Effects of Post-Crisis Reforms on the Availability of Bank Credit to Small Businesses: U.S. case

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Some Important Questions

1. Have post-crisis reforms had an impact on the availability of bank credit to small businesses?
   - Yes

   Two key initiatives:
   - Federal Reserve's stress tests.
   - Capital surcharges for global systemically important banks.
   - However, it is difficult to distinguish between the various regulatory reforms since they were enacted around the same timeframe (e.g., Dodd-Frank Act vs. supervisory stress tests).

2. Also, has it affected the credit needs of small businesses in low- and moderate-income neighborhoods?
   - Yes, very likely.

3. Have smaller banks increased their overall share of small business lending?
   - Yes, and there is some debate around the size of the reduction in the aggregate supply of credit to small businesses.

4. What are the economic consequences of reduced credit availability to small businesses?
   - Reduced employment growth, wage growth and productivity growth.

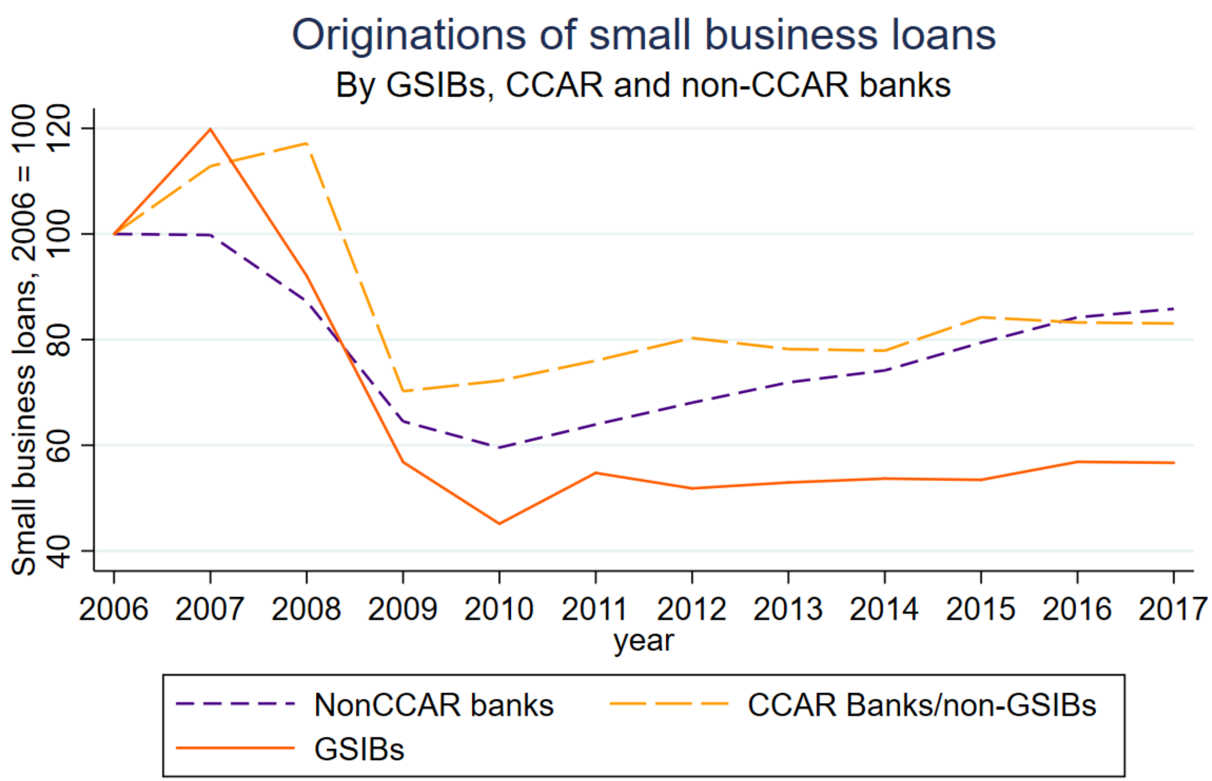
Academic Literature

- Acharya, Berger and Roman (2018, published at *Journal of Financial Intermediation*):
  - Banks subject to the stress tests have reduced the supply of credit to relatively risk borrowers, including small businesses.
- Covas (2017, 2018, manuscript):
  - Implicit risk-weights for small business loans under the Federal Reserve stress tests are 3.2x higher than those under the Basel III Standardized Approach.
  - Banks subject to the stress tests have reduced the supply of credit of small businesses, effect is much stronger for small business loans secured by nonfarm nonresidential properties.
- Chen, Hanson and Stein (2017, NBER WP #23843):
  - Small business lending by the four largest banks fell sharply in 2008 and remains depressed due to a contraction in credit supply.
  - Prove that an alternative explanation driven by demand factors is not plausible.
  - First paper to mention explicitly the GSIB surcharge (in addition to the stress tests).
  - Assesses the economic consequences of the shift in credit supply in terms of employment and wage growth.
- Cortés, Demyanyk, Li, Loutskina, and Strahan (2018, NBER WP #24365):
  - Banks subject to the stress tests reduce credit supply and increase interest rates to small businesses.
  - Small banks increase their share of small business loans and stress tests do not reduce aggregate credit.
- Bordo, Cole and Duca, (2018, NBER WP #24501):
  - The decline in small business lending is due to the increase in fixed regulatory compliance requirements introduced by the Dodd-Frank Act.
  - It impacts both large and small banks.

Publicly Available Data Sources

- In the U.S., availability of small business loan data is quite limited.
- One of the most widely used datasets is annual small business loan originations collected under the **Community Reinvestment Act (CRA)** for banks with over $1 billion in assets.
  - Data is available by bank, county (community) and income group.
  - CRA data was used in the paper by Chen, Hanson and Stein (2017) and Cortés, Demyanyk, Li, Loutskina, and Strahan (2018).
- However, CRA data does not separate small business C&I loans and small loans secured by nonfarm nonresidential properties.
- The alternative data source are the **Call Reports (FFIEC 031/041)**.
  - According to banks call reports, those loans account for about 50 percent of small business loans on banks' books.

Small Business Loan Originations by Commercial Banks

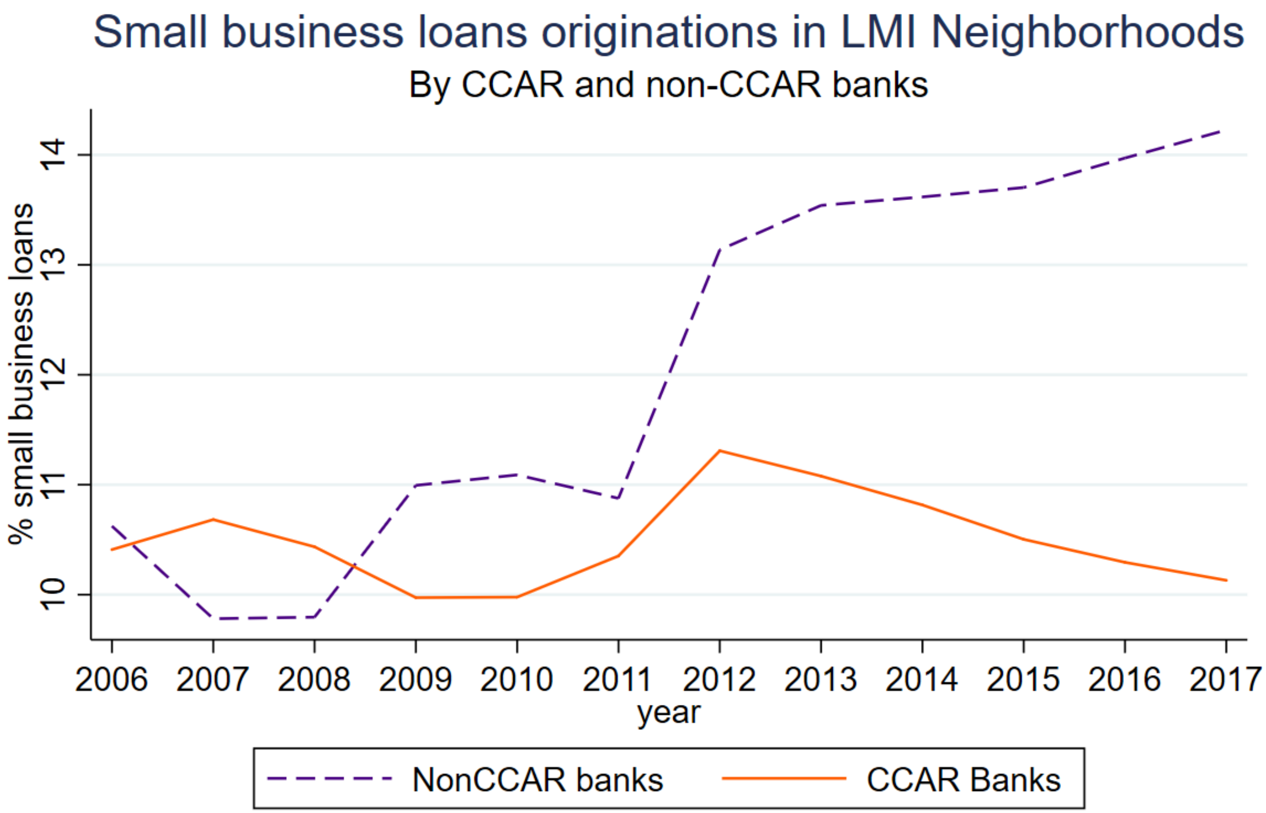


Note: Data is merger adjusted. CCAR banks include all commercial banks that belong to the 18 bank holding companies that participated in the 2011 stress tests.
Source: Community Reinvestment Act.

A few observations:

- Originations of small business loans have not recovered to pre-crisis levels for all bank-types.
- Weak pace is much more pronounced for GSIBs.
- See Cortés, Demyanyk, Li, Loutskina, and Strahan (2018) and Chen, Hanson and Stein (2017) for more details on identification strategy.

Meeting the Credit Needs of Low- and Moderate-Income Neighborhoods



Note: Data is merger adjusted. LMI stands for low- and moderate-income. CCAR banks include all commercial banks that belong to the 18 bank holding companies that participated in the 2011 stress tests.
Source: Community Reinvestment Act.

A few observations:

- CRA incentivizes banks to originate small business loans in low- and moderate-income neighborhoods.
- According to the CRA data, the share of loans made to small businesses located in low- and moderate-income neighborhoods by CCAR banks rose post-crisis, but has been steadily declining since 2012.