



# The Importance of Regional Banks for Small Business Lending and Economic Growth

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Analysis provided below demonstrates that regional banks are vital to economic growth, serving as the source of nearly one-third of small business bank lending. They exhibit high rates of small business loan originations per capita in the Northeast, South, West and certain regions of the Midwest. Additionally, in 2020, regional banks played a crucial role in disbursing Paycheck Protection Program (PPP) loans to small businesses, accounting for approximately 25 percent of all PPP loans in dollar amounts. Regional banks thereby drive business and economic growth in this country. Any requirement that they hold more capital and liquidity in light of the failure of SVB therefore would come not only with some benefits but also with considerable costs, and a need to balance the two.

Therefore, it is noteworthy that this week's testimonies by Federal Reserve Vice Chair for Supervision Michael Barr, FDIC Chair Martin Gruenberg and Acting Comptroller of the Currency Michael Hsu (available [here](#), [here](#) and [here](#)) overlook any potential costs associated with heightened regulations on these banks, including the adverse effects on the availability and cost of loans. They appear to anticipate no comprehensive evaluation of the trade-offs between costs and benefits. However, when such costs are duly considered by other policymakers, alternative policies may appear significantly more preferable. For instance, one alternative could involve the Federal Reserve fulfilling its duty of providing liquidity to solvent banks experiencing a run, rather than relinquishing that responsibility. Another alternative could involve the FDIC modernizing and enhancing the professionalism of its processes for resolving failed banks.

## The Importance of Small Businesses

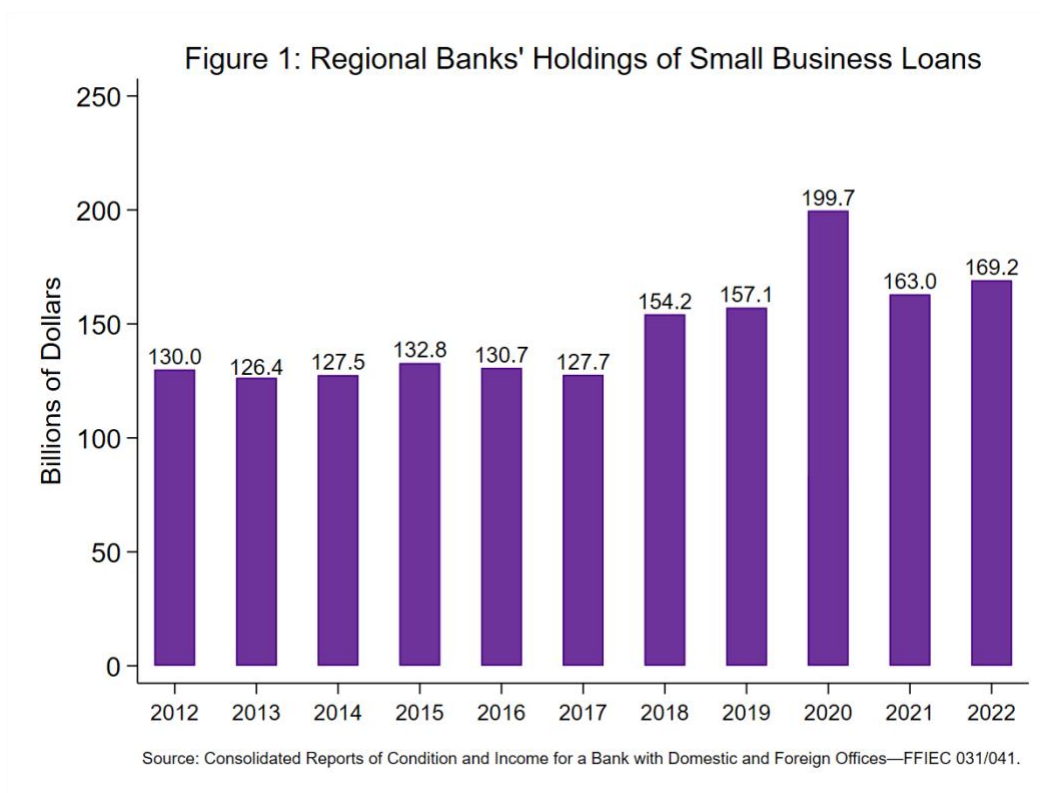
Small businesses are key drivers of economic growth for several reasons. First, they are the largest source of job creation in many economies, including the United States. According to the Small Business Administration, **small businesses generate two out of every three new jobs in the country**. Second, small businesses demonstrate a strong capacity for fostering innovation. Their inherent agility and adaptability enable them to swiftly respond to market dynamics, **facilitating the development and introduction of novel products and services**. Third, small businesses foster competition in the marketplace, leading to improved products and services at more competitive prices. Finally, **small businesses are deeply embedded in local communities**, stimulating economic activity and offering unique goods and services that larger businesses may not provide.

Small businesses often rely on banks for financing their operations, investments in equipment and technology, business expansion and cash flow management. **Access to loans, lines of credit and other financial services provided by banks is crucial for the survival and growth of small businesses**. While alternative financing sources like venture capital, crowdfunding or peer-to-peer lending can mitigate dependence on traditional bank financing, they may not be universally accessible or affordable for all businesses. Therefore, banks continue to play a vital role in providing essential financing and financial services to small businesses, ensuring their ongoing success and development.

## Regional Banks: A Vital Credit Source for Small Businesses

In this post, we consider regional banks as those with total assets ranging from \$100 billion to \$700 billion. **These banks play a significant role in the lending landscape by holding nearly one out of every three small business loans provided by banks.** The definition of small business loans adheres to regulatory standards and includes all commercial and industrial loans, as well as loans secured by nonfarm nonresidential businesses, with amounts below \$1 million.

Figure 1 illustrates the total outstanding loans to small businesses from 2012 to 2022. As of the end of 2022, regional banks held approximately \$169 billion in small business loans. In response to the COVID-19 pandemic, Congress enacted the Paycheck Protection Program to provide support to small businesses, resulting in a significant surge in small business loans during 2020. However, following the year 2020, small business loans returned to more typical levels.

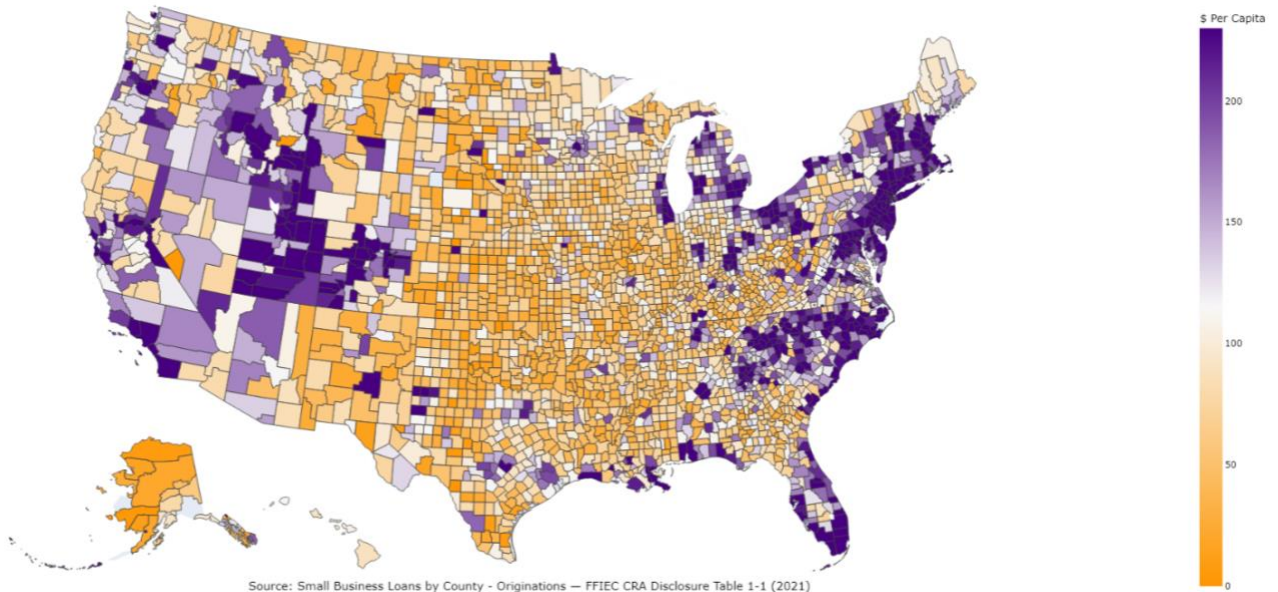


## Regional Banks Support Small Businesses Nationwide

Regional banks play a significant role in supporting small businesses nationwide. Figure 2 plots the amount of small business loan originations per capita at the county level. On average, regional banks made \$115 in small business loans per capita. Counties below the average appear in orange hues and those above the average are shown in purple.

Interestingly, regional banks exhibit some of the highest rates of small business loan originations per capita in the Northeast, South, West and certain regions of the Midwest. Their commitment to lending in these areas empowers small businesses to secure the essential funds needed for growth, innovation and sustainable operations.

Figure 2: Regional Banks' Small Business Originations By County



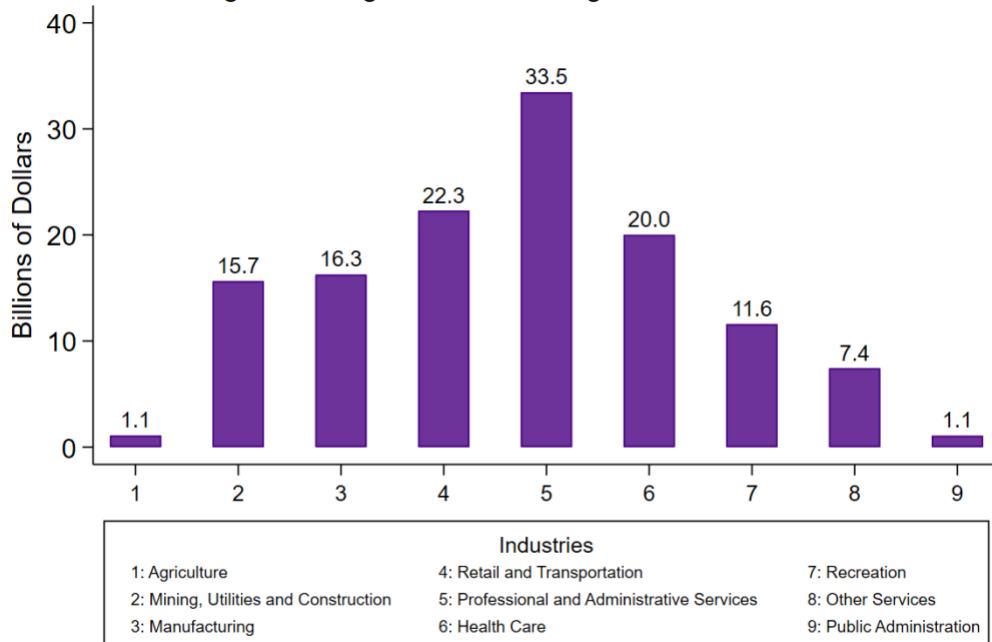
### Regional Banks Played a Crucial Role in Deploying Funds Under the PPP

The Paycheck Protection Program was introduced during the COVID-19 pandemic to provide forgivable loans to small businesses with the aim of preserving employment and wages. Between April 3 and Aug. 8, 2020, nearly 5,500 lending institutions participated in the program, collectively disbursing 5.2 million loans totaling \$525 billion.

**During that period, regional banks played a significant role, accounting for approximately 25 percent of all PPP loans in terms of dollar amounts.** Figure 3 depicts that these banks originated over 1 million loans, amounting to around \$131 billion. Notably, approximately 55 percent of these loans were granted to businesses with fewer than five employees, while 74 percent were awarded to businesses with less than 10 employees.

The chart further presents the distribution of PPP loans by industry, categorized based on the NAICS code of the borrower. The chart demonstrates that PPP loans disbursed by regional banks were spread across a wide range of sectors. Particularly, the professional and administrative services sector received nearly 300,000 loans totaling \$33 billion. Furthermore, the retail, transportation and healthcare sectors collectively obtained approximately \$42 billion in loans.

Figure 3: Regional Banks' Originations of PPP Loans



Source: Small Business Administration, <https://data.sba.gov/dataset/ppp-foia>.

NAICS Code - Industry	Number of Loans	Total Value of Loans (Billions of Dollars)
1 – Agriculture	16162	1.1
2 – Mining, Utilities and Construction	100739	15.7
3 – Manufacturing	52625	16.3
4 – Retail and Transportation	163573	22.3
5 – Professional and Administrative Services	287296	33.5
6 – Health Care	122067	20.0
7 – Recreation	93355	11.6
8 – Other Services	103928	7.4
9 – Public Administration	18540	1.1
Missing/NA	43852	2.0
<b>Total</b>	<b>1002137</b>	<b>131.0</b>

## Conclusion

**Regional banks play a vital role in supporting small businesses, providing approximately one-third of the financing they require.** These banks offer essential financial services, such as loans and lines of credit, provide valuable expertise and guidance and act as intermediaries between small businesses and the broader financial ecosystem. By channeling savings into productive investments, regional banks also play a critical role in promoting economic growth. This, in turn, helps create employment opportunities and stimulates local economies, fostering prosperity within communities.

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