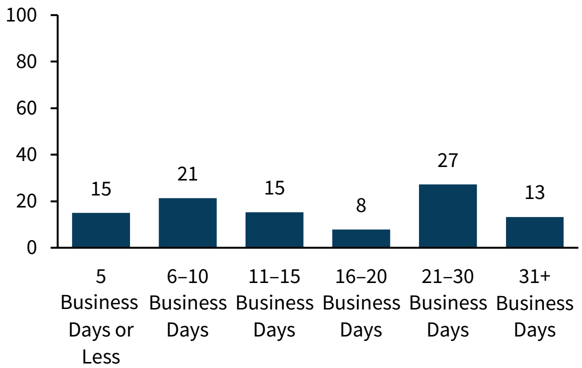
FIGURE 3.10

Percentage of Banks Reporting Each Typical Number of Business Days Until Loan Approval



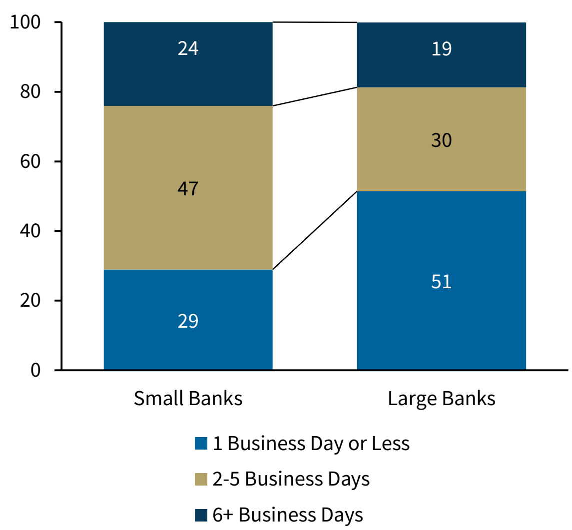
Source: SBLS 2022 Question I.B4.
Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

FIGURE 3.11
Percentage of Banks Reporting Each Maximum Number of Business Days Until Loan Approval



Source: SBLS 2022 Question I.B3.
Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information). Results may not sum to 100 percent due to rounding.

FIGURE 3.12
Percentage of Banks Reporting Each Minimum Number of Business Days Until Loan Approval, by Bank Size



Source: SBLS 2022 Question I.B2.
Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

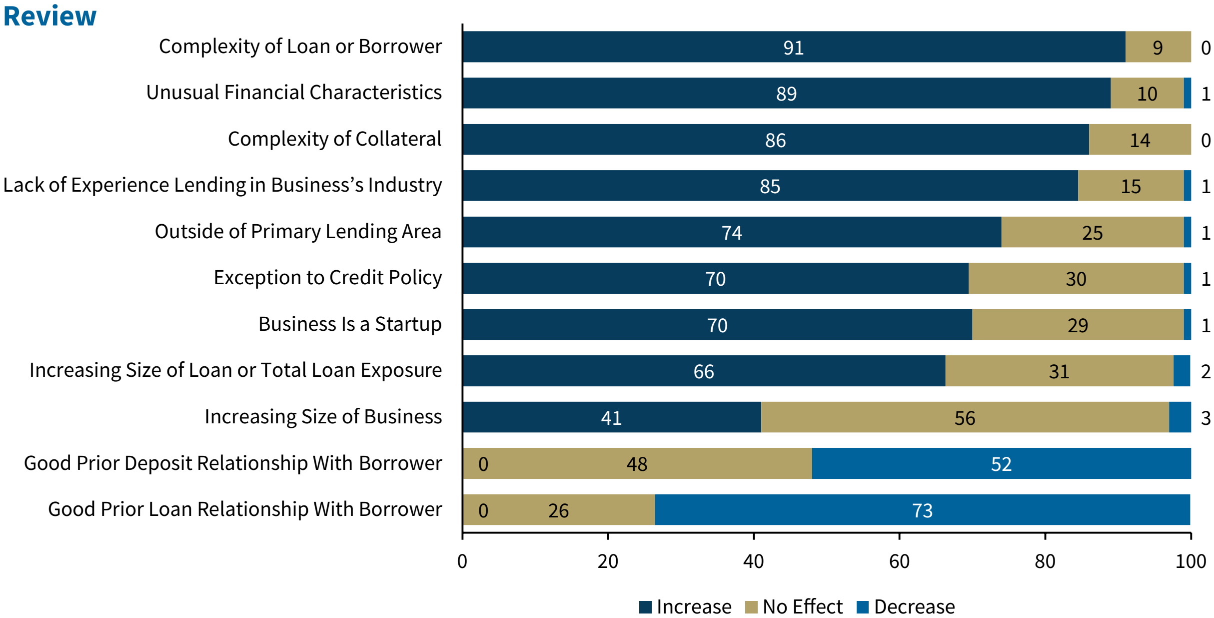
The most notable difference in decision speed between small and large banks is in the minimum number of business days required to approve a loan. Slightly more than half of large banks can approve a small and simple loan in one business day or less, compared with only 29 percent of small banks (Figure 3.12).

This speed advantage may be due to the greater use of automated lending technology by large banks or their increased reliance on hard credit-scoring information, discussed later in this section. Further, this advantage exists only at the single-day margin; roughly equal proportions of small and large banks—76 percent of small banks and 81 percent of large banks—can approve a small and simple loan in less than a week.

A variety of factors determine how long it takes for a loan to be approved (Figure 3.13). Chief among them are the complexity of the loan or borrower and whether the loan has unusual characteristics, both of which cause delays in the approval process for about 90 percent of banks. Applications from businesses in a geographic area or industry unfamiliar to the bank also take longer to review for a substantial majority of banks. Notably, having a past loan relationship with the borrower speeds up the approval process at nearly three-quarters of banks, despite findings in this section that past relationships rarely lower the number of levels of approval.

FIGURE 3.13

Percentage of Banks Citing Selected Factors as Influencing the Duration of Loan Application Review



Source: SBLS 2022 Question I.B1.

Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information). Results may not sum to 100 percent due to rounding.

3.5 What Information Do Banks Use in Underwriting?

The results in this section have shown that the size of the loan and the size of the bank influence who is involved in the decision-making process and how quickly loan decisions are made. The rest of this section discusses how banks gather, process, and prioritize the information that leads to a loan approval decision and how these steps differ based on the confluence of bank and loan size.

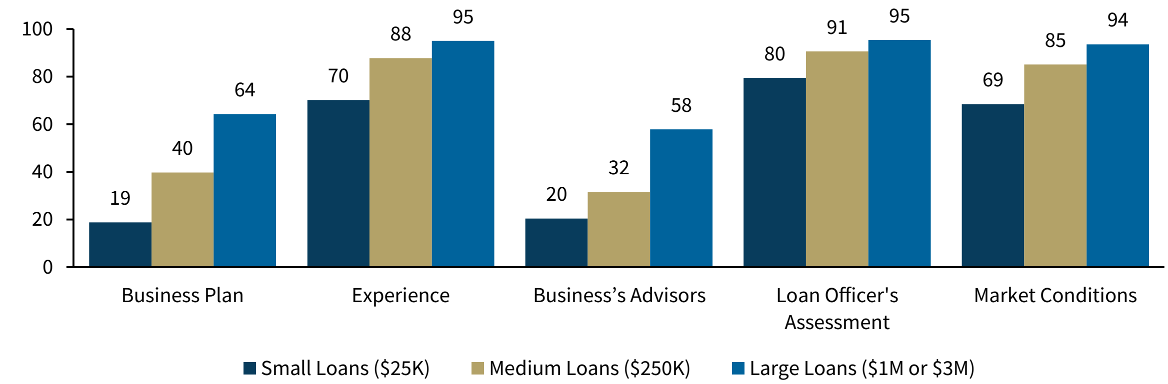
Much of this subsection focuses on the distinction between soft and hard information, particularly how banks of different sizes use these information types for loans of different amounts. As previously discussed, soft information is highly contextual and difficult to reduce to a simple numeric score, while hard information is quantitative and does not change in meaning when it is divorced from context. Banks may be reluctant to lend to certain small businesses because these businesses lack hard information, such as a business credit rating or a personal credit score for the owner. Thus, if lending based on soft information or on relationships becomes less common, businesses that lack hard information may have a more difficult time obtaining credit.

The survey asked banks how commonly they use 12 types of information, ranging from hard information such as credit scores to soft information such as loan officer interviews, when evaluating small business loan applications. Banks were asked whether they evaluate each type of information for "no or almost no," "some," "most," or "almost all or all" loans. The question was asked separately for loans of $25,000 (small loans), $250,000 (medium loans), and $1 million or $3 million (large loans).

Figure 3.14 shows the percentage of banks that evaluate each of the soft information types for most or all loans of each size, and Figure 3.15 shows the percentage of banks that evaluate each of the hard information types for most or all loans of each size. The figures illustrate that banks use a variety of information to evaluate loan applications. For example, for medium loans, banks evaluate an average of 8 of the 12 types of information for most or all loans. The most commonly evaluated types of information are personal credit scores and willingness to offer collateral or guarantees, which more than 80 percent of banks evaluate for most or all of their loans, regardless of size. For large loans, non-audited financial statements, the experience of

FIGURE 3.14

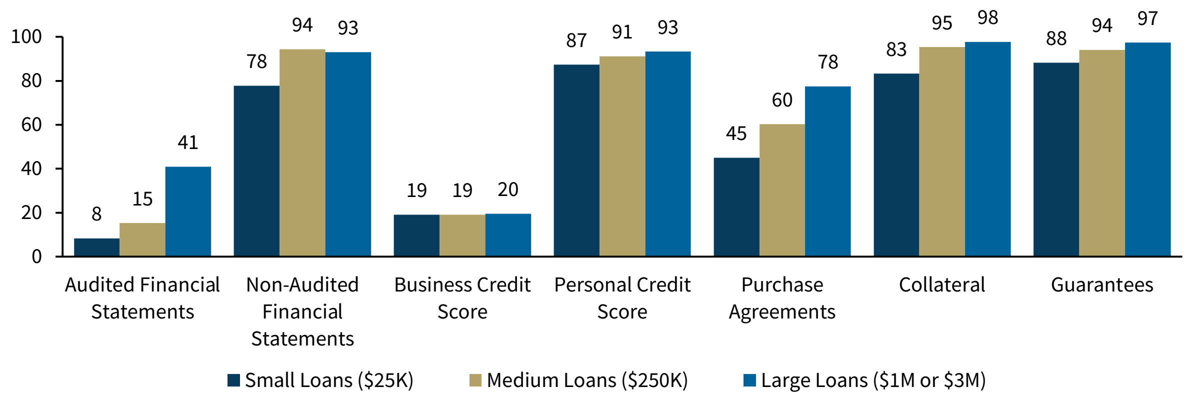
Percentage of Banks Evaluating Each Type of Soft Information in Loan Applications for Various Loan Sizes



Source: SBLS 2022 Questions I.C4, I.C10, and I.C16.
Note: Results reflect a response of either "evaluates for most loans of this size" or "evaluates for all loans of this size." Responses were combined to form the "large loan" category. Banks that made $3 million loans were asked about their $3 million loans, whereas banks that made $1 million loans but not $3 million loans were asked about their $1 million loans. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

FIGURE 3.15

Percentage of Banks Evaluating Each Type of Hard Information in Loan Applications for Various Loan Sizes



Source: SBLS 2022 Questions I.C4, I.C10, and I.C16.
Note: Results reflect a response of either "evaluates for most loans of this size" or "evaluates for all loans of this size." Responses were combined to form the "large loan" category. Banks that made $3 million loans were asked about their $3 million loans, whereas banks that made $1 million loans but not $3 million loans were asked about their $1 million loans. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

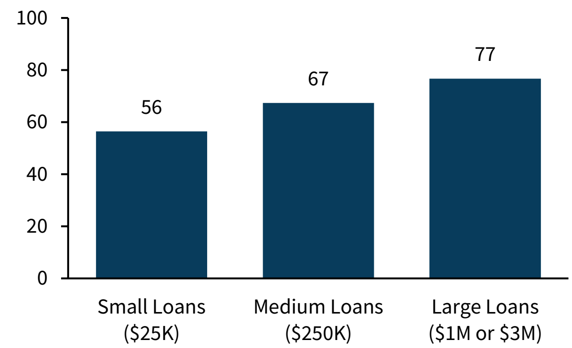
the owner or management team, the assessment of a loan officer, and market conditions are all commonly evaluated, with more than 90 percent of banks evaluating them for most or all large loans. By contrast, the least-commonly evaluated types of information are business credit scores and audited financial statements, although 41 percent of banks use audited financial statements to evaluate large loans.

The findings in Figures 3.14 and 3.15 suggest a pattern of increasing information use for higher loan sizes. To quantify this pattern and to examine how the use of soft and hard information differs among banks, three "information scores" were constructed for each bank size and loan size: a hard information score incorporating the information types from Figure 3.15, a soft information score incorporating the information types from Figure 3.14, and an overall information score incorporating all information types. These scores take a theoretical minimum of zero and a theoretical maximum of 100, so that a score of zero for overall information indicates that a bank never uses any of the 12 types of information and a score of 100 indicates that a bank uses all 12 types of information for all or almost all loans of a given size.[39]

Aggregate information use based on the overall information score illustrates two key findings. First, as loan size increases, the amount of information that banks evaluate increases. Figure 3.16 shows that the average overall information score for a small loan is 56, roughly equivalent to using 7 out of 12 types of information for all small loans. In contrast, the average overall information score for a large loan is 77, roughly equivalent to using 9 out of 12 types of information for all large loans. Second, small banks consistently use more information than large banks, with a gap of 7 to 10 points in the overall information score depending on the size of loan (Figure 3.17). Both findings are consistent with the idea that banks gather more information as they put more of their assets at risk.

FIGURE 3.16

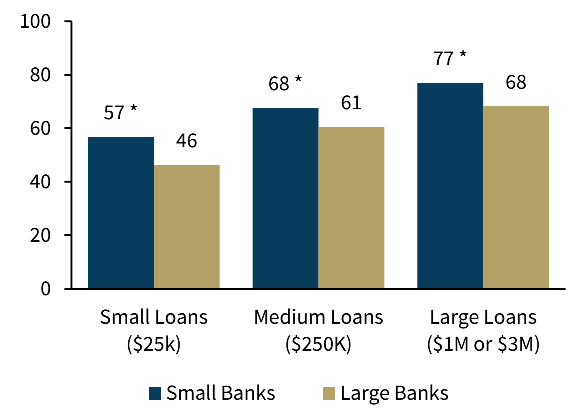
Average Information Score for Various Loan Sizes



Source: SBLS 2022 Questions I.C4, I.C10, and I.C16.
Note: Information score is described in Appendix A.6. Responses were combined to form the "large loan" category. Banks that made $3 million loans were asked about their $3 million loans, whereas banks that made $1 million loans but not $3 million loans were asked about their $1 million loans. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

FIGURE 3.17

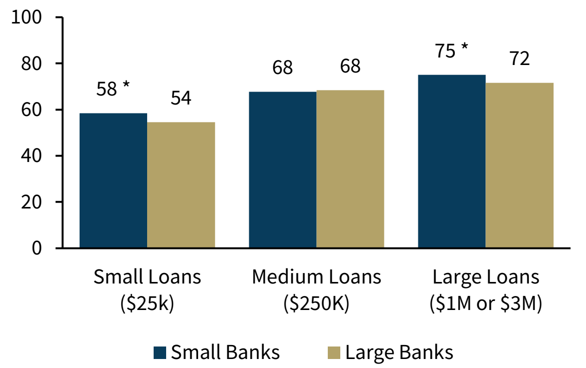
Average Information Score for Various Loan Sizes, by Bank Size



Source: SBLS 2022 Questions I.C4, I.C10, and I.C16.
Note: Information score is described in Appendix A.6. Responses were combined to form the "large loan" category. Banks that made $3 million loans were asked about their $3 million loans, whereas banks that made $1 million loans but not $3 million loans were asked about their $1 million loans. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

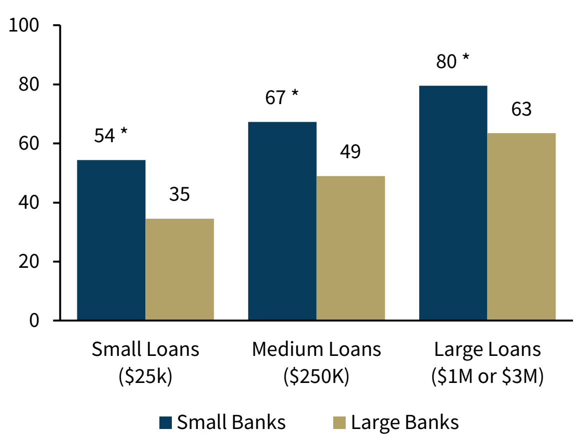
[39] See Appendix A.6 for a more detailed explanation of how the information score was constructed.

FIGURE 3.18
Average Hard Information Score for Various Loan Sizes, by Bank Size



Source: SBLS 2022 Questions I.C4, I.C10, and I.C16.
Note: Information score is described in Appendix A.6. Responses were combined to form the "large loan" category. Banks that made $3 million loans were asked about their $3 million loans, whereas banks that made $1 million loans but not $3 million loans were asked about their $1 million loans. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

FIGURE 3.19
Average Soft Information Score for Various Loan Sizes, by Bank Size



Source: SBLS 2022 Questions I.C4, I.C10, and I.C16.
Note: Information score is described in Appendix A.6. Responses were combined to form the "large loan" category. Banks that made $3 million loans were asked about their $3 million loans, whereas banks that made $1 million loans but not $3 million loans were asked about their $1 million loans. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

Separating the information score between small and large banks and between soft and hard information (Figures 3.18 and 3.19) shows that small banks use more soft information than large banks do, which supports the consensus view of small banks as relationship lenders. The gap between small and large banks in their use of hard information is small and only sometimes statistically significant, while the gap in use of soft information ranges from 15 to 20 points depending on loan size. The willingness and ability of small banks to harness soft information may also be related to their greater lending flexibility and their ability to lend to marginal borrowers, including start-ups (see Section 6 and Section 7).

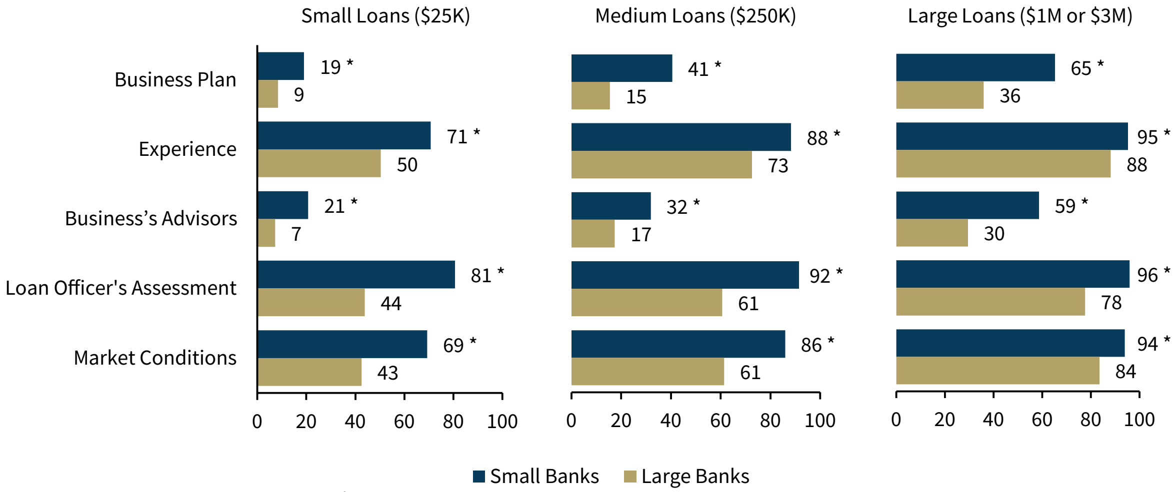
Small banks use a variety of soft information and are more likely than large banks to evaluate each of the five types of soft information for all three loans sizes. The gap is particularly large for loan officer's assessments of small loans: 81 percent of small banks use this information for all or almost all of their small loans, compared with 44 percent of large banks (Figure 3.20).

One of the most noticeable differences between small and large banks in their use of hard information is that large banks consistently evaluate business credit scores more than small banks do. For all loan sizes, less than 20 percent of small banks evaluate business credit scores for most or all small business loans, compared with more than half of large banks (Figure 3.21). Large banks also use business credit scores slightly more often for small loans than for large loans: 62 percent of large banks use business credit scores for most or all small loans and 55 percent use credit scores for most or all large loans. It is not necessarily the case that small banks are uninterested in the information in business credit scores, however; instead, small bank borrowers may be less likely than large bank borrowers to have business credit scores to evaluate. This possibility is supported by the fact that small banks are more likely than large banks to lend to start-ups (see Section 7).

Banks may manage the risk of lending to small businesses by requiring collateral, which both increases the borrower's incentive to repay the bank by increasing the cost of default and reduces the bank's losses in the event of default. To investigate the importance of collateral, the survey asked banks how commonly they *evaluate* collateral and how often they *require* collateral for loans of different

FIGURE 3.20

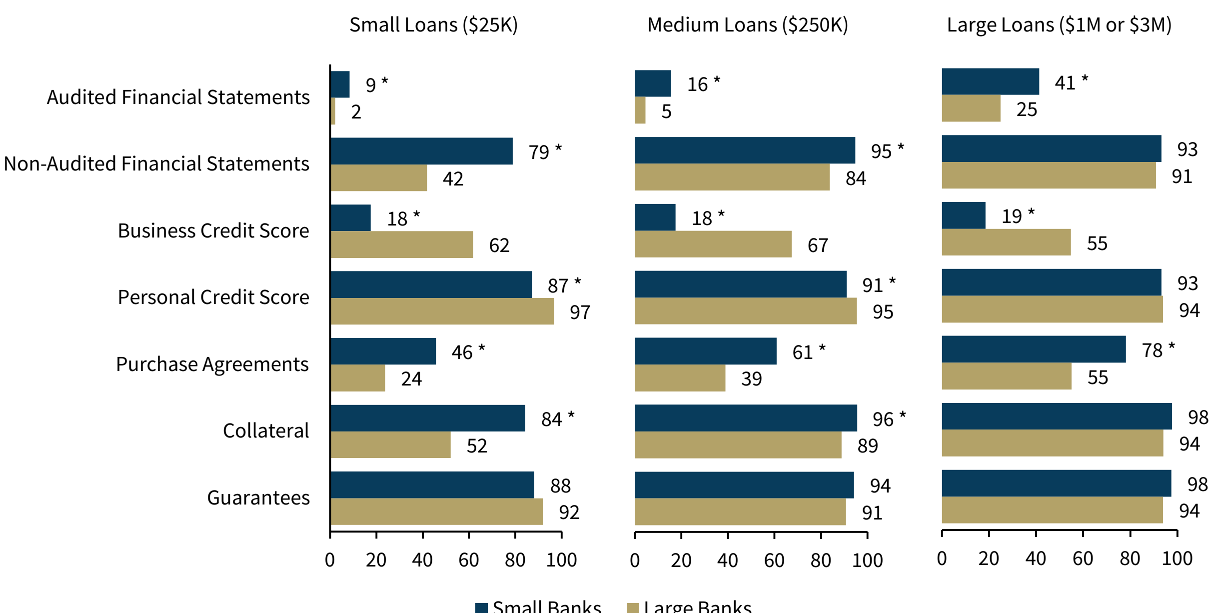
Percentage of Banks Evaluating Each Type of Soft Information in Loan Applications for Various Loan Sizes, by Bank Size



Source: SBLS 2022 Questions I.C4, I.C10, and I.C16.
Note: Results reflect a response of either "evaluates for most loans of this size" or "evaluates for all loans of this size." Responses were combined to form the "large loan" category. Banks that made $3 million loans were asked about their $3 million loans, whereas banks that made $1 million loans but not $3 million loans were asked about their $1 million loans. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

FIGURE 3.21

Percentage of Banks Evaluating Each Type of Hard Information in Loan Applications for Various Loan Sizes, by Bank Size

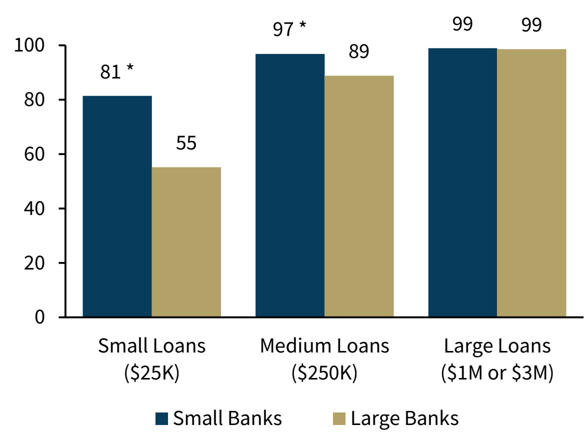


Source: SBLS 2022 Questions I.C4, I.C10, and I.C16.
Note: Results reflect a response of either "evaluates for most loans of this size" or "evaluates for all loans of this size." Responses were combined to form the "large loan" category. Banks that made $3 million loans were asked about their $3 million loans, whereas banks that made $1 million loans but not $3 million loans were asked about their $1 million loans. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

amounts ("rarely or never," "sometimes," "often," or "almost always or always"). While the two practices are related, they are not entirely synonymous: a bank may evaluate collateral for a loan without necessarily requiring that the borrower provide collateral for that loan. Figure 3.21 shows that large banks are far less likely than small banks to *evaluate* collateral for small loans: 84 percent of small banks compared with 52 percent of large banks. As shown in Figure 3.22, shares are similar for banks that often or always *require* collateral for small loans (81 percent of small banks and 55 percent of large banks). For large loans, however, evaluating collateral during underwriting is a near-ubiquitous practice for both small and large banks, and almost all small and large banks often or always require it for medium and large loans.

The tendency to require collateral for small loans may highlight differences in the types of small business borrowers that typically obtain credit at small and large banks. If the practice by large banks of emphasizing hard information when underwriting facilitates looser collateral requirements, then large banks may be better positioned to serve established small businesses that have relatively little access to usable collateral (for example, firms whose capital is in the form of intellectual property rather than physical capital). Conversely, by generally requiring collateral but evaluating comparatively more soft information for small loans, small banks may be better situated to lend to small businesses which are less established but that do have access to collateral.[40] To the extent that the U.S. economy has small business borrowers of both types, the market for small business loans, though segmented across different-sized banks, appears diverse enough to meet the varied needs of small businesses.

FIGURE 3.22
Percentage of Banks Requiring Collateral for Various Loan Sizes, by Bank Size



Source: SBLS 2022 Questions I.C5, I.C11, and I.C17.
Note: Results reflect a response of either "often requires collateral for loans of this size" or "always or almost always requires collateral for loans of this size." Responses were combined to form the "large loan" category. Banks that made $3 million loans were asked about their $3 million loans, whereas banks that made $1 million loans but not $3 million loans were asked about their $1 million loans. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

3.6 Which Aspects of a Loan Application Are Important for Approval?

In addition to asking about information use, the survey asked banks to rank the following six aspects of a loan application by their importance:

1. the business's financial position (e.g., balance sheet, debt-service coverage ratio, and liquidity management)
2. credit scores or other information from credit bureaus about the business or owner
3. the geographic proximity of the business to the bank
4. the presence or quality of collateral and guarantees offered by the business or owner
5. the industry of the business
6. qualitative factors such as the business plan or the experience of the owner or management team.

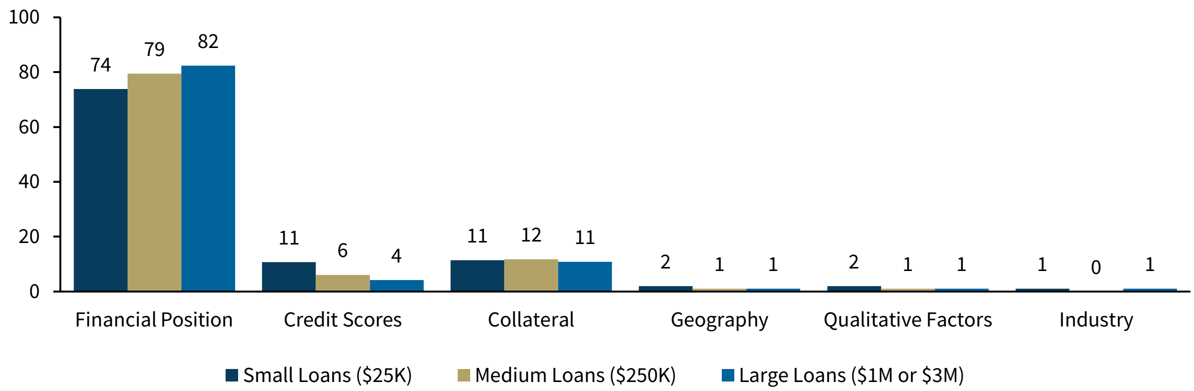
Banks ranked the six aspects from first to last for each of the three loan sizes (small, medium, and large).

Most small banks—74 to 82 percent—consider the business's financial position the most important aspect of a loan application, regardless of loan size

[40] These practices are not necessarily unrelated, and the use of soft information may well underpin the perceived competitive advantage of small banks in flexibility over collateral requirements (see Section 6).

FIGURE 3.23

Percentage of Small Banks Citing Each Aspect as Most Important in Loan Applications for Various Loan Sizes



Source: SBLS 2022 Questions I.C8, I.C14, and I.C20.

Note: Responses were combined to form the "large loan" category. Banks that made $3 million loans were asked about their $3 million loans, whereas banks that made $1 million loans but not $3 million loans were asked about their $1 million loans. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

(Figure 3.23). Collateral or guarantees are the most important consideration for 11 to 12 percent of small banks, and credit bureau information is the most important for 4 to 11 percent.[41] Almost no small banks view geography, industry, or qualitative factors as the most important aspect of any size loan.

There are no meaningful differences between large and small banks in the aspects of an application they consider most important for approving a large loan. But large banks are far more likely than small banks to view credit bureau information, not financial position, as the most important aspect of an application for a small loan (59 percent versus 11 percent, see Figure 3.23 and Figure 3.24). Even for medium loans, 31 percent of large banks place more importance on credit bureau information than on financial position.

These results reinforce earlier findings in this section that small banks tend to make small loans based more on soft information and large banks tend to make small loans based on a smaller amount of hard information.

3.7 Automated Underwriting

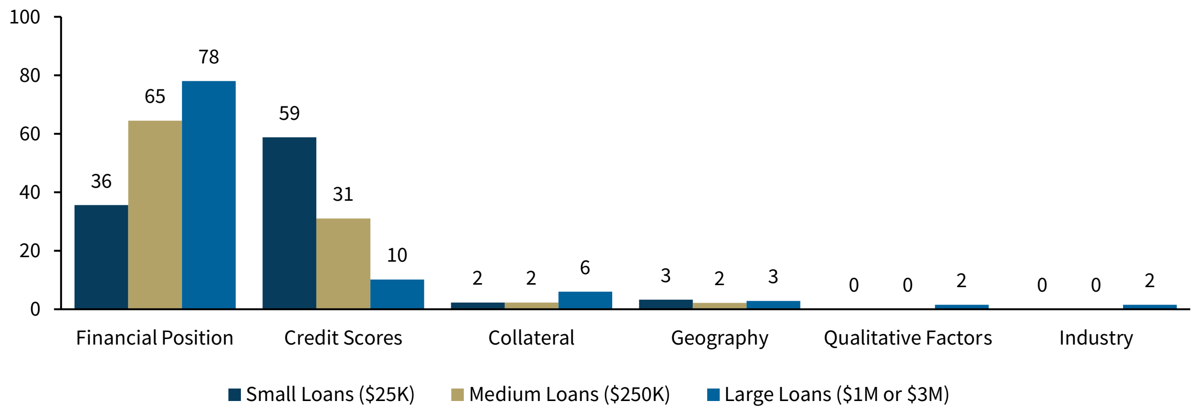
The reliance of large banks on hard information to make small loans is consistent with the greater use of automated underwriting by large banks. Automated underwriting—the practice of using a credit-scoring model to produce a lending decision based only on numeric inputs without human discretion—is the most extreme form of transactional, hard-information-based lending.

The survey asked banks if they used a credit-scoring model to automate the lending process and, if so, what size loans the model could automatically approve. The survey finds that large banks are much more likely than small banks to use some form of automated underwriting (auto-approval, auto-denial, or both). As shown in Figure 3.25, only 9 percent of small banks use a credit-scoring model, compared with 46 percent of large banks. However, even for large banks, use of credit-scoring models is generally confined to small loans. While 28 percent of all large banks would auto-approve a small loan, only 11 percent would auto-approve a medium loan and a mere 1 percent would auto-approve a large loan (Figure 3.26). These results support previous findings of a divide between small and large banks in how they underwrite smaller loans.

[41] Although collateral was not the most important aspect for most small or large banks, it consistently ranked in the top three aspects for both small and large banks for all loan sizes.

FIGURE 3.24

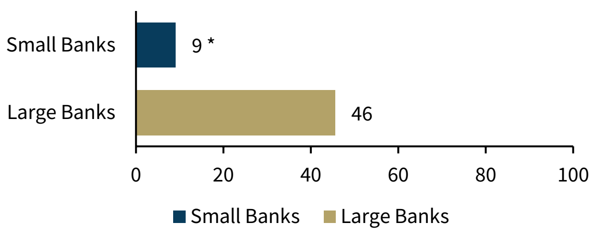
Percentage of Large Banks Citing Each Aspect as Most Important in Loan Applications for Various Loan Sizes



Source: SBLS 2022 Questions I.C8, I.C14, and I.C20.
Note: Responses were combined to form the "large loan" category. Banks that made $3 million loans were asked about their $3 million loans, whereas banks that made $1 million loans but not $3 million loans were asked about their $1 million loans. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

FIGURE 3.25

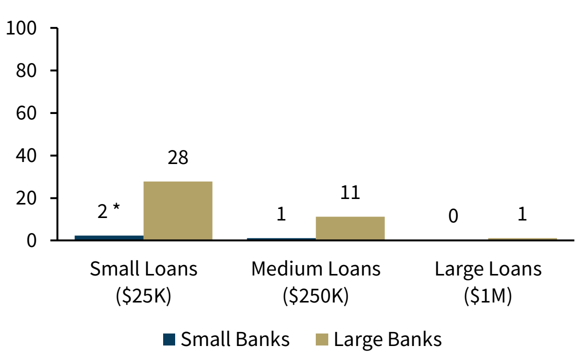
Percentage of Banks Using a Credit Scoring Model for Small Business Lending, by Bank Size



Source: SBLS 2022 Question I.D1.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

FIGURE 3.26

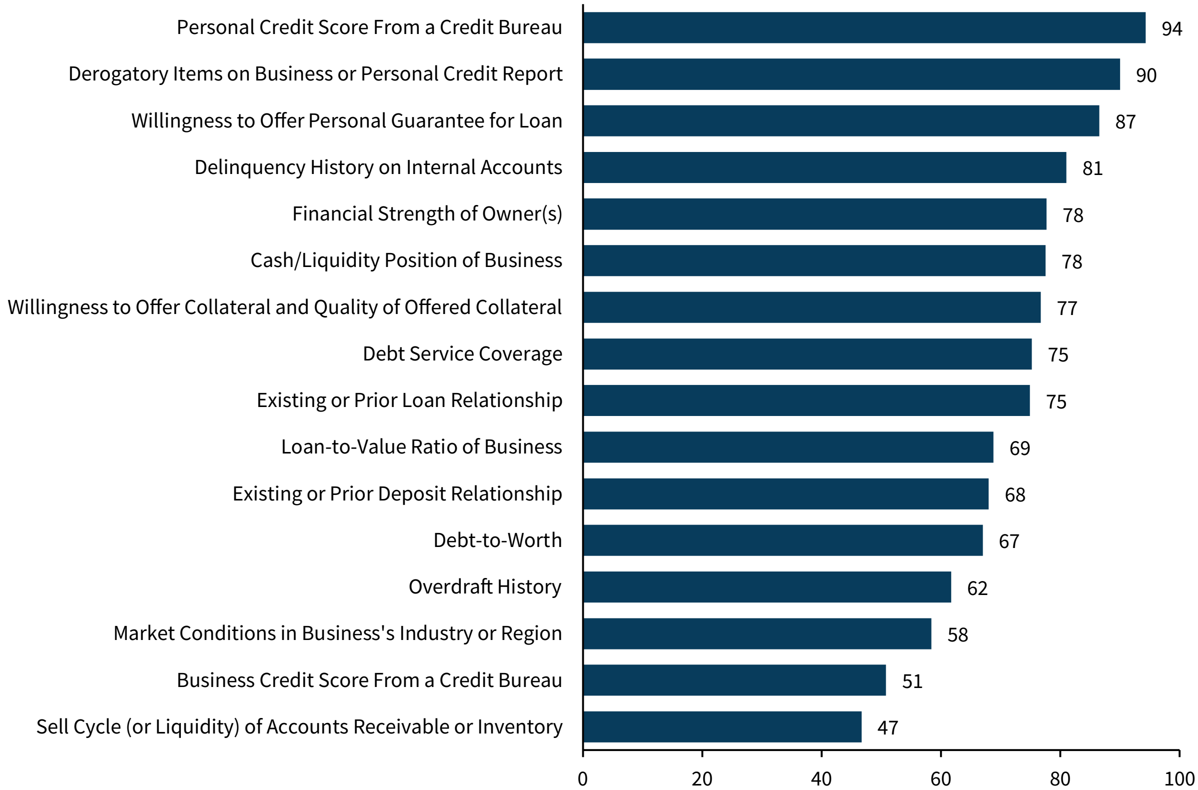
Percentage of Banks That Can Automatically Approve Small Business Loans for Various Loan Sizes, by Bank Size



Source: SBLS 2022 Question I.D3.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

Banks that use automated underwriting were also asked about the information they include in their credit-scoring models. The results are consistent with the previous finding in this section of heavy use of credit bureau information in small loan underwriting by large banks. Personal credit scores and derogatory items from a credit report, both forms of credit bureau information, are "sometimes," "almost always," or "always" used in credit-scoring models by 90 percent or more of banks that use automated underwriting (Figure 3.27). These banks also use internal bank information, such as the bank's experience with the borrower (both as a previous borrower and as a depositor). Large banks' reliance on automated underwriting models may restrict credit access for potential small business borrowers who lack credit histories or who have bad credit histories, but only if automated underwriting displaces rather than supplements traditional lending. In general, the information used in automated underwriting seems similar to the hard information used in non-automated underwriting (see Section 3.5).

FIGURE 3.27
Percentage of Automated Lending Banks That Use Specific Types of Information in Automated Underwriting



Source: SBLS 2022 Question I.D4.
Note: Results reflect a response of "sometimes uses" or "almost always or always uses" information of each kind in its credit-scoring model.

3.8 Conclusion

The results from the survey show the importance of loan size, bank size, and the intersection between loan and bank size in determining how loan information is gathered from the small business applicant and processed in the bank. Larger loans put more of a bank's assets at risk and require more information before approval. At small banks, large loans typically undergo three or more levels of approval by a decision-maker, which may include the bank's executive officers or, for especially large loans, the board of directors. For smaller loans, some large banks have diverged from traditional underwriting methods that focus on analyzing the applicant's financial position and instead rely on hard information from credit bureaus. This sometimes leads to large banks' use of automated or semi-automated underwriting for small loans, which can speed up approval times.

The survey also reveals substantial differences in whether banks conduct meetings directly between small business loan applicants and decision-makers. Such meetings are nearly ubiquitous among small banks but rare for large banks. Small banks also use more soft information, such as loan officer interviews and business plans, than large banks. These differences may contribute to advantages that small banks are believed to have in lending to marginal borrowers or those who lack hard information, including start-ups. In contrast, large banks may be better at serving businesses that lack collateral, as they are more likely to make small loans without requiring it.

SECTION 4
FinTech

Financial technology (FinTech)—defined in the 2022 SBLS as new business processes that use recent technological innovations to change or improve how financial services are conducted or provided—is reshaping the financial services industry.[42] The increasing use of FinTech presents a competitive challenge to the banking business model, for example as FinTech firms grow their market share relative to the traditional banking sector in areas such as residential mortgage lending. But FinTech use also provides an opportunity for banks to reduce costs and streamline their processes. This reduction in cost has the potential to increase credit availability and, more generally, to improve access to credit for small businesses.

In the context of small business lending, banks' FinTech use presents several concerns.[43] First, large banks are potentially more likely to use FinTech due to the high fixed costs of adoption, which could lead to further consolidation in the banking industry by increasing the efficiency of large banks. Section 3 shows that small banks emphasize soft information in loan underwriting relative to large banks, which in turn may be difficult to fully replicate through FinTech. As a result, the geographic consolidation of banks may leave some areas less well-served if not all potential customers are able to take advantage of remote or online loan applications and bank services. Second, and likely related, greater reliance on FinTech may cause banks to de-emphasize the relationship component in small business lending and remove humans from decision-making, with negative consequences for small businesses best served by relationship lenders. Conversely, the relationship-oriented practices of small business lending may limit the usefulness and adoption of FinTech.

Findings from academic research offer some insight into how FinTech use by banks may shape the banking industry. A recent study shows that smaller banks were slower to implement mobile technologies and as a result lost deposits to larger banks.[44] Another study provides evidence that larger banks and banks with more branches use technology more similar to that of FinTechs than smaller banks or banks with fewer branches do.[45] This body of research suggests that large banks will adopt the technologies earlier and more comprehensively than small banks. Yet academic research also shows that FinTech adoption does not displace human involvement in the lending process. Recent research on residential mortgage lending, where most loans are made with relatively little soft information, has shown that differences in the soft information loan officers possess matters for access to credit, suggesting that humans can supplement even a highly automated process.[46] Further, banks that used more FinTech made more out-of-market Paycheck Protection Program loans in early 2020, suggesting that FinTech can facilitate small business lending at a distance.[47] However, if most small business lending remains local and supported by high-touch and staff-intensive practices, as found in the FDIC's report on the 2016 Small Business Lending Survey (FDIC 2018), the transformative potential of FinTech may be limited.

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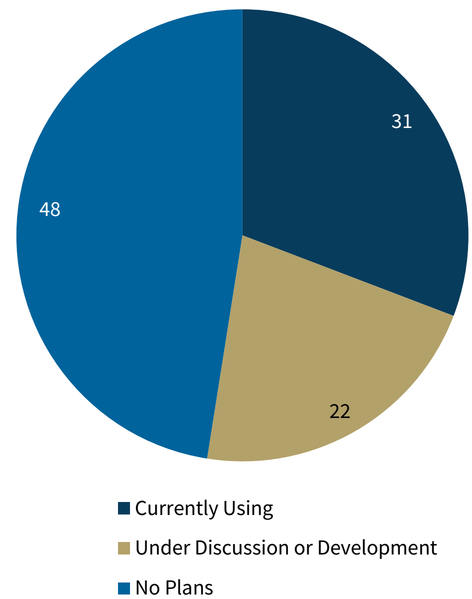
[42] For more on the survey's definition of FinTech, see Part IE in Appendix B.
[43] For a discussion of banks' competition with FinTech lenders, see Section 5; for a discussion of the perceived competitive advantages of FinTech lenders, see Section 6.
[44] Haendler (2022).
[45] Kutzbach and Pogach (2022).
[46] Jiang, Lee, and Liu (2021).
[47] Kutzbach and Pogach (2022).

This section reports on the banking industry's use of and experiences with FinTech in small business lending. Banks were asked about their use and development of FinTech in small business lending, their interactions with firms that specialize in the use of FinTech (FinTech firms), and their concerns about further FinTech adoption.

The findings in this section provide insight into FinTech's prevalence in the small business lending practices of large and small banks, the importance of scale in FinTech use, FinTech's impact on the relationship-driven business model, and the degree to which FinTech is—or is not—changing the banking industry.

FIGURE 4.1
Percentage of Banks Using or Considering Using FinTech in Small Business Lending



Source: SBLS 2022 Question I.E1.
Note: Banks are recorded as "Currently Using" if they are currently using FinTech in any step of their loan process and as "Under Discussion or Development" if use of FinTech is "Under discussion" or "Under development or in pilot testing" in any step but in no step are they currently using FinTech. Results may not sum to 100 percent due to rounding.

4.1 How Banks Use FinTech

The survey asked banks how they incorporate or plan to incorporate FinTech in their small business loan process, regardless of whether the technology was developed in-house or obtained from an outside firm. The survey divided the loan process into ten steps (listed in Figure 4.2). For each step, banks were asked to indicate whether they are currently using FinTech, whether its use is under discussion or development (i.e., whether banks are considering using FinTech), or whether the bank has no plans to use FinTech.[48] Banks using FinTech in any step of the loan process are referred to in this section as FinTech banks.

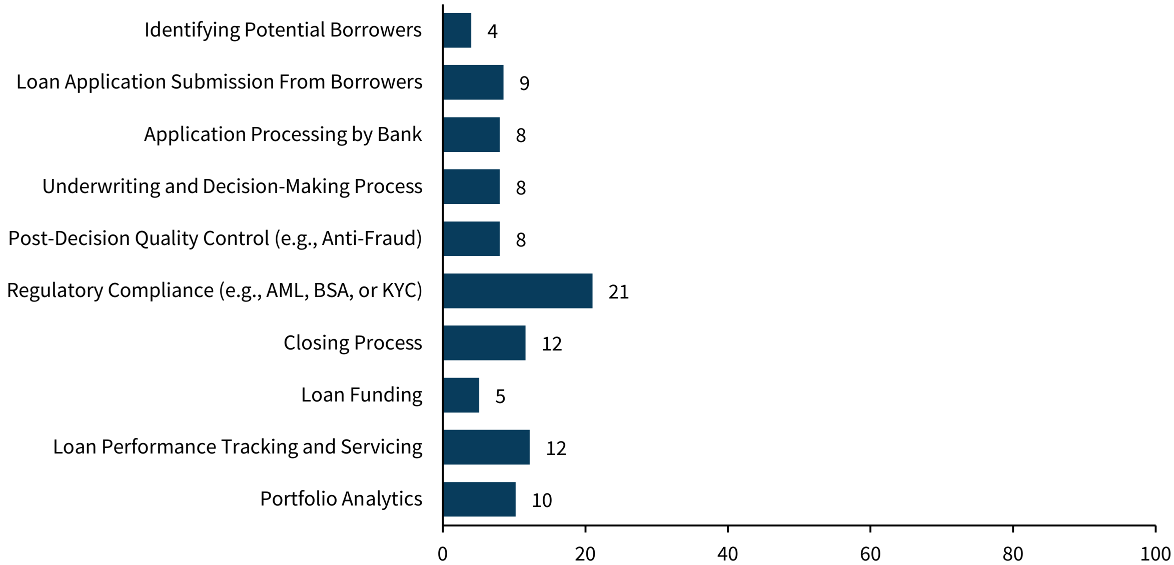
The survey finds that 31 percent of banks use FinTech in their small business lending (Figure 4.1). An additional 22 percent are discussing or developing FinTech, such that more than half of banks are at least considering its use.[49]

Banks use FinTech in all steps of the small business loan process (Figure 4.2). The largest share of banks—21 percent—use FinTech to help with regulatory compliance. Between 10 and 12 percent of banks use FinTech after the loan is made—for performance tracking and servicing, during the closing process, and for overall portfolio analytics. Between 8 and 9 percent use FinTech before the loan is made—for application submission, application processing, loan underwriting, and quality control of approvals. The smallest shares of banks use FinTech to help with loan funding (5 percent) and to identify potential borrowers (4 percent).

Relatively few banks incorporate FinTech across multiple steps of the loan process (Figure 4.3). About half of FinTech banks, or 15 percent of all banks, use FinTech in one or two steps of the loan process. An additional 16 percent use it in three or more steps. However, this measure does not distinguish how fundamental or deeply integrated FinTech use is within a particular step of the loan process or at a particular bank. For example, it cannot distinguish between using FinTech to process some types of financial statements and using it to automate the underwriting process. Still, this analysis confirms that few if any banks rely entirely on FinTech for their small business lending operations.

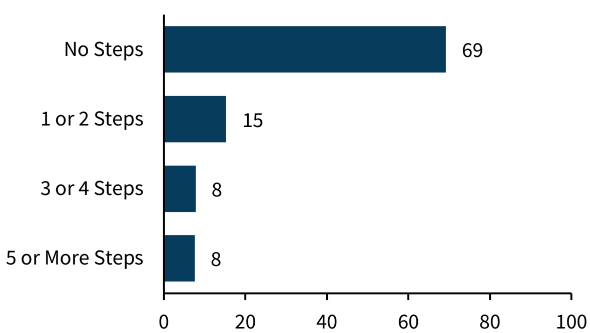
48 In the subsequent analysis, banks that responded "not a stage of our loan process" are grouped with banks responding "no plans."
49 To the extent that some of the FinTech usage that was under discussion or development in 2022 is now in production, actual use in 2024 likely exceeds these numbers.

FIGURE 4.2
Percentage of Banks Using FinTech in Each Step of the Loan Process



Source: SBLS 2022 Question I.E1.
Note: "AML" is Anti-Money Laundering, "BSA" is Bank Secrecy Act, and "KYC" is Know Your Client. Banks may select answers in multiple categories.

FIGURE 4.3
Percentage of Banks Using FinTech in a Certain Number of Steps of the Loan Process



Source: SBLS 2022 Question I.E1.

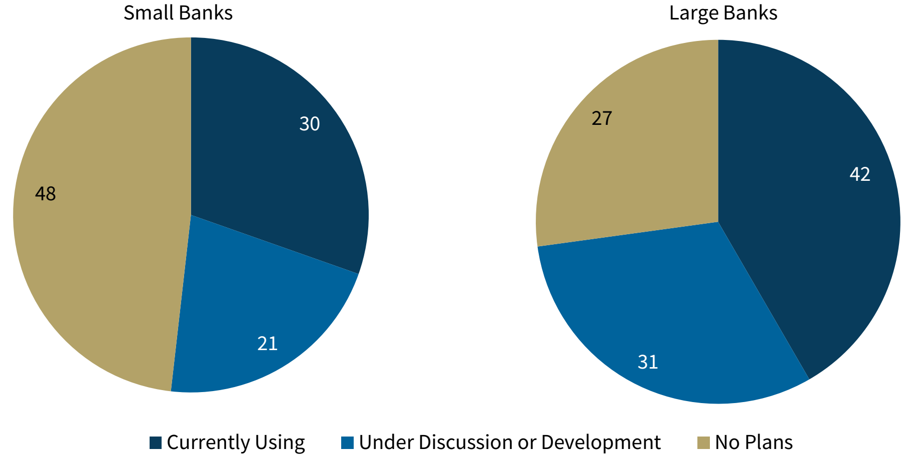
4.2 Differences in FinTech Use by Bank Size

Given the standard characterization of small banks as relationship lenders and large banks as transactional lenders, discussed in Section 1, one might expect that large banks would be more likely than small banks to embrace FinTech at various points in the loan process, primarily because of the high fixed cost of adopting new technologies that is easier to justify at larger scales of operation.

While large banks are more likely than small banks to use FinTech, FinTech adoption is by no means limited to large banks. Figure 4.4 shows the share of large and small banks currently using, considering using, or having no plans to use FinTech. Forty-two percent of large banks use FinTech in at least one step of the loan process. An additional 31 percent are discussing or developing FinTech, such that 73 percent of large banks are at least considering its use. Among small banks, 30 percent use FinTech. An additional 21 percent are discussing or developing FinTech, such that 51 percent of small banks are at least considering its use. Since small banks outnumber large banks by a wide margin, a sizeable majority of banks using FinTech are small banks. While these results indicate the importance of scale in deciding

FIGURE 4.4

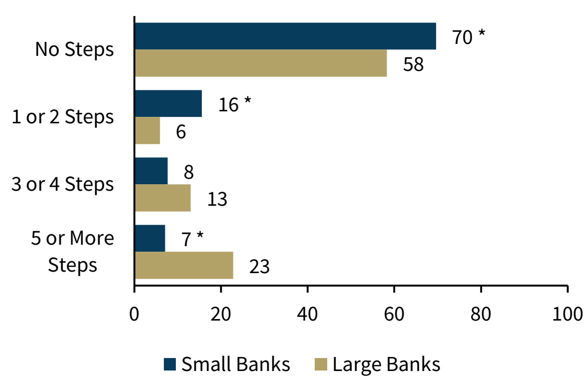
Percentage of Banks Using or Considering Using FinTech in Small Business Lending, by Bank Size



Source: SBLS 2022 Questions I.E1.
Note: Banks are recorded as "Currently Using" if they are currently using FinTech in any step of their loan process and as "Under Discussion or Development" if use of FinTech is "Under discussion" or "Under development or in pilot testing" in any step but the bank is not currently using FinTech in any step. Results may not sum to 100 percent due to rounding.

FIGURE 4.5

Percentage of Banks Using FinTech in a Certain Number of Steps of the Loan Process, by Bank Size



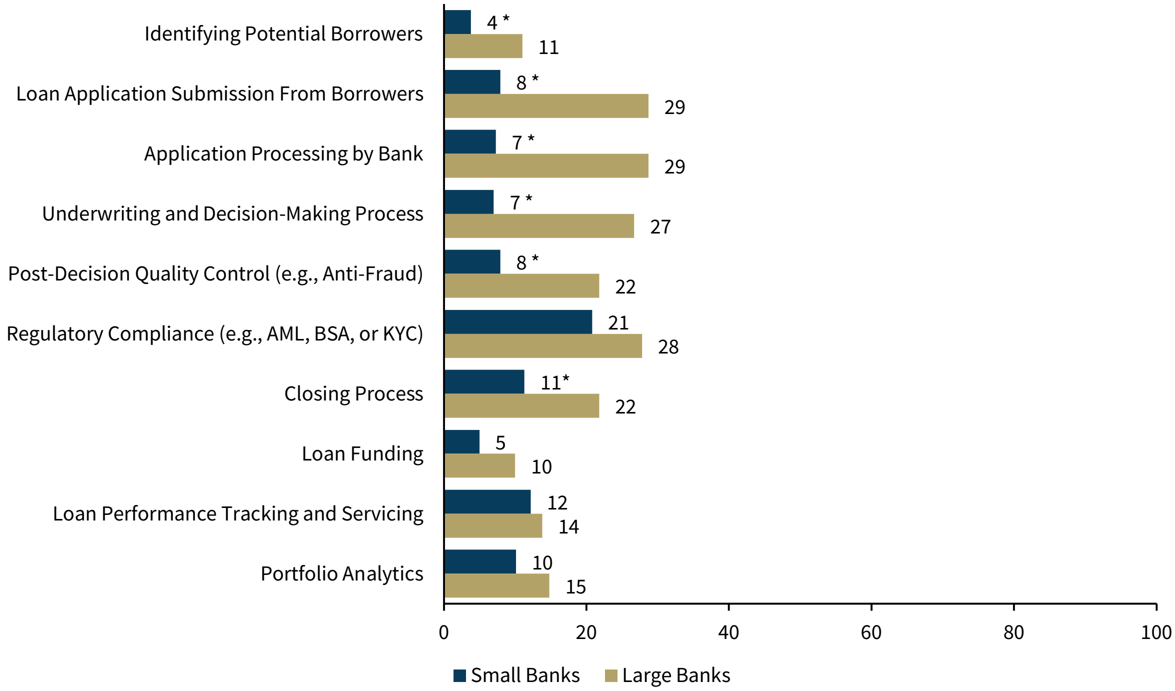
Source: SBLS 2022 Question I.E1.
Note: Results may not sum to 100 percent due to rounding.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

to incorporate FinTech, they also demonstrate that its use is not limited to large banks. When large banks use FinTech, they tend to do so more extensively across the loan process. Small banks are much more likely than large banks to use FinTech in only one or two steps of the loan process, while large banks are much more likely than small banks to use FinTech in five or more of the ten possible steps (Figure 4.5). Six percent of large banks (or 14 percent of large FinTech banks) use FinTech in one or two steps of the loan process, while 23 percent of large banks (or 55 percent of large FinTech banks) use it in five or more steps. Again, these patterns likely reflect, at least partially, the effect of the fixed costs that are easier to justify at larger scales of operation, but they also raise the possibility that small and large banks look for different functionality from FinTech.

The advantages of scale may make a large bank more likely to use FinTech and to use it in more steps of the loan process, but it does not necessarily follow that small and large banks would use FinTech the same way. As discussed in Section 3.5, small and large banks underwrite loans differently, which may be reflected in the differing rates of FinTech use among different-sized banks. Figure 4.6 breaks out FinTech use by small and large banks for each lending step. When small banks use FinTech for small business lending, they tend to incorporate it into secondary processes like regulatory compliance and performance tracking rather than early in the loan process. About one-quarter of small FinTech banks (or 4 to 8 percent of small banks overall) report using FinTech in the early steps of the loan process (e.g., taking the application and underwriting the loan), compared with two-thirds of large FinTech banks. This may reflect that FinTech can be integrated more easily into the more transactional underwriting practices at large banks.

FIGURE 4.6

Percentage of Banks Using FinTech in Each Step of the Loan Process, by Bank Size



Source: SBLS 2022 Question I.E1.
Note: "AML" is Anti-Money Laundering, "BSA" is Bank Secrecy Act, and "KYC" is Know Your Client. Banks may select answers in multiple categories.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

A second takeaway from Figure 4.6 is that small and large banks use FinTech at similar rates for the final steps of the loan process (i.e., those occurring after the underwriting and approval process). Both large and small banks use FinTech at similar rates for regulatory compliance, which is by far the main use for small banks. Small and large banks also use FinTech at similar rates for traditionally data-driven operations like loan servicing and overall portfolio analytics, in which recent technological innovation may lower the cost of data management for flagging potential problems and offering insights. The similar use rates may also suggest that the potential gains from FinTech adoption are less directly tied to scale than it might first appear.

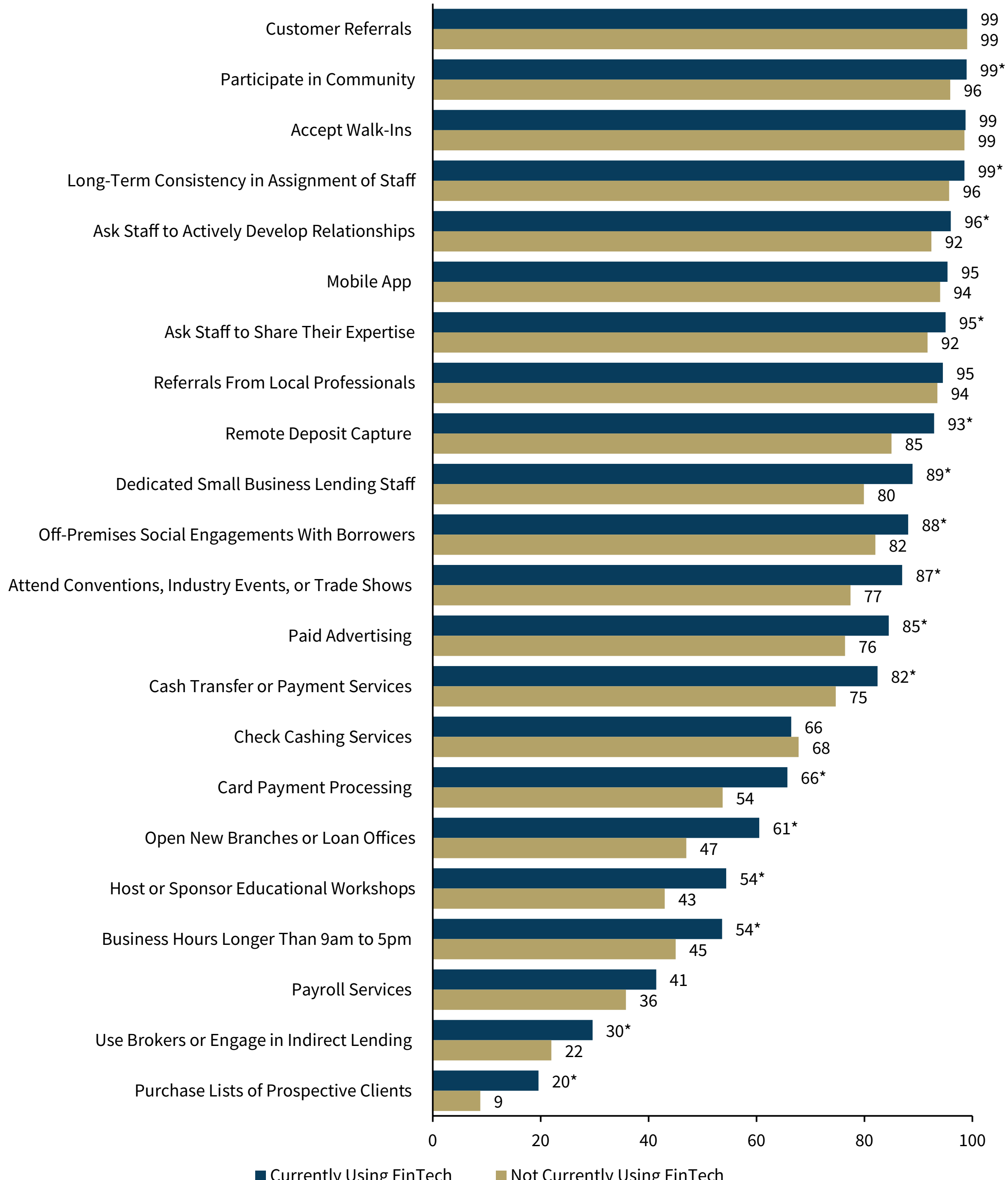
4.3 How Other Lending Practices Vary With Use of FinTech

Analysis of FinTech use also must consider whether, independent of overall scale, certain types of banks are more likely to use FinTech. If FinTech is more useful for transactional as opposed to relationship lending, then a bank that relies more on transactional lending may be more likely to adopt FinTech. Also, if FinTech reduces or displaces the need for human interaction in a bank's small business loan process, it would be expected that FinTech banks and non-FinTech banks would differ in their lending practices. It is also possible that technological innovation reduces the cost to banks of performing tasks like compiling information and regulatory compliance in a way that complements, rather than displaces, relationship lending or high-touch practices. This subsection explores the differences and similarities among FinTech banks in how they interact with customers and evaluate loan applications.

Figure 4.7 compares the practices FinTech and non-FinTech banks use to generate and maintain small business relationships (as discussed in Section 6.2). The figure shows that FinTech banks are as likely, if not more, to engage in many of the business practices banks view as integral to relationship lending, including building relationships with customers and accepting walk-ins. Where meaningful differences occur, they primarily relate

FIGURE 4.7

Percentage of Banks Using Selected Practices to Generate and Maintain Small Business Lending Relationships, by FinTech Usage



Source: SBLS 2022 Question II.A5.
Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
* Denotes a statistically significant difference between banks that do and do not currently use FinTech at the 10 percent level.

to less-common business practices such as offering payroll and card payment processing, though some of these differences may reflect the higher proportion of large banks within the set of FinTech banks. While not conclusive, the evidence suggests that FinTech banks generally engage in the same set of high-touch small business lending practices that non-FinTech banks do. This finding is consistent with the notion that typical FinTech use complements rather than supplants the conventional emphasis on high-touch customer interaction.

While FinTech may not change the way banks interact with customers and maintain relationships, it may change how they evaluate loan applications, as FinTech may replace customary underwriting practices. As discussed in Section 3.3, meeting with a small business loan applicant is a proxy for the importance of soft information in the underwriting process. Staff at FinTech banks are significantly less likely than staff at non-FinTech banks to meet with applicants (78 percent versus 92 percent), which may suggest that FinTech banks place less emphasis on soft information in their loan process.[50] However, since most FinTech banks typically meet with applicants, the use of FinTech clearly does not fully replace the human touch in underwriting.

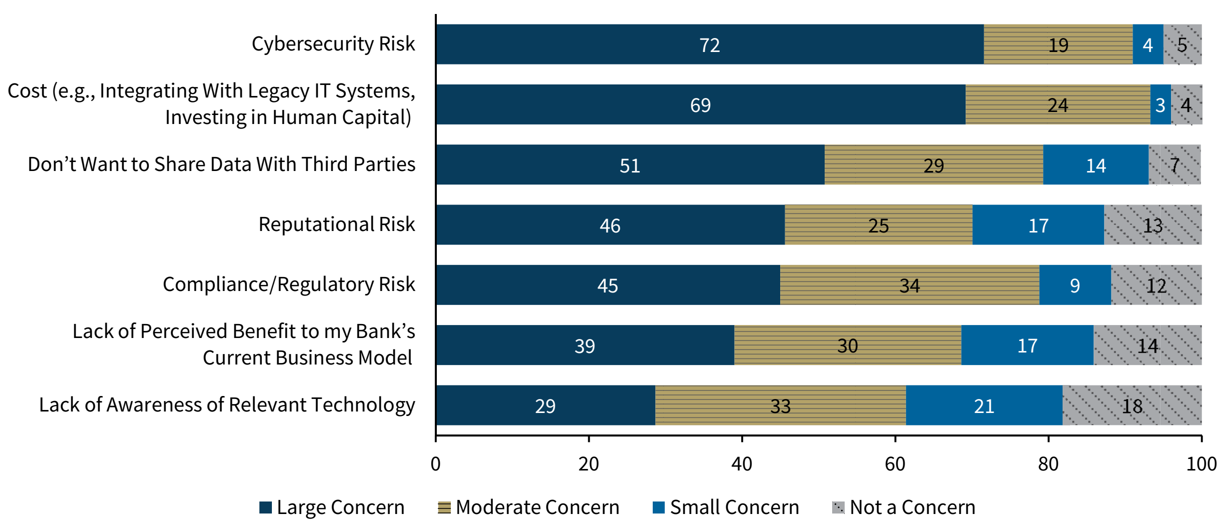
4.4 Factors That Limit Additional Use of FinTech

A variety of factors might deter banks from incorporating FinTech into their small business loan process, such as cybersecurity risk, high cost of adoption, or a lack of awareness of FinTech. Understanding the factors banks consider when weighing whether to incorporate FinTech into their small business lending practice matters for predicting how FinTech use might continue to grow in the industry. The survey asked banks about several concerns that might impede their use of FinTech and to designate them as "no concern," a "small concern," a "moderate concern," a "large concern," or a "very large concern."

Banks' top concerns with adopting FinTech relate to risk and cost. About 70 percent of banks consider cybersecurity risk and the cost of implementation large concerns (Figure 4.8). The three other types of risk asked about in the survey—data sharing, reputational risk, and regulatory risk—were all considered large concerns by at least 45 percent of banks and at least moderate concerns by 71 percent of banks.

FIGURE 4.8

Percentage of Banks Citing Selected Factors as Limiting or Discouraging Use of FinTech



Source: SBLS 2022 Question I.E3.

Note: "Large Concern" combines "large concern" and "very large concern" responses. Results may not sum to 100 percent due to rounding.

[50] This analysis is not presented in a figure. It compares the likelihood that a decision-maker typically meets with applicants (as described in Section 3.3 and sourced from Questions I.B11, I.B16, I.B21, and I.B26) for banks currently using FinTech and those that are not currently using it in at least one step of the loan process. The differences remain significant even after controlling for bank size.

Slightly fewer banks are hindered by a lack of awareness of relevant technology or a lack of perceived benefit to their business model. Sixty-two percent of banks consider the lack of awareness of relevant technology to be at least a moderate concern. A lack of awareness may indicate that a bank has not encountered any relevant technology for small business lending or that technologies do not offer a perceived benefit. Sixty-nine percent of banks consider the lack of perceived benefit to be at least a moderate concern and 39 percent consider it a large concern. The lack of perceived benefit may indicate that technology is not available to improve their operations or the perceived benefit does not outweigh its expected cost. These findings suggest that more than half of banks do not see a strong case for further FinTech integration into their small business lending operations. While innovative technology is, by definition, an evolving space, the nature of bank concerns and their prevalence may limit the near-term growth of FinTech use in small business lending.

4.5 Conclusion

Across the banking industry, about half of banks were using or considering the use of FinTech in the loan process in 2022. The most common application of FinTech was to help with regulatory compliance. Banks typically use FinTech in the post-approval steps of the loan process (such as closing, servicing, and portfolio analytics) rather than in pre-approval steps (like application processing and underwriting). While most banks do not use FinTech in any steps of the loan process, a small minority use it in three or more steps. Risk and cost are the top factors that discourage the use or further adoption of FinTech in small business lending, with awareness of potential uses for or benefits of FinTech being relatively less important concerns.

While large banks are more likely to use FinTech, the gap in use between large and small banks is not as vast as the difference in the breadth of its use. Among banks that use FinTech in at least one step of the loan process, more than half of large banks use FinTech in at least five of the ten possible steps, compared with less than a quarter of small banks. More than half of the small banks that use FinTech use it in no more than two steps of the loan process. In terms of how they use FinTech, small and large banks tend to use FinTech in post-approval stages at similar rates, but large FinTech banks are much more likely to also use FinTech in pre-approval steps like application processing and underwriting. Finally, FinTech banks seem to use the same relationship-driven practices to generate and maintain their small business relationships as non-FinTech banks, but they differ in other ways, such as a lower likelihood of meeting with applicants.

SECTION 5
Markets and Competition

This section examines the market for small business loans in terms of the location of a bank's small business lending—its geographic market—and the competitors that banks face for small business loans. Findings from the 2016 SBLS, reported in FDIC (2018), suggest that geography and competition are often closely related. FDIC (2018) shows that most banks lend near their physical branch locations and primarily compete with other banks that have branches in their local market. The 2022 survey delved more deeply into these findings by exploring the factors that determine the span of a bank's geographic market and by studying the intensity of competition between different types of institutions. The 2022 SBLS also provided an opportunity to explore how recent developments in remote communication and the increasing presence of nonbank small business lenders may have changed the overall geographic and competitive landscape.

A bank's branch footprint is a common proxy in academic research for a bank's geographic market. A bank's branches are a key way they reach their customers, likely because they represent a direct connection to a particular community and serve as a place to house the staff that conduct the day-to-day operations of small business lending.[51]

The period since the 2016 SBLS has seen a decline in total bank branches of 14 percent. Recent research suggests that this decline may be a result of consolidation, as larger banks have less need for a dense branch network, possibly because they use less soft information in their underwriting.[52] Other research suggests that the adoption of services such as online banking is largely unrelated to the decline.[53] Understanding the importance, if any, of a bank's physical locations in relation to where they make small business loans can help inform the discussion around the drivers of the decline in bank branches.

A separate consideration when measuring the impact in the reduction of bank branches is the relative size of a bank's market for small business lending. FDIC (2018) shows that about three-quarters of small banks described their markets as county- or city-based in 2016, while most large banks characterized their markets as Metropolitan Statistical Area (MSA)- or state-based. This difference may result from variations in the scale of banks' branch networks rather than from distinct approaches banks use to define their markets. In 2021, the average large bank had 287 branches and the average small bank had slightly fewer than seven branches; thus, an MSA or state may be the only geographical designation large enough to contain a localized collection of branches for larger banks.[54] Academic research suggests that most small business lending is in the immediate vicinity of a bank's offices, often within ten miles.[55] Due to data limitations, this research has largely excluded small banks entirely and, even for large banks, cannot easily be reconciled with a market that is MSA- or state-based. The analysis of the 2022 SBLS provides a nationally representative measure of the size of markets for small business lending and further describes the factors that limit the size of these markets.

The 2022 survey also provided a measure of the intensity of competition banks face for small business loans. The survey asked banks about the competition they face from other banks as well as credit unions and other types of nonbank institutions. FDIC (2018) finds that banks largely compete with banks of a similar size and that frequent competition with nonbanks in the small business lending market was relatively uncommon

51 FDIC (2021) and Sakong and Zentefis (2023).
52 Keil and Ongena (2024) and Jiang, Yu, and Zhang (2023). For more on the use of soft information in underwriting, see Section 3.
53 Jiang, Yu, and Zhang (2023); Huang, Jiang, and Xiao (2023); Koont (2023); Wang and Wu (2024); and Amberg and Becker (2024).
54 Author calculations using the 2021 FDIC Summary of Deposits for full-service, brick-and-mortar branches.
55 Nguyen (2019); Granja, Leuz, and Rajan (2022); and Adams, Brevoort, and Driscoll (2023).

in 2016. To some extent, the lack of competition with nonbanks may reflect different business models used by nonbanks that focus on the margins of the small business lending market, as suggested by findings in academic research.[56] Technological advances and changes in the regulations governing credit unions and other nonbanks also may have led to competitive shifts since 2016.[57] The extent of competition with credit unions and other nonbanks matters for accurately defining markets and measuring competition within them, as differences in regulatory structure mean that the presence of credit unions and other nonbanks will not be captured by bank-based measures of competition. The 2022 survey probed the frequency of competition with different types of nonbank institutions to better assess such linkages and how they may have changed since 2016.

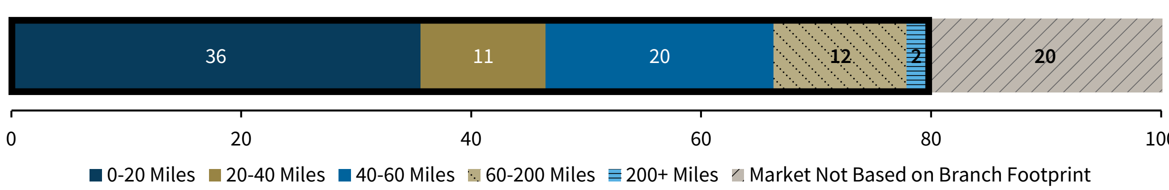
Competition between banks is an important issue given the continuing consolidation in the banking industry. As discussed in Section 3, small and large banks differ in the types of information on which they base small business lending decisions. These differences may coincide with a segmentation of the market, meaning large banks serve different types of customers than small banks serve. If so, the continued decrease in the number of small banks could have significant adverse effects on the availability of credit for certain small business customers. One way to assess the extent of market overlap is to determine how commonly small and large banks compete with each other. To this end, the 2022 survey provided an updated measurement of inter-bank competition differentiated by asset size and presence of the bank in the same local market. This section discusses these results and compares them with the findings from SBLS 2016 to provide a sense of prevailing trends.

5.1 Geographic Markets for Small Business Lending

A common approximation of a bank's geographic market for small business lending is the bank's branch footprint, aligning with the notion that customers prefer to borrow from a nearby bank. However, advances in remote communication and FinTech may have reduced the importance of proximity and, to some extent, untethered markets from physical branches. To assess the role of physical locations, the 2022 SBLS asked banks whether they define their market for small business lending based on branch footprint and, if so, how far from a branch that market typically extends.

Banks largely define their small business lending market as the area immediately surrounding their branch network. As shown in Figure 5.1, 80 percent of banks define their geographic market based on where their physical branches are located.[58] The

FIGURE 5.1
Percentage of Banks Reporting a Certain Size of Geographic Market



Source: SBLS 2022 Question II.A1.
Note: The black rectangle indicates the 80 percent of banks that define their geographic market for small business lending based on their branch footprint. Geographic market is defined as the physical area or areas where a bank's small business loan customers are generally located. The survey question asked banks how far their geographic market for small business lending extends. Responses to the question of fewer than 20 miles were combined and answers 20 miles and above were tabulated as shown. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information). Results may not sum to 100 percent due to rounding.

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56 Tang (2019); Balyuk, Prabhala, and Puri (2020); Beaumont, Tang, and Vansteenberghe (2022); Cornelli, Frost, Gambacorta, and Jagtiani (2022); Erel and Liebersohn (2022); and Bickmore, MacKinlay, and Tellez (2023).

57 For details of changes in the regulation of credit unions, see 81 Fed. Reg. 13530–13559.

58 The survey provided six ranges of market distance denoted in miles, a write-in option to specify a number greater than 20 miles, and an option stating that the market was not based on their branch footprint. These options were re-classified into the set of categories presented in Figure 5.1.

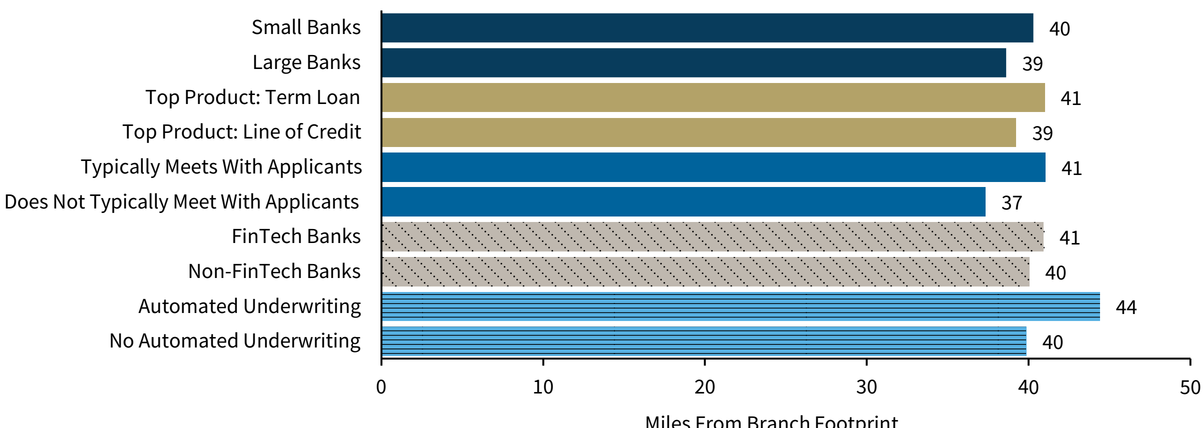
remaining 20 percent of banks do not limit their market for small business customers based on their branch network.

Banks that define their market for small business lending using their branch footprint tend to lend within a short distance of their branches. Two-thirds of all banks (or 83 percent of banks that use their branch footprint) report that the general location of their small business customers is within 60 miles of one of their branches. A significant share of banks lend even closer to their branches; 36 percent of all banks (45 percent of those using their branch footprint) report a market within 20 miles of their branches. While some banks report a market that extends quite far from their branch network, on average the bank market for small business loans extends 40 miles from the branch footprint.[59]

Small banks, or those that rely more heavily on soft information to underwrite their small business loans, may reasonably be expected to have a smaller market than large banks. Conversely, banks that rely more heavily on hard information such as credit scores may have larger markets because of the relative ease of transmitting this type of information across distances (see Section 3). But a surprising finding from the survey results is the lack of significant differences in the size of geographic markets across different types of banks.

As shown in Figure 5.2, the area where a bank's small business customers are located does not vary much across factors that intuitively could generate differences, such as the size of the bank, the bank's top lending product, whether the bank typically meets with applicants, whether the bank uses FinTech for small business lending, and whether the bank uses automated underwriting for some loans. Although the reported geographic market for small business lending varies widely across the industry, it averages about 40 miles for each of the bank groupings in Figure 5.2. Taken together, these results show that branches remain central to how banks define their market and that the variation in the industry is not strictly a function of bank size, business model, or technology use.

FIGURE 5.2
Average Market Size in Miles, by Selected Bank Characteristics



Source: SBLS 2022 Question II.A1.
Note: The average market distance across all banks is 40.25 miles. The distance measure was created using the midpoint of answer options corresponding to fewer than 20 miles and the exact values for 20 or more miles. Banks reporting markets not based on branch footprint or a reported distance of more than 200 miles were dropped from this analysis. *Top Product* refers to the top product by volume other than credit card and government-guaranteed lending (see Section 2.2). *Meets With the Applicants* refers to whether a decision-maker typically meets with an applicant during the approval process (see Section 3.3). *Automated Underwriting* refers to banks that at least partially automate the underwriting of some loans (see Section 3.7). *FinTech Bank* refers to a bank that currently uses FinTech in at least one step of its loan application process (see Section 4.1). Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
None of the differences shown here are significant at the 10 percent level.

[59] For all analyses involving specific mileage, a small number of observations above 200 miles were dropped to focus on banks that primarily lend to the community immediately around their branches. Banks reporting that they do not lend based on branch footprint were likewise excluded. Some assumptions were made to calculate the average from answers involving ranges. Specifically, a midpoint was used for answers provided in a range (e.g., 7.5 miles for "5 to less than 10 miles"). These midpoints were then combined with the distance banks wrote in for answers of 20 miles or more to compute the average.

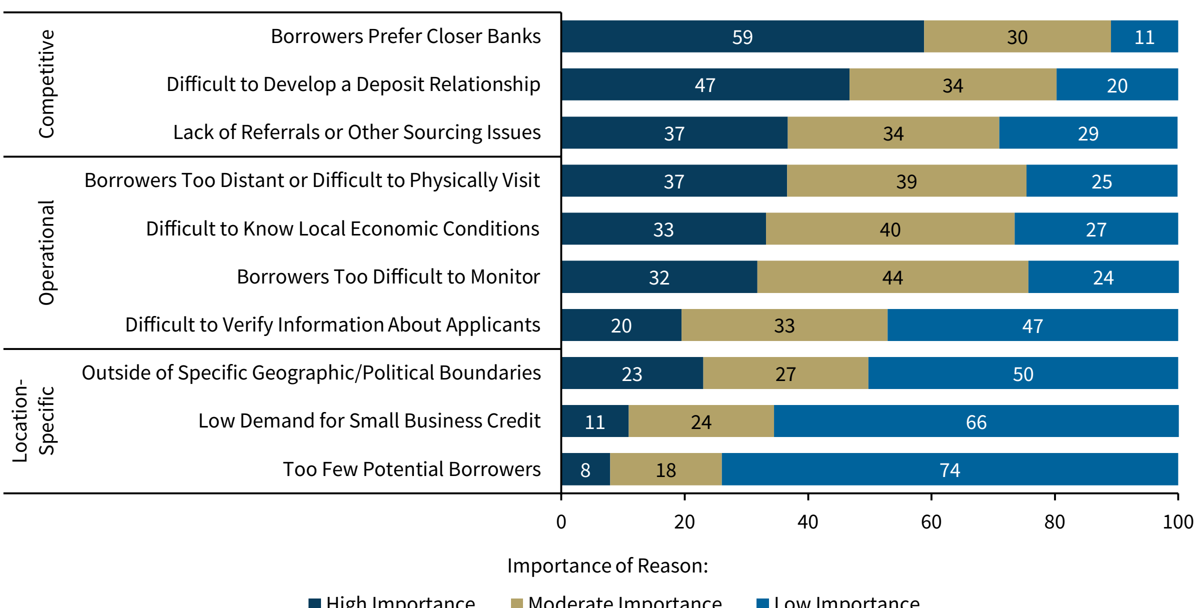
5.2 Factors That Drive Variation in Market Size

To better understand the differences in geographic markets for small business lending, the survey asked banks about the importance of several factors in limiting the size of their geographic market. The factors, listed below, were grouped into the following three broad categories:

- Competitive factors – customer preference for closer banks, difficulty forming a deposit relationship with the small business, and difficulty finding referrals for or sourcing potential applicants.
- Operational factors – difficulty conducting visits, difficulty monitoring loans, difficulty understanding local economic conditions, and difficulty verifying applicant information.[60]
- Location-specific factors – insufficient demand outside the current market, few potential borrowers, and presence of geographic or political boundaries.

Figure 5.3 shows the potential reasons a bank's market does not extend farther, with the percentage of banks citing a particular reason's importance as high, moderate, or low and grouped by the type of reason cited. The three top factors all relate to the competitive pressure banks face when attempting to lend outside their general geographic market, while most of the middle-ranked items pertain to operational concerns. Fifty-nine percent of banks report that borrowers outside of their geographic market prefer to borrow from banks with branches closer to them, and an additional 30 percent report that competition from banks closer to the borrower is of moderate importance in limiting how far their market stretches. Difficulty forming a deposit relationship was of high importance for 47 percent of banks and of moderate importance for 34 percent. These two factors directly reflect the competitive pressure on banks and how that pressure limits the size of bank markets.[61]

FIGURE 5.3
Percentage of Banks Citing Selected Reasons for Not Lending Outside Their Geographic Market



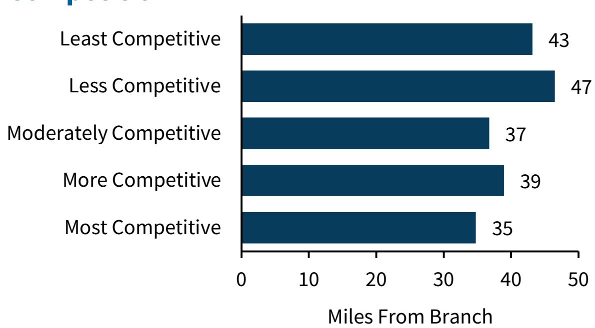
Source: SBLS 2022 Question II.A2.
Note: The survey asks about potential problems that keep banks from lending outside their geographic market. The survey defines geographic market as the physical area or areas where a bank's small business loan customers are generally located. *High Importance* combines "very high" and "high" responses. *Low Importance* combines "low and "very low" responses. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information). Results may not sum to 100 percent due to rounding.

[60] For further discussion of the impact of operational factors, see Heitz, Martin, and Ufier (2023).
[61] The difficulty in forming a deposit relationship may also somewhat reflect operational concerns.

About one-third of banks consider each of the operational factors, except difficulty verifying applicant information, highly important for determining why a bank does not lend outside of its geographic market. The challenges that operational factors pose to a bank looking to expand its market reflect the importance of high-touch and staff-intensive practices for generating and maintaining relationships with borrowers (see Section 6). Only a small share of banks consider location-specific conditions or boundaries highly important.[62] These findings suggest that most banks believe their market for small business lending could be larger but that competitive or operational pressures limit market size; for a minority of banks, however, location-specific conditions or boundaries significantly limit their potential market size.

As shown in Figure 5.3, the majority of banks report that borrowers outside their geographic market prefer closer banks, which suggests that competition is an important determinant of market size. This relationship is explored more directly by comparing the market distance a bank reports to a common measure of competition, the Herfindal-Hirschman Index (HHI). A deposit-based HHI value is calculated for each market, where the market is the MSA when the county is inside an MSA and the county itself for those counties not in an MSA. A weighted HHI for each bank is calculated by weighting the HHI from each market in which a bank has a presence by the share of the bank's deposits in each market and summing the weighted HHI across markets to arrive at a value for each bank. The HHI values are calculated for every market and bank in the 2021 FDIC Summary of Deposits. Each bank is then placed into one of five buckets defined by the industry-level quintiles of weighted HHI values. These buckets are combined with the 2022 SBLS results to explore whether differences in relative competition explain differences in market size. This deposit-based approach captures the variation in competition a bank faces across markets weighted by the relative importance of that market to the bank. A bank with most of its deposits in competitive markets will have a low HHI value and be in a lower bucket. A bank that operates in only one market and has little competition for deposits in that market will have a relatively high HHI value and be in a higher bucket.

FIGURE 5.4
Average Market Size in Miles, by Market Competition



Source: SBLS 2022 Question II.A1.
Note: This figure shows how the market distances reported in the survey vary with a measure of how competitive the markets are where the bank has a branch presence. The distance measure was created using the midpoint of answer options corresponding to fewer than 20 miles and the exact values for 20 or more miles. Banks reporting markets not based on branch footprint or a reported distance of more than 200 miles were dropped from this analysis. The measure of competitiveness is based on the Herfindahl-Hirschman Index for deposits within a county (for more information see Appendix A.7). Question is keyed to the bank's highest volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

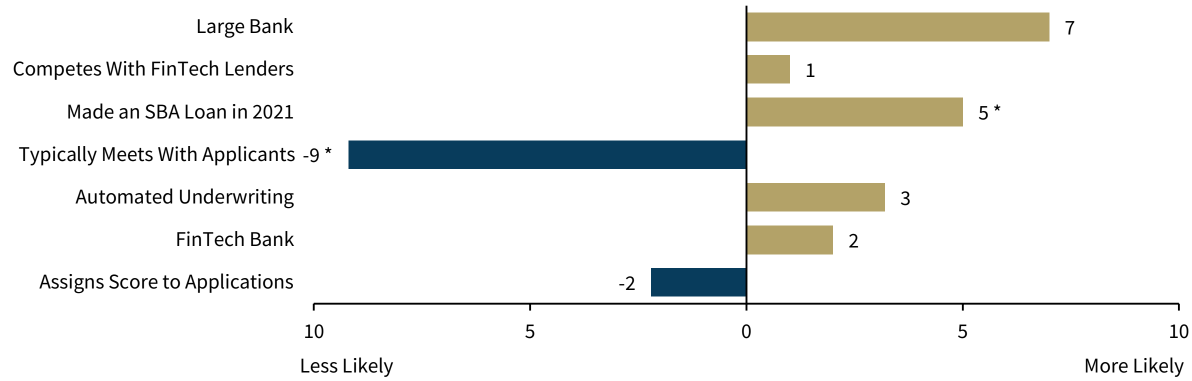
Figure 5.5 shows that banks in relatively more competitive markets report smaller markets for small business lending. Moving from the most competitive quintiles to the least competitive quintiles generates a difference of ten miles in how far from a bank branch small business loans are generally located. The salience of competition aligns with the results in Figure 5.3, which shows that banks report that at the edge of their geographic markets, potential customers prefer to borrow from closer banks. While intuitive, this finding implies that the market for small business credit varies not only with where a bank has branches but also with the intensity of competition near those branches. With the context of results shown in Figure 5.4, the importance of local competition may outweigh factors like size of the

[62] These conditions include a lack of local demand for small business credit. Historically, political boundaries were very salient. Their relative unimportance here may reflect the dramatic change within the banking industry since the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, which, among other things, allows banks to open branches across state lines.

BANKS THAT DO NOT LEND BASED ON BRANCH FOOTPRINT

FIGURE 5.BOX1

Percentage of Banks That Do Not Define Their Geographic Market by Branch Footprint, by Specific Bank Characteristics



Source: SBLS 2022 Question II.A1.
Note: This figure presents the difference in the percentage of banks that do not define their geographic market by their branch footprint when separated by selected characteristics. The geographic market is defined in the survey instrument as the physical area or areas where the bank's small business borrowers are generally located. The branch footprint is the set of physical offices of the bank. *Large Bank* compares banks with assets of at least $10 billion to those below $10 billion. *Competes With FinTech Lenders* compares bank that responded they compete often or most of the time with online nonbank lenders in question II.B1. *Made an SBA Loan in 2021* compares banks that did and did not make at least one loan through the Small Business Administration (SBA) 7(a) program in calendar year 2021 (see Section 2.4). *Typically Meets With Applicants* refers to whether a decision-maker typically meets with an applicant during the approval process (see Section 3.3). *Automated Underwriting* compares banks that do and do not at least partially automate the underwriting of some loans (see Section 3.7). *FinTech Bank* compares banks that do and do not currently use FinTech in at least one step of its loan application process (see Section 4.1). *Assigns Score to Applications* compares banks that do and do not assign a grade or numeric score to applications as part of their underwriting process in survey question I.C1. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
* Denotes a statistically significant difference between the set of compared banks at the 10 percent level.

Twenty percent of banks report that physical locations do not determine the location of their geographic market, making it important to examine factors other than branch footprint, such as use of technology and participation in government-guaranteed loan programs, that may influence where the bank lends.

Figure 5.BOX1 presents the results of tests for differences between banks that do not lend based on their branch footprint (non-footprint banks) and banks that do (footprint banks) across several characteristics. The figure shows significant differences between these lenders in terms of those that typically meet with applicants and those that participate in the SBA 7(a) loan program. For example, non-footprint banks are 9 percentage points less likely than footprint banks to typically meet with applicants, including through videoconference or a telephone call, suggesting the limits of remote communication in small business lending. Non-footprint banks are also 5 percentage points more likely to have made one 7(a) SBA loan in 2021, which is consistent with an SBA guarantee reducing the risk of extending credit to customers farther away (see Sections 2.4 and 7.2). Together, these results suggest that non-footprint banks manage the risk of lending to small businesses in distinct ways from footprint banks.

The figure also shows no significant differences across characteristics of banks where such differences would have been expected. For example, large banks are not statistically more likely than small banks to be non-footprint banks. Further, non-footprint banks do not seem to rely more on technology to bridge physical distance, as they are no more likely than footprint banks to automate underwriting, use FinTech, compete with FinTech lenders, or assign loan applications a grade when underwriting. These results suggest that size or greater use of technology does not necessarily render a physical presence unnecessary to the small business lending process.

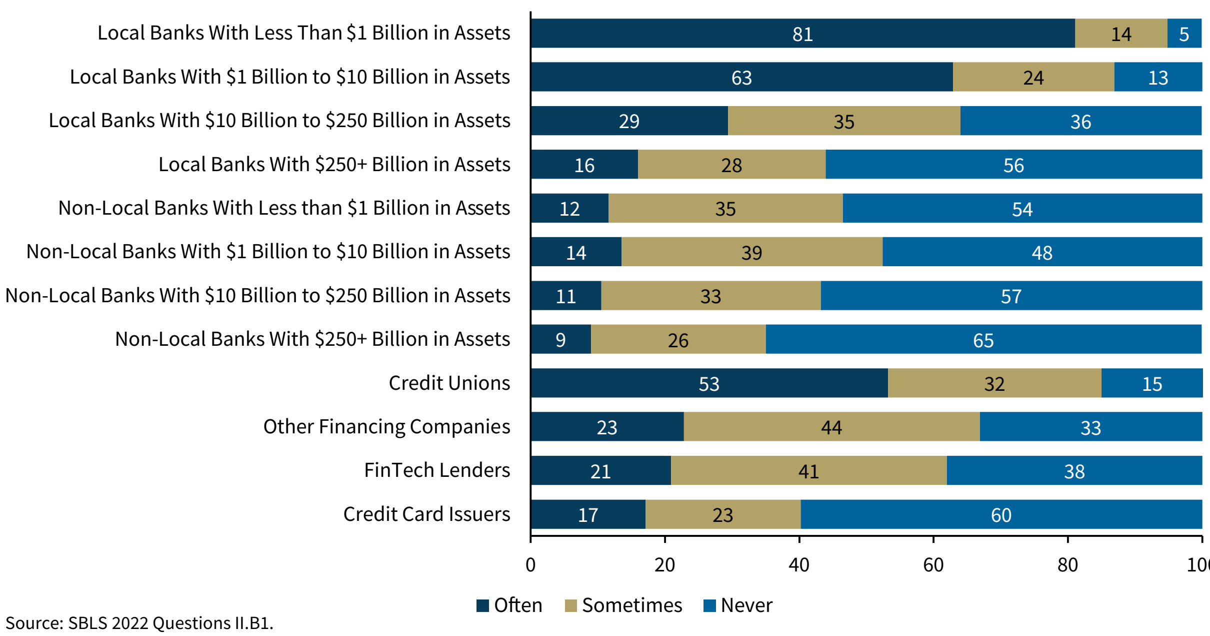
bank, underwriting process, and business model in determining the geographic size of a small business lending market.

5.3 Competition for Small Business Lending Borrowers

Understanding competition in the small business lending market provides valuable context to the ongoing consolidation in the banking industry. Appropriate measures of concentration are affected by the degree to which markets are geographically segmented. If banks compete only with other nearby institutions, then measures aggregated to the industry may mask wide variation at the local level. Similarly, the degree to which market participants include multiple types of lenders can change qualitative conclusions. If banks face increasing competition from nonbanks and credit unions, then measures of concentration in the banking industry may underestimate the degree of competition within the small business lending market. One goal of the Small Business Lending Survey is to provide a nationally representative characterization of competition at the industry and sub-industry levels.

The results of the 2016 SBLS show that banks largely compete with local banks of a similar size for small business loans and that frequent competition with nonbanks is relatively rare. Responses to the 2022 survey illustrate how competition for small business loans changed between 2016 and 2022.[63] The 2022 survey asked banks how often they compete for small business borrowers with a range of institutions, including different-sized local and non-local banks and a selected set of nonbanks and credit unions; answers ranged from “never or rarely” to “most of the time.” This approach permits us to separately analyze competition along several different dimensions: whether the competition is frequent or occasional, whether the competitor is a bank or non-bank, and for bank competitors, the size of the competitor bank and whether it has a branch in the local market.

FIGURE 5.5
Percentage of Banks Competing With Each Type of Financial Institution



Source: SBLS 2022 Questions II.B1.
Note: Local banks are banks with a branch presence in the bank’s market(s). Non-local banks are banks without a branch presence in the bank’s market(s). FinTech Lenders are nonbank online lenders. *Often* combines “often” and “most of the time.” Results may not sum to 100 percent due to rounding.

[63] For a detailed discussion of trends, see Section 5.4.

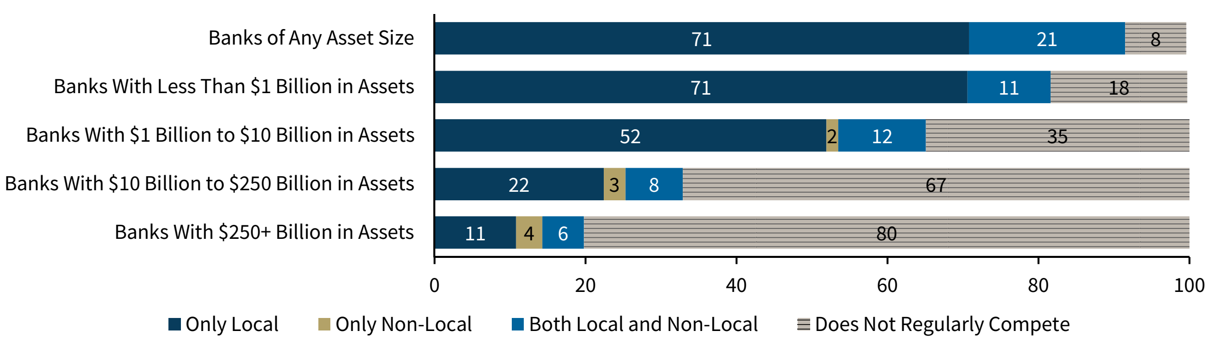
Banks cite other local banks and credit unions as their most common competitors (Figure 5.5). Banks most often compete with small local banks for small business loans: 81 percent of banks report competing often with other local banks with less than $1 billion in assets, and 63 percent report competing often with local banks with $1 billion to $10 billion in assets. The widespread competition with small banks aligns with their overall prevalence: small banks held 44 percent of small C&I and CRE loans to businesses and made up 97 percent of banks at year-end 2021.[64] The next most common competitor identified by banks are credit unions; 53 percent of banks report them as often being a competitor.

A sizable minority of banks also report competing often with local banks with more than $10 billion in assets and non-depository institutions such as FinTech lenders and other financing companies.[65] About 30 percent of banks often compete with local banks with $10 billion to $250 billion in assets, and 16 percent of all banks compete often with local banks with more than $250 billion in assets. About 20 percent of banks report competing often with nonbank financing companies (23 percent), FinTech lenders (21 percent), and credit card issuers (17 percent).

Combining the share of banks that compete often and those that compete sometimes in Figure 5.5 gives a sense of the general competition banks face. Almost two-thirds of banks report competing at least sometimes with other financing companies (67 percent), local banks with $10 billion to $250 billion in assets (64 percent), and FinTech lenders (62 percent). On the other hand, more than half of banks report competing rarely or never with local banks with assets of at least $250 billion and credit card issuers.

To further explore the local nature of small business lending competition, Figure 5.6 presents the percentage of banks that compete only with a local bank, only with a non-local bank, with both local and non-local banks, and with no particular group of banks (i.e., does not compete). The figure shows that almost all banks (92 percent) compete often with at least one other bank. However, the vast majority of that competition is only with banks that are present in their local market (71 percent). Less than 1 percent of banks exclusively compete with non-local banks. The figure also shows that regular competition largely happens when the competitor bank has a local presence, regardless of the size of the competitor. Fewer banks overall compete regularly with large banks, but the majority of banks that do often compete with large banks do so only

FIGURE 5.6
Percentage of Banks Competing With Local and Non-Local Banks



Source: SBLS 2022 Question II.B1.
Note: This figure depicts the percentage of banks that reported competing "often" or "most of the time" with each type of competitor bank. The "Only Non-Local" category rounds to zero for both "Banks of Any Asset Size" and "Banks With Less Than $1 Billion in Assets" and has been excluded from the figure for readability. Results may not sum to 100 percent due to rounding.

[64] All numbers are from bank Consolidated Reports of Condition and Income (Call Reports). Small loans to business are the outstanding balances as of December 31, 2021, on commercial and industrial and commercial real estate loans less than $1 million at origination.
[65] Other financing companies include asset-based lenders, factoring companies, leasing companies, and firms offering credit such as a merchant cash advance or trade credit.

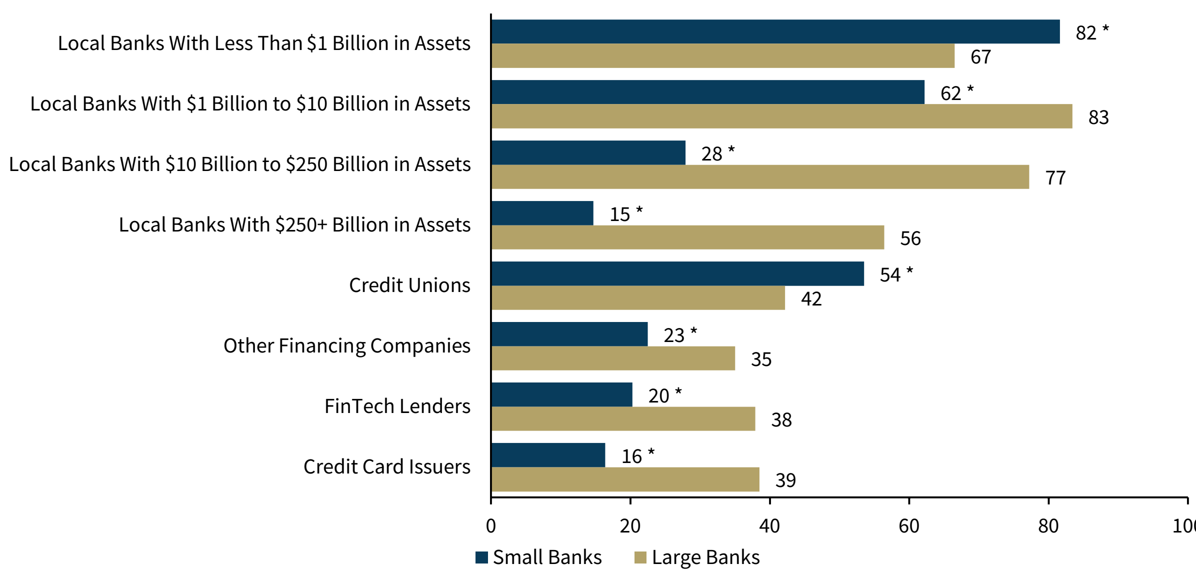
when those banks have a local presence. The probability of competing often with only a non-local bank increases with the size of the competitor bank, but the highest likelihood of doing so is only 4 percent. Collectively, these findings suggest that small business lending competition between banks remains largely local and that industry-level measures of competitiveness may mask important aspects of the competitive landscape.

Another way the market for small business lending might exhibit segmentation is if small and large banks generally serve separate sets of small business customers, for example, because of differences in underwriting practices (see Section 3). In the extreme, this segmentation would imply that a market with one small and one large bank would experience less competition than a market with two banks of a similar size. To explore this possibility, Figure 5.7 presents the percentage of small and large banks that compete regularly (i.e., often or most of the time) with other types of institutions. Because small banks make up the vast majority of banks, the results for small banks closely resemble those for all banks, with the likelihood of regularly competing with a bank decreasing as the size of the competitor bank increases. Regular competition with the smallest set of banks (less than $1 billion in assets) is slightly less common for large banks than for small banks (67 percent of large banks compared with 82 percent of small banks). However, large banks are more likely than small banks to compete regularly with banks in the other size categories. More than three-quarters of large banks report competing regularly with banks with $1 billion to $250 billion in assets, and more than half of large banks regularly compete with banks with more than $250 billion in assets. These results indicate that large banks generally compete often with banks of all sizes.

A second pattern evident in Figure 5.7 is the difference between small and large banks in their competition with nonbanks and credit unions. About half (54 percent) of small banks compete regularly with credit unions, but only about 20 percent compete regularly with nondepository institutions. Conversely, large banks are slightly less likely than small banks to report regular competition with credit unions (42 percent) and are substantially more likely to report regular competition with FinTech lenders (38 percent), credit card issuers (39 percent), and other financing companies (35 percent). This pattern may reflect differences in the competitive advantages of credit unions and other nondepository

FIGURE 5.7

Percentage of Banks Competing With Each Type of Financial Institution, by Bank Size



Source: SBLS 2022 Question II.B1.
Note: In this figure, competition is defined as banks indicating they compete "often" or "most of the time" with the specified type of institution. FinTech Lenders are nonbank online lenders. Competition with non-local banks is omitted for readability.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

institutions, with credit unions more closely aligning with advantages held by small banks (see Section 6.3) and nondepository institutions aligning more closely with advantages held by large banks. The findings also suggest that the size of bank matters for the likelihood that it faces competition from nonbanks and credit unions. Small banks are more likely to face competitive pressure from credit unions, while large banks are more likely to face competition from non-depository institutions. In either case, bank-only measures of competition would miss any added competition from nonbanks and credit unions.

5.4 Changes in Competition Since the 2016 Survey

The results of the 2016 SBLS show that banks largely compete with other banks and that competition with nonbanks other than credit unions is relatively muted. In contrast, findings from the 2022 survey suggest the growing importance of credit unions and other nonbank institutions in the market for small business loan customers. This subsection provides a more in-depth analysis of potential changes in the competitive landscape between the 2016 and 2022 survey periods. Before presenting the results, several differences in the language of the 2016 and 2022 survey questions are worth highlighting. Because of these differences, results of the comparisons of the two surveys should be viewed as suggestive of qualitative changes in the competitive landscape for small business lending, not as quantitatively definitive.

Researchers constructing the questions about competition for the 2022 survey sought to maintain as much comparability between the two surveys as possible while incorporating lessons learned to improve the information gleaned from the survey responses. For example, the list of institutions that are potential competitors was intentionally kept the same; however, the way the question measured the degree of competition was changed. In the 2016 survey, banks selected the types of institutions that they competed with and, of those, which types of institutions were their first, second, and third competitors. The 2022 survey elicited more detail by asking how frequently a bank competed with each type of institution, with answers ranging from “never or rarely” to “sometimes,” “often,” and “most of the time.” Thus, banks answering the 2016 and 2022 surveys may have used different thresholds to decide whether to label a type of institution as a competitor. As a result, the comparisons of competitors across the years are presented in two ways to account for the ambiguity in the differences across the response options. The two comparisons provide upper and lower ranges that we believe are likely to bracket the true magnitude of the change.[66]

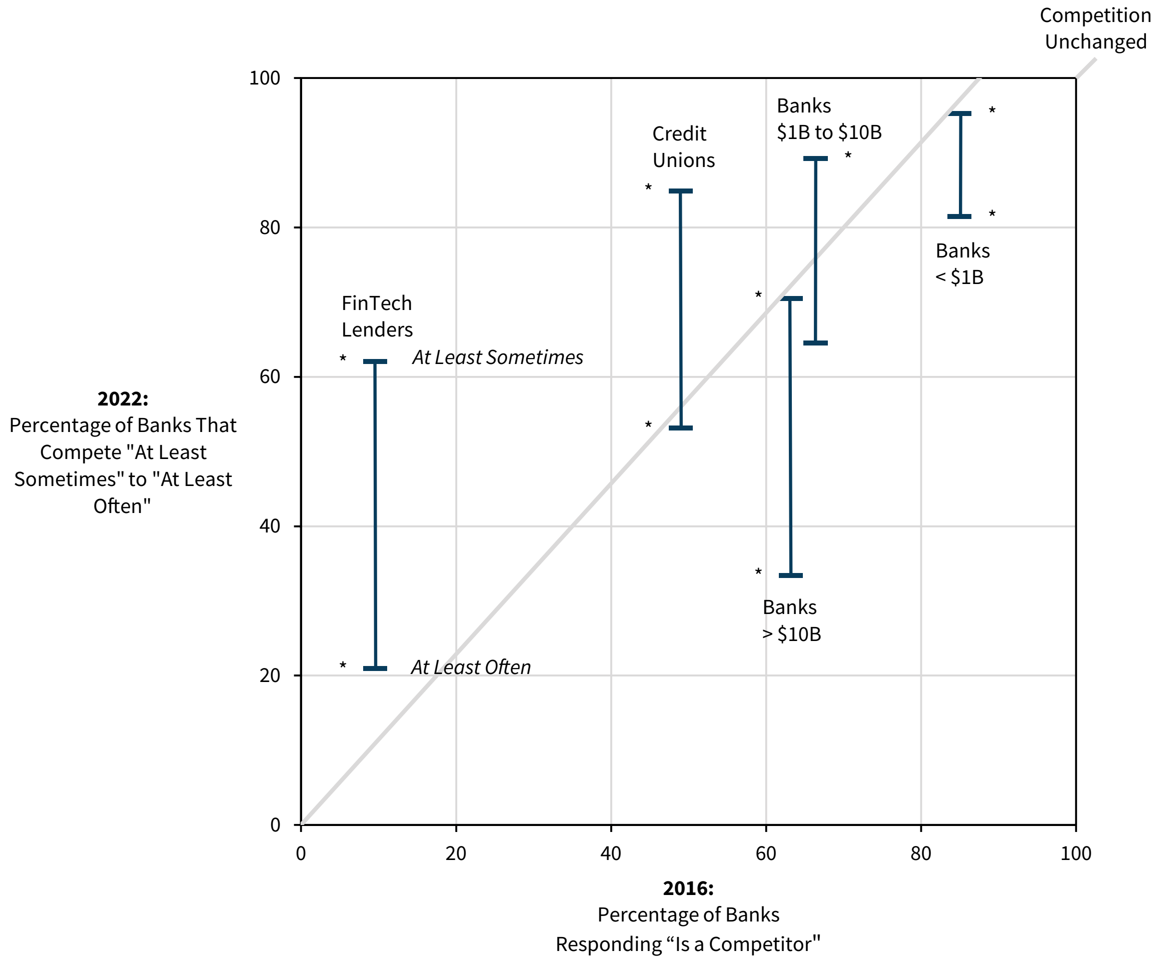
A more fundamental change in the 2022 survey involves the scope of the lending to small businesses that banks were asked to consider when answering the questions. In the 2016 survey, banks were asked about competitors for their commercial and industrial loans to small businesses. In contrast, the 2022 survey asked about competitors for “business purpose” loans to small businesses. Thus, the 2022 survey uses a wider definition of lending beyond traditional commercial and industrial lending that notably also includes owner-occupied commercial real estate lending (see Part IA of Appendix B for more information). The differences in the scope of lending could have significantly affected how banks answered questions about competition in 2016 compared to 2022. For example, if bank responses in 2022 more closely reflected their experiences in originating owner-occupied commercial real estate loans, then changes may reflect differences in the specific competitors for that product rather than overall competition.

With these caveats, Figure 5.8 shows how competition for small business lending seems to have changed between the 2016 and 2022 surveys. The figure shows the range in the level of reported competition with a specific type of institution; the horizontal axis denotes responses in 2016, and the vertical axis denotes responses in 2022. For the 2016 survey, any point on the horizontal axis denotes

[66] The wording of the 2022 question is available in Part IIB of Appendix B. The wording of the 2016 question is available on page 74 of FDIC (2018). These comparisons are weighted averages across all banks that responded in 2016 and all banks that responded in 2022. No adjustments are made for changes in the size of the population, mergers, or re-sampling.

FIGURE 5.8

Percentage of Banks Competing With Selected Types of Financial Institutions, 2016 and 2022



Source: SBLS 2022 Question II.B1.

Note: This figure compares the percentage of banks responding that they compete with different types of institutions in the 2016 and 2022 surveys. In the 2016 survey, banks were asked about their competitors for commercial and industrial loans. In the 2022 survey, banks were asked how often they compete with other types of institutions on loans for business purposes that include all types of small business lending except Paycheck Protection Program loans. The figure compares the percentage of banks responding "Is a Competitor" in 2016 to the percentage of banks responding they compete *At Least Often* and *At Least Sometimes* in 2022. *At Least Often* combines responses stating they compete "often" and "most of the time." *At Least Sometimes* combines responses stating they compete "sometimes," "often," and "most of the time." *FinTech Lenders* are nonbank online lenders.

* Denotes a statistically significant difference at the 10 percent level between the percentage of banks saying they compete with that type of institution in 2016 and 2022.

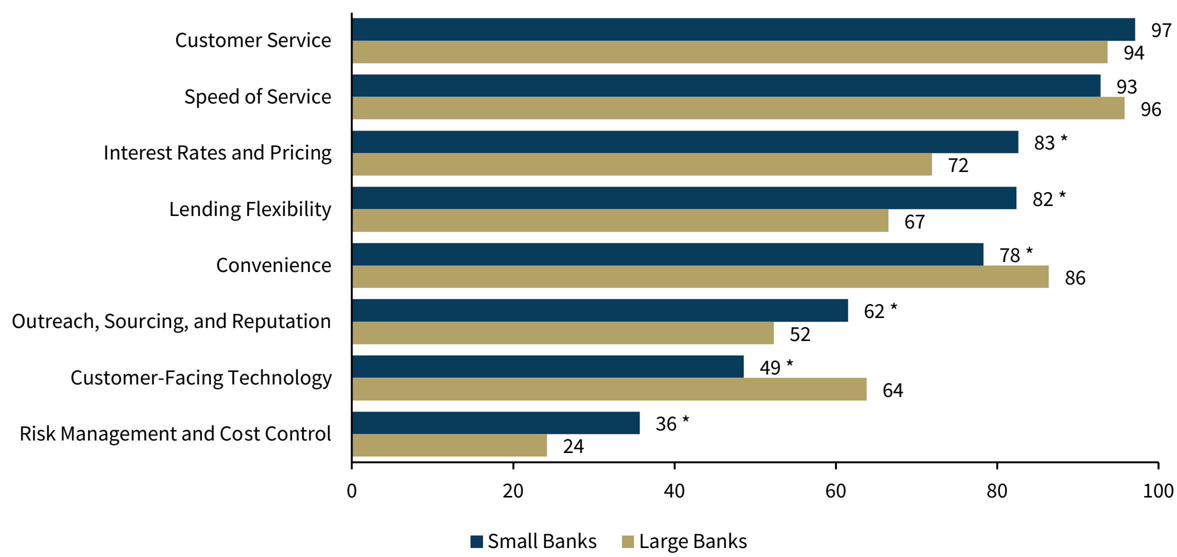
the percentage of banks that reported this type of institution as a competitor. For the 2022 survey, a vertical line is shown for each type of competitor; the lower end of the vertical line is the percentage of banks that reported competing often or most of the time with this type of institution, and the upper end of the vertical line is the percentage of banks that reported competing at least sometimes with this type of institution. Points above the diagonal suggest an increase in competition between the two surveys and points below suggest a decline; any points close to the diagonal suggest minimal change. The upper ends of most vertical lines are above or well above the diagonal, which suggests either that the likelihood of competition with that type of institution has increased or that competing sometimes might be too weak of a threshold to call the bank a "competitor" as in the 2016 survey. Most of the lower ends of the vertical lines are near the diagonal, indicating that either the change in competition has been modest or that competing often or more might be too strong of a threshold. Accordingly, the best estimate of the change in competition likely lies somewhere along the vertical lines.

One takeaway evident from Figure 5.8 is the increase in the percentage of banks competing with both FinTech lenders and credit unions. While only 10 percent of banks listed FinTechs as a competitor in 2016, between 20 and 60 percent of banks cited them as a competitor in 2022. Similarly, 49 percent of banks reported competing with credit unions in 2016, compared with 50 to 85 percent in 2022. The increased relevance of credit unions as a competitor matches regulatory changes in January 2017 that expanded the ability of credit unions to make commercial loans and began a period that has seen a nearly 250 percent increase in total outstanding commercial loans across all credit unions.[67] While financial reporting on the lending activities of nonbank FinTech lenders is relatively scarce, the large increase in salience as a competitor suggests FinTechs are a growing presence in the market for small business lending. For more analysis on the competitive advantages of credit unions and FinTech lenders, see Section 6.4. For information on FinTech use at banks, see Section 4.

Competition with other banks has remained relatively constant. In 2022, the percentage of banks that describe banks with less than $1 billion in assets and banks with $1 billion to $10 billion in assets as frequent competitors remains roughly the same as or higher than in 2016. But the 2022 survey results show a small decline in competition with large banks. In 2016, 63 percent of banks cited banks with more than $10 billion in assets as competitors, but in 2022 only 33 percent reported competing with such banks often. However, about 71 percent of banks reported competing with large banks at least sometimes, suggesting that any true decline is somewhere between the measures and likely relatively modest in magnitude.

Several reasons may account for the decline in competition for small business lending by the largest banks. The market for small business credit may have become more segmented, meaning large and small banks compete for different customers or compete in different areas (see Section 3.5 for differences in underwriting criteria). To explore this hypothesis,

FIGURE 5.9
Percentage of Banks Citing Selected Areas of Importance to Bank Borrowers, by Bank Size



Source: SBLS 2022 Question II.B4.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

[67] Author calculations based on data from the National Credit Union Administration's Quarterly Credit Union Data Summary third quarter 2017 and third quarter 2022 reports. For details of changes in the regulation of credit unions, see 81 Fed. Reg. 13530–13559.

Figure 5.9 shows the percentages of small and large banks that believe their customers highly value a particular competitive area. A small bank is about 16 percentage points more likely to think that their small business customers highly value lending flexibility. In contrast, large banks disproportionately perceive convenience (8 additional percentage points) and customer-facing technology (15 additional percentage points) as more important to their customers. The figure suggests some sorting among the small business customers of small and large banks.

Another possible explanation for the apparent decline in competition from large banks is the COVID-19 pandemic. The pandemic had a profound effect on small business lending, especially through the Paycheck Protection Program, which may have changed the demand for and supply of credit for large and small banks in both transitory and permanent ways. Understanding whether this apparent decline in competition represents a larger trend or a one-off shock requires further study beyond the scope of this report.

5.5 Conclusion

Results from the 2022 survey show that a large majority of banks lend to small business customers generally located in fairly close proximity to their branch locations. On average, this market extends about 40 miles from the bank's branch footprint. About one-third of banks report that their small business lending is to borrowers generally within 20 miles of their branch footprints. While estimates from academic research suggest that most lending occurs somewhat closer to a bank's branch network, the difference is likely a result of a broader definition of small business lending and a nationally representative sample, both of which are difficult to obtain in commonly available data sources.

The survey finds that the size of a bank's market is remarkably independent of characteristics that otherwise signify important differences between banks. The most salient factors limiting the size of the small business lending market are competitive pressure from other banks located closer to the small business customer and operational issues related to gathering information about the small business customer. Together, these findings suggest that the size of a bank's geographic market is largely determined by fundamental limitations in forming and maintaining relationships rather than more discretionary factors like technological investment, scale of operations, or underwriting practices.

When asked about their competitors for small business customers, banks report competing most often with other local banks of a similar or smaller asset size and credit unions. However, the majority of banks also compete at least sometimes with relatively large banks and other nonbanks, including FinTech lenders. The vast majority of banks compete only with banks that have a branch presence in their market, though competition with non-local banks is more common for larger banks. While large banks report competing often with banks of all sizes, relatively few small banks cite banks with more than $10 billion in assets as regular competitors. Small banks are more likely to compete often with credit unions, while large banks are more likely to compete often with FinTech lenders, credit card issuers, and other financing companies. Relative to findings in FDIC (2018), banks seem to be significantly more likely to compete regularly with credit unions and FinTech lenders, and competition with large banks may have slightly declined. These changes highlight the importance of considering comprehensive approaches to measure market competitiveness.

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SECTION 6
Lending Practices and Competitive Advantages

Recent advances in technology have made it possible for customers to complete many financial tasks without visiting a bank branch or interacting with bank personnel. These advances have occurred alongside the growth of credit unions and other nonbanks as sources of credit for small businesses (see Section 5.4). But whether changes in technology and competition have affected how banks conduct their small business lending is unclear.

Academic research presents a mixed picture of how recent technological advances may have affected the practices or locations that banks use to compete for small business loan customers. FDIC (2018), the report on the 2016 SBLS, finds that banks emphasize a relationship-oriented approach to small business lending that relies on high-touch and staff-intensive practices in their interactions with small business borrowers and that a local presence forms a key foundation of that relationship-oriented model. Evidence of the positive role branches play in extending small business loans is also found in a recent academic study showing that local lending to small businesses decreases in areas where branches are closed.[68] The importance of branches may reflect the value of soft information when underwriting small business loans because the information is more difficult to collect and process from a distance.[69] This view is supported by evidence that the average distance between most banks and their small business borrowers has not changed.[70] Still, other research suggests that technological change is eroding the relevance of physical locations for lending through innovations that compensate for the lack of soft information.[71]

Evidence on how competition has affected bank small business lending practices is similarly inconclusive. While recent academic research suggests that credit from nonbanks is an imperfect substitute for credit from banks, nonbanks seem more likely to lend to new and relatively underserved markets, possibly by leveraging the use of alternative data or innovative products.[72] Further evidence suggests that the competitive forces of technological change may affect banks differently, depending on their banking model. Both nonbanks and certain types of banks are quicker to exploit technological improvements to compete more effectively.[73]

To advance the discussion of the effects of these recent trends on bank small business lending, this section examines the practices banks use in small business lending and how these practices relate to their competitive advantages over other lenders. The analysis explores ways customers can apply for loans, practices banks use to establish or maintain relationships with small business customers, and banks' views of their competitive advantages over both their general field of competitors and specific nonbank institutions. Understanding the practices banks use to compete will inform how evolution in the market for small business loans, whether through consolidation among banks or entry by nonbanks, could change the market's character.

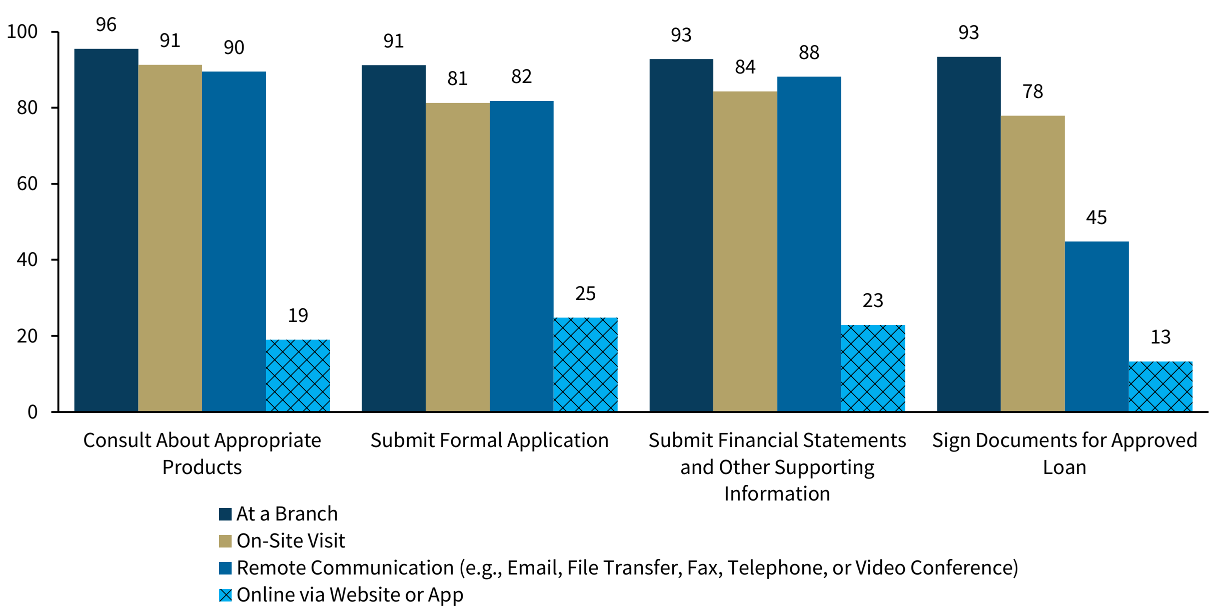
68 Nguyen (2019).
69 See "Relationship and Transactional Lending" in Section 1; see also Section 3.
70 Adams, Brevoort, and Driscoll (2023).
71 Keil and Ongena (2024).
72 Balyuk, Prabhala, and Puri (2020); Nitani and Legendre (2021); Erel and Liebersohn (2022); and Gopal and Schnabl (2022).
73 Haendler (2022); Cornelli, Frost, Gambacorta, and Jagtiani (2022); and Bickmore, MacKinlay, and Tellez (2023).

6.1 Ways to Apply for a Small Business Loan

To explore how developments in communication technology have changed the process of applying for small business loans, the survey asked banks about ways customers can apply for loans at their bank and how valuable these options are from the bank's perspective. The questions divided the loan application process into four steps: consulting about appropriate products, submitting an application, providing supporting information, and signing the closing documents. Banks were asked to indicate whether each step can be completed at a branch, through an on-site visit to the small business, through remote communication (e.g., email or video conference), or through an online portal. The responses allow for an industry-level measure of how commonly an application for small business credit can be completed in person and remotely.

The findings show that branches and on-site visits remain key conduits for extending small business credit, remote communication often supplements the in-person approach, and online methods are still relatively rare. As shown in Figure 6.1, virtually all banks (more than 90 percent) permit customers to perform each step of the loan application process at a branch. On-site visits by bank staff and remote communication are nearly as common for consulting about appropriate products (91 percent for on-site visits and 90 percent for remote communication), submitting an application (81 percent for on-site visits and 82 percent for remote communication), and providing supporting documentation (84 percent for on-site visits and 88 percent for remote communication). However, there are large differences between the share of banks that allow closing documents to be signed during on-site visits (78 percent) and the share that allow closing documents to be signed using remote communication (45 percent), suggesting that remote communication cannot fully substitute for in-person interaction. Taking loan applications through an online portal remains relatively rare. About a quarter of banks accept a formal application (25 percent) or supporting documentation (23 percent) via an online portal. Even smaller shares of banks are capable of consulting about products online (19 percent) or signing documents online for an approved loan (13 percent).

FIGURE 6.1
Percentage of Banks Offering Each Method for Completing Loan Applications

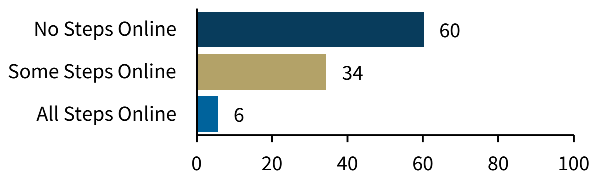


Source: SBLS 2022 Question II.A3.
Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

These results qualitatively reflect those from the 2016 SBLS. FDIC (2018) shows that the branch is the most common place for small businesses to submit loan applications and that in-person visits and remote communication are also commonly used. However, the share of banks that accept loan applications through an online portal significantly increased between the 2016 and 2022 survey periods. Only 11 percent of banks accepted applications online in 2016, compared with 25 percent in 2022.[74]

FIGURE 6.2

Percentage of Banks Accepting Loan Applications Through an Online Portal



Source: SBLS 2022 Question II.A3.
Note: The four loan application steps are "consult about appropriate products," "submit formal application," "submit financial statements and other supporting information," and "sign documents for approved loan." Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

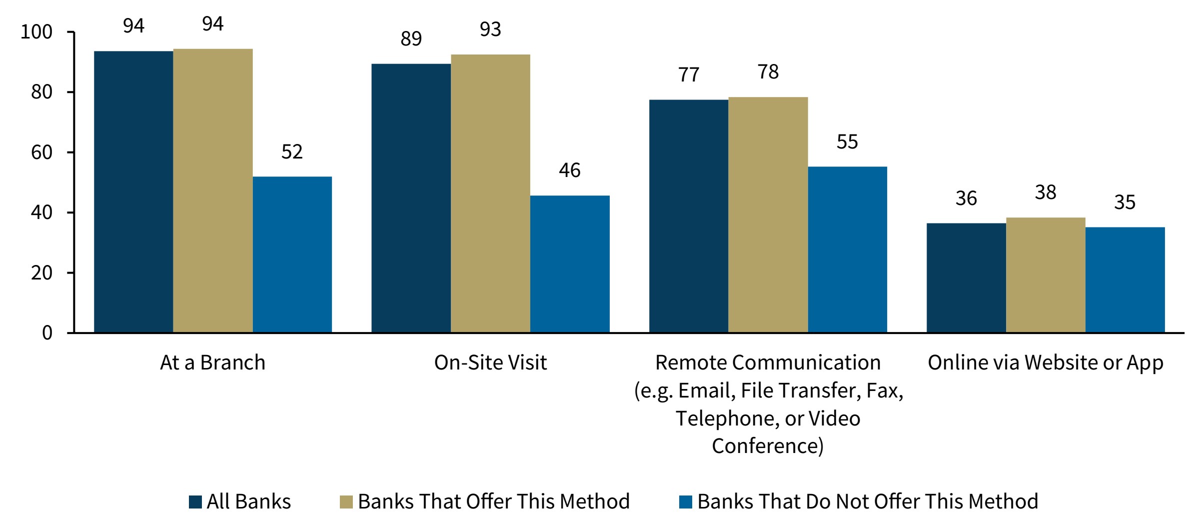
Another way the survey gauged the extent of use of online application methods was by asking banks how often they allow *all* steps of an application to be completed online. Figure 6.2 shows that while 40 percent of banks permit some steps to be completed online, only 6 percent of banks have a fully online application process.

A separate consideration is the importance banks place on each application method. To evaluate their importance, the survey asked banks to assess the value of each method regardless of whether they use it, which enabled an analysis of the perceived value for all methods, including online, even though relatively few banks use this method. For example, small banks may highly value the reach that an online application process provides but consider implementation cost-prohibitive; or small banks may think an online portal does not complement their underwriting process or is irrelevant to their target market.

On the whole, banks view branches, on-site visits, and remote communication as important to their loan application process, as shown in Figure 6.3. The figure shows the percentage of banks that view each application method as "very valuable" or "extremely

FIGURE 6.3

Percentage of Banks Valuing Each Method for Completing Loan Applications



Source: SBLS 2022 Question II.A4.
Note: For this figure "valuing a method" means the bank marked the method as "very" or "extremely" valuable. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

[74] FDIC (2018) separately reports the share of small and large banks that accept small business loan applications through an online portal and does not give a percentage for all banks. The following are provided for a direct comparison to the results from FDIC (2018): in 2022, 24 percent of small banks and 42 percent of large banks accepted an application online, compared with 11 percent of small banks and 23 percent of large banks in 2016. A direct comparison of the 2016 and 2022 survey results on the use of remote communication is not possible due to a widening of the definition in 2022 to include emails, file transfers, fax, and video conferences.

valuable," overall and by whether the bank uses the method. Almost all banks view branches (94 percent) and on-site visits (89 percent) valuable for interacting with customers. A majority of banks (77 percent) find remote communication valuable, while a relatively smaller share of banks (36 percent) find online portals valuable.

The vast majority of banks that use branches, on-site visits, or remote communication for the application process also tend to highly value them. More than 90 percent of banks that use branches and on-site visits and nearly 80 percent of banks that use remote communication in the application process consider these three methods very valuable or extremely valuable. Further, about half of banks that do *not* use these three methods also consider them highly valuable. In contrast, 38 percent of banks that offer online portals and 35 percent of banks that do not offer online portals describe them as very or extremely valuable. These findings suggest that the majority of banks perceive online portals as less valuable in cultivating small business lending relationships than either an in-person process or remote communication. Accordingly, this evidence suggests that banks that do not offer an online portal are not at a significant disadvantage to those that do.

6.2 How Banks Create and Maintain Customer Relationships

The results of the 2016 survey show that banks almost universally rely on high-touch and staff-intensive practices to generate and maintain relationships with small business customers. This reliance is likely influenced by the preferences of firms; recent research finds that an existing relationship with a bank is the most important reason a small business selects a bank as the place to apply for a loan.[75] However, advances in technology may have compelled some banks to adjust their focus from high-touch practices to online interaction. Further, banks used remote communication more frequently in their small business lending during the COVID-19 pandemic and may have not returned to their pre-pandemic approach. This subsection explores how banks interact with small businesses given the technological and societal changes since 2016.

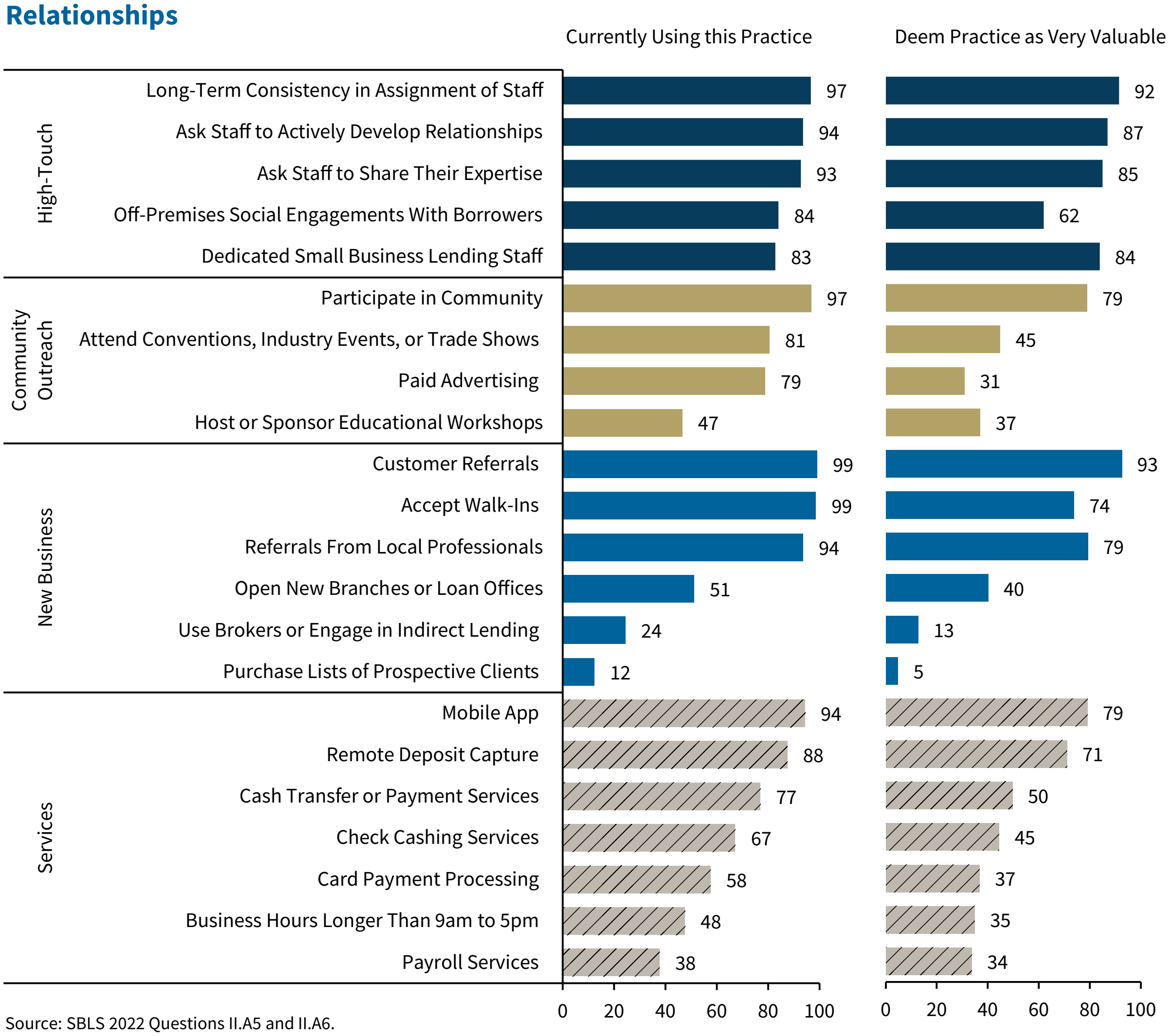
The 2022 survey contained questions about the interactions between banks and their existing and potential customers. Banks were asked to indicate whether they used a particular interactive practice and, regardless of whether they used the practice, how valuable they thought the practice was for their lending relationship. The responses on perceived value allows for a comparison of the relative prevalence of practices and their value, even for practices that might be cost-prohibitive for some banks. Comparing a practice's level of use to its perceived value allows for the identification of constraints that may prevent some banks from implementing practices they consider valuable. It also allows for the identification of practices that are common but do not seem to provide much overall value. The practices fit into four broad categories: high-touch practices, community outreach, ways to generate new business, and services to small businesses.[76]

The results, presented in Figure 6.4, show that high-touch practices remain key for maintaining relationships with small business customers. The first column of the figure reports the percentage of banks that use each practice within each of the four categories. The second column presents the percentage of banks that consider the practice very valuable. At least 83 percent of banks use each of the high-touch practices, and at least 84 percent of banks consider nearly all of those practices very valuable. At least 93 percent of banks encourage staff to develop relationships, share expertise, and maintain long-term consistency in their customer assignments. Slightly smaller shares of banks use dedicated small business lending staff (83 percent) or hold off-premises social events with customers

75 Federal Reserve Banks (2023).

76 The five high-touch practices relate to how banks instruct staff to interact with customers in ways not directly related to completing a loan application. The practices connected to community outreach and generating new business relate to the way the bank interacts with those outside of its customer base. The services to small businesses category relates to services other than lending that banks may provide to their small business customers.

FIGURE 6.4
Percentage of Banks Using Selected Practices to Generate and Maintain Lending Relationships



Source: SBLS 2022 Questions II.A5 and II.A6.
Note: For this figure "very valuable" means the bank marked the practice as "very" or "extremely" valuable. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

(84 percent). The comparison of the use with the value of each practice reveals that the most-used practices are also the most valued, though off-premise social events may be a common practice that holds relatively less value. Overall, the results show that the vast majority of banks not only engage in high-touch practices but believe the practices are crucial for developing relationships.

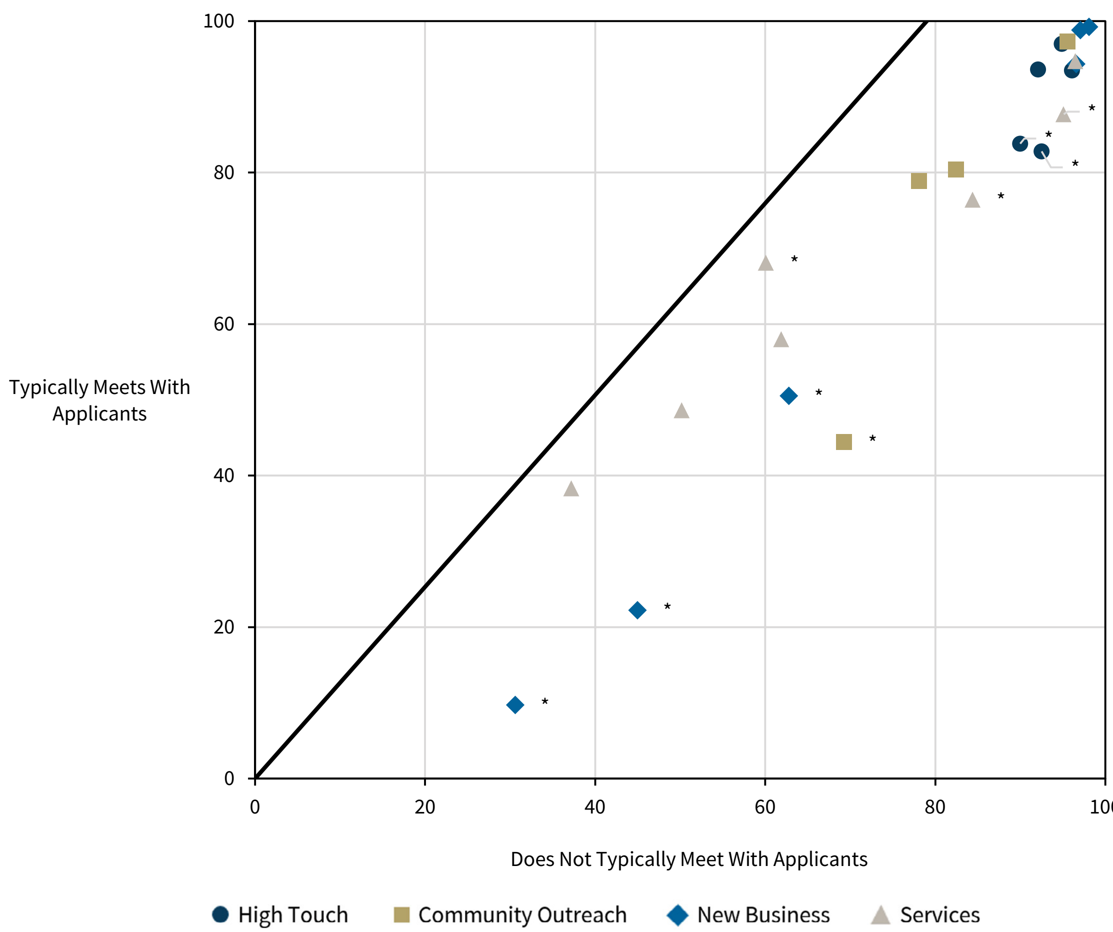
Echoing the importance of high-touch practices for maintaining relationships, the most common and valued practices for community outreach and generating new businesses tend to involve direct rather than passive action and in-person rather than remote interaction. Almost all banks (97 percent) participate in the community through activities such as serving on a board and taking part in networking events or sponsorships, and most banks (79 percent) view these efforts as very valuable. While about 80 percent of banks attend industry events or pay for advertising, fewer than half cite them as very valuable practices. Finally, 47 percent of banks host or sponsor workshops, though 37 percent perceive them as very valuable.

For practices that generate new business, almost all banks take referrals from existing customers (99 percent) or from local professionals (94 percent) and accept walk-ins to branch locations (99 percent). Most banks also view these methods as very valuable for generating new relationships, highlighting the importance of direct and in-person actions. About half of banks report a willingness to open a new branch, but relatively few banks use brokers or purchase lists of prospective clients. These low figures may reflect the relatively high cost of these actions or their low perceived value.

Banks consider only certain services valuable to facilitating small business customer relationships. For example, large shares of banks provide mobile apps (94 percent) and remote deposit capture (88 percent), paralleling the prevalence of these services in consumer banking, and consider these services very valuable to customer relationships (79 percent for mobile apps and 71 percent for remote deposit capture). Between 58 and 77 percent of banks offer small businesses traditional financial services like cash transfer and other payment systems, check cashing, and card payment processing, but no more than half of banks consider these services highly valuable to relationships. Extended business hours and payroll services are even less common, with less than half of banks offering these services and even fewer considering them very valuable.

FIGURE 6.5

Percentage of Banks Using Selected Practices to Generate and Maintain Lending Relationships, by Whether a Decision-Maker Typically Meets With Applicants



Source: SBLS 2022 Question II.A5.
Note: This figure shows how banks that do and do not typically meet with applicants vary in their use of the four categories of small business lending practices. Typically Meets With Applicants refers to whether a decision-maker typically meets with an applicant during the approval process (see Section 3.3). Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
* Denotes a statistically significant difference between banks that do and do not typically meet with applicants at the 10 percent level.

The relationship-oriented and staff intensive way in which banks create and maintain customer relationships may not directly correlate with how they evaluate loan applications. Banks are often classified as relationship or transactional lenders based on the types of information they use to underwrite loans, with transactional lenders de-emphasizing the soft or non-quantitative information gathered about the applicant (see "Relationship and Transactional Lending" in Section 1). Less clear is the extent to which transactional lenders also de-emphasize relationship-oriented and staff-intensive practices in their day-to-day interactions with their small business customers. This proposition can be tested by analyzing how the practices discussed above vary across banks that do and do not typically meet with applicants during the loan approval process (see Section 3.3 and Section 7.2). Figure 6.5 presents the results of such a test. Each point in the figure represents the percentage of banks reporting that they use a practice; points farther to the left of the diagonal are more likely among banks that meet with applicants, and points farther to the right of the diagonal are more likely among banks that do not meet with applicants.

Figure 6.5 shows two salient findings. First, a large majority of banks use many of the same loan practices, shown in the cluster in the upper right corner of the figure. At least 80 percent of banks use 12 of the same loan practices, regardless of whether they meet with applicants. Second, relationship-oriented high-touch practices are among these ubiquitous practices, suggesting that de-emphasizing soft information when underwriting loans does not correlate with de-emphasizing high-touch practices when interacting with customers. The only statistically significant difference in the use of a high-touch practice is that banks that do not meet with applicants are about 10 percentage points more likely to use dedicated small business lending staff. The largest differences between banks that do and do not typically meet with applicants occur among practices generally viewed as less valuable for generating and maintaining relationships, such as purchasing lists of prospective clients, using brokers or lending through third parties, hosting workshops, and opening new branches to reach customers.

These findings suggest that, despite differences in other parts of their lending process, bank interactions with their small business customers remain in-person and high-touch activities.

6.3 Competitive Advantages of Banks

How banks distinguish themselves from their competitors provides insight into the priorities of banks and the distinct value banks provide to their small business customers. To explore the competitive advantages in bank small business lending, the survey asked banks to evaluate whether they or the institutions they typically compete with have an advantage in general areas, such as convenience, customer-facing technology, and pricing, and specific areas, like credit products offered and flexibility in collateral requirements. Since banks were asked to compare themselves to their overall field of competitors, the results reflect what banks generally see as their competitive advantages within the small business lending market.

Banks report that staff is a key strength in the market for small business loans. As shown in Figure 6.6, the top two competitive advantages for banks are customer service (84 percent) and established relationships between borrowers and staff (81 percent). These findings reinforce the notion that maintaining relationships through high-touch practices is fundamental to bank small business lending.

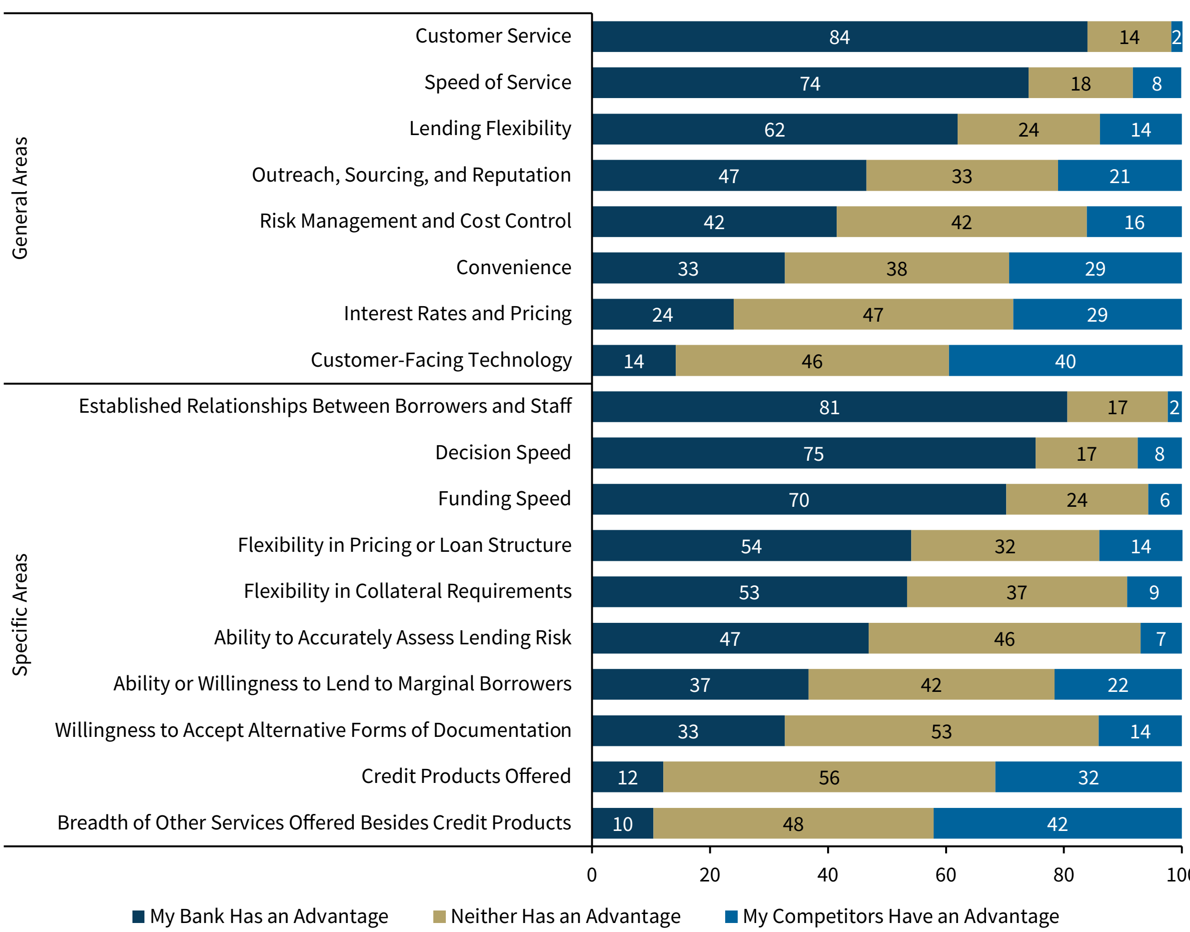
Speed is the second-most-common competitive advantage for banks in the small business loan market. Banks report that they distinguish themselves from their competitors in decision speed (75 percent), speed of service (74 percent), and funding speed (70 percent). In addition, more than half of banks claim an advantage in lending flexibility (62 percent), flexibility in pricing or loan structure (54 percent), and flexibility in collateral requirements (53 percent). Competitive advantages in speed and flexibility likely reflect a mix of human capital and operational structure that allows banks to meet the specific needs of their customers. For example, flexibility in lending may reflect an emphasis on soft information in underwriting (see Section 3.5) or a relatively flat loan approval structure (see Section 3.1). These results also point to a staff-intensive process for bank small business lending.

The results also provide insight into areas in which banks perceive a relative competitive weakness. Banks report being at a disadvantage in pricing, customer-facing technology, credit products offered, and breadth of non-credit services offered. Perceived weakness in these areas suggests that banks may feel relatively constrained in their ability to compete with other institutions that operate at a much larger scale, with institutions that have access to cheaper sources of funding, or both.

One way to explore how the scale of operations could change perceived advantages in the market is to compare the survey responses of small banks to those of large banks. This approach has some limitations because, as discussed in Section 5.3, large and small banks do not necessarily compete often and differences in their responses may reflect factors other than differences in scale. Figure 6.7 plots the percentage of large and small banks that evaluate each area as a competitive advantage, sorted by most common to least common for small banks. Areas in which a greater share of large banks claim an advantage may reflect the returns to greater scale.

The results suggest that the larger scale of operations of large banks does not necessarily translate into sizeable advantages over their competitors (see Section 5.3 for primary competitors of large banks). Despite significantly larger branch networks and access to diverse funding sources, fewer than half of large banks claim an advantage in pricing and convenience, and statistically are no more likely

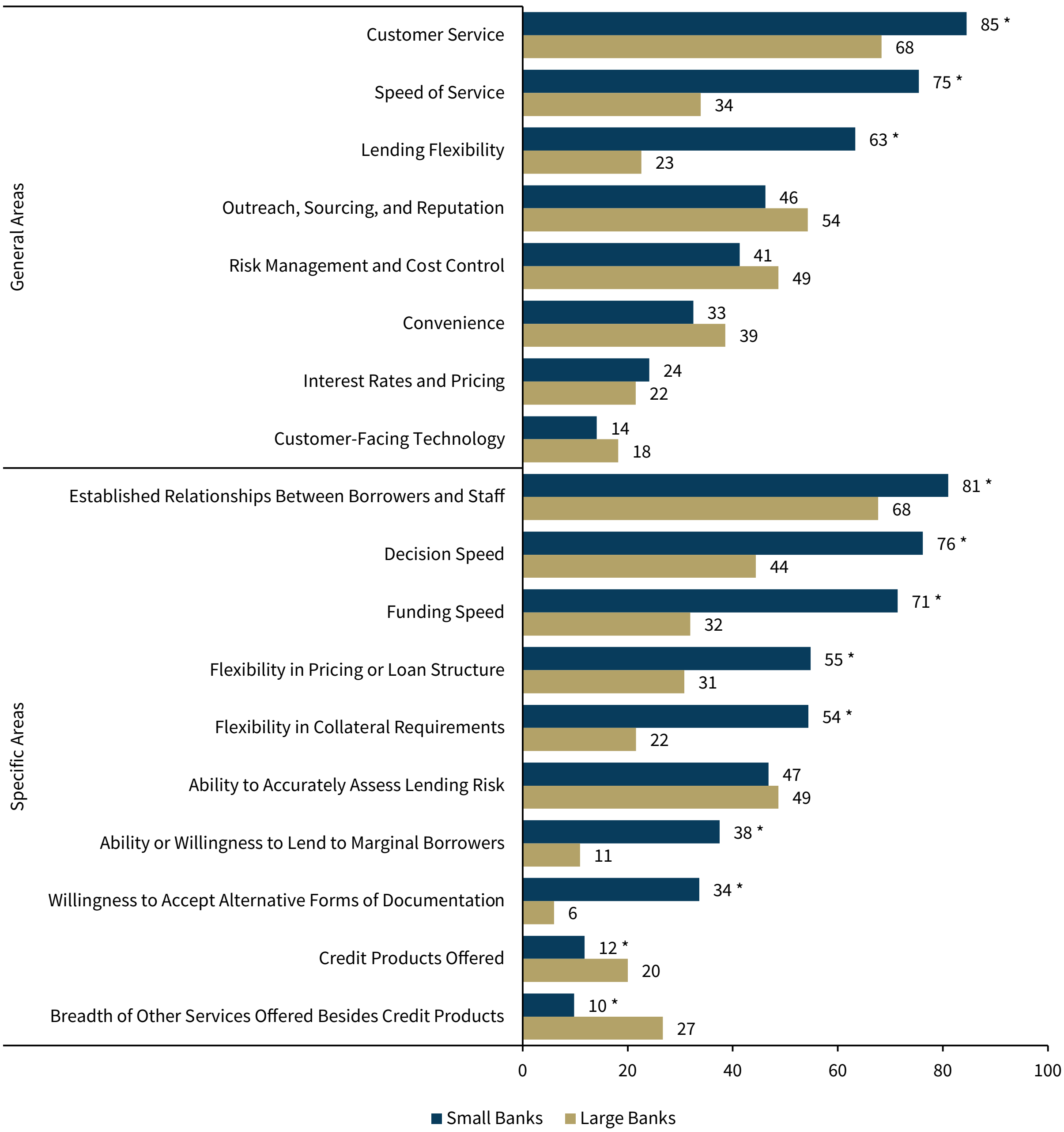
FIGURE 6.6
Percentage of Banks Reporting Selected Competitive Advantages



Source: SBLS 2022 Questions II.B2 and II.B3.
Note: The *My Bank Has an Advantage* and *My Competitors Have an Advantage* both combine "big advantage" and "advantage" responses. Results may not sum to 100 percent due to rounding.

to do so than small banks. Similarly, very few large and small banks view customer-facing technology as an area in which they have an advantage over competitors, suggesting that some nonbank competitors of small and large banks may have an edge in these areas. Large banks seem to have a competitive advantage in credit products offered and breadth of other services offered, consistent with returns to scale allowing large banks to offer a wider variety of products (see Section 2.2) and services to small business borrowers (see Figure 6.7).

FIGURE 6.7
Percentage of Banks Reporting Selected Competitive Advantages, by Bank Size



Source: SBLS 2022 Questions II.B2 and II.B3.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

One general area in which small banks are more likely to identify an advantage over their competitors is in the speed of their loan process. Small banks were more likely to report an advantage in overall speed of service (41 percentage points more likely), funding speed (39 percentage points), and decision speed (32 percentage points). Fewer than half of large banks consider speed an area in which they have an advantage, suggesting that they perceive it as a relative weakness. Interestingly, Section 3.4 suggests that large banks are much more likely to report the ability to make a loan in one business day or less, though small and large banks are about equally likely to approve a loan within five business days. The disconnect may reflect differences in the types of applications small and large banks receive, where the greater use of soft information by small banks means that large banks can be relatively faster at approving loan applications but only for a limited pool of applicants (see Section 3.5).

Small banks are more likely to identify an advantage in overall lending flexibility (40 percentage points more likely), flexibility in collateral requirements (32 percentage points more likely), and flexibility in pricing or loan structure (24 percentage points more likely). Small banks are also more likely to identify a competitive advantage in the ability or willingness to lend to marginal borrowers (27 percentage points more likely) and willingness to accept alternative documentation (28 percentage points more likely). These results likely reflect the value small banks place on soft information in small business lending (see Section 3.5).

Despite these differences, the great majority of small and large banks identify a competitive advantage in customer service and the ability to establish relationships between borrowers and staff. Thus, the comparison of differences in competitive advantages between small and large banks suggests that all banks emphasize the relationship with the customer but differ in their ability or willingness to use information gleaned from the relationship to make lending decisions (see Section 3).

6.4 Competition With Credit Unions and FinTech Lenders

Section 5 presents evidence that banks face increased competition from credit unions and FinTech lenders for small business loans. Thus, assessing how banks perceive their comparative advantages with respect to these nonbank competitors offers insight into the nature of this competition.

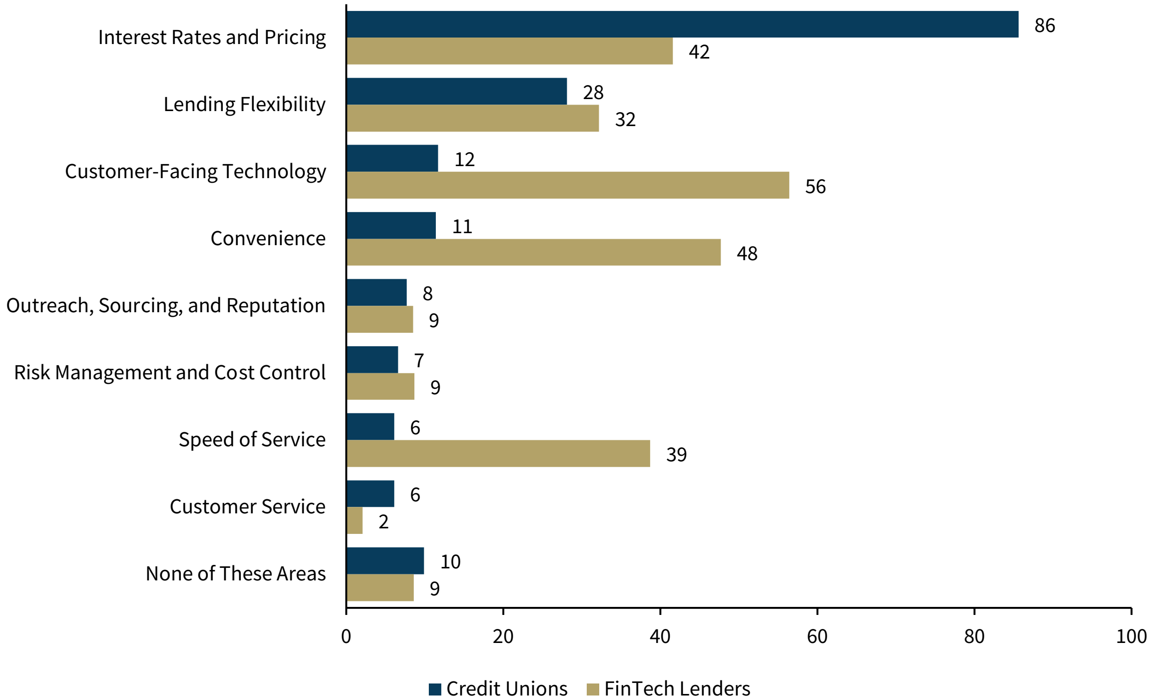
The survey asked banks to evaluate their competitive advantages compared to credit unions and FinTechs in several areas, including interest rates and pricing, lending flexibility, and speed of service. The results indicate that the primary competitive advantage of credit unions is in their pricing of small business loans. Figure 6.8 shows that the vast majority of banks (86 percent) indicate that credit unions have an advantage in pricing.[77] A smaller but still significant share of banks report that credit unions have an advantage in lending flexibility (28 percent). Banks otherwise consider themselves at least evenly matched with credit unions across the remaining areas.

Banks perceive FinTechs to have a wider array of competitive advantages than credit unions. However, no more than 56 percent of banks believe FinTech lenders have an advantage in any one particular area. These results suggest more diversity in the FinTech competitors banks face compared with credit unions.

More than half of banks (56 percent) perceive that FinTechs have a competitive advantage in customer-facing technology. This technology supports FinTechs' online, available-anywhere business model, which also likely contributes to the 48 percent of banks that report convenience as another area in which FinTechs have an edge. Potentially for similar reasons, about 39 percent of banks report being at a disadvantage compared to FinTechs in speed of service. While relatively few banks claim a competitive advantage in convenience or customer-facing technology, speed is an area in which banks typically believe they excel (see Sections 3.4 and 6.3). However, except for customer-facing technology, at least half of banks do not perceive that FinTechs have

[77] Credit union revenues have historically been exempt from federal, state, and local taxes because credit unions are nonprofit organizations under Internal Revenue Code Section 501(c). This difference may be the source of the perceived advantage in pricing for credit unions.

FIGURE 6.8
Percentage of Banks Reporting Selected Competitive Advantages of Credit Unions and Other Nonbanks



Source: SBLS 2022 Questions II.B5 and II.B6.
Note: FinTech Lenders are nonbank online lenders. Statistical testing of the differences is not reported.

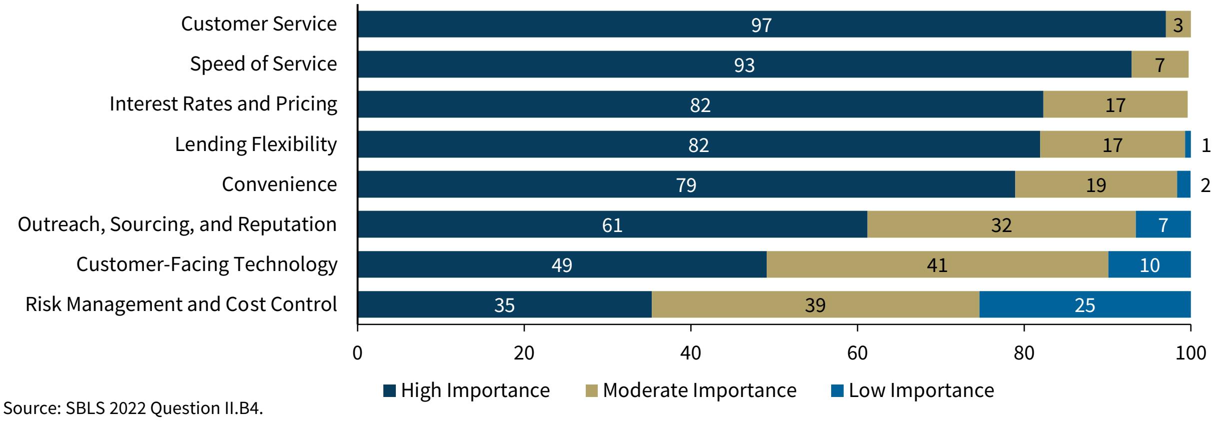
an advantage in any of the surveyed areas, which may reflect the low value banks tend to place on online portals for generating and maintaining small business customer relationships (see Section 6.1).

Somewhat surprisingly, about one-third of banks believe FinTechs have an advantage in lending flexibility, an area traditionally considered a relative strength of banks and small banks in particular. Assuming that FinTechs, as online lenders, would have difficulty collecting or using soft information about prospective borrowers as discussed in Section 3.5, their advantage in lending flexibility may reflect FinTechs' use of alternative data. Forty-two percent of banks report that FinTechs have an edge in interest rates and pricing. Explanations for these perceived advantages could include cost savings from FinTechs' lack of a physical branch footprint, their ability to differentiate risk and price accordingly, and their ability to reach certain types of customers and to market loan products to them.

6.5 Areas of Importance to Small Business Borrowers

Another way to evaluate the competitive landscape is to explore how banks evaluate the priorities of their small business customers. The survey asked banks to indicate whether a particular practice is of high, moderate, or low importance to their small business borrowers. One takeaway from these responses is the extent to which banks think their relative strengths match the areas that they think matter to applicants when deciding where to apply for credit. Banks identify customer service, speed of service, and lending flexibility as among the most important areas to their customers. As shown in Figure 6.9, nearly all banks indicate that small business borrowers assign a high importance to customer service and speed of service, and a large majority indicate that such borrowers assign a high importance to lending flexibility. Each of these areas

FIGURE 6.9
Percentage of Banks Reporting Selected Areas as Important to Borrowers



Source: SBLS 2022 Question II.B4.
Note: The *High Importance* category combines "high" and "very high" importance responses. The *Low Importance* category combines "low" and "very low" importance responses. Results may not sum to 100 percent due to rounding.

coincide with areas that banks view as among their advantages in the competition for small business loans (see Section 6.3).[78]

Interestingly, the other two areas among the top five of highest importance to the largest shares of banks—interest rates and pricing and convenience—are not areas that banks typically claim as competitive advantages. The large majority of banks believe that interest rates and pricing and convenience are of high importance to their current and potential customers. However, fewer than 40 percent of banks claim either area as a competitive advantage, with about 30 percent reporting each as something their competitors do better.

Banks report that their customers consider the remaining three areas—outreach, sourcing, and reputation; customer-facing technology; and risk management and cost control— relatively less important, although one-third to almost two-thirds of banks report that their customers assign high importance to these areas. Of these three, banks do not think that their competitors have an advantage in outreach, sourcing, and reputation or in risk management and cost control. However, 40 percent of banks think their competitors have a comparative advantage in customer-facing technology. Together, these findings suggest that banks have aligned their key strengths with the top concerns of small business customers but that banks may have difficulty competing in some important areas.

6.6 Conclusion

Banks rely on high-touch and staff-intensive practices to generate and maintain relationships with small business borrowers. Nearly all banks use practices such as encouraging staff to form long-term relationships with borrowers and to engage with the wider community. Further, banks consider these methods as some of the most important for their small business lending process, especially when compared to general paid advertising or most other services. In addition, branches and on-site visits remain foundational for completing a small business loan application. While remote communication is ubiquitous in the industry, it is often used to supplement in-person interaction. While a sizeable minority of banks allow some steps of the loan process to be completed online, very few banks allow the typical applicant to complete the loan process entirely online. High-touch and staff-intensive practices remain essential to the overall business model for small business lending, even for banks that do not meet with applicants.

[78] Small firms also identify these factors as important factors influencing their choice to apply for a loan at a bank. See Federal Reserve Banks (2023).

These core practices correspond to areas that banks identify as their comparative advantages over other types of small business lenders. Most banks view customer service and customer relationships as key strengths over competitors; they also claim speed and lending flexibility as advantages. Both small and large banks view the relationship-oriented approach as a comparative advantage, though small banks are more likely to claim advantages in speed and flexibility. Relatively few banks consider pricing, customer-facing technology, or the breadth of services and products offered as areas in which they excel in the market. When considering the strengths of nonbanks, banks cite pricing as the primary advantage of credit unions and consider FinTechs more competitive, though not dominant, in customer-facing technology, convenience, and speed of service.

Together, these results suggest that banks are not moving to a fully remote or online process for originating small business loans. Instead, the analysis suggests that interaction with skilled staff around branches will continue to be at the core of bank small business lending.

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SECTION 7
Start-Up Lending

Start-ups—commonly defined as businesses less than two years old—play a vital role in the innovation that fuels the economy.[79] While start-ups are a small share of firms by employment, they make an outsized contribution to employment growth.[80] Access to credit is essential for start-ups because it provides them capital to grow their businesses. Start-up financing may be even more important in the wake of the COVID-19 pandemic, after which there was a surge in business formation.[81]

Banks may be reluctant to lend to start-ups because these firms often lack documentation, credit scores, and other hard information used to evaluate loan applications. Yet banks are an important source of credit for these firms. According to the Federal Reserve Banks' 2022 Small Business Credit Survey, 22 percent of employer start-ups that applied for loans applied at small banks and 39 percent applied at large banks. These shares compare favorably to the 37 percent of the most-established employer small businesses (those 21 or more years in business) that applied for loans at small banks and the 45 percent that applied at large banks.[82]

Start-up funding comes in many forms, from loans to equity financing. Research suggests that debt financing is a desirable form of financing for start-ups. "Pecking order" theory holds that the debt financing provided by banks is generally preferred for funding start-ups, as equity funding often requires founders to give up some control of their company.[83] There is also evidence that start-ups that receive business loans grow faster and are more likely to survive than start-ups financed with equity or personal loans.[84] But more recent research suggests that start-ups are more likely to apply for small loans from online vendors than from banks.[85] Thus, the linkages between banks and start-ups are worth studying.

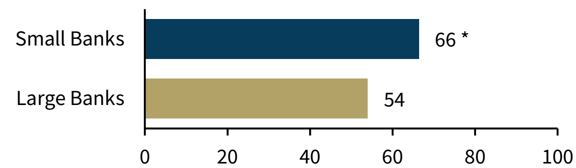
This section focuses on the factors that affect banks' willingness to lend to start-ups. It explores differences in how small and large banks evaluate loan applications from these firms and how banks manage the risk of lending to start-ups.

7.1 Start-Up Lending by Bank Size and Other Factors

The survey finds that 66 percent of banks make loans to small businesses they consider to be start-ups (based on banks' own definitions).[86]

Figure 7.1 shows a modest but statistically significant gap in start-up lending by small banks compared with large banks: 66 percent of small banks typically lend to start-ups compared with 54 percent of

FIGURE 7.1
Percentage of Banks That Typically Lend to Start-Ups, by Bank Size



Source: SBLS 2022 Question I.A11.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

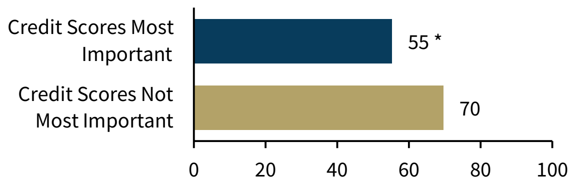
79 In the 2022 SBLS, banks that define start-ups based on age defined the maximum age of a start-up as 1.9 years on average (Source: SBLS 2022 Question I.A10).
80 Haltiwanger, Jarmin, and Miranda (2013).
81 Decker and Haltiwanger (2022).
82 Author calculations using employer firm data from the 2022 Federal Reserve Banks' Small Business Credit Survey. Other financing options in the survey included finance companies, online lenders, credit unions, and community development financial institutions.
83 Myers and Majluf (1984).
84 Cole and Sokolyk (2018).
85 Wiersch, Lipman, Wilson, and Misera (2022).
86 Calculated by taking the average response across all banks to Question I.A11.

large banks.[87] Survey results suggest that much of this gap can be attributed to the tendency of large banks to rely more on hard information, particularly information from credit bureaus, in evaluating loan applications (see Section 3). Start-ups, which by definition have a limited history of operation, may not have credit histories as strong as those of older firms.

Banks that use more hard information in underwriting, that emphasize information from credit bureaus in the loan process, or that require personal credit scores are all less likely to lend to start-ups by 10 to 15 percentage points (Figures 7.2, 7.3, and 7.4).[88] For example, 55 percent of banks that primarily make small loans based on credit scores and other information from credit bureaus lend to start-ups, while 70 percent of banks that primarily make small loans based on other factors lend to start-ups (Figure 7.2).

FIGURE 7.2

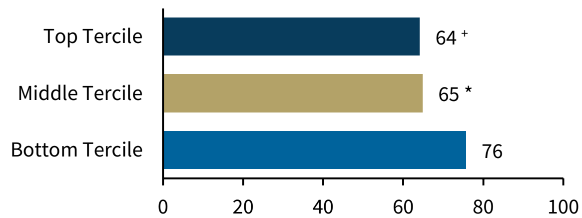
Percentage of Banks That Typically Lend to Start-Ups, by Credit Score Importance



Source: SBLS 2022 Questions I.A11 and I.C8.
Note: Banks were classified as “Credit Scores Most Important” if they ranked credit scores as the top aspect of a loan application for a $25,000 loan.
* Denotes a statistically significant difference between "Credit Scores Most Important" and "Credit Scores Not Most Important" at the 10 percent level.

FIGURE 7.3

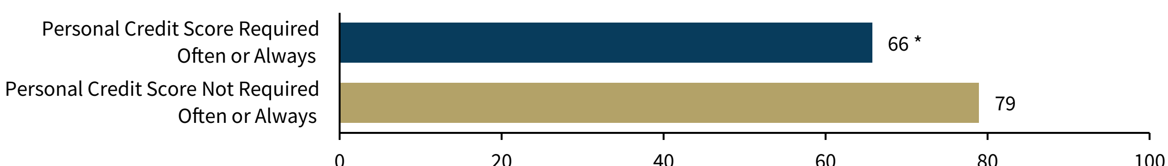
Percentage of Banks That Typically Lend to Start-Ups, by Use of Hard Information



Source: SBLS 2022 Questions I.A11 and I.C4.
Note: Banks were classified as “Top Tercile” if they were in the top third for hard information score for loans of $25,000, “Middle Tercile” if they were in the middle third, and “Bottom Tercile” if they were in the bottom third.
+ Denotes a statistically significant difference between “Top Tercile” and “Bottom Tercile” at the 10 percent level.
* Denotes a statistically significant difference between "Middle Tercile" and "Bottom Tercile" at the 10 percent level.

FIGURE 7.4

Percentage of Banks That Typically Lend to Start-Ups, by Requiring a Personal Credit Score



Source: SBLS 2022 Questions I.A11 and I.C7.
Note: Banks were classified as “Required Often or Always” if they indicated that they “often” or “almost always or always” required that small business borrowers have a personal credit score for a loan of $25,000.
* Denotes a statistically significant difference between "Personal Credit Score Required Often or Always" and "... Not Required Often or Always" at the 10 percent level.

[87] This does not necessarily contradict the results from the Federal Reserve Banks’ 2022 Small Business Credit Survey that start-ups were more likely to borrow from large banks than from small banks, since the 54 percent of large banks that lend to start-ups may collectively originate more loans to start-ups than the 66 percent of small banks due to differences in scale.

[88] These results focus on bank underwriting practices for small loans.

7.2 Managing Risk in Start-Up Lending: SBA Lending and Meetings With Applicants

Results from the survey show that banks seem to manage the risk of lending to start-ups by leveraging soft information, such as that gleaned from meeting with potential borrowers, and by using government-guaranteed loans, such as those offered through the SBA 7(a) program (see Section 2).

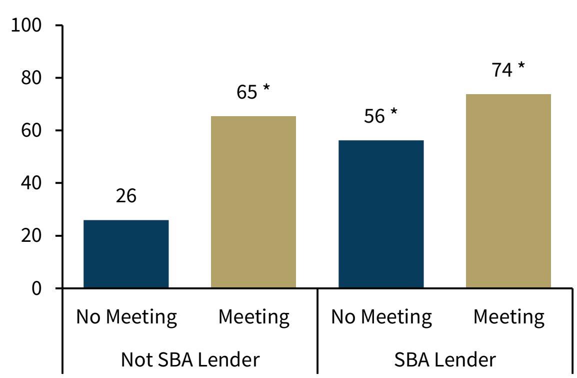
Twenty-six percent of banks that do not have direct meetings between decision-makers and applicants and that do not participate in any non-PPP SBA program typically lend to start-ups, while banks that meet one or both of those criteria have a 56 to 74 percent likelihood of lending to start-ups (Figure 7.5).

The specific strategy used to mitigate start-up lending risk varies by bank size. Small banks appear to use meetings with applicants to manage the risk. As discussed in Section 3, small banks are much more likely than large banks to meet with applicants (89 percent of small banks and 39 percent of large banks meet with applicants). A majority of small banks that hold such meetings typically lend to start-ups (69 percent), compared with a minority that do not hold meetings (45 percent) (Figure 7.6).

There is only a slight difference in likelihood of start-up lending between large banks that do and do not meet with applicants. Instead, large banks seem to rely on government guarantees, particularly through SBA programs, to manage the risk of lending to start-ups. As discussed in Section 2, large banks are much more likely than small banks to be SBA lenders (84 percent of large banks versus 36 percent of small banks). Figure 7.7 shows that being an SBA lender is associated with a greater likelihood of lending to start-ups among large banks: 59 percent of

FIGURE 7.5

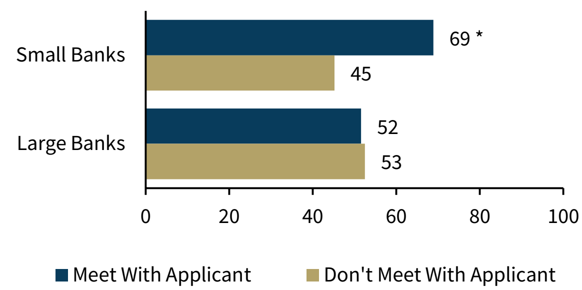
Percentage of Banks That Typically Lend to Start-Ups, by Whether a Decision-Maker Meets With Applicants and Whether Bank Makes SBA Loans



Source: SBLS 2022 Questions I.A11, I.B11, I.B16, I.B21, I.B26, and III.B1.
Note: Banks were classified as “Meeting” banks if they ever indicated that loan approvers typically met with small business borrowers at any level and “No Meeting” banks otherwise. Banks were classified as “SBA Lenders” if they originated SBA loans (other than PPP loans) in 2021 and “Not SBA Lenders” otherwise.
* Denotes a statistically significant difference between “No Meeting and Not SBA Lender” banks and the other categories at the 10 percent level.

FIGURE 7.6

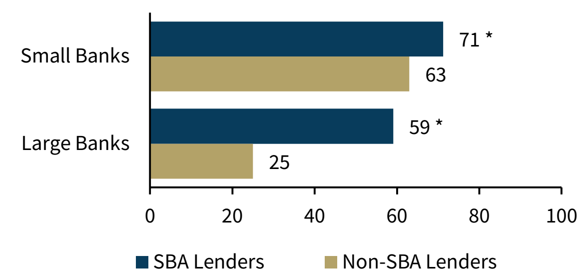
Percentage of Banks That Typically Lend to Start-Ups, by Whether a Decision-Maker Meets With Applicants and Bank Size



SBLS 2022 Questions I.A11, I.B11, I.B16, I.B21, and I.B26.
Note: Banks were classified as “Meet With Applicant” banks if they ever indicated that loan approvers typically met with small business borrowers at any level and “Don't Meet With Applicant” banks otherwise.
* Denotes a statistically significant difference between "Meet With Applicant" and "Don't Meet With Applicant" at the 10 percent level.

FIGURE 7.7

Percentage of Banks That Typically Lend to Start-Ups, by Whether Bank Makes SBA Loans and Bank Size

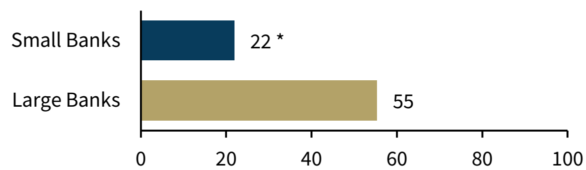


Source: SBLS 2022 Questions I.A11 and III.B1.
Note: Banks were classified as “SBA Lenders” if they originated SBA loans (other than PPP loans) in 2021 and “Non-SBA Lenders” otherwise.
* Denotes a statistically significant difference between “SBA Lenders” and “Non-SBA Lenders” at the 10 percent level.

SBA lender large banks lend to start-ups, compared with 25 percent of non-SBA lender large banks. The corresponding difference among small banks is much smaller, with 71 percent of SBA lender small banks and 63 percent of non-SBA lender small banks lending to start-ups.

Survey responses also suggest that large banks rely on government-guaranteed programs to support their start-up lending. The survey asked banks that both typically make loans to start-ups and that make government-guaranteed small business loans to approximate the portion of their loans made through a government-guaranteed program.[89] Among banks that make loans to start-ups, 55 percent of large banks and 22 percent of small banks make half or more of their loans to start-ups using a government guarantee (Figure 7.8).

FIGURE 7.8
Percentage of Start-Up Lending Banks Where Most Start-Up Loans Are Made With a Government Guarantee, by Bank Size



Source: SBLS 2022 Questions I.A11 and I.A12.
Note: Only banks which typically made loans to start-ups are included. Banks were classified as making most start-up loans with a government guarantee if they made government-guaranteed loans and indicated that "Around half," "Most," or "All or almost all" loans they made to start-ups were government-guaranteed.
* Denotes a statistically significant difference between small and large banks that lend to start-ups at the 10 percent level.

7.3 Evaluating Factors That Influence Bank Lending to Start-Ups

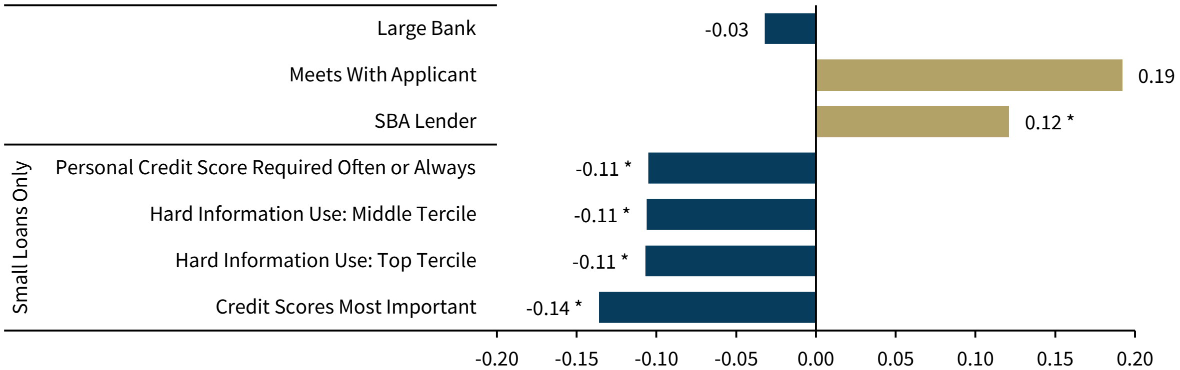
Many factors important to determining which banks lend to start-ups—bank size, whether the bank meets with applicants, whether the bank is an SBA lender, whether the bank requires personal credit scores, whether the bank generally uses hard information, and whether the bank emphasizes credit bureau information in underwriting—correlate with each other or with bank size, making it difficult to distinguish the importance of any one factor. For example, as discussed in Section 3, large banks are more likely than small banks to require personal credit scores and to rely on credit bureau information in their lending. A natural question, then, is whether the gap in start-up lending between large and small banks in Figure 7.1 remains after accounting for these factors.

Figure 7.9 shows how each factor independently correlates with bank lending to start-ups.[90] Each factor remains statistically significant and economically meaningful except for size which decreases substantially and becomes statistically insignificant. In other words, once meeting with applicants, use of personal credit scores, and emphasis on credit scores in underwriting are accounted for, large banks are as likely as small banks to lend to start-ups.

[89] Banks chose from the following options for their approximations: "all or almost all," "most," "around half," "some," or "none or almost none."
[90] See Appendix A.9 for an explanation of the multinomial regression specification.

FIGURE 7.9

Selected Characteristics of Banks That Typically Lend to Start-Ups, Results of Multivariate Analysis



Source: SBLS 2022 Questions I.A11, I.B11, I.B16, I.B21, I.B26, I.C4, I.C7, I.C8, and III.B1.
Note: Results are coefficients from a multivariate linear probability regression with "typically lends to start-ups" as the dependent variable and the listed characteristics as the independent variables.
* Denotes that the coefficient is statistically significantly different from zero at the 10 percent level.

Bank lending to start-ups can be compared across the 2022 and 2016 surveys with certain caveats. The comparison shows that start-up lending by banks may have declined somewhat between the two survey periods. In 2016, about 79 percent of banks made C&I loans to start-ups; in 2022, 66 percent of banks indicated that they typically lend to start-ups.[91] This decline may be due to changes in the wording of the survey question rather than bank behavior. The 2016 survey focused on commercial and industrial (C&I) lending rather than business lending generally and asked banks if they ever made loans to start-ups. The 2022 survey broadened the question to include business lending other than C&I lending and asked if banks typically make loans to start-ups (rather than ever lending to start-ups).[92]

7.4 Conclusion

This section investigates some of the factors underlying how banks provide crucial financing to start-up firms. Larger banks, because they are more likely to use hard information more intensively, are less likely to lend to start-ups. Banks seem to mitigate the risks of lending to start-ups in two ways: meeting with potential borrowers to gather soft information and using government-guaranteed loan programs such as the SBA 7(a) program. Small banks primarily use the first strategy, while large banks mostly use the second. Given the divide between small banks and large banks in start-up lending, continued industry consolidation could result in a change in the availability of bank credit to start-ups.

[91] FDIC (2018).

[92] There are also additional caveats about interpreting changes between the 2016 and 2022 surveys, as the two surveys were conducted in different interest rate environments and the 2022 survey was conducted during the aftermath of the COVID-19 pandemic and the implementation of the Paycheck Protection Program.

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APPENDIX A
TECHNICAL NOTES

The primary data source for this report is the Federal Deposit Insurance Corporation's (FDIC) 2022 Small Business Lending Survey (SBLS), a nationally representative survey of banks about their small business lending practices. The 2022 survey follows and updates the first Small Business Lending Survey conducted in 2016. The FDIC undertook the 2022 survey to highlight many aspects of small business lending for which detailed information is not generally available or is not representative of all parts of the banking industry. This report provides insights on how banks engage in small business lending, including how they interact with their small business customers, define their market for small business lending, develop and use financial technology, perceive their competition and competitive advantages, and underwrite loans, including loans to start-ups. The SBLS design allows for the report to make statements about the industry at large and to highlight significant differences in the industry.

The FDIC developed the SBLS in consultation with survey experts at the U.S. Census Bureau. During the survey development phase in 2021, the FDIC and the Census Bureau conducted three rounds of interviews with approximately 50 banks of various sizes. The interviews were conducted to ensure that bank personnel understood the survey questions, that the information gleaned from the questions matched the intent of the researchers, and that respondents could provide the requested information using a reasonable amount of bank resources. The survey was estimated to take bank staff 3.5 hours to complete, depending on the size and complexity of the bank. In the first half of 2022, the Census Bureau tested the usability of the survey's web interface to ensure it functioned as intended.

The Census Bureau collected data for the SBLS between June 2022 and December 2022. The data collection was conducted online through the Census Bureau's Centurion data collection website. An informational copy of the survey instrument can be found in Appendix B. The findings in this report are a result of an analysis of Sections I, II, and III.

A.1 Sample Selection

The universe of banks covered by the SBLS was constructed using data from the September 2021 Consolidated Reports of Condition and Income (Call Reports) and the June 2021 Summary of Deposits (SOD). A bank was included in the universe if it:

1. Was present in both the September 2021 Call Reports and the June 2021 SOD data
2. Was insured by the FDIC
3. Had positive net loans and leases in its September 2021 Call Report
4. Had at least one full-service office in a U.S. state or in the District of Columbia
5. Was not an International Banking Act institution

The sampling methodology resulted in a universe of 4,868 banks out of the 5,310 banks that submitted a September 2021 Call Report. The universe was then stratified along two dimensions: total asset size and whether the bank responded to the 2016 SBLS. Combining these two dimensions created 12 strata, the characteristics of which are summarized in the first three columns of Table A.1. The fourth column is the number of banks in each stratum.

The sampling methodology drew disproportionate stratified random samples for Strata 1 through 6 (covering all banks with less than $3 billion in assets) and "certainty" samples for Strata 7 through 12, which contain all of the largest banks.[93] This methodology was used to ensure that the SBLS could produce accurate estimates for both small and large banks. The sample sizes for Strata 1 through 6 were assigned based on power calculations

[93] "Disproportionate" indicates that the probability of selection into the sample is different for banks in different strata.

Table A.1: Sample by Stratum

Stratum	Assets	Responded to SBLS 2016	Approximate Initial Sample Size	Approximate Adjusted Sample Size	Approximate Number of Respondents	Approximate Stratum Response Rate
1	Less Than $500M	No	500	500	350	70%
2		Yes	250	200	150	77%
3	$500M to Less Than $1B	No	250	250	150	64%
4		Yes	150	150	100	73%
5	$1B to Less Than $3B	No	350	350	200	59%
6		Yes	150	150	100	76%
7	$3B to Less Than $10B	No	150	150	80	59%
8		Yes	80	80	60	80%
9	$10B to Less Than $50B	No	60	50	40	70%
10		Yes	50	50	40	70%
11	Greater Than $50B	No	30	30	20	70%
12		Yes	20	20	20	70%
Approximate Total			**2,000**	**2,000**	**1,300**	**68%**

Note: In line with Census Bureau guidelines on preventing inadvertent disclosure, only approximate counts can be provided publicly.

conducted by the Census Bureau.[94] The approximate distribution of the initial sample of 2,000 banks is in the fourth column of Table A.1; in line with Census Bureau guidelines on preventing inadvertent disclosure, only approximate counts can be provided publicly. Between the time that the sample was drawn and the survey was conducted, about 50 banks initially included in the sample had closed or could not be contacted. These institutions were removed from the sample.

The banks selected in the sampling process were sent an advance contact letter and an initial survey request by mail, which introduced the study and outlined the procedures for logging on to the Census Bureau's data collection website to respond to the survey. Sampled banks that did not respond within 45 days of the beginning of the response period received follow-up letters and telephone calls.

A.2 Survey Response Rate

As shown in Table A.1, of the approximately 2,000 banks in the adjusted sample, about 1,300 responded to the survey, for a response rate of about 68 percent.[95] This response rate exceeds the Census Bureau's standards for quality control.[96] The response rates varied somewhat between strata, ranging from 59 percent for Strata 5 and 7 to 80 percent for Stratum 8.

While the response rate met the Census Bureau's standards, nonresponse bias remained a concern. To address this concern, banks in the adjusted sample (excluding banks in the initial sample that had closed or could not be contacted) were compared to the subset of banks that responded to the survey, based on information in the Call Report and the Summary of Deposits. Table A.2 shows how sample banks differed from respondent banks within each stratum based on ten relevant characteristics. The "Resp" columns give the values for respondent banks within each stratum, the "Samp" columns give the values for the sample banks, and the "Sig" columns indicate whether the difference is significant at the 10 percent, 5 percent, or 1 percent level.

Overall, testing for significant differences between respondent and nonrespondent banks in each stratum finds that only 14 out of 120 tests (11.7 percent) were significant at the 10 percent confidence level, only slightly greater than random chance. The most notable difference is that in Stratum 8 (panel banks with $3 to $10 billion in assets), respondent

94 Power calculations estimate how many banks must be sampled in each stratum to yield a desired level of precision.

95 A bank was considered to have responded to the survey if it gave a response to question IA.1, the first non-screener question in the survey. See Section A.3 below for an analysis of question-by-question response rates.

96 See Sub-Requirement F1-6.2b of U.S. Census Bureau Statistical Quality Standards

Table A.2: Mean Values for Respondent and Sample Banks, by Stratum

Strata Number	1			2			3			4		
Assets	<$500M						$500M to $1B					
Panel?	No			Yes			No			Yes		
Group	Resp	Samp	Sig	Resp	Samp	Sig	Resp	Samp	Sig	Resp	Samp	Sig
Natural Log of Assets	12	12		12	12		13.5	13.5		13.5	13.5	
Employees per $100M Assets	17.8	18.3		16.9	17.2		15.6	16.2		18.9	18	
Branches/Offices per $100M Assets	2	2		1.9	1.9		1.2	1.3	+	1.2	1.2	
Percent Assets in C&I Loans	7	6.9		6.5	6.7		8.7	8.3		8.4	8.5	
Percent Assets in CRE Loans	11.8	11.9		12	12		20.7	20.1		19.4	20.1	
Percent Commercial Specialist Bank	36.3	37.4		35.7	38.3		69	67		65.7	67.6	
Percent Headquartered in South (or Puerto Rico)	32.1	35.1	*	30.4	33.8	+	31	35.8	*	44.1	43.2	
Percent Headquartered in Northeast	4.5	4.6		7.6	7.2		21.6	18.7	+	10.8	10.8	
Percent Headquartered in Midwest	56	52.9	*	56.7	53.6	+	34.5	34.3		35.3	36	
Percent Headquartered in West	7.4	7.3		5.3	5.4		12.9	10.8		9.8	10.1	

Note: A "+" denotes statistical significance at 10 percent, "*" at 5 percent, and "**" at 1 percent. Hypothesis tests compare differences between respondents and nonrespondents. C&I is commercial and industrial. CRE is commercial real estate.

Table A.2 (cont.): Mean Values for Respondent and Sample Banks, by Stratum

Strata Number	5			6			7			8		
Assets	$1B to $3B						$3B to $10B					
Panel?	No			Yes			No			Yes		
Group	Resp	Samp	Sig	Resp	Samp	Sig	Resp	Samp	Sig	Resp	Samp	Sig
Natural Log of Assets	14.3	14.3		14.4	14.4		15.5	15.5	*	15.5	15.5	+
Employees per $100M Assets	13.8	14.6		13.6	13.3		10.9	11.2		11.7	11.6	
Branches/Offices per $100M Assets	0.9	0.9		1	1		0.8	0.7		0.8	0.8	
Percent Assets in C&I Loans	8.9	9.7	*	9.3	9.2		10.5	11.1		10.7	10.8	
Percent Assets in CRE Loans	21.4	21.1		21.8	21.8		17.6	17.7		19.9	19.8	
Percent Commercial Specialist bank	80.3	83.1	+	79.5	78.9		76.9	78.8		88.7	85.4	
Percent Headquartered in South (or Puerto Rico)	36.4	36.4		23.2	23.1		37.2	36.4		17.7	18.3	
Percent Headquartered in Northeast	20.7	20.4		30.4	31.3		19.2	20.5		37.1	28	**
Percent Headquartered in Midwest	27.3	29		33.9	31.3		26.9	28		25.8	31.7	*
Percent Headquartered in West	15.7	14.2		12.5	14.3		16.7	15.2		19.4	22	

Note: A "+" denotes statistical significance at 10 percent, "*" at 5 percent, and "**" at 1 percent. Hypothesis tests compare differences between respondents and nonrespondents. C&I is commercial and industrial. CRE is commercial real estate.

Table A.2 (cont.): Mean Values for Respondent and Sample Banks, by Stratum

Strata Number	9			10			11			12		
Assets	$10B to $50B						>$50B					
Panel?	No			Yes			No			Yes		
Group	Resp	Samp	Sig	Resp	Samp	Sig	Resp	Samp	Sig	Resp	Samp	Sig
Natural Log of Assets	16.7	16.8		16.9	16.9		19.1	19.1		19.1	19	
Employees per $100M Assets	8.9	8.3		10.3	10.4		6.5	6.7		9	8.5	
Branches/Offices per $100M Assets	0.5	0.4		0.6	0.6		0.2	0.2		0.4	0.4	
Percent Assets in C&I Loans	8.4	9.2		11.6	12.2		9.8	9.5		12.9	13.4	
Percent Assets in CRE Loans	16.3	14.6	+	19.2	18.5		5.2	4.4		8.1	8.5	
Percent Commercial Specialist Bank	73	68.5		85	87		33.3	28		64.7	65.2	
Percent Headquartered in South (or Puerto Rico)	32.4	35.2		35	37		27.8	28		35.3	43.5	
Percent Headquartered in Northeast	24.3	22.2		20	22.2		22.2	24		17.6	13	
Percent Headquartered in Midwest	10.8	13		27.5	24.1		22.2	20		23.5	17.4	
Percent Headquartered in West	32.4	29.6		17.5	16.7		27.8	28		23.5	26.1	

Note: A "+" denotes statistical significance at 10 percent, "*" at 5 percent, and "**" at 1 percent. Hypothesis tests compare differences between respondents and nonrespondents. C&I is commercial and industrial. CRE is commercial real estate.

banks were about 9 percentage points more likely to be headquartered in the Northeast than were banks in the overall sample.

A.3 Item Response Rate

In addition to the high survey response rate, most questions also exhibited a high item response rate, defined as the proportion of banks that answered a question conditional on having seen the question. Not all banks saw all the questions in the survey, and whether a bank saw a particular question could be a function of their previous answers and the bank's stratum.[97] Item response rates were high across the board, with most questions having a response rate of above 85 percent, exceeding Census Bureau standards for quality control.[98]

The notable exception was Question IB.10, which had only a 43 percent response rate. This question was a follow-up to Question 1B.9, which was asked only if the respondent indicated that the first level of loan approval for a small business loan was conducted by a group of decision-makers. The question asked the respondent to indicate the types of personnel who comprise the decision-making group and the list was nearly identical to those that were provided in the prior question, excluding the group option. It is possible that respondents clicked through this question at a high rate due to a perception of having already just answered it. Response rates also declined somewhat towards the end of Part B of Section 1, in the 80-90 percent range for IB.20-IB.27, and 70 percent for IB.28 (the final question in the section).[99]

A.4 Analysis and Statistical Precision

In line with standard Census Bureau methodology for stratified random sampling, banks were assigned weights based on the inverse probability of selection

[97] See the informational copy of the survey instrument in Appendix B for the skip patterns.
[98] See Sub-Requirement F1-6.2b of U.S. Census Bureau Statistical Quality Standards.
[99] Due to the length of the survey, item response rates are not reported in this appendix.

into the sample (with a slight correction due to the banks excluded from the sample due to closure or unavailability), which were then adjusted for nonresponse. All results in this report use these weights to produce accurate estimates that reflect the universe of banks in each stratum. Estimated differences discussed in this report are significant at the 10 percent level or greater. This indicates that, if, for example, small and large banks were equally likely to respond in the same way to a question, the probability of obtaining estimates with a difference equal to that observed or larger would be no more than 10 percent. In many cases, the observed differences were statistically significant at much lower thresholds than 10 percent.

A.5 Focal Product

Three parts of the survey prompt banks to answer questions in reference to a specific lending product. This specific product can differ from bank to bank and is determined for any one bank based on the bank's response to screener questions SN4 and SN5. Specifically, for questions analyzed in survey parts IB (Loan Approval Process), IC (Underwriting), and IIA (Lending Markets and Practices), banks are asked to consider their top lending product to small businesses by total dollar volume other than credit cards or government-guaranteed lending (their "focal product"). This approach reflects a decision to maintain comparability of responses across banks by excluding certain products (such as credit cards and government-guaranteed lending) that typically differ systematically from traditional credit products. As shown in Figure 2.7, the majority of banks answered questions either for term loans or lines of credit. There were significant differences in the distribution of the top product between small and large banks. To ensure that the differences between banks (such as between small and large banks) discussed in this report are in fact due to those characteristics and not the specific focal product, regressions were run exploring each difference that included controls for the focal product of the bank. In all cases, including controls for bank focal product did not qualitatively change the results.

A.6 Construction of Information Indices

This sub-section describes the construction of the information indices discussed in Section 3 and shown in Figures 3.16, 3.17, 3.18, and 3.19.

The indices are based on survey questions IC.4, IC.10, IC.16, and IC.22, Subparts a-l, which ask about the information that banks evaluate when underwriting loans of three sizes. The questions contain 12 categories of information, referred to here as subparts (such as business plan and loan officer's assessment), and ask banks how commonly they evaluate the subparts for each loan size.[100] For example, a bank may evaluate the personal credit score or history of an applicant most of the time for a loan of about $25,000. The overall index for a given loan size was calculated by assigning 0 to 3 points as described below to the answers for each subpart, summing the points across the responses for each bank, dividing by the maximum number of possible points, and multiplying by 100. This process yielded an information score ranging from 0 to 100 for each bank and loan size.

Points were assigned as follows:

- 0 points for "Evaluates for no or almost no loans of this size," "Don't know," or a missing response
- 1 point for "Evaluates for some loans of this size"
- 2 points for "Evaluates for most loans of this size"
- 3 points for "Evaluates for all or almost all loans of this size"

Since there were 12 subparts, the maximum score for a bank that responded to all subparts with an answer other than "Don't know" was 36. As another example, a bank that answered "Evaluates for no or almost no loans of this size" to three subparts, "Evaluates for some loans of this size" to four subparts, and "Evaluates for all or almost all loans of this size" to five subparts would have a score of 52.8: 100 x ((3 x 0) + (4 x 1) + (5 x 3)) / 36 = 52.8.

[100] To reduce survey burden, banks answered only the information questions for either $1 million or $3 million loans. Banks that made $3 million loans to small businesses were asked about their $3 million loans, and banks that made $1 million loans but not $3 million loans to small businesses were asked about their $1 million loans. Responses for $1 million and $3 million loans were aggregated as "large loans." In addition, the information questions were specifically keyed to the respondent bank's largest volume loan product other than government-guaranteed products or credit cards. For simplicity of presentation in this report, responses are generally aggregated across loan products.

For each subpart that a bank skipped or answered with "Don't know," the maximum score was reduced by 3 points. For example, a bank that answered 11 subparts with "Evaluates for all or almost all loans of this size" but skipped the 12th subpart would have a score of 100: 100 x (11 x 3) / 33 = 100.

For indices that split the information types into two categories—soft information and hard information—the same procedure was applied but to a subset of the subparts of the question. The soft information index used five of the twelve subparts: (e) business plan, (f) experience in industry, (g) identity of business advisors, (h) loan officer's assessment, and (i) market conditions. The hard information index used seven of the twelve subparts: (a) audited financial statements, (b) unaudited financial statements, (c) business credit score, (d) personal credit score, (j) purchase agreements, (k) willingness to offer collateral, and (l) willingness to offer guarantees. As with the overall information index, both were scaled from 0 to 100 so that the lowest score would be 0 and the highest 100.

A.7 Measure of Market Competitiveness

Figure 5.5 in Section 5.2 presents analysis showing how the market distance that banks reported through the survey varies with relative competitiveness of the markets in which they operate. The measure of competitiveness was constructed from non-survey data and was based on the Herfindahl-Hirschman Index (HHI) for deposits. The HHI is a common metric for characterizing the relative dominance of a firm or set of firms within a specific market and for a specific product. Typically, a low HHI indicates a relatively competitive market for the product with no particular firm holding a large share of the total quantity, while a high HHI suggests that a single or a small set of firms dominate the market. The five levels of competitiveness shown in the figure are based on the following procedure:[101]

1. Take the set of full-service branches from the 2021 Summary of Deposits data for branches in the 50 U.S. states and the District of Columbia. Note that this set of branches includes the branches of banks that did not necessarily meet all the conditions to be in the sample frame (see Appendix A.1).
2. For each county c, calculate the deposit market share s_i of each bank with a branch in that county. A county where only a single bank has a branch presence would have a single market share equal to 1. A county with two banks with the same total amount of deposits would have two market share statistics each equal to .5.
3. For the n banks in a county, calculate the HHI value for each county using the following formula:
$$HHI_c = s_1^2 + s_2^2 + s_3^2 + \cdots + s_n^2$$
4. For each bank i, calculate the share of that bank's deposits in county c, w_{ic}, where, for example, $w_{ic} = 0$ for counties where the bank holds no deposits and $w_{ic} = 1$ if bank i had all of its deposits in county c
5. For each bank i with deposits in C_i counties, calculate the weighted average HHI, where the weights reflect the share of that bank's deposits in a given market such that
$$HHI_i = \sum_{c \in C_i} w_{ic} HHI_c$$
6. Take the set of bank-level measures of HHI_i and calculate the quintile values across all banks. Classify each bank into a quintile of competitiveness as in Figure 5.5 based on the quintile in which their HHI_i value lies. The quintile containing the smallest HHI values is labeled as the most competitive.

A bank with a high HHI does most of its business in markets dominated by a small number of banks, which is interpreted to mean that the bank faces a less-competitive landscape than a bank with a low HHI that does business in markets where market shares are more dispersed.

[101] The procedure as described here uses a county-level market. Section 5 uses an alternative market definition where the market is the MSA when the county containing a bank's branches is inside an MSA and the county itself for those counties not in an MSA. Therefore, the bank-level measure of HHI used in Section 5 is weighted across markets which may be a combination of MSAs and counties.

One limitation of the analysis is that using deposits to calculate an HHI value does not directly correspond to the competitiveness of the market for small business lending. Analysis not included in this report shows that the findings presented are qualitatively robust to alternative definitions of market and to using the number of branches instead of total deposits when calculating HHI values.

A.8 Cross-Year Survey Comparisons

Section 5.4 of this report compares results from the 2016 survey with results from the 2022 survey using the following methodology: The two surveys were treated as repeated cross-sections without adjusting standard errors and other statistics for overlap in respondents, so that observations in each survey year were treated as entirely independent. No adjustments were made for entries, mergers, closures, or re-sampling across the intervening period. This is analogous to a weighted least squares regression with the estimating equation

$$X_{it} = \alpha + \beta Year2022_{it} + \epsilon_{it}$$

where observations from both survey years are pooled and X is the outcome variable of interest. The estimate of β is therefore the estimated change in the variable of interest between 2016 and 2022, with the resulting standard errors used to test the hypothesis that $\beta = 0$, meaning there is no difference in the outcome X between the two surveys.

Question wording in the two surveys differed. For the full text of the 2016 survey, see Appendix C of FDIC (2018); for the full text of the 2022 survey, see Appendix B of this report. Sampling, weights, and non-response calculations for the 2016 survey are discussed in Appendix A of FDIC (2018) and for the 2022 survey in Appendix A.1-A.4 of this report.

A.9 Regression Analysis

This sub-section describes the multinomial regression analysis used in Section 7 and depicted in Figure 7.9. The results of the regression are shown in Table A.3.

The regression uses a linear probability model estimated using weighted least squares that incorporate the weighting scheme of the survey respondents. The estimating equation is

$$StartUpLender_i = \alpha + \beta_1 Large_i + \beta_2 Meet_i + \beta_3 SBA_i + \beta_4 PCS_i + \beta_5 HardTerc2_i + \beta_6 HardTerc3_i + \beta_7 CreditScore_i + \beta_8 TermLoan_i + \beta_9 Other_i + \epsilon_i$$

which specifies the probability that bank i lends to start-ups as a function of several characteristics of that bank. All variables take a value of zero or one depending on whether the bank has the characteristic or does the practice as described below.

- *StartUpLender* indicates that the bank typically lends to start-ups.
- *Large* indicates that the bank has at least $10 billion in assets.
- *Meet* indicates that the bank typically has a loan decision-maker meet with small business applicants as part of its loan approval process.
- *SBA* indicates that the bank made at least one SBA loan in 2021.
- *PCS* indicates that the bank often or always requires loan applicants to provide a personal credit score to get small loans of about $25,000.
- *HardTerc2* indicates that the bank is in the middle third of the distribution in terms of its usage of hard information for small loans of about $25,000. See Appendix A.6 for details on the construction of the information indices.
- *HardTerc3* indicates that the bank is in the top third of the distribution in terms of its usage of hard information for small loans of about $25,000. See Appendix A.6 for details on the construction of the information indices.
- *CreditScore* indicates that the bank lists credit scores and other items from the credit report as the most important factor for approval of small loans of about $25,000.

- *TermLoan* indicates that the bank's largest loan product type by dollar volume at origination (other than government-guaranteed loans or credit cards) was term loans.
- *Other* indicates that the bank's largest loan product by dollar volume at origination (other than government-guaranteed loans or credit cards) was a product other than a term loan or line of credit.

The *HardTerc1* and *LineOfCredit* categories were omitted from the regression due to multicollinearity. The coefficients on *HardTerc2* and *HardTerc3* should be interpreted in reference to *HardTerc1*; thus, all else equal, a bank in the middle third of hard information usage (*HardTerc2*=1) is 10.6 percentage points less likely to lend to start-ups than a bank in the bottom third of hard information usage (*HardTerc1*=1).

Table A.3: Start-Up Lender Regression

Variable	Coefficient	Standard Error
Large	-0.032	(0.064)
Meet	0.192**	(0.047)
SBA	0.121**	(0.034)
PCS	-0.105*	(0.052)
HardTerc2	-0.106*	(0.043)
HardTerc3	-0.107*	(0.043)
CreditScore	-0.136*	(0.053)
TermLoan	0.002	(0.042)
Other	-0.229	(0.16)
Constant	0.638**	(0.072)
Approximate Observations	1,000	
Log Likelihood	-775.837	
Akaike Inf. Crit.	1,571.68	

Note: A "+" denotes statistical significance at 10 percent, "*" at 5 percent, and "**" at 1 percent. In line with Census Bureau guidelines on preventing inadvertent disclosure, only approximate counts can be provided publicly. "Inf. Crit." is information criterion.

APPENDIX B
2022 SMALL BUSINESS LENDING SURVEY

NOTICE

The purpose of this PDF version of the FDIC's 2022 Small Business Lending Survey (SBLS 2022) is for your bank to be able to review the questionnaire and determine who at your bank would be most appropriate to provide survey responses. The survey itself will be administered through a web interface and only some banks will be selected to participate. If selected, your bank will receive a letter and associated email on June 14, 2022 with a link to a Census web portal and an authentication code unique to your bank.

Approximately 2,000 FDIC-insured depository institutions will be selected to participate in the survey. Please note that all FDIC-insured institutions with assets of $3 billion or more will be asked to participate. Respondents will be randomly selected from the set of banks with assets of less than $3 billion.

This survey represents the entire banking industry, including banks that may not consider themselves to be small business lenders. Banks that do not engage in small business lending will receive an abbreviated version of the survey (see question IA.1).

For more information on the SBLS, please visit the FDIC's SBLS dedicated website, where you can find updated FAQs. If you have any additional questions, please submit them to SBLS@FDIC.gov.

OMB CONTROL NUMBER: 3064-0203 (Approved September 10, 2021)
For Public Distribution (Version as of May 8, 2022)

ABOUT THIS SURVEY

The Small Business Lending Survey (SBLS) is a nationally representative survey that asks banks about their small business lending practices and volumes. The survey is sponsored by the Federal Deposit Insurance Corporation (FDIC) and administered by the U.S. Census Bureau.

What is the purpose of the SBLS?
The goal of the survey is to better understand, and share with the public, banks' contributions to this vital part of the U.S. economy. Banks are the most common source of external financing for small businesses, which comprise 99.9 percent of all U.S. firms.[a] Despite the importance of small businesses to the U.S. economy and the importance of bank lending to small businesses, there is little high quality data on this activity. The SBLS aims to fill gaps in our understanding. The SBLS provides a more comprehensive view of small business lending by banks than more frequently occurring surveys that are not nationally representative or more narrowly defined surveys with standard questions. In the SBLS, questions differ from collection-to-collection to evolve with the industry and capture information on emerging topics. The last collection occurred in 2016.

What is in the survey?
The 2022 SBLS is composed of four sections of questions about small business lending. The first three sections ask about three broad topics: (i) loan processes, underwriting, and FinTech usage; (ii) markets and competition; and (iii) the Coronavirus Pandemic, SBA lending, and selling of loans. In these first sections of the survey, respondents are asked to use their own formal or informal definitions for what the bank considers a "small business." The fourth section is quantitative and gathers information on bank small business lending that may not be captured when relying on definitions used for regulatory reporting. This final section collects bank business lending by multiple firm and loan sizes.

Why was my bank chosen?
Approximately 2,000 banks of all sizes and from all geographic areas in the domestic U.S. have been selected to receive the survey from the universe of around 4,800 FDIC-insured depository institutions with domestic offices and that actively make loans. This includes banks primarily regulated by the Federal Reserve System or the Office of the Comptroller of the Currency, as well as by the FDIC. All FDIC-insured institutions with assets of $3 billion or more are asked to participate. A random sample has been drawn from the set of banks with assets of less than $3 billion to determine who from this group will be asked to participate.

Are my answers confidential and anonymous?
All bank responses are confidential and anonymous; no respondent identities or individual bank responses are ever disclosed. Results will only be reported in aggregate form. The information collected is for research purposes only and will be used to inform policy makers and the general public about the contribution of banks to U.S. small business lending. The survey data are never used for examination purposes.

Will this information be published in a report?
Main findings from the data will be published in an FDIC report scheduled for publication in 2024.

[a] Sources: Small Business Credit Survey (Federal Reserve Banks, 2021) https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/2021-sbcs-employer-firms-report and Frequently Asked Questions (Small Business Administration, 2021) https://cdn.advocacy.sba.gov/wp-content/uploads/2021/12/06095731/Small-Business-FAQ-Revised-December-2021.pdf.

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SCREENERS

ABOUT THESE SCREENERS

Your bank's answers to these screener questions help us determine which questions of the survey should be asked of your bank. Please answer the following screener questions first to ensure that the specific survey generated for your bank asks only questions that are relevant to your bank.

Section IV of this survey asks your bank quantitative questions about its lending for business purposes. Accordingly, Screeners 1, 2, and 3 ask what data your bank can retrieve via its core data systems. Your answers should reflect the abilities of your bank's core data systems rather than what can be manually collected from loan files. We recommend that these screener questions be answered in coordination with the bank staff who will be providing answers to Section IV and that bank staff review Section IV of the PDF version of the survey before answering these questions.

A number of the qualitative questions in Sections I and II of this survey will reference your bank's top small business lending product by volume. Therefore, Screeners 4 and 5 ask questions to help determine what that top product is for your bank.

Lending for Business Purposes

By "lending for business purposes" we mean lending to businesses of all sizes:

Exclude

- Paycheck Protection Program (PPP) loans
- Agricultural lending
- Loans for investment in real estate where loan repayment primarily depends on leasing income or resale of the property
    - E.g., loans for the improvement, purchase, or refinancing of
        - Residential properties (including "flipping")
        - Non-owner-occupied commercial real estate
        - ADC (Acquisition, Development, & Construction) loans

Include

- Unsecured lending
- Business credit cards
- Lines and letters of credit
- Government guaranteed lending (other than PPP loans)
- Lending made through third parties
- Lending primarily secured by non-real estate assets
    - E.g., automobiles, equipment, inventory
- Lending for the purpose of improving, purchasing, or refinancing owner-occupied commercial real estate
- Lending primarily secured by real estate
    - E.g., a loan for working capital secured by the owner's primary residence
    - E.g., a loan for equipment secured by non-owner-occupied commercial real estate

Small Business

We understand that your bank's internal definition for small business lending may differ from the definitions used by other banks and from regulatory definitions (for example, those used by the Call Report, the Community Reinvestment Act, or the Small Business Administration).

For this survey we ask that you use your bank's own formal or informal definitions for what it considers a "small business." This includes the possibility that your bank considers all of its business borrowers to be small businesses, or the possibility that your bank has multiple divisions that serve small businesses.

Ability to Retrieve Lending Originations for Business Purposes

S1. For calendar year 2021, does your bank have the ability to retrieve from its core data systems the dollar volume of **originations** (both new lending and renewals) for **business purposes** by the following categories?

Refer to the "About These Screeners" box at the beginning of the section for this survey's definition of "lending for business purposes."

Loan category	Yes, my bank can retrieve the dollar volume	No, my bank cannot retrieve the dollar volume
a. Lending for business purposes	◻	◻
b. Lending for business purposes, for loans or commitments of size $1 million or less	◻	◻
c. Lending for business purposes, for any size of loan or commitment	◻	◻
d. Lending for business purposes to businesses with $1 million or less in gross annual revenue (GAR). *Either GAR at origination or most recent GAR is acceptable.*	◻	◻
e. Lending for business purposes, for any gross annual revenue	◻	◻
f. Lending for business purposes, primarily secured by 1-4 family real estate	◻	◻

Important Note: Please only consider what your bank can retrieve from its core data systems, rather than data manually collected from loan files. If your bank is generally able to retrieve GAR but not for all loans, please still answer "yes." Your bank may wish to review "Section IV – Part 11: Measurement of Small Business Lending" before answering these questions.

Ability to Retrieve Originations for Business Purposes Made Under Different Lending Programs

S2. For calendar year 2021, if your bank originated these types of lending products, does your bank have the ability to retrieve from its core data systems the dollar volume of originations (both new lending and renewals) for **business purposes** for the products below?

Refer to the "About These Screeners" box at the beginning of the section for this survey's definition of "lending for business purposes."

Lending product category	Yes, my bank can retrieve the dollar volume	No, my bank cannot retrieve the dollar volume	My bank did not originate
a. Government guaranteed lending made through SBA programs (excluding PPP)	☐	☐	☐
b. Government guaranteed lending made through non-SBA programs targeted at small businesses	☐	☐	☐
c. Credit card lending to businesses of all sizes (where my bank holds the portfolio)	☐	☐	☐
d. Lending for business purposes made through automated approval decisions *Exclude:* • Credit card lending • Government guaranteed lending *Include:* • Lending made through third parties with automated approval	☐	☐	☐
e. Lending made through third parties using programs targeted at small businesses *Include:* • Brokers • FinTech partners • Any other non-governmental third party lenders	☐	☐	☐

Ability to Retrieve Call Report Outstanding Commercial & Industrial (C&I) Loan Balances

S3. Does your bank have the ability to retrieve from its core data systems the dollar volume of its **outstanding C&I loan balances as of Call Report date December 31st, 2021**, by the following categories?

For these questions use the definition for C&I lending from pages 18 to 20 of Call Report Schedule RC-C.

Loan category	Yes, my bank can retrieve the dollar volume	No, my bank cannot retrieve the dollar volume
a. C&I loans, for loans of size $1 million or less	☐	☐
b. C&I loans, for any loan size	☐	☐
c. C&I loans to businesses with $1 million or less in gross annual revenue (GAR). *Either GAR at origination or most recent GAR is acceptable.*	☐	☐
d. C&I loans, for any gross annual revenue	☐	☐

General Small Business Lending Products

S4. For calendar year 2021, did your bank originate loans or commitments to **small business** borrowers for **business purposes** using any of the following general product types?

Refer to the "About These Screeners" box at the beginning of the section for this survey's definition of "lending for business purposes" and "small business."

General lending product type	Yes, my bank originated to small businesses	No, my bank did not originate to small businesses
a. Credit cards (where my bank holds the portfolio)	☐	☐
b. Government guaranteed lending (excluding PPP)	☐	☐
c. Letter of credit (non-government guaranteed)	☐	☐
d. Line of credit (non-government guaranteed)	☐	☐
e. Term loan (non-government guaranteed)	☐	☐
f. Other _______________	☐	☐

Top Small Business Lending Product

S5. For calendar year 2021, how would your bank rank these products by the **dollar volume** of originations (both new lending and renewals) for **business purposes** to **small business** borrowers? *Please feel free to approximate your bank's ranking of its lending rather than rely on exact numbers, if that would be easier for your bank.*

Refer to the "About These Screeners" box at the beginning of the section for this survey's definition of "lending for business purposes" and "small business."

General lending product type	Ranking
a. Credit cards (where my bank holds the portfolio)	*[Programmer's note: Populate with product types chosen in S4 and allow ranking up to number of product types chosen]*
b. Government guaranteed lending (excluding PPP)	
c. Letter of credit (non-government guaranteed)	
d. Line of credit (non-government guaranteed)	
e. Term loan (non-government guaranteed)	
f. Other _______________	

I. SMALL BUSINESS LOAN PROCESSES AND UNDERWRITING

IA. Small Business Lending at Your Bank

ABOUT THIS SECTION

In this section, we ask generally about your bank's lending for business purposes to small businesses.

Lending for Business Purposes

By "lending for business purposes" we mean lending to businesses of all sizes:

Exclude

- Paycheck Protection Program (PPP) loans
- Agricultural lending
- Loans for investment in real estate where loan repayment primarily depends on leasing income or resale of the property
    - E.g., loans for the improvement, purchase, or refinancing of
        - Residential properties (including "flipping")
        - Non-owner-occupied commercial real estate
        - ADC (Acquisition, Development, & Construction) loans

Include

- Unsecured lending
- Business credit cards
- Lines and letters of credit
- Government guaranteed lending (other than PPP loans)
- Lending made through third parties
- Lending primarily secured by non-real estate assets
    - E.g., automobiles, equipment, inventory
- Lending for the purpose of improving, purchasing, or refinancing owner-occupied commercial real estate
- Lending primarily secured by real estate
    - E.g., a loan for working capital secured by the owner's primary residence
    - E.g., a loan for equipment secured by non-owner-occupied commercial real estate

Defining a Small Business for Your Bank

IA.1 Did your bank engage in any lending it considers small business lending, regardless of regulatory definitions for small businesses, in calendar year 2021?

○ Yes
○ No

Important Note: If your bank answers "No" to question IA.1 above, then your institution will not be asked to answer any of the remaining questions here, nor any question in Sections I, II, and III. Please go directly to Section IVA (page 129).

IA.2 Does your bank have multiple divisions that conduct small business lending, excluding SBA divisions?

- ○ Yes
- ○ No

IA.3 Does your bank consider a level of gross annual revenue above which a business would not be considered a small business? *If your bank has multiple divisions, please consider the largest small business that any of those divisions would serve, excluding SBA divisions.*

- ○ Yes
- ○ No

[If IA.3=Yes] **IA.4** What is the gross annual revenue benchmark above which a business is not considered a small business by your bank? $___,___,___.00

IA.5 Does your bank consider an aggregate loan exposure above which the business being lent to would not be considered a small business? *If your bank has multiple divisions, please consider the largest acceptable ALE for any of your divisions, excluding SBA divisions.*

- ○ Yes
- ○ No

[If IA.5=Yes] **IA.6** What is the aggregate loan exposure above which a business is not considered a small business by your bank? $___,___,___.00

Loan Portfolio Devoted to Small Business Lending

IA.7 In calendar year 2021, approximately what percent of your bank's **dollar ($) volume of total lending** was originated or committed for **business purposes**? *Select one.*

- ○ 0 to less than 20 percent of loan dollars
- ○ 20 to less than 40 percent of loan dollars
- ○ 40 to less than 60 percent of loan dollars
- ○ 60 to less than 80 percent of loan dollars
- ○ 80 to 100 percent of loan dollars
- ○ Don't know

IA.8 In calendar year 2021, approximately what percent of your bank's **dollar ($) volume of total lending for business purposes** was originated or committed to **small business borrowers?** *Select one.*

- ○ 0 to less than 20 percent of loan dollars
- ○ 20 to less than 40 percent of loan dollars
- ○ 40 to less than 60 percent of loan dollars
- ○ 60 to less than 80 percent of loan dollars
- ○ 80 to 100 percent of loan dollars
- ○ Don't know

IA.9 In calendar year 2021, approximately what percent of your bank's **total number (units) of loans for business purposes** was originated or committed to **small business borrowers**? *Select one.*

- ○ 0 to less than 20 percent of loans
- ○ 20 to less than 40 percent of loans
- ○ 40 to less than 60 percent of loans
- ○ 60 to less than 80 percent of loans
- ○ 80 to 100 percent of loans
- ○ Don't know

Lending to New Small Businesses or Startups

IA.10 Below what age would a small business be considered a new small business, or startup, by your bank?
_____ Years ☐ My bank does not define start-ups by age

IA.11 Does your bank typically make loans to small businesses it considers new, or startups?

- ○ Yes
- ○ No

[If IA.11=Yes and S4b=Yes] **IA.12** What portion of the loans your bank makes to startups are through programs that provide a government guarantee (e.g., SBA)? *Select only ONE.*

- ○ All or almost all the loans my bank makes to startups are government guaranteed
- ○ Most of the loans my bank makes to startups are government guaranteed
- ○ Around half of the loans my bank makes to startups are government guaranteed
- ○ Some of the loans my bank makes to startups are government guaranteed
- ○ None or almost none of the loans my bank makes to startups are government guaranteed

Specializations in Small Business Lending

IA.13 In calendar year 2021, did your bank offer any of these specialized loan products to small businesses?

Select only ONE option for each specialized loan product.

Specialized loan product	Yes, offer to small businesses	No, do not offer to small businesses	Don't know
a. Asset- or borrowing-based lending	☐	☐	☐
b. Auto floorplan lending	☐	☐	☐
c. Equipment leases	☐	☐	☐
d. Factoring / invoice financing	☐	☐	☐
e. Franchise lending	☐	☐	☐
f. Leasehold improvements	☐	☐	☐
g. Other ___	☐	☐	☐

IB. Loan Approval Process

ABOUT THIS SECTION

In the Screeners section, your bank's answer to S5, Top Small Business Lending Product, indicated that its highest-volume small business lending product is *[Insert PRODUCT]*, excluding any credit cards or government-guaranteed products.

In this section, we ask about the loan approval process for *[Insert PRODUCT]* to small businesses at your bank, including the length of time to loan approval and the staff who make the approval decision.

Important Note: If your bank answered "No" to question IA.1, then your institution will not be asked to answer any of the questions here nor any remaining questions in Sections I, II, and III. Please go directly to Section IVA (page 129).

Time Until Approval

IB.1 For **completed applications** from small business borrowers, how do the following factors influence the amount of time until approval for a *[Insert PRODUCT]*?

Think about the turnaround time at your bank for an approved loan application, ***from the time of submission of a completed application to the final credit decision*** *(before funding). Select only ONE option for each factor.*

Factors influencing time until approval	Decreases amount of time	Increases amount of time	No effect	Don't know
a. Business is a startup	☐	☐	☐	☐
b. Complexity of collateral	☐	☐	☐	☐
c. Complexity of loan or borrower	☐	☐	☐	☐
d. Exception to credit policy (e.g., low debt service coverage ratio)	☐	☐	☐	☐
e. Good prior deposit relationship with borrower	☐	☐	☐	☐
f. Good prior loan relationship with borrower	☐	☐	☐	☐
g. Increasing size of business	☐	☐	☐	☐
h. Increasing size of loan or total loan exposure	☐	☐	☐	☐
i. Lack of experience lending in business's industry	☐	☐	☐	☐
j. Outside of primary lending area	☐	☐	☐	☐
k. Unusual financial characteristics (e.g., irregular cash flow)	☐	☐	☐	☐

IB.2 In approximate terms, what is the typical **minimum** number of business days for approval for a *[Insert PRODUCT]*?

For example:

- a small, simple loan
- an automated system that has approval authority (if applicable)

Business Day(s): _______________

IB.3 In approximate terms, what is the typical **maximum** number of business days for approval for a *[Insert PRODUCT]*?

For example:
- a large, complicated loan
- a loan with one or more credit policy exceptions

Business Day(s): _______________

[If IB.2 not = IB.3; otherwise IB.4=IB.3] **IB.4** In approximate terms, what is the **typical** number of business days for approval for a *[Insert PRODUCT]?*

Business Day(s): _______________

Levels of Approval

IB.5 Excluding any automated decision-making, how do the following factors influence the number of levels of approval for a *[Insert PRODUCT]* to a small business? For example, the factor may contribute to a loan policy exception.

Think about ***the number of levels of approval an application could go through before a loan is granted.*** *These levels may include individuals such as loan officers or executives, and loan committees or groups of decision-makers. Select only ONE option for each factor.*

Factor influencing levels of approval or potentially contributing to loan policy exceptions	Decreases number of levels	Increases number of levels	No effect	Don't know
a. Business is a startup	◻	◻	◻	◻
b. Complexity of collateral	◻	◻	◻	◻
c. Complexity of loan or borrower	◻	◻	◻	◻
d. Good prior deposit relationship with borrower	◻	◻	◻	◻
e. Good prior loan relationship with borrower	◻	◻	◻	◻
f. Increasing size of business	◻	◻	◻	◻
g. Increasing size of loan or total loan exposure	◻	◻	◻	◻
h. Insufficient debt service coverage ratio	◻	◻	◻	◻
i. Lack of experience lending in business's industry	◻	◻	◻	◻
j. Outside of primary lending area	◻	◻	◻	◻

IB.6 Excluding any automated decision-making, what is the **minimum** number of levels of approval for a *[Insert PRODUCT]*?

For example:
- a small, simple loan

__________ Level(s)

◻ N/A - approval for certain *[Insert PRODUCT]* is fully automated (i.e., no human intervention is required)

IB.7 Excluding any automated decision-making, what is the **maximum** number of levels of approval for a *[Insert PRODUCT]*?

For example:

- a large, complicated loan
- a loan with one or more credit policy exceptions

__________ Level(s)

□ N/A - approval for all *[Insert PRODUCT]* is fully automated (i.e., no human intervention is required)

[If IB.6 = IB.7 OR IB.7 = tickbox then skip and IB.8=IB.7] **IB.8** Excluding any automated decision-making and in your approximation, what is the **typical** number of levels of approval for a *[Insert PRODUCT]*?

__________ Level(s)

□ N/A - approval for the typical *[Insert PRODUCT]* is fully automated (i.e., no human intervention is required)

Decision-Making at Each Level of Approval

[Loop 1: If IB.7 not equal to N/A and greater or equal to "1"]

Consider the full loan approval process for a typical complete loan application for a *[Insert PRODUCT] to* a small business. Please answer the following questions for the first level of approval that a typical application could potentially undergo depending on the size of the loan, its complexity, and any other factors.

IB.9 Excluding any automated decision-making, who or what role conducts the *first* level of approval for applications from small businesses for a *[Insert PRODUCT]*? *Select only ONE.*

a. Business banker
b. Loan officer, underwriter, or credit officer
c. Senior supervising loan officer, underwriter, or credit officer (non-executive)
d. Executive
e. Board member
f. Group of decision makers (e.g., loan committee, board of directors, etc.)
g. Other ____________________

[If IB.9=f] **IB.10** Which officials or roles typically serve on this loan committee or within this group of decision-makers? *Select ALL that apply.*

a. Business banker
b. Loan officer, underwriter, or credit officer
c. Senior supervising loan officer, underwriter, or credit officer (non-executive)
d. Executive
e. Board member
f. Other ____________________

IB.11 When the *first* level of approval reviews a small business application for a *[Insert PRODUCT]*, do they typically meet with the applicant (either in-person or via telephone call or teleconference) as part of the review?

○ Yes

○ No

IB.12 Does the *first* level of approval typically have signature authority for a *[Insert PRODUCT]* below a certain size made to small businesses? *By* ***signature authority*** *we mean that this level may authorize a loan without being subject to higher levels of decision-making.*

- ○ Yes, up to the legal lending limit
- ○ Yes, up to an amount other than the legal lending limit
- ○ No

[If IB.12=Yes, up to an amount other than the legal lending limit] **IB.13** What is the **typical** signature authority loan amount for the *first* level of approval for a *[Insert PRODUCT]* application from small businesses?

$ ________________Dollars

[Loop 2: If IB.7 not equal to N/A and greater or equal to "2"]

Consider the full loan approval process for a typical complete loan application for a *[Insert PRODUCT]* to a small business. Please answer the following questions for the *second* level of approval that a typical application could potentially undergo depending on the size of the loan, its complexity, and any other factors.

IB.14 Excluding any automated decision-making, who or what role conducts the *second* level of approval for applications from small businesses for a *[Insert PRODUCT]*? *Select only ONE.*

a. Business banker
b. Loan officer, underwriter, or credit officer
c. Senior supervising loan officer, underwriter, or credit officer (non-executive)
d. Executive
e. Board member
f. Group of decision makers (e.g., loan committee, board of directors, etc.)
g. Other ____________________

[If IB.14=f] **IB.15** Which officials or roles typically serve on this loan committee or within this group of decision-makers? *Select ALL that apply.*

a. Business banker
b. Loan officer, underwriter, or credit officer
c. Senior supervising loan officer, underwriter, or credit officer (non-executive)
d. Executive
e. Board member
f. Other ____________________

IB.16 When the *second* level of approval reviews a small business application for a *[Insert PRODUCT]*, do they typically meet with the applicant (either in-person or via telephone call or teleconference) as part of the review?

- ○ Yes
- ○ No

IB.17 Does the *second* level of approval typically have signature authority for a *[Insert PRODUCT]* below a certain size made to small businesses? *By* ***signature authority*** *we mean that this level may authorize a loan without being subject to higher levels of decision-making.*

- ○ Yes, up to the legal lending limit
- ○ Yes, up to an amount other than the legal lending limit
- ○ No

[If IB.17=Yes, up to an amount other than the legal lending limit] **IB.18** What is the **typical** signature authority loan amount for the *second* level of approval for a *[Insert PRODUCT]* application from small businesses?

$ ________________Dollars

[Loop 3: If IB.7 not equal to N/A and greater or equal to "3"]

Consider the full loan approval process for a typical complete loan application for a *[Insert PRODUCT]* to a small business. Please answer the following questions for the *third* level of approval that a typical application could potentially undergo depending on the size of the loan, its complexity, and any other factors.

IB.19 Excluding any automated decision-making, who or what role conducts the *third* level of approval for applications from small businesses for a *[Insert PRODUCT]*? *Select only ONE.*

a. Business banker
b. Loan officer, underwriter, or credit officer
c. Senior supervising loan officer, underwriter, or credit officer (non-executive)
d. Executive
e. Board member
f. Group of decision makers (e.g., loan committee, board of directors, etc.)
g. Other ____________________

[If IB.19=f] **IB.20** Which officials or roles typically serve on this loan committee or within this group of decision-makers? *Select ALL that apply.*

a. Business banker
b. Loan officer, underwriter, or credit officer
c. Senior supervising loan officer, underwriter, or credit officer (non-executive)
d. Executive
e. Board member
f. Other ____________________

IB.21 When the *third* level of approval reviews a small business application for a *[Insert PRODUCT]*, do they typically meet with the applicant (either in-person or via telephone call or teleconference) as part of the review?

- ○ Yes
- ○ No

IB.22 Does the *third* level of approval typically have signature authority for a *[Insert PRODUCT]* below a certain size made to small businesses? *By **signature authority** we mean that this level may authorize a loan without being subject to higher levels of decision-making.*

- ○ Yes, up to the legal lending limit
- ○ Yes, up to an amount other than the legal lending limit
- ○ No

[If IB.22=Yes, up to an amount other than the legal lending limit] **IB.23** What is the **typical** signature authority loan amount for the *third* level of approval for a *[Insert PRODUCT]* application from small businesses?

$ ________________Dollars

[Loop 4: If IB.7 not equal to N/A and greater or equal to "4"]

Consider the full loan approval process for a typical complete loan application for a *[Insert PRODUCT]* to a small business. Please answer the following questions for the *fourth* level of approval that a typical application could potentially undergo depending on the size of the loan, its complexity, and any other factors.

IB.24 Excluding any automated decision-making, who or what role conducts the *fourth* level of approval for applications from small businesses for a *[Insert PRODUCT]*? *Select only ONE.*

a. Business banker
b. Loan officer, underwriter, or credit officer
c. Senior supervising loan officer, underwriter, or credit officer (non-executive)
d. Executive
e. Board member
f. Group of decision makers (e.g., loan committee, board of directors, etc.)
g. Other ____________________

[If IB.24=f] **IB.25** Which officials or roles typically serve on this loan committee or within this group of decision-makers? *Select ALL that apply.*

a. Business banker
b. Loan officer, underwriter, or credit officer
c. Senior supervising loan officer, underwriter, or credit officer (non-executive)
d. Executive
e. Board member
f. Other ____________________

IB.26 When the *fourth* level of approval reviews a small business application for a *[Insert PRODUCT]*, do they typically meet with the applicant (either in-person or via telephone call or teleconference) as part of the review?

- ○ Yes
- ○ No

IB.27 Does the *fourth* level of approval typically have signature authority for a *[Insert PRODUCT]* below a certain size made to small businesses? *By **signature authority** we mean that this level may authorize a loan without being subject to higher levels of decision-making.*

- ○ Yes, up to the legal lending limit
- ○ Yes, up to an amount other than the legal lending limit
- ○ No

[If IB.27=Yes, up to an amount other than the legal lending limit] **IB.28** What is the **typical** signature authority loan amount for the *fourth* level of approval for a *[Insert PRODUCT]* application from small businesses?

$ ________________Dollars

IC. Underwriting

ABOUT THIS SECTION

In the Screeners section, your bank's answer to S5, Top Small Business Lending Product, indicated that its highest-volume small business lending product is *[Insert product]*, excluding any credit cards and government-guaranteed products.

In this section, we ask about your bank's underwriting practices for *[Insert PRODUCT]* to small businesses.

Important Note: If your bank answered "No" to question IA.1, then your institution will not be asked to answer any of the questions here nor any remaining questions in Sections I, II, and III. Please go directly to Section IVA (page 129).

IC.1 As part of its loan decision process, does your bank assign any kind of grade or numeric score to a loan application from a small business for a *[Insert PRODUCT]*? *Include risk-rating scores only if they play a material role in the approval decision.*

- ○ Yes
- ○ No

Underwriting Loans of Various Sizes

IC.2 In your **normal course of business**, would your bank make a *[Insert PRODUCT]* of these approximate sizes to a small business? *Select one option per loan size.*

Loan size	Yes	No
a. $25,000	☐	☐
b. $250,000	☐	☐
c. $1,000,000	☐	☐
d. $3,000,000	☐	☐

[Programmer's note: Start a loop of questions IC.3 through IC.8, for up to three possible loops by loan size]

Loans of $25,000 to Small Businesses

[Loop 1: If IC.2a=Yes]

IC.3 Which of these purposes is the **most** common for a *[Insert PRODUCT]* of approximately $25,000 made to a small business? *Select only ONE purpose.*

a. Accounts receivable
b. Equipment, fixed assets other than real estate, or leasehold improvements
c. Inventory
d. Working capital
e. Owner-occupied commercial real estate
f. Other __________

IC.4 How **commonly** does your bank evaluate the following pieces of information for small business applicants for a *[Insert PRODUCT]* of approximately $25,000?

The information may be for loans of this size that are made for a variety of purposes. Select only ONE option for each piece of information.

Information	Evaluates for no or almost no loans of this size	Evaluates for some loans of this size	Evaluates for most loans of this size	Evaluates for all or almost all loans of this size	Don't know
a. Audited financial statements	☐	☐	☐	☐	☐
b. Non-audited financial statements such as tax returns or income statements	☐	☐	☐	☐	☐
c. Business credit score from a credit bureau	☐	☐	☐	☐	☐
d. Personal credit score of owner(s) or guarantor(s) from a credit bureau	☐	☐	☐	☐	☐
e. Business plan	☐	☐	☐	☐	☐
f. Experience in industry of owner(s) or management team	☐	☐	☐	☐	☐
g. Identity of business's advisors (i.e., CPAs or consultants)	☐	☐	☐	☐	☐
h. Loan officer's assessment of owner(s) or business based on interview or personal interactions	☐	☐	☐	☐	☐
i. Market conditions in business's industry or region	☐	☐	☐	☐	☐
j. Purchase agreements or other material third-party contracts	☐	☐	☐	☐	☐
k. Willingness of owner(s) to offer collateral and quality of offered collateral	☐	☐	☐	☐	☐
l. Willingness of owner(s) or third party(s) to offer personal guarantee for loan	☐	☐	☐	☐	☐
m. Other ____	☐	☐	☐	☐	☐

IC.5 How often does your bank **require** that a small business or small business owner **offer collateral** in order to receive a *[Insert PRODUCT]* of approximately $25,000? *Select one.*

- ○ Rarely or never requires for loans of this size
- ○ Sometimes requires for loans of this size
- ○ Often requires for loans of this size
- ○ Almost always or always requires for loans of this size
- ○ Don't know

IC.6 How often does your bank **require** a small business to **have a valid business credit score available from a major credit-scoring agency** in order to receive a *[Insert PRODUCT]* of approximately $25,000? *Select one.*

- ○ Rarely or never requires for loans of this size
- ○ Sometimes requires for loans of this size
- ○ Often requires for loans of this size
- ○ Almost always or always requires for loans of this size
- ○ Don't know

IC.7 How often does your bank **require** a small business owner to **have a valid personal credit score available from a major credit-scoring agency** in order to receive a *[Insert PRODUCT]* of approximately $25,000? *Select one.*

- ○ Rarely or never requires for loans of this size
- ○ Sometimes requires for loans of this size
- ○ Often requires for loans of this size
- ○ Almost always or always requires for loans of this size
- ○ Don't know

IC.8 How does your bank rank the following aspects of a loan application for a *[Insert PRODUCT*] of approximately $25,000 in terms of importance? An aspect is **important** if an application that displays strength in this aspect has a higher chance of approval or if an application that displays weakness in this aspect has a lower chance of approval.

For this question, rank aspects in importance from 1-6, with 1 as most important and 6 as least important.

Aspect	Most important 1st	2nd	3rd	4th	5th	Least important 6th
a. Credit scores or other information from credit bureaus	*[Programmer's note: Allow ranking of aspects from 1-6]*					
b. Geographic proximity of the business to a bank branch, loan office, or bank staff						
c. Industry-level or regional factors, including current conditions in the business's industry or region and your bank's experience in lending to the business's industry or region						
d. Qualitative factors, such as the quality of the business plan or the experience of the management team						
e. The business's financial position, such as its balance sheet, debt-service coverage ratio, or liquidity management						
f. The presence or quality of collateral or guarantees offered by the business or borrower						

Loans of $250,000 to Small Businesses

[Loop 2: If IC.2b=Yes]

IC.9 Which of these purposes is the **most** common for a *[Insert PRODUCT]* of approximately $250,000 made to a small business? *Select only ONE purpose.*

- ○ Accounts receivable
- ○ Equipment, fixed assets other than real estate, or leasehold improvements
- ○ Inventory
- ○ Working capital
- ○ Owner-occupied commercial real estate
- ○ Other __________

IC.10 How **commonly** does your bank evaluate the following pieces of information for small business applicants for a *[Insert PRODUCT]* of approximately $250,000?

The information may be for loans of this size that are made for a variety of purposes. Select only ONE option for each piece of information.

Information	Evaluates for no or almost no loans of this size	Evaluates for some loans of this size	Evaluates for most loans of this size	Evaluates for all or almost all loans of this size	Don't know
[Programmer's note: Repeat IC.4 options]	☐	☐	☐	☐	☐

IC.11 How often does your bank **require** that a small business or small business owner **offer collateral** in order to receive a *[Insert PRODUCT]* of approximately $250,000? *Select one.*

- ○ Rarely or never requires for loans of this size
- ○ Sometimes requires for loans of this size
- ○ Often requires for loans of this size
- ○ Almost always or always requires for loans of this size
- ○ Don't know

IC.12 How often does your bank **require** a small business to **have a valid business credit score available from a major credit-scoring agency** in order to receive a *[Insert PRODUCT]* of approximately $250,000? *Select one.*

- ○ Rarely or never requires for loans of this size
- ○ Sometimes requires for loans of this size
- ○ Often requires for loans of this size
- ○ Almost always or always requires for loans of this size
- ○ Don't know

IC.13 How often does your bank **require** a small business owner to **have a valid personal credit score available from a major credit-scoring agency** in order to receive a *[Insert PRODUCT]* of approximately $250,000? *Select one.*

- ○ Rarely or never requires for loans of this size
- ○ Sometimes requires for loans of this size
- ○ Often requires for loans of this size
- ○ Almost always or always requires for loans of this size
- ○ Don't know

IC.14 How does your bank rank the following aspects of a loan application for a *[Insert PRODUCT*] of approximately $250,000 in terms of importance? An aspect is **important** if an application that displays strength in this aspect has a higher chance of approval or if an application that displays weakness in this aspect has a lower chance of approval.

For this question, rank aspects in importance from 1-6, with 1 as most important and 6 as least important.

Aspect	Most important 1st	2nd	3rd	4th	5th	Least important 6th
[Programmer's note: Repeat IC.8 options]	*[Programmer's note: Allow ranking of aspects from 1-6]*					

Loans of $1,000,000 to Small Businesses

[Loop 3: If IC.2c = Yes and IC.2d=No]
IC.15 Which of these purposes is the **most** common for a *[Insert PRODUCT]* of approximately $1,000,000 made to a small business? *Select only ONE purpose.*

- ○ Accounts receivable
- ○ Equipment, fixed assets other than real estate, or leasehold improvements
- ○ Inventory
- ○ Working capital
- ○ Owner-occupied commercial real estate
- ○ Other __________

IC.16 How **commonly** does your bank evaluate the following pieces of information for small business applicants for a *[Insert PRODUCT]* of approximately $1,000,000?

The information may be for loans of this size that are made for a variety of purposes. Select only ONE option for each piece of information.

Information	Evaluates for no or almost no loans of this size	Evaluates for some loans of this size	Evaluates for most loans of this size	Evaluates for all or almost all loans of this size	Don't know
[Programmer's note: Repeat IC.4 options]	☐	☐	☐	☐	☐

IC.17 How often does your bank **require** that a small business or small business owner **offer collateral** in order to receive a *[Insert PRODUCT]* of approximately $1,000,000? *Select one.*

- ○ Rarely or never requires for loans of this size
- ○ Sometimes requires for loans of this size
- ○ Often requires for loans of this size
- ○ Almost always or always requires for loans of this size
- ○ Don't know

IC.18 How often does your bank **require** a small business to **have a valid business credit score available from a major credit-scoring agency** in order to receive a *[Insert PRODUCT]* of approximately $1,000,000? *Select one.*

- Rarely or never requires for loans of this size
- Sometimes requires for loans of this size
- Often requires for loans of this size
- Almost always or always requires for loans of this size
- Don't know

IC.19 How often does your bank **require** a small business owner to **have a valid personal credit score available from a major credit-scoring agency** in order to receive a *[Insert PRODUCT]* of approximately $1,000,000? *Select one.*

- Rarely or never requires for loans of this size
- Sometimes requires for loans of this size
- Often requires for loans of this size
- Almost always or always requires for loans of this size
- Don't know

IC.20 How does your bank rank the following aspects of a loan application for a *[Insert PRODUCT*] of approximately $1,000,000 in terms of importance? An aspect is **important** if an application that displays strength in this aspect has a higher chance of approval or if an application that displays weakness in this aspect has a lower chance of approval.

For this question, rank aspects in importance from 1-6, with 1 as most important and 6 as least important.

Aspect	Most important 1st	2nd	3rd	4th	5th	Least important 6th
[Programmer's note: Repeat IC.8 options]	*[Programmer's note: Allow ranking of aspects from 1-6]*					

Loans of $3,000,000 to Small Businesses

[Loop 4: If IC.2d=Yes]

IC.21 Which of these purposes is the **most** common for a *[Insert PRODUCT]* of approximately $3,000,000 made to a small business? *Select only ONE purpose.*

- Accounts receivable
- Equipment, fixed assets other than real estate, or leasehold improvements
- Inventory
- Working capital
- Owner-occupied commercial real estate
- Other __________

IC.22 How **commonly** does your bank evaluate the following pieces of information for small business applicants for a *[Insert PRODUCT]* of approximately $3,000,000?

The information may be for loans of this size that are made for a variety of purposes. Select only ONE option for each piece of information.

Information	Evaluates for no or almost no loans of this size	Evaluates for some loans of this size	Evaluates for most loans of this size	Evaluates for all or almost all loans of this size	Don't know
[Programmer's note: Repeat IC.4 options]	☐	☐	☐	☐	☐

IC.23 How often does your bank **require** that a small business or small business owner **offer collateral** in order to receive a *[Insert PRODUCT]* of approximately $3,000,000? *Select one.*

- ○ Rarely or never requires for loans of this size
- ○ Sometimes requires for loans of this size
- ○ Often requires for loans of this size
- ○ Almost always or always requires for loans of this size
- ○ Don't know

IC.24 How often does your bank **require** a small business to **have a valid business credit score available from a major credit-scoring agency** in order to receive a *[Insert PRODUCT]* of approximately $3,000,000? *Select one.*

- ○ Rarely or never requires for loans of this size
- ○ Sometimes requires for loans of this size
- ○ Often requires for loans of this size
- ○ Almost always or always requires for loans of this size
- ○ Don't know

IC.25 How often does your bank **require** a small business owner to **have a valid personal credit score available from a major credit-scoring agency** in order to receive a *[Insert PRODUCT]* of approximately $3,000,000? *Select one.*

- ○ Rarely or never requires for loans of this size
- ○ Sometimes requires for loans of this size
- ○ Often requires for loans of this size
- ○ Almost always or always requires for loans of this size
- ○ Don't know

IC.26 How does your bank rank the following aspects of a loan application for a *[Insert PRODUCT]* of approximately $3,000,000 in terms of importance? An aspect is **important** if an application that displays strength in this aspect has a higher chance of approval or if an application that displays weakness in this aspect has a lower chance of approval.

For this question, rank aspects in importance from 1-6, with 1 as most important and 6 as least important.

Aspect	Most important 1st	2nd	3rd	4th	5th	Least important 6th
[Programmer's note: Repeat IC.8 options]	*[Programmer's note: Allow ranking of aspects from 1-6]*					

ID. Automated Underwriting

ABOUT THIS SECTION

In this section, we ask about your bank's automated underwriting of any small business lending other than credit card lending. By automated underwriting we mean underwriting and decision-making that occurs without manual or human intervention.

Important Note: If your bank answered "No" to question IA.1, then your institution will not be asked to answer any of the questions here nor any remaining questions in Sections I, II, and III. Please go directly to Section IVA (page 129).

ID.1 Does your bank use a credit-scoring model (or a system of models) to partially or fully automate the underwriting or decision-making process for any applications from small business borrowers? *Please exclude any credit card lending.*

- ○ Yes
- ○ No

[If ID.1=Yes] **ID.2** Does this credit-scoring model (or system of models) produce automatic approvals, automatic denials, or both? *Select only ONE.*

- ○ Both automatic approvals and automatic denials
- ○ Only automatic approvals
- ○ Only automatic denials
- ○ Neither automatic approvals nor automatic denials

[If ID.2= a or b] **ID.3** What is the largest amount that this credit-scoring model (or system of models) will automatically approve?

$___,___,___.00

[If ID.1=Yes] **ID.4** Does your bank use this information in its credit-scoring model? *Select only ONE option for each piece of information.*

Information about owner(s) or business	Never or rarely uses	Sometimes uses	Almost always or always uses	Don’t know
a. Business credit score from a credit bureau	☐	☐	☐	☐
b. Cash/liquidity position of business	☐	☐	☐	☐
c. Debt service coverage	☐	☐	☐	☐
d. Debt-to-worth	☐	☐	☐	☐
e. Delinquency history on internal accounts	☐	☐	☐	☐
f. Derogatory items on business or personal credit report	☐	☐	☐	☐
g. Existing or prior deposit relationship	☐	☐	☐	☐
h. Existing or prior loan relationship	☐	☐	☐	☐
i. Financial strength of owner(s)	☐	☐	☐	☐
j. Loan-to-value ratio of business	☐	☐	☐	☐
k. Market conditions in business's industry or region	☐	☐	☐	☐
l. Overdraft history	☐	☐	☐	☐
m. Personal credit score of owner(s) or guarantor(s) from a credit bureau	☐	☐	☐	☐
n. Sell cycle (or liquidity) of accounts receivable or inventory	☐	☐	☐	☐
o. Willingness of owner(s) to offer collateral and quality of offered collateral	☐	☐	☐	☐
p. Willingness of owner(s) or third party to offer personal guarantee for loan	☐	☐	☐	☐
q. Other _______________	☐	☐	☐	☐

IE. Financial Technology

ABOUT THIS SECTION

In this section we ask questions about your bank's usage and development of financial technology—FinTech—and your bank's interactions with FinTech firms in connection to small business lending, which we collectively refer to as "FinTech activity."

Please base your answers on any loan product offered by your bank to small businesses where you use or are considering using internally developed FinTech or working with FinTech firms.

FinTech
By "FinTech" we mean new business processes that use recent technological innovations to alter or improve how financial services are conducted. These processes may be for customer-facing or backend operations, and may include but are not limited to artificial intelligence and machine learning, automation, large data analysis, and mobile payments and other mobile or internet-based applications.

FinTech Firms
By "FinTech firms," we mean firms that specialize in using FinTech. This includes both firms that lend to or otherwise interact directly with businesses and consumers, as well as firms that provide or sell FinTech to other financial institutions.

Important Note: If your bank answered "No" to question IA.1, then your institution will not be asked to answer any of the questions here nor any remaining questions in Sections I, II, and III. Please go directly to Section IVA (page 129).

IE.1 In which stages of the small business loan process does your bank use or plan to use FinTech? Include usage or planned usage of both in-house technology or through interactions with outside FinTech providers.

Select ALL that apply per small business loan process stage.

Stage of small business loan process	Usage or planned usage of FinTech					
	No plans to use FinTech	Under discussion	Under development or in pilot testing	Currently using	Don't know	Not a stage of our loan process
a. Identifying potential borrowers	☐	☐	☐	☐	☐	☐
b. Loan application submission from borrowers	☐	☐	☐	☐	☐	☐
c. Application processing by bank	☐	☐	☐	☐	☐	☐
d. Under-writing and decision-making process	☐	☐	☐	☐	☐	☐
e. Post-decision quality control (e.g., anti-fraud)	☐	☐	☐	☐	☐	☐
f. Regulatory compliance (e.g., AML, BSA, or KYC)	☐	☐	☐	☐	☐	☐

Stage of small business loan process	Usage or planned usage of FinTech					
	No plans to use FinTech	Under discussion	Under development or in pilot testing	Currently using	Don’t know	Not a stage of our loan process
g. Closing process	☐	☐	☐	☐	☐	☐
h. Loan funding	☐	☐	☐	☐	☐	☐
i. Loan performance tracking and servicing	☐	☐	☐	☐	☐	☐
j. Portfolio analytics	☐	☐	☐	☐	☐	☐
k. Other _______________	☐	☐	☐	☐	☐	☐

[If any instance of IE.1 not = “No plans to use Fintech”, “Don’t know”, or “Not a stage”] **IE.2** Is your bank currently using or planning to use any of the following ways to develop FinTech for small business lending or to interact with FinTech firms in connection to its small business lending?

Select ALL that apply per way listed.

Way of developing FinTech or interacting with FinTech firms	Usage or planned usage of FinTech						
	No plans or interest	General interest	General plans	Actively considering specific offers or plans	Conducting due diligence and compliance	Currently using	Don’t know
a. Acquire existing FinTech companies to offer new products/services	☐	☐	☐	☐	☐	☐	☐
b. Develop own products/ services in-house using new technologies without cooperating with FinTech companies	☐	☐	☐	☐	☐	☐	☐
c. Form commercial partnerships with existing FinTech companies to offer new products/services	☐	☐	☐	☐	☐	☐	☐
d. Invest in FinTech companies (e.g., venture capital)	☐	☐	☐	☐	☐	☐	☐
e. Participate in FinTech-related bank consortiums	☐	☐	☐	☐	☐	☐	☐
f. Participate in non-commercial partnerships with FinTech companies (e.g., through joint research or knowledge-sharing)	☐	☐	☐	☐	☐	☐	☐
g. Set-up/sponsor FinTech incubators/accelerators	☐	☐	☐	☐	☐	☐	☐
h. Other _______________	☐	☐	☐	☐	☐	☐	☐

IE.3 To what extent are each of the following factors a concern that limits or discourages your bank from using FinTech or more FinTech than current levels in your bank's small business lending, including both externally and internally developed FinTech?

Select only ONE option for each factor.

Factor	Not a concern	Small concern	Moderate concern	Large concern	Very large concern	Don't know
a. Compliance/regulatory risk	☐	☐	☐	☐	☐	☐
b. Cost (e.g., integrating with legacy IT systems, investing in human capital)	☐	☐	☐	☐	☐	☐
c. Cybersecurity risk	☐	☐	☐	☐	☐	☐
d. Don't want to share data with third parties	☐	☐	☐	☐	☐	☐
e. Lack of awareness of relevant technology	☐	☐	☐	☐	☐	☐
f. Lack of perceived benefit to my bank's current business model	☐	☐	☐	☐	☐	☐
g. Reputational risk	☐	☐	☐	☐	☐	☐
h. Other ____	☐	☐	☐	☐	☐	☐

II. SMALL BUSINESS MARKETS AND COMPETITION

IIA. Lending Markets & Practices

ABOUT THIS SECTION

In the Screeners section, your bank's answer to S5, Top Small Business Lending Product, indicated that its highest-volume small business lending product is *[Insert PRODUCT]*, excluding credit cards and government-guaranteed products.

In this section, we ask about your bank's geographic market for *[Insert PRODUCT]* to small businesses and the practices that your bank uses within this market to generate and maintain small business lending relationships. By "geographic market" we mean the physical area or areas where your small business borrowing customers for a *[Insert PRODUCT]* are generally located.

Important Note: If your bank answered "No" to question IA.1, then your institution will not be asked to answer any of the questions here nor any remaining questions in Sections I, II, and III. Please go directly to Section IVA (page 129).

IIA.1 Generally speaking, how far in miles from your bank's physical locations (such as branches or loan production offices) does your geographic market for *[Insert PRODUCT]* to small businesses extend? *Select only ONE.*

- ○ Less than 1 mile
- ○ 1 to less than 2 miles
- ○ 2 to less than 3 miles
- ○ 3 to less than 5 miles
- ○ 5 to less than 10 miles
- ○ 10 to less than 20 miles
- ○ 20 or more miles (specify ___________)
- ○ My bank doesn't lend based on our physical locations
- ○ Don't know

IIA.2 How important are each of the following potential problems in determining why your bank tends to lend within its geographic market for *[Insert PRODUCT]* to small businesses? *Select only ONE option for each potential problem.*

Potential problem	Level of importance					
	Very low	Low	Moderate	High	Very high	Don't know
a. It is too difficult for loan decision-makers to know local economic conditions outside this geographic market	☐	☐	☐	☐	☐	☐

Potential problem	Level of importance					
	Very low	Low	Moderate	High	Very high	Don’t know
b. It is too difficult to get potential small business borrowers outside this geographic market to apply for loans with our bank due to lack of referrals or other sourcing issues	☐	☐	☐	☐	☐	☐
c. It is too difficult to verify information about applicants outside this geographic market	☐	☐	☐	☐	☐	☐
d. It is too difficult to develop a deposit relationship with small business borrowers outside this geographic market	☐	☐	☐	☐	☐	☐
e. Potential small business borrowers outside this geographic market are generally too difficult to monitor	☐	☐	☐	☐	☐	☐
f. Potential small business borrowers outside this geographic market are too distant or difficult to physically visit	☐	☐	☐	☐	☐	☐
g. Potential small business borrowers outside this geographic market prefer to borrow from banks with branches closer to them	☐	☐	☐	☐	☐	☐
h. There are very few potential small business borrowers immediately outside this geographic market	☐	☐	☐	☐	☐	☐
i. There is not much demand from small business borrowers immediately outside this geographic market	☐	☐	☐	☐	☐	☐
j. Outside of this distance our branches are no longer located within specific geographic/political boundaries (e.g., county or MSA)	☐	☐	☐	☐	☐	☐
k. Other ____	☐	☐	☐	☐	☐	☐

IIA.3 For each of the following locations or means, which loan application step(s) can be completed by small business borrowers for a *[Insert PRODUCT]*? *Select ALL that may apply for each location or means.*

Location or means	Loan application step				
	Consult with a loan officer about appropriate products	**Submit formal application**	**Submit financial statements and other documents**	**Sign documents for approved loan**	**Don't use this location or means for any of these steps**
a. At a physical location of your bank (such as a branch or loan production office)	☐	☐	☐	☐	☐
b. Through an on-site visit by bank staff	☐	☐	☐	☐	☐
c. Over email, file transfer, fax, telephone, or video-conference	☐	☐	☐	☐	☐
d. Online via website or app	☐	☐	☐	☐	☐

IIA.4 How valuable do you consider each of the following methods of communication between bank staff and current or potential borrowers for generating and maintaining small business lending relationships for *[Insert PRODUCT]*? Please answer for both methods your bank uses and methods your bank does not use. *Select only ONE option for each method.*

Method of communication	Not at all valuable	Somewhat valuable	Moderately valuable	Very valuable	Extremely valuable	Don't know
a. In-person conversation at branches and loan production offices	☐	☐	☐	☐	☐	☐
b. On-site visit by bank staff	☐	☐	☐	☐	☐	☐
c. Contact by bank staff using email, file transfer, fax, telephone, or video-conference	☐	☐	☐	☐	☐	☐
d. Online via website or app	☐	☐	☐	☐	☐	☐

IIA.5 Which of the following practices does your bank use to generate and maintain small business lending relationships for *[Insert PRODUCT]*? *Select only ONE option for each practice.*

Practice	My bank uses	My bank does not use	Don't know
Staff Interactions with Borrowers			
a. Employ dedicated staff to assist potential small business borrowers	☐	☐	☐
b. Encourage knowledgeable staff to regularly share expertise with existing borrowers	☐	☐	☐
c. Have staff engage in off-premises social engagements with borrowers (e.g., dinners or golf outings)	☐	☐	☐
d. Host or sponsor educational workshops for existing or potential borrowers	☐	☐	☐
e. Maintain long term consistency in assignment of loan officers or other staff to borrowers	☐	☐	☐

Practice	My bank uses	My bank does not use	Don't know
f. Request that staff actively develop relationships that accumulate knowledge about borrowers' distinct circumstances	☐	☐	☐
g. Other ____	☐	☐	☐
External Sources & Outreach			
h. Attend conventions, industry events, or trade shows	☐	☐	☐
i. Paid advertising	☐	☐	☐
j. Participate in community involvement and service (e.g., board participation, networking events, and other sponsorships)	☐	☐	☐
k. Rely on customer referrals ("word of mouth")	☐	☐	☐
l. Rely on professional referrals from local accountants, attorneys, or other "centers of influence"	☐	☐	☐
m. Use brokers or engage in indirect lending	☐	☐	☐
n. Use lead generators or purchase lists of prospective clients	☐	☐	☐
o. Other ____	☐	☐	☐
Borrower Services & Convenience			
p. Accept walk-ins	☐	☐	☐
q. Offer card payment processing	☐	☐	☐
r. Offer cash transfer services or payment systems	☐	☐	☐
s. Offer check cashing services	☐	☐	☐
t. Offer a mobile app	☐	☐	☐
u. Offer payroll services	☐	☐	☐
v. Offer remote deposit capture	☐	☐	☐
w. Open new branches or loan offices in locations convenient for current or potential borrowers	☐	☐	☐
x. Provide business hours longer than 9am to 5pm	☐	☐	☐
y. Other ____	☐	☐	☐

IIA.6 How valuable do you consider each of the following practices in terms of their ability to generate and maintain small business lending relationships for *[Insert PRODUCT]*? Please answer for both practices your bank uses and practices your bank does not use. *Select only ONE option for each practice.*

Practice	Not at all valuable	Somewhat valuable	Moderately valuable	Very valuable	Extremely valuable	Don't know
[Programmer's note: Repeat IIA.5 options]	☐	☐	☐	☐	☐	☐

IIB. Competitors and Competitive Advantages

ABOUT THIS SECTION

In this section, we ask about your bank's competitors for small business lending, and whether your bank or your competitors have an advantage in different areas related to small business lending. By "advantage" we mean being in a more favorable position to conduct small business lending for the particular area.

Small Business

We understand that your bank's internal definition for small business lending may differ from the definitions used by other banks and from regulatory definitions (for example, those used by the Call Report, the Community Reinvestment Act, or the Small Business Administration).

For this survey we ask that you use your bank's own formal or informal definitions for what it considers a "small business." This includes the possibility that your bank considers all of its business borrowers to be small businesses, or the possibility that your bank has multiple divisions that serve small businesses.

Important Note: If your bank answered "No" to question IA.1, then your institution will not be asked to answer any of the questions here nor any remaining questions in Sections I, II, and III. Please go directly to Section IVA (page 129).

IIB.1 How often does your bank compete with each of these financial institutions for small business borrowers? **Exclude** any competition based solely on PPP loans.

Select only ONE option for each financial institution.

Financial institution	Never or rarely	Some-times	Often	Most of the time	Don't know
Local Banks (with a branch or loan office in your market)					
a. Small banks with local presence (less than $1 billion in assets)	☐	☐	☐	☐	☐
b. Mid-sized banks with local presence ($1 billion to $10 billion in assets)	☐	☐	☐	☐	☐
c. Large banks with local presence ($10 billion to $250 billion in assets)	☐	☐	☐	☐	☐
d. Very large banks with local presence ($250+ billion in assets)	☐	☐	☐	☐	☐
Non-local Banks (with no branch or loan office in your market)					
e. Small banks with no local presence (less than $1 billion in assets)	☐	☐	☐	☐	☐
f. Mid-sized banks with no local presence ($1 billion to $10 billion in assets)	☐	☐	☐	☐	☐
g. Large banks with no local presence ($10 to $250 billion in assets	☐	☐	☐	☐	☐
h. Very large banks with no local presence ($250+ billion in assets)	☐	☐	☐	☐	☐

Financial institution	Never or rarely	Some-times	Often	Most of the time	Don't know
Non-bank Institutions					
i. Credit card issuer	☐	☐	☐	☐	☐
j. Credit unions	☐	☐	☐	☐	☐
k. Non-bank online lenders	☐	☐	☐	☐	☐
l. Other financing companies	☐	☐	☐	☐	☐
m. Other ____	☐	☐	☐	☐	☐

IIB.2 Compared to your **general field of competitors** that you just noted, do your competitors or does your bank have an advantage in each of the following general areas for small business lending?

Select only ONE option for each area.

General area	Competitors have big advantage	Competi-tors have advantage	Neither my bank nor top competitor has advantage	My bank has advantage	My bank has big advantage	Don't know
a. Convenience *Examples: Breadth of credit and other services offered; convenience and number of locations*	☐	☐	☐	☐	☐	☐
b. Customer-facing technology *Examples: Online and mobile services; remote deposit capture; chatbots or other interactive technologies*	☐	☐	☐	☐	☐	☐
c. Customer service *Examples: Established relationships between borrowers and your staff; personal attention given to borrowers; quality of your staff including experience and knowledge*	☐	☐	☐	☐	☐	☐
d. Interest rates and pricing *Examples: Interest rates; pricing of fees; term structure; flexibility in pricing or loan structure*	☐	☐	☐	☐	☐	☐
e. Lending flexibility *Examples: Ability or willingness to lend to marginal borrowers; flexibility in collateral requirements; willingness to accept alternative forms of documentation*	☐	☐	☐	☐	☐	☐
f. Outreach, sourcing, and reputation *Examples: Paid advertising; positive reputation; referral network; staff knowledge of potential borrowers*	☐	☐	☐	☐	☐	☐

General area	Competitors have big advantage	Competi-tors have advantage	Neither my bank nor top competitor has advantage	My bank has advantage	My bank has big advantage	Don't know
g. Risk management and cost control *Examples: Ability to accurately assess lending risk; ability to monitor borrowers; ability to diversify risk; cost control*	☐	☐	☐	☐	☐	☐
h. Speed of service *Examples: Decision or funding speed*	☐	☐	☐	☐	☐	☐

IIB.3 Compared to your **general field of competitors** that you just noted, do your competitors or does your bank have an advantage in each of the following **specific** areas for small business lending?

Select only ONE option for each area.

Area	Competitors have big advantage	Competi-tors have advantage	Neither my bank nor top competitor has advantage	My bank has advantage	My bank has big advantage	Don't know
a. Credit products offered	☐	☐	☐	☐	☐	☐
b. Breadth of other services offered besides credit products	☐	☐	☐	☐	☐	☐
c. Established relationships between borrowers and staff	☐	☐	☐	☐	☐	☐
d. Flexibility in collateral requirements	☐	☐	☐	☐	☐	☐
e. Flexibility in pricing or loan structure	☐	☐	☐	☐	☐	☐
f. Willingness to accept alternative forms of documentation	☐	☐	☐	☐	☐	☐
g. Ability to accurately assess lending risk	☐	☐	☐	☐	☐	☐
h. Ability or willingness to lend to marginal borrowers	☐	☐	☐	☐	☐	☐
i. Decision speed	☐	☐	☐	☐	☐	☐
j. Funding speed	☐	☐	☐	☐	☐	☐

IIB.4 In your opinion, from the **perspective of your bank's existing and potential small business borrowers,** how important are each of the following areas?

By "important," we mean that this is "something that you believe small business borrowers care about" when they are looking for a loan. Select only ONE option for each area.

Area	Level of importance					
	Very low	Low	Moderate	High	Very high	Don't know
a. Convenience	☐	☐	☐	☐	☐	☐
b. Customer-facing technology	☐	☐	☐	☐	☐	☐
c. Customer service	☐	☐	☐	☐	☐	☐
d. Interest rates and pricing	☐	☐	☐	☐	☐	☐
e. Lending flexibility	☐	☐	☐	☐	☐	☐
f. Outreach, sourcing, and reputation	☐	☐	☐	☐	☐	☐
g. Risk management and cost control	☐	☐	☐	☐	☐	☐
h. Speed of service	☐	☐	☐	☐	☐	☐

The following questions ask about the general advantages of different types of financial institutions in small business lending. Please answer based on your understanding of small business lending, ***regardless of whether or not your bank competes directly with each type of financial institution.***

IIB.5 In your opinion, in which areas (if any) do **credit unions** generally have an advantage in lending to small businesses? *Select ALL areas that apply.*

- ○ Convenience
- ○ Customer-facing technology
- ○ Customer service
- ○ Interest rates and pricing
- ○ Lending flexibility
- ○ Outreach, sourcing, and reputation
- ○ Risk management and cost control
- ○ Speed of service
- ○ None of these areas

IIB.6 In your opinion, in which areas (if any) do **non-bank online lenders** generally have an advantage in lending to small businesses? *Select ALL areas that apply.*

- ○ Convenience
- ○ Customer-facing technology
- ○ Customer service
- ○ Interest rates and pricing
- ○ Lending flexibility
- ○ Outreach, sourcing, and reputation
- ○ Risk management and cost control
- ○ Speed of service
- ○ None of these areas

III. CORONAVIRUS PANDEMIC, SBA LENDING, AND SELLING OF LOANS

IIIA. Coronavirus Pandemic Response

ABOUT THIS SECTION

Beginning in early 2020, the United States was affected by the coronavirus pandemic. In this section we ask about your bank's experience in dealing with the pandemic and the impact of the government's response to the pandemic on your bank, as it relates to your bank's small business lending activity.

Important Note: If your bank answered "No" to question IA.1, then your institution will not be asked to answer any of the questions here nor any remaining questions in Sections I, II, and III. Please go directly to Section IVA (page 129).

IIIA.1 Did your bank experience this problem in relation to your bank's small business lending activity, as a result of the coronavirus pandemic or the government's response to the pandemic (whether federal, state, or local)?

Select only ONE option for each problem.

Problem	Did not experience	Experienced somewhat	Experienced as a serious problem	Don't know
a. Declining demand for funding from existing or potential small business borrowers	☐	☐	☐	☐
b. Declining net interest margin	☐	☐	☐	☐
c. Decreased creditworthiness of existing or potential small business borrowers	☐	☐	☐	☐
d. Increased competition from banks or credit unions	☐	☐	☐	☐
e. Increased competition from FinTech lenders, government lenders, or sources of financing other than banks or credit unions	☐	☐	☐	☐
f. Increased volatility of credit spreads	☐	☐	☐	☐
g. Operational issues due to social distancing (e.g., lack of face-to-face interaction, working off-site)	☐	☐	☐	☐
h. Staffing shortages or operational difficulties from implementation of the Paycheck Protection Program	☐	☐	☐	☐
i. Other ____	☐	☐	☐	☐

IIIA.2 Did your bank take any of the following actions in response to the coronavirus pandemic in relation to your bank's small business lending activity?

Select only ONE option for each action.

Action	Yes, my bank took this action	No, my bank did not take this action	Don't know
a. Adjusted credit criteria for small business loans	☐	☐	☐
b. Expanded ability for small business customers to apply for loans online or over the telephone (when they were not previously allowed to do so)	☐	☐	☐
c. Made modifications to existing small business loans	☐	☐	☐
d. Set up teleworking for bank employees who work in small business lending	☐	☐	☐
e. Initiated or accelerated expansion plans or technology investment for small business lending	☐	☐	☐
f. Suspended or delayed expansion plans or technology investment for small business lending	☐	☐	☐
g. Other ____	☐	☐	☐

Paycheck Protection Program (PPP)

IIIA.3 Did your bank make PPP loans during the following periods? *Select only ONE option for each round.*

PPP Round	Yes, my bank made PPP loans this round	No, my bank did not make PPP loans this round
a. April to August 2020	☐	☐
b. January to May 2021	☐	☐

[If IIIA.3a=YES or IIIA.3b=YES] **IIIA.4** Which of the following statements best describes your bank's subsequent **lending** relationship with small business customers it first engaged with through the PPP ("new customers")? *Select only ONE.*

- ○ Most or all of the new customers subsequently applied for non-PPP loans with my bank
- ○ Some of the new customers subsequently applied for non-PPP loans with my bank
- ○ Few of the new customers subsequently applied for non-PPP loans with my bank
- ○ None or almost none of the new customers subsequently applied for non-PPP loans from my bank
- ○ My bank only made PPP loans to existing customers
- ○ Don't know

[If IIIA.3a=YES or IIIA.3b=YES] **IIIA.5** Which of the following statements best describes your bank's subsequent **deposit** relationship with its new small business customers? *Select only ONE.*

- ○ Most or all of the new customers started and maintained a deposit relationship with my bank
- ○ Some of the new customers started and maintained a deposit relationship with my bank
- ○ Few of the new customers started and maintained a deposit relationship with my bank
- ○ None or almost none of the new customers started and maintained a deposit relationship with my bank
- ○ My bank only made PPP loans to existing customers
- ○ Don't know

IIIB. SBA Lending

ABOUT THIS SECTION

In this section, we ask about your bank's Small Business Administration (SBA) lending.

Important Note: If your bank answered "No" to question IA.1, then your institution will not be asked to answer any of the questions here nor any remaining questions in Sections I, II, and III. Please go directly to Section IVA (page 129).

IIIB.1 In calendar year 2021, did your bank originate any SBA-guaranteed loans, outside of PPP loans?

- ○ Yes
- ○ No

IIIB.2 Regardless of whether your bank participated in any SBA program (outside of the PPP) in calendar year 2021, did any of the following reasons discourage or limit your participation?

Select only ONE option for each reason.

Reason	Yes, limited our participation	No, did not our limit participation	Don't know
a. Applicants qualify for our other loan products	☐	☐	☐
b. Concerns about compliance with origination guidelines	☐	☐	☐
c. Concerns about compliance with servicing guidelines	☐	☐	☐
d. Concerns about holding all or portions of the loans on our balance sheet	☐	☐	☐
e. Difficulty of participating in the secondary market	☐	☐	☐
f. Difficulty of obtaining the required expertise and personnel for SBA lending	☐	☐	☐
g. High administrative costs of participation	☐	☐	☐
h. High startup costs (other than personnel)	☐	☐	☐
i. Other regulatory or compliance concerns	☐	☐	☐
j. Other ______________________________	☐	☐	☐

IIIC. Sales of Small Business Loans

ABOUT THIS SECTION

In this section, we ask about the extent to which your bank sells any of its small business loans.

Important Note: If your bank answered "No" to question IA.1, then your institution will not be asked to answer any of the questions here nor any remaining questions in Sections I, II, and III. Please go directly to Section IVA (page 129).

IIIC.1 In calendar year 2021, did your bank sell any or any portion of the small business loans that it made? Include loans sold in a secondary market or through a centralized hub even if you retained a portion of the loan or the servicing rights.

Select only ONE option for each loan product type.

Loan product type	Sold none or only rarely	Sold some	Sold most	Sold all	No origin-nations	Don't know
Non-Government Guaranteed						
a. Credit cards (where my bank holds the portfolio)	☐	☐	☐	☐	☐	☐
b. Lines of credit	☐	☐	☐	☐	☐	☐
c. Letters of credit	☐	☐	☐	☐	☐	☐
d. Loan products using automated approval decisions (other than credit card)	☐	☐	☐	☐	☐	☐
e. Term loans	☐	☐	☐	☐	☐	☐
f. Other: ______________________	☐	☐	☐	☐	☐	☐
Government Guaranteed						
g. SBA CDC/504 Loans	☐	☐	☐	☐	☐	☐
h. SBA 7(a) Loans: guaranteed portion	☐	☐	☐	☐	☐	☐
i. SBA 7(a) Loans: non-guaranteed portion	☐	☐	☐	☐	☐	☐
j. USDA Loans: guaranteed portion	☐	☐	☐	☐	☐	☐
k. USDA Loans: non-guaranteed portion	☐	☐	☐	☐	☐	☐
l. Other Loans: guaranteed portion	☐	☐	☐	☐	☐	☐
m. Other Loans: non-guaranteed portion	☐	☐	☐	☐	☐	☐

IV. MEASUREMENT OF BUSINESS LENDING

IVA. Originations in 2021

ABOUT THIS SECTION

In this section we ask quantitative questions about loan originations by your bank in calendar year 2021. In particular, we are interested in your bank's lending for business purposes. Unless otherwise specified, when answering these questions please use the "lending for business purposes" definition below, rather than standard regulatory definitions, to classify loans.

The questions your bank sees in this section depend on your answers to the Screeners section. Specifically, your responses to S1 (for banks of all sizes) and S2 (for banks with assets greater than $1 billion) indicate that your bank's core data systems are systematically able to retrieve data by the relevant category.

Lending for Business Purposes

By "lending for business purposes" we mean lending to businesses of all sizes:

Exclude

- Paycheck Protection Program (PPP) loans
- Agricultural lending
- Loans for investment in real estate where loan repayment primarily depends on leasing income or resale of the property
    - E.g., loans for the improvement, purchase, or refinancing of
        - Residential properties (including "flipping")
        - Non-owner-occupied commercial real estate
        - ADC (Acquisition, Development, & Construction) loans

Include

- Unsecured lending
- Business credit cards
- Lines and letters of credit
- Government guaranteed lending (other than PPP loans)
- Lending made through third parties
- Lending primarily secured by non-real estate assets
    - E.g., automobiles, equipment, inventory
- Lending for the purpose of improving, purchasing, or refinancing owner-occupied commercial real estate
- Lending primarily secured by real estate
    - E.g., a loan for working capital secured by the owner's primary residence
    - E.g., a loan for equipment secured by non-owner-occupied commercial real estate

Lending for All Purposes

IVA.1 In calendar year 2021, what was the total dollar amount of originations (both new lending and renewals) your bank committed for **any purpose**, inclusive of agricultural, commercial, consumer, and real estate-related lending?

- Exclude all PPP loans
- For renewals, include the whole amount of the renewal
- For lines of credit, include the entire amount committed at origination
- Include non-portfolio lending that was originated for sale

$ ______,_______,_______.00

Lending for Business Purposes

[If S1a=Yes] **IVA.2** We will be asking questions related to your bank's total dollar amount of originations (both new lending and renewals) committed for **business purposes** in calendar year 2021. *Select only ONE option for each lending type.*

Refer to the "About This Section" box at the beginning of the section for this survey's definition of "lending for business purposes."

As part of calculating this total will your bank exclude...?	Yes, will exclude	No, cannot easily exclude	Not applicable
a. PPP loans	☐	☐	☐
b. Agricultural lending	☐	☐	☐
c. Lending for the improvement, purchase, or refinancing of single family residential real estate	☐	☐	☐
d. Lending for the improvement, purchase, or refinancing of multi-family residential real estate	☐	☐	☐
e. Lending for the improvement, purchase, or refinancing of non-owner-occupied commercial real estate	☐	☐	☐
f. Acquisition, Development, & Construction (ADC) loans	☐	☐	☐
As part of calculating this total will your bank include...?	**Yes, will include**	**No, cannot easily include**	**Not applicable**
g. Renewals	☐	☐	☐
h. Credit card lending	☐	☐	☐
i. Lines and letters of credit	☐	☐	☐
j. Government guaranteed lending (other than PPP)	☐	☐	☐
k. Lending made through third parties	☐	☐	☐
l. Lending secured by non-real estate assets	☐	☐	☐
m. Lending secured by owner-occupied commercial real estate	☐	☐	☐
n. Lending for business purposes but primarily secured by residential real estate	☐	☐	☐

[If S1a=Yes] **IVA.3** You reported *[Insert amount reported in IVA.1]* as the total dollar amount of origination dollars (both new lending and renewals) committed by your bank for any purpose in calendar year 2021. Of that total, what was the total loan dollar amount committed for **business purposes** to **businesses of any size**?

$_____,_____,_____.00

Important Note: If your bank had assets of less than $1 billion in the third quarter of 2021, please skip questions IVA.4 through IVA.7 and go directly to question IVA.8a.

[Programmer's note: SKIP IVA.4 to IVA.7 if respondent is in Strata 1 or 2 (banks with less $1B in assets)]

Lending for Business Purposes Made Through Different Programs or Using Residential Collateral

You reported [Insert amount reported in IVA.3] as the total dollar amount of originations (both new lending and renewals) committed for business purposes in calendar year 2021. Of that total, what was the total dollar amount committed for **business purposes** that was extended through the **following lending programs or products**?

Programmer's notes:	**My bank originated for business purposes in calendar year 2021**	**Dollar amounts**
[If S2d=Yes]	IVA.4 Lending made using automated or algorithm-based decision-making (i.e., no human intervention is required) to determine approval *Exclude:* • Credit card lending • Government guaranteed lending *Include:* • Any lending made through third parties that meets this definition	$___,___,___.00
[If S2a=Yes]	IVA.5 Lending made through 7(a) and other SBA programs (excluding PPP loans)	$___,___,___.00
[If S2e=Yes]	IVA.6 Lending made through third parties using programs targeted at small businesses *Include:* • Brokers • FinTech partners • Any other non-governmental third party lenders	$___,___,___.00
[If S1f=Yes]	IVA.7 Lending that was primarily secured by 1-4 family residential properties *For example:* • Term loan for business purposes, primarily secured by the primary residence of the owner • Lines of credit for working capital, primarily secured by the primary residence of the owner	$___,___,___.00

Important Note: If your bank had assets of $1 billion or more in the third quarter of 2021, please skip question IVA.8a and go directly to IVA.8b.

[Programmer's note: SKIP IVA.8a if respondent is in Strata 3, 4, 5, or 6 (banks with at least $1B in assets)]

Lending for Business Purposes by Commitment Size

[If S1a=Yes] **IVA.8a** You reported *[Insert amount reported in IVA.3]* as the total dollar amount of originations (both new lending and renewals) committed for business purposes in calendar year 2021. Of that total, what were the dollar amounts committed for **business purposes** for each group of **loan or commitment sizes** at origination?

Programmer's notes:	**Size at origination**	**Dollar amount of originations for business purposes**
[If S1b=Yes or S1c=Yes]	≤ $1M	$___,___,___.00
[If S1c=Yes]	> $1M to ≤ $5M	$___,___,___.00
[If S1c=Yes]	> $5M to ≤ $10M	$___,___,___.00
[If S1c=Yes]	> $10M	$___,___,___.00

Important Note: If your bank had assets of less than $1 billion in the third quarter of 2021, please skip questions IVA.8b through IVA.16 and go directly to question IVA.17.

[Programmer's note: SKIP IVA.8b if respondent is in Strata 1 or 2 (banks with less $1B in assets)]

Lending for Business Purposes by Commitment and Borrower Size

You reported *[Insert amount reported in IVA.3]* as the total dollar amount of originations (both new lending and renewals) committed for business purposes in calendar year 2021. Of that total, for the **commitment sizes** below, what were the dollar amounts committed for **business purposes**?

Programmer's notes:	**Dollar amount of originations for business purposes**				
	Business gross annual revenue (GAR)	**Size of loan or commitment at origination**			
		Programmer's notes:			
		[If S1b=Yes or S1c=Yes]	*[If S1c=Yes]*	*[If S1c=Yes]*	*[If S1c=Yes]*
		≤ $1M	> $1M to ≤ $5M	> $5M to ≤ $10M	> $10M
[If S1a=Yes]	IVA.8b All businesses (regardless of GAR)				

[Programmer's note: SKIP IVA.9 to IVA.13 if respondent is in Strata 1 or 2 (banks with less $1B in assets)]
For each **commitment size**, what were the dollar amounts committed for **business purposes** that were extended to businesses with the following **gross annual revenues (GAR)**?

Note that each column below should sum to equal the amount in the corresponding column above.
Either GAR at origination or most recent GAR is acceptable.

	Dollar amount of originations for business purposes				
		Size of loan or commitment at origination			
		Programmer's notes:			
Programmer's notes:	Business gross annual revenue (GAR)	*[If S1b=Yes or S1c=Yes]*	*[If S1c=Yes]*	*[If S1c=Yes]*	*[If S1c=Yes]*
		≤ $1M	> $1M to ≤ $5M	> $5M to ≤ $10M	> $10M
[If S1d=Yes or S1e=Yes]	IVA.9 GAR ≤ $1M				
[If S1e=Yes]	IVA.10 GAR > $1M to ≤ $5M				
[If S1e=Yes]	IVA.11 GAR > $5 to ≤ $10M				
[If S1e=Yes]	IVA.12 GAR >$10M				
[If S1e=Yes]	IVA.13 GAR unknown or not available				

[Programmer's note: SKIP IVA.14 to IVA.16 if respondent is in Strata 1 or 2 (banks with less $1B in assets)]

Credit Card Lending for Business Purposes

[If S2c=Yes] You reported *[Insert amount reported in IVA.3]* as the total dollar amount of originations (both new lending and renewals) committed for business purposes in calendar year 2021. Of that total, what were the credit card dollar amounts committed for **business purposes** in calendar year 2021 to businesses with the following **gross annual revenues (GAR)**?

Either GAR at origination or most recent GAR is acceptable.

Credit card commitments for business purposes in calendar year 2021	Dollar amounts
IVA.14 Lending to businesses where GAR is not available in your core data system or unknown	$___,___,___.00
IVA.15 Lending to businesses with GAR of less than or equal to $10M	$___,___,___.00
IVA.16 Lending to businesses with GAR of greater than $10M	$___,___,___.00

Commercial and Industrial Lending

Unlike previous questions about your bank's originations for business purposes, now we turn to the subset of this lending that can be classified as **Commercial and Industrial (C&I)** using the definition provided in pages 18 to 20 for Call Report Schedule RC-C. Generally, these are loans for commercial purposes that are not secured by real estate.

In calendar year 2021, what was the **number and total dollar amount** of originations (both new lending and renewals) that were **C&I loans with a loan size of $1 million or less** at origination?

IVA.17 Number of new or renewed C&I loans $1 million or less at origination	___,___,___
IVA.18 Dollar amount of new or renewed C&I loans $1 million or less at origination	$___,___,___.00

IVB. Outstanding Call Report C&I Loan Balances

ABOUT THIS SECTION

In the following questions, we ask questions by loan size about your bank's outstanding Call Report C&I loan balances on December 31st, 2021. For these questions please use the definition for C&I lending from pages 18 to 20 of Call Report Schedule RC-C.

The questions your bank sees in this section depend on your answers to the Screeners section. Specifically, if your bank's response to S3 (Call Report) indicates that your bank's core data systems are systematically able to retrieve data by the relevant category.

Regulatory Call Reports collect data on outstanding Commercial and Industrial (C&I) loan balances that were $1 million or less at the time of origination. Commitments smaller than $1 million are commonly used as a proxy for small business lending but many loans to small businesses are greater than $1 million. In this section, we aim to measure the amount of lending that occurs through these larger loans.

Important Note: If your bank had assets of less than $1 billion in the third quarter of 2021, please answer question IVB.1a only. If your bank had assets of $1 billion or more in the third quarter of 2021, please skip question IVB.1a and go directly to question IVB.1b.

[Programmer's note: SKIP IVB.1a if respondent is in Strata 3, 4, 5, or 6 (banks with at least $1B in assets)]
IVB.1a Looking at the **outstanding C&I loan balances** reported on your bank's **December 31st, 2021 Call Report**, what were the outstanding loan dollar amounts for each of these loan sizes at the time of origination?

Programmer's notes:	**Loan size at time of origination**	**Dollar amount of outstanding C&I loan balances**
[If S3a=Yes or S3b=Yes]	≤ $1M	$___,___,___.00
[If S3b=Yes]	> $1M to ≤ $5M	$___,___,___.00
[If S3b=Yes]	> $5M to ≤ $10M	$___,___,___.00
[If S3b=Yes]	> $10M	$___,___,___.00

[Programmer's note: SKIP IVB.1b if respondent is in Strata 1 or 2 (banks less than $1B in assets)]
IVB.1b Looking at the **outstanding C&I loan balances** reported on your bank's **December 31st, 2021 Call Report**, what were the outstanding loan dollar amounts for each of these **loan sizes** at the time of origination?

Programmer's notes:		**Dollar amount of outstanding C&I loan balances**			
		Loan size at time of origination			
		Programmer's notes:			
	Business gross annual revenue (GAR)	*[If S3a=Yes or S3b=Yes]*	*[If S3b=Yes]*	*[If S3b=Yes]*	*[If S3b=Yes]*
		≤ $1M	> $1M to ≤ $5M	> $5M to ≤ $10M	> $10M
None	IVB.1b All businesses (regardless of GAR)				

[Programmer's note: SKIP IVB.2 to IVB.6 if respondent is in Strata 1 or 2 (banks less than $1B in assets)]
For each **loan size**, what were the outstanding loan dollar amounts that were extended to businesses with the following **gross annual revenues (GAR)**?

Note that each column below should sum to equal the amount in the corresponding column above.
Either GAR at origination or most recent GAR is acceptable.

Programmer's notes:	Business gross annual revenue (GAR)	**Dollar amount of outstanding C&I loan balances**			
		Loan size at time of origination			
		Programmer's notes:			
		[If S3a=Yes or S3b=Yes]	*[If S3b=Yes]*	*[If S3b=Yes]*	*[If S3b=Yes]*
		≤ $1M	> $1M to ≤ $5M	> $5M to ≤ $10M	> $10M
[If S3c=Yes or S3d=Yes]	IVB.2 GAR ≤ $1M				
[If S3d=Yes]	IVB.3 GAR > $1M to ≤ $5M				
[If S3d=Yes]	IVB.4 GAR > $5M to ≤ $10M				
[If S3d=Yes]	IVB.5 GAR > $10M				
[If S3d=Yes]	IVB.6 GAR unknown or not available				

FEDERAL DEPOSIT INSURANCE CORPORATION

FDIC-034-2024