STUDIES OF SMALL BUSINESS FINANCE

Changes in Commercial Banking Structure and Small Business Lending

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THE INTERAGENCY TASK FORCE ON SMALL BUSINESS FINANCE

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency
Bureau of the Census
Small Business Administration
Changes in
Commercial Banking Structure
and Small Business Lending

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Paper completed December 1981.

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This study was prepared for the Interagency Task Force. Funding was provided by the Small Business Administration. The views expressed are those of the author and not necessarily those of the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Bureau of the Census or the Small Business Administration.
I. INTRODUCTION

There have been extensive structural changes in commercial banking in the U.S. over the past 20 years. These changes include: (1) the growth of branch banking and holding company organizations, the associated geographic and product expansion both de novo and through acquisition and the resultant replacement of small local "independent" banks by large regional, national and international organizations; (2) an increase in numbers and decline in concentration in many local banking market areas, associated with new entry by established banks and expansion by smaller banks; and (3) the growth of foreign banks in the United States.

By and large these changes are still "in process." They are continuing within the current legal framework and, many observers believe, they will be further encouraged by modifications of the existing legal framework in the future; e.g. changes in the McFadden Act and/or the Douglas Amendment to the Bank Holding Company Act. The extent of many of these changes in recent years has been discussed elsewhere.¹

The significance of these structural changes for small business lending by commercial banks is not obvious. There are a number of hypotheses that are explicit or implicit in the literature and a few studies that have attempted to test one or more.² However, little in the way of definitive results have been

¹See Donald Savage, "American Commercial Banking Structure and Small Business Lending."

²These, also, are discussed in Savage op.cit.
achieved. There are, furthermore, plausible concerns that have been expressed from time-to-time, but which have not been formalized into hypotheses or formally tested. Finally, there may also be effects that have not been considered simply because the subject has not, as yet, been fully studied.

The purpose of this paper is to focus on the possible effects of the structural changes enumerated above with regard to the attitudes, policies and practices of banks toward small business lending. The analysis builds on the available literature and on intensive interviews with officials in a small group of banking organizations that have experienced or are representative of structural changes.

Representative institutions were specifically sought out as repositories of information on the significance, if any, of structural change. Bank officials who had lived through structural changes affecting their own institutions -- growth from small to large organizations, the conversion of small local banks to branches of far-flung, multi-office institutions, acquisition by foreign banking interests, and the growth in numbers of competitors -- were expected to provide insight into the likely effects being considered.

The findings can, at best, be characterized as suggestive. They are intended to provide a basis for further survey work and/or statistical analyses.
II. HYPOTHETICAL RELATIONSHIPS BETWEEN STRUCTURAL CHANGES AND SMALL BUSINESS LENDING

Effects of specific structural changes on attitudes, practices and policies of commercial banks toward small business lending have, to a limited degree, been previously considered by economists and legislators. It is useful to build on early analyses to formalize plausible hypothetical relationships.

A. GROWTH IN SIZE OF BANKING ORGANIZATIONS

Partially as a result of branch banking and holding company expansion, commercial banking organizations are, on average, larger now than they were 20 years ago. Numerous small, local banks have been acquired by large and expanding banking organizations.

A traditional concern has been that large banks will "systematically neglect small business loans to cultivate relations with giant enterprises of national scope and reputation." It has been argued that "large banks make a large fraction of their loans to large business and a small fraction to small business.... This implies that if small banks were merged, with demand conditions unchanged, loans to large business would increase and those to small business decline; or, that prices charged small businesses for loans would rise." 

1Tbid.


The Federal Reserve System's report on an extensive survey of commercial banks in 1957 appears, indirectly, to provide some credibility for this concern. It is noted that:

"Aside from the fact that most banks are oriented toward small business by virtue of the economy in which they operate, lending by small banks is, in effect, restricted to small business by law (single-borrower loan limits). ... (Participations) do not account for a substantial portion of total loans. ... The above information suggests that most commercial banks, by virtue of the environment in which they operate and their size, tend to be oriented toward small business."  

Empirical evidence to support this concern is, however, deficient. It has been observed that large banking organizations, both branch banks and holding companies, have, on average, higher loan/asset ratios than smaller banks. Thus little change in the amount of credit made available to small businesses would be required even with large business loans increasing at large banks.

Interestingly enough, the Federal Reserve survey results in 1957 also raised questions about the efficacy of small banks lending to small business. Survey results suggested that small banks in small communities were less likely, as a matter of policy, to make loans to new businesses (defined as businesses established within the previous two years). Principal reasons given for reluctance to make such loans, were insufficient equity and "lack of demonstrated performance."

The survey results also showed a great deal of intra-community variation in the types of loans and services provided by small local banks to small businesses.

1 David P. Eastburn and John J. Balles, "Survey III, Commercial Banks" in Financing Small Business, "Survey of Credit and Capital Sources," Part II, Volume I, Federal Reserve System, March 31, 1958. The survey results presented by Eastburn and Balles are based on interviews with bankers representing over 670 institutions. The interviews were conducted in accordance with an extensive questionnaire by Federal Reserve Bank representatives in each Federal Reserve District.

2 Ibid., pp. 6, 7, 9. (Parenthetical material added)

3 See Savage, op.cit., for a review of the relevant literature.

4 Eastburn and Balles, op.cit., p. III-12.
In a particular community with several small banks, each bank would tend to specialize in types of loans not offered by the other banks in the community. For example, "one bank may specialize in equipment loans, another in accounts receivable loans, a third in automobile paper."\(^1\) Eastburn and Balles attributed this finding to "both demand and cost factors."\(^2\) They suggested that large banks probably have a greater variety of demands and also the staff and resources to develop highly specialized techniques.

The above findings suggest several possible effects resulting from growth in bank size. First, large banks (particularly those that are geographically diversified) may not have as intense an interest in lending in a local community as small local banks. Secondly, large banks, in part because of their geographic and product diversification, may be willing to accept riskier loans - particularly to new businesses - than small banks. Finally, large banks may be able to provide more different kinds of small business loans.

B. EXPANSION OF MULTIPLE-OFFICE BANKING

The growth of larger banking organizations is due in part to the geographic expansion of banks through branching and holding companies, both de novo and by acquisition. The possible effects of multiple-office banking on small business lending are, therefore, closely related to the effects of bank size.

Geographic market expansion, however, contributes to diversification independently of increases in size. Thus geographic expansion might alter the willingness of banks to accept riskier loans to small and new business. It has frequently

\(^1\) Ibid., p. III-18.

\(^2\) Ibid., pp. III-32, III-33.
been argued, however, that multiple-office banking removes key lending officials from proximity to local (small business) borrowers; and lack of knowledge and personal acquaintance will militate against lending to small businesses. Kohn and Carlo have stated the argument as follows:

"Critics of branch banking contend that a branch bank's lending policies tend to be more impersonal than those of a unit bank... a branch manager is bound by the home office 'rule book', he is limited in his ability to exercise discretion;... he makes his lending decisions on the basis of...financial ratios and collateral...."¹

In contrast:

"Because the local bank is primarily a community bank, they (sic) are willing to take the time to study the peculiarities inherent in each business. They also readily cultivate strong personal relationships with the business management. This enables the independent community bank to know more closely the details of the bor- rowers business operation, to know the character of manage- ment people within the business and thereby to base their financial judgments on substantial factors well beyond the cold and impersonal arithmetic of a financial statement."

To the extent these opposing attitudes are, at least, roughly accurate, Kohn and Carlo suggested that branch offices in local communities would be less willing to provide unsecured loans to small businesses than would local banks. The significance of such differences would presumably lie in the fact that "(t)he granting of unse- cured small business loans is one of the important functions of commercial banks."² and that an unwillingness to offer such loans could adversely affect small business.

Evidence was found by Kohn and Carlo that unit banks make more unsecured small business loans than branch offices in the same communities.⁴ Eastburn and

¹Ernest Kohn and Carmen J. Carlo, Small Business Lending Activity by Commercial Banks in New York State, N.Y. State Banking Department, August 1977, p. 2.

²Statement of Henry Blackstone, President of Servo Corporation of America before the New York State Joint Legislature Committee to Revise the Banking Law, January 7, 1957 as quoted in Kohn and Carlo, op.cit., p. 3.

³Kohn and Carlo, op.cit., p. 11.

⁴Kohn and Carlo, op.cit., pp. 10-17. Also see Savage, op.cit.
and Balles also found, in the 1957 Federal Reserve survey, that unsecured lending was mainly reserved for larger businesses by larger banks.¹

There are several difficulties in evaluating the significance of this information. First, the risk-characteristics of the small business loan portfolios of the local banks and branch offices are not identified. If there are systematic differences (e.g. with branch offices but not local banks lending to new and other "risky" businesses), the larger proportion of secured loans at branch offices might be partially explainable. Similarly, loans are not classified by maturity. It is more common for longer-term loans to be secured, and less common for shorter-term loans; again systematic differences might explain the findings. Finally, there is no way of telling from the data the extent to which small business borrowers at local banks would have provided security if called upon to do so. Consequently, it is not clear that a greater proportion of unsecured loans to small business implies a willingness to accept greater risks in lending to small business or even that small business borrowers are being provided with something essential. An unsecured loan to a business that could provide security, if required, might merely indicate that the local banker is confident in his analysis of the risks of lending to the business - perhaps, as argued, more so than the officials of a branch banking office would be. It is conceivable that such greater confidence can coexist with a lesser willingness to accept risk.

There is little empirical evidence to support the proposition that the existence of multiple-office banking either increases or reduces the proportion of bank funds devoted to small business lending. Data to test relevant hypotheses have been scarce. However, as noted, it has been found that loan-to-asset ratios are higher for subsidiaries of bank holding companies

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than for independent banks,¹ that differences in local lending activity of out-
of-town branch offices of large banks located in major cities in New York and comparable local unit banks is not statistically significant,² that "statewide branching results in a greater proportion of business loans to locally limited businesses than either unit banking or limited branching"³ and that urban-based branch banks do not discriminate against rural borrowers.⁴

It has also been observed that branch banking organizations are, typically, consumer- or retail-oriented. This orientation might result in a displacement of small business loans by consumer loans, particularly when a local bank is acquired.

There have been few, if any, studies that shed light on this possibility. However, the contention merits consideration. Branch banks are retail-oriented because branch offices are typically located in areas in which retail demands for banking services are high - convenient locations, particularly in suburban areas. The movement of households to the suburbs over the last 35 years has been paralleled, of course, by a movement of small businesses, most notably in suburban shopping centers. It should be noted that small businesses are at least as dependent on convenient banking location as consumers. Consequently, it is possible that branch banking systems facilitate the simultaneous expansion of consumer and small business lending. Furthermore, Eastburn and Balles found in


²Ernest Kohn, Carmen J. Carlo and Bernard Kaye, Meeting Local Credit Needs. New York State Banking Department, April 1973, p. 18.


⁴Savage, op.cit.
1957 that "many banks emphasized the importance of their consumer credit departments as a source of small business financing," and that loans secured by collateral unrelated to the business (e.g. residential mortgages, stocks, bonds, etc.) was an important segment of the small business loan market. To a degree, then, retail and small business lending may be compliments as well as substitutes.

C. "PRODUCT" DIVERSIFICATION

A major structural change over the past decade has been the expansion of commercial banks, through holding companies and subsidiaries, into so-called "bank-related fields." This expansion has not been restricted by state lines and, to the extent it has involved financial institutions that conduct a "banking-type" business, it would appear to increase competition within local areas.

Many of the lines entered by acquisition or de novo also provide loans to small business - mortgage companies, commercial finance companies and factoring companies, for example. As a general matter, loans from finance companies and factors are more expensive than bank lending - presumably because riskier borrowers are accommodated and higher administrative costs are incurred.

It is conceivable that small business loans that might previously have been made by a bank would be rejected, and the loan applicant referred, instead, to a higher cost nonbank affiliate. In such a case, a small business borrower might suffer as the result of harsher terms than would have formerly been granted. The banking organization, as a whole, would gain in that the loan would be granted at a higher rate while, presumably, the customers balances would be maintained in the bank.

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1 Eastburn and Balles, op.cit., p. III-11.
2 Ibid., pp. III-20, III-21.
3 See Savage, op.cit.
It should be noted that Eastburn and Balles found in 1957 that unaffiliated banks also referred rejected borrowers to commercial finance companies, insurance companies, venture capital companies, etc., depending on how their needs were perceived. Whether the quantitative significance of such referrals has increased as product diversification through affiliates and subsidiaries has grown is not known.

On the assumption that an unaffiliated bank is rewarded in some (monetary or nonmonetary) way by referring rejected customers elsewhere, the growth of product diversification may only imply a change from an inter-firm to an intra-firm transaction. But there is no information available on the validity of the assumption; or, if it is valid, the kind of "reward" involved. In any event, the ability of a bank to gain and a small business to lose by unreasonable referrals would be enhanced by a deficiency of competition and/or information. With effective competition and adequate information, it would not seem that borrowers could be easily placed with "higher" interest rate lenders than their objective conditions warranted.

D. CHANGES IN COMPETITION IN LOCAL AREAS

Concentration in local banking markets is generally high. However, there has been a distinct downward trend in local market concentration over the last two decades. Declines in concentration and liberalization of multiple-office banking laws would independently and in combination suggest an increase in the intensity of banking competition. Reductions in concentration would weaken "tacit agreements" among rival banks. There have been numerous studies tending

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3Stephen A. Rhoades, op. cit.
to confirm this hypothesis—finding a positive association between market concentration and "prices" of banking services sold in local markets. The liberalization of multiple-office banking laws eliminates important barriers to new entry into local markets. There is also empirical evidence supporting the hypothesis that the elimination of such barriers tends to reduce prices of banking services. There is, further, evidence that concentration and barriers to entry interact in their effects on competition. The expansion of banking organizations into "closely related" lines of activity, without geographic restraint, also suggests an intensification of local market competition. Finally, it should be noted, that new entry into local areas may, in and of itself, disturb existing patterns of association among long-established and "friendly" rivals, and in this manner also intensify competition.

As noted above, Eastburn and Balles found, in 1957, a great deal of intra-community variation in types of loans and services offered by small local banks. They noted that large banks probably meet a greater variety of demands in part because they have the staff to develop specialized techniques. With regard to the finding they state:

"This would seem a natural tendency and to the extent that the diverse practices of individual banks in a community tend to complement one another would work toward a more complete structure of sources of finance for local small businesses."

1 Savage, op. cit.
Another interpretation is possible. The provision of non-duplicative services by, for example, three local banks implies that they are not competing with one another for business loans to customers that need or can qualify for only one type of loan. Such an arrangement could be viewed as a form of market sharing.

A deficiency in competition in such circumstances is serious in light of a further Eastburn and Balles finding.

"It may be easy to assess the creditworthiness of large, well-established firms...But it takes considerable skill and judgment to evaluate the creditworthiness of a small firm, particularly a new one....It is clearly possible that a loan application deemed to be too risky by one bank might be granted...by another bank."¹

This would not be the case, however, if a community has only one (of, say, 3) banks that provides the type of credit which the small business needs or for which it can qualify. The potential borrower will have no other commercial banking option if "a loan application is judged too risky."

Risk taking by commercial banks was discussed somewhat differently in a recent report to the Comptroller of the Currency; it was indicated that, as a general matter, banks do not trade off greater risks in lending to small business against greater returns. Rather, minimum standards of risk are established and are not violated, regardless of the potential return. This attitude implies a bias against small business lending which is, invariably, somewhat riskier (as well as entailing higher administrative costs) than many other kinds of lending.²

¹Ibid., p. III-31.

Eastburn and Balles appear to have found a similar attitude in 1957. They noted:

"In general, bankers are anxious to lend to small business and prefer such loans to many other outlets for funds, but only if small businesses can meet minimum standards of creditworthiness...it seemed clear that many small businesses have more difficulty in meeting certain tests...than do larger businesses."¹

But minimum standards of creditworthiness are, as noted, at least to a degree, flexible. It is plausible that given an oligopolistic market structure, an intensification of competition can increase the willingness of banking organizations to accept greater risk by reducing minimum standards. There is empirical evidence indicating that in the absence of competition, a portion of potential profits is taken in the avoidance of uncertainty.² It is also plausible that a rational (profit-maximizing) trade-off between risk and return is more likely to develop in a competitive than in a non-competitive environment, though other factors, such as external standards imposed by bank supervisors, may have an important effect.

E. FOREIGN BANK EXPANSION IN THE U.S.

Foreign ownership of banks in the United States has expanded considerably over the last decade. Over 100 U.S. banks were controlled by foreign entities in March of 1980. They held about $77 billion in total assets.³ Their assets increased over 1000 percent from between 1972 and the end of 1979.⁴

¹Eastburn and Balles, op.cit., p. III-12.
⁴James V. Houp, The Effect of Foreign-Acquisitions on the Performance of U.S. Banks, Board of Governors, Federal Reserve System, March 25, 1980, p. 3. The number of foreign banks reported by Houp are less than the number indicated by Longbrake, et al. In part, the difference appears to be in the definition of "control."
Intense concern has focused on the possibility that foreign-owned banks are more internationally-oriented than domestic banks so that deposits acquired in the U.S., whether by de novo establishments or by acquisition of established banks, will be diverted from domestic lending in general, and from consumer and small business lending in particular. In a notable case (the Marine Midland acquisition proposal), the Superintendent of banks in New York State argued: "Control by a foreign bank...carries the substantial risk that, sooner or later, there will occur a re-direction of emphasis from retail/consumer/small business lending to wholesale banking and international finance."\(^1\)

A number of major studies of foreign banking in the United States have recently been completed.\(^2\) Several of these have focussed on differences in operations and performance between foreign- and domestic-owned U.S. banks.\(^3\) They have examined small groups of foreign-owned banks and comparable sets of domestic peers in attempting to uncover statistically significant differences. Table 1 presents a comparison of some relevant findings.

There are indications that foreign-owned U.S. banks have higher proportions of large time deposit liabilities and "purchased funds" than domestic banks, higher propositions of assets in commercial and industrial loans and lower proportions in residential mortgages and consumer loans. The apparent willingness of foreign banks

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\(^{1}\)Report of the Superintendent of Banks of New York State on the Proposed Acquisition by the Hong Kong and Shanghai Banking Corporation of Marine Midland Bank, Inc., June 29, 1979, p. 25.

\(^{2}\)A series of studies published by the Comptroller of the Currency in 1980 provides factual information and new analyses on a variety of issues concerning foreign acquisition and ownership of U.S. banks. See Comptroller of the Currency, News Release, June 20, 1980. See also Foreign Takeovers of United States Banks, a study by the staff of the Federal Reserve Board published by Committee on Banking, Housing and Urban Affairs, U.S. Senate, July 1980. This document includes both the staff study and a study by a Federal Reserve Board economist, James V. Houpt, "The Effect of Foreign Acquisitions on the Performance of U.S. Banks," March 25, 1980. An evaluation of policy by the General Accounting Office has also been made available recently. See, Despite Positive Effects, Further Acquisitions of U.S. Banks Should be Limited Until Policy Conflicts are Fully Addressed, Reported by the Comptroller General of the United States, August 26, 1980.

\(^{3}\)These studies are cited in full in Table 1.
to purchase deposits and to devote a higher proportion of assets to business loans may account, in part, for their rapid growth.

Such foreign bank operations may, in turn, reflect advantages with respect to capital. Lower capital ratios and lower costs of capital would facilitate both "price cutting" and domestic bank acquisitions. There is reason to believe that such advantages exist and that they are not likely to be mitigated in the foreseeable future either by market forces or the provisions of the International Banking Act of 1978.\(^1\)

In consequence, it is unfortunate that the studies referred to above are unable to throw any direct light on foreign bank lending to small businesses. A number of reports have suggested that loans to large businesses at foreign-owned U.S. banks have advanced rapidly, but little information has been available to study their small business loan performance.

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### Table 1

**FINDINGS OF RECENT STUDIES COMPARING FOREIGN BANK OPERATIONS TO U.S. BANKS**

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*0 = No important difference between foreign and U.S.-owned banks*

*Key:*  + = Foreign-owned banks > U.S.-owned banks
- = Foreign-owned banks < U.S.-owned banks
### TABLE 1 (continued)

**FINDINGS OF RECENT STUDIES COMPARING FOREIGN BANK OPERATIONS TO U.S. BANKS**

**STUDIES COMPARED**

<table>
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<th>Studies Compared</th>
<th>Authors and Titles</th>
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**Notes:**

A variety of statistical tests, as well as observation, were used in the several studies in which results were compared. The findings reported in this table are based on independent evaluation of the data reported.

**Source:** This Table is adapted from Shull and Horvitz, *The Future Development of Foreign Banking Organizations in the United States*, op. cit., pp. 33 ff.
III. ATTITUDES, PRACTICES AND POLICIES: RESULTS AND ANALYSIS OF INTERVIEWS

A series of interviews was undertaken with banking officials in organizations that are characteristic of the structural changes discussed above. Where possible, organizations that experienced structural change were selected; banking officials within these organizations who were familiar with policies before and after the change were interviewed. A "Questionnaire Guide" developed for the interviews may be found in Appendix A.

In total, 10 banking organizations were visited; several officials in each organization were typically interviewed. These included commercial lending officers and frequently their principals. The interviews were typically lengthy, lasting from 2 hours to one-half day. Where it seemed useful, discussions were supplemented by a review of lending manuals.

A. BANK SIZE

Several of the banks interviewed had grown rapidly in recent years. Other interviews included officials in small banks that had recently been acquired by large banking organizations, and officials in large organizations familiar with the practices and policies of small banks that had been acquired. A number of conclusions emerged with respect to the relationship between bank size and small business lending.

First, there was no general indication that large banks, in contrast to small ones, found small business loans to be an undesirable form of lending. To the contrary, both large as well as small organizations emphasized that small business lending was highly profitable. It was repeatedly pointed out that, in securing a small business customer, the bank could expect to obtain a customer's entire
 Typically viewed as highly profitable... small businesses, with revenues of $5 million or more a year were

and, if so, their structural characteristics.

study to determine whether or not there are other organizational strategies adopted.

difference in view represented by the large banking organization described

suggested to serve a particular homogeneous community. Nevertheless, the

businessman. The bank in question is in a relatively mature position, originating

In fact, to facilitate development of a special program for these lending to very small

to newly organized enterprises, to be practical, and a desirable form of lending.

large banking organization attributed to a found such loans, including loans

which practiced all the objectives anticipated had the above prove one

have to sell needed equipment purchased by the pound.

duties are tough, and adequate collected may be difficult to obtain.

and, in early years, 80 percent (and a number of the customer, relates to such in

'lower level' borrowers in particular industries, such as the restaurant business

were perceived as substantially reducing the profitability of such customers.

handing loans, the small size of deposits balances and the high risk of loan

contrary to desireable customers by other larger and smaller banks. The cause of

collection successes to larger national and regional concerns.

collections successes to larger national and regional concerns.

manager for the customer's business. The bank could not expect to provide such

including personal services, and, in some cases, effectively become the "functional

transactions balance, could expect to sell additional services to the customer."
New York), one large organization devoted itself almost exclusively to serving such customers. A vice president of another large organization has publicly argued that interstate branching might be devoted exclusively to wholesale banking — principally to increasing competition for small business customers in local areas.¹

There was, then, not much difference in view with regard to the profitability and unprofitability of different kinds of small business customers among large and small banks. The size of the bank would seem to have little, if any, effect with the possible exception noted.

The procedures associated with lending to small business, however, did seem related to bank size. There was almost a universal perception of large banks as being relatively formal and technical in their credit evaluations, while small banks were seen as relatively informal and personal. Officials at large banks characterized the small bank approach as typically dependent on personal knowledge and friendship. In acquiring small banks, officials in large organizations indicated they found many loans based on friendship and not properly documented — "so called" G.O.B. loans (Good Old Boy loans), and loans never repaid — continually renewed ("evergreen loans.")²

At small banks, on the other hand, the large bank approach to lending was seen as overly formal and impersonal, involving a frequent turnover of lending officers ("always on their way to better positions in the organization") who never

¹See Carl Felsenfeld, Vice President, Citibank, N.A., Banking, Business and the Barbicans.

²This alleged small bank approach to lending is reminiscent of the characterization attributed to Casey Stengel who, when he became a director of a Glendale California bank, described his functioning as follows: "There ain't nuthin' to it. You go into the fancy meeting room and you just sit there and never open you yap.... When the question of a loan comes up it it's a friend of yours, you vote to give it to him and if he ain't a friend you don't." As reported in the Wall Street Journal, June 17, 1964.
really have the opportunity to become familiar with the small borrower and his problems — "big city banks and their big city ways."

The effect, if any, of these different approaches (which were more or less observed in the 1957 Federal Reserve survey) on the amount and terms of credit to small business is not easily determined. At the extreme, the small bank approach degenerates into a form of favoritism that can be particularly hard on small businessmen outside the inner circle. At the other extreme the large bank approach degenerates into a rigid formalism that can also cut out creditworthy borrowers whose personal character, intelligence and ambition are not fully understood. Neither approach, per se, implies more or less lending to small business; or better or worse terms.

It was pointed out, however, by officials in large banking organizations that a formal and technical analysis is of particular importance to the small businessman who may not have the background or experience to fully appreciate the difficulty of carrying a debt. In some cases, the formal analysis may save the businessman from himself or suggest alternative ways of meeting his objectives. This observation is plausible; but the quantitative significance of small business borrowers entrapped by a lack of formal analysis at small banks is not easily determined.

A contention, noted above, is that large banks lend to large as well as to small businesses and, therefore, will not provide as much credit to small businesses as smaller banks. The response has been that larger banks generally have higher loan-to-deposit ratios and, therefore, may be in a position to provide more of both kinds of credit. A further response may be found in their techniques for funding large credits. A number of interviews noted that in the case of large loans to regional and national businesses, where the rate is tied to money market rates, a large bank will purchase the funds as needed by selling CD's or in some other way. Some of these funds may be in nondeposit form (e.g. Federal funds).
Consequently, differences in loan-deposit ratios may underestimate the ability of large banks to finance both large and small business lending.

Diversity in types of lending transactions also seems to characterize large as opposed to small banking organizations. As noted, equipment loans, accounts receivable lending, lending based on leases, etc. may require special expertise that is only possible in a larger organization. Officials in a large organization that had acquired small banks indicated that they found small business loans had been turned down because the banker did not know how to structure particular types of loans nor how to police the credit. Other things being equal, one would expect large banks to be able to accommodate small business borrowers in a wider range of circumstances.

As noted above, it is conceivable that objective risk conditions also differentiate the practices and policies of large and small banks. Some of the interview responses suggested different attitudes toward risk.

Most of the banks indicated they sometimes made loans to new businesses ("start-up situations") but that, in general, these were the most risky types of loans. It was easier to make such loans where the entrepreneur was "well-heeled," where he had commercial experience in a similar enterprise and where the new business was in a growth industry.

As noted above, it has been contended that banks, in general, do not recognize that higher risk—higher return loans are equivalent to lower risk—lower return loans and, therefore, there is an inherent bias against small business lending. In response to questioning on this issue, all banks indicated a minimum standard of creditworthiness and expressed the view that a marginal loan never becomes a good loan because of a higher return.
There were some qualifications, however, in this regard. At one large institution a loan-rating system was in use in which risk was ranked in 5 categories and rates assigned accordingly. Officials at another large institution pointed out that a hypothetical trade-off of higher risk against a higher rate is too narrow a perspective - a percentage point or two higher rate would not be sufficient compensation for a substandard loan. However, a trade-off of higher risk against a potentially higher profitable long-term relationship is a workable proposition. If this were the case, bank attitudes in trading-off risk against return might be tracked by attitudes toward lending to new businesses - a relatively high risk loan where a profitable long-term relationship is contemplated. The same bank officials also indicated a relatively liberal policy with regard to new business loans.

Minimum standards of creditworthiness are, to a degree, subjective and, presumably, variable. A reduction in such standards also suggests a trading-off of higher risk against potentially higher return. In the course of the interviews there was a suggestion that one or more large banks reduced their standards in order to establish themselves in newly entered local areas.

B. MULTIPLE-OFFICE BANKING

Small banks with few or no branch offices will invariably be locally-oriented; and if they are located in areas in which small businesses predominate, they will be small business-oriented. Officials in a number of the smaller local and regional institutions interviewed indicated that they would not make loans outside of their service areas and thought it improper to lend in areas other than those from which they obtained their deposits.

For the most part, the larger multiple-office banks did not seem as restrictive with regard to lending within their service areas. It was indicated at one that for purposes of internal bookkeeping, deposits from all offices are "sold" into
a central pool, and "purchased" out of the pool by branch offices at the same
(money market) rate of interest; and that there is no explicit limit on the amount
a particular office (or group of offices) can purchase.

The geographic shifting of funds in this way in multiple-office banks may
seem a lesser commitment to 'small business than exists at local banks. However,
the shifting of funds from one geographic area to another, depending on demand,
need not necessarily injure small businesses as a whole — while some may suffer,
others may benefit from such shifting. Attitudes toward different kinds of small
business loans are critical with regard to this issue. A policy not to make loans
beyond the service area of the bank does not preclude a bank from lending large
amounts in the Federal funds market — to other banks located in distant areas.

Interviews with officials in large banks suggested that "local orientation"
is a necessary "image" for a multiple-office bank to achieve on entering a new
local area **de novo** or by acquisition. So, on newly entering areas, several
large banks hired away staff from local banks. Suchhirings seem particularly
disturbing to local banks, and might be viewed, as discussed below, as an element
in the intensification of competition that occurs on new entry.

As noted, it has been argued that small local banks are more willing to make
unsecured small business loans than large multiple-office banks. The interviews
suggested that this was probably the case. All banks indicated that they made
both secured and unsecured loans to small business. At one large bank, however,
unsecured loans were made very infrequently, and most of the larger banks empha-
sized the importance of security, of whatever kind could be obtained, in lending
to small business — particularly very small and new businesses.
A distinction was also typically made between short-term and long-term
loans at the larger institutions. Short-term loans might be made unsecured, but
not term loans. It was pointed out that many of the loans found on the
books of small acquired banks were unsecured, on a demand basis, and without
supporting notes — supported by a "handshake." After an acquisition, as such
loans came due, the multiple-office bank converted them to term loans. Small
loans (under $15,000) were treated like consumer loans and amortized. Larger
loans were placed on a standard commercial basis. Term loan agreements were
arranged and security (sometimes second mortgages) required.

It has been observed that large, multiple-office banks, particularly branch
banking systems, tend to be retail — rather than wholesale-oriented. This orientation
could imply a diversion of funds from small business lending.

Officials in several large branch banks indicated that small businesses
were also prevalent in suburban areas, and that lending to small businesses
similarly requires convenient branch offices — such businesses typically
need nearby depositories. In contrast, regional and national firms can be serviced
from distant offices. It was suggested, for this reason, that most of the loans
generated by loan production offices are probably to large businesses. In addition,
as found in the 1957 survey, very small loans to businesses are viewed as "retail"
and treated in a similar fashion; that is, charged a fixed rate and amortized.

Despite this seeming complimentarity between consumer and business loans,
a different sort of expertise is needed in lending to consumers and to small
businesses. The latter, it was pointed out, requires a more sophisticated lending
official, whose expertise is relatively scarce and who commands a higher salary.
Furthermore, the typical branch organization is not conducive to small business
lending. Retail banking, with its large numbers of customers, represents a
substantial distraction to the branch manager in pursuing and developing small
business customers. Because of the numbers of customers involved in retail banking, the manager may find it necessary to be in the office a good portion of the day. It was found, in addition, that some businesses preferred to deal with the head office, rather than the branch.

Two of the large branch banking organizations interviewed reorganized their commercial lending operations as a result of these experiences. Commercial lending to small business was centralized in a small group of lending officials, with the branch serving as the point of contact. The lending officers were assigned the task of developing small business lending for the entire branch systems.

These organizational considerations suggest that, in fact, retail banking can interfere with small business lending in branch banking organizations. There is, however, another reason to expect such interference. The "creditworthiness" of small business borrowers are typically evaluated far more carefully by banks than that of consumer borrowers. Making no special assumptions with respect to demands for credit, banks providing both types are, therefore, likely to find consumer credit rising more rapidly.\(^1\) If a bank has no maximum or target ratios for subclasses of loans (such as consumer loans-to-total loans or small business loans-to-total loans, etc.), but does have a maximum or target ratio for total loans-to-deposits, consumer loans might displace small business loans. (Interview responses suggested that banks do not set maximum ratios for subclasses of loans but do have, at least, short-term targets for the ratio of total loans-to-deposits).

This displacement may become particularly significant during periods of tight money. With rates on small business loans rising rapidly, a bank's evaluation of small business loan applicants will indicate that many are no longer in a position to

\(^1\)The profitability of consumer lending is more dependent on developing large numbers of customers and a high aggregate volume of credit than business lending. So this would be viewed as a desirable result at a bank initiating a retail lending operation.
carry additional debt; this would be particularly true in the case of term
loans. If consumer credit applications are not as carefully evaluated,
displacement would accelerate.

Branch banking systems may not intentionally slight small business
loans. But the different approaches and methods in retail and small business
lending may result in an unplanned substitution of the former for the latter.

C. PRODUCT DIVERSIFICATION: REFERRALS TO NONBANK FINANCIAL INSTITUTIONS

The bank holding company movement in the late 1960's focused on the
ability of banks to diversify into new product lines. Since that time, fairly
extensive product diversification has been undertaken through bank holding com-
panies and through subsidiaries of banks. Expansion into "closely related" lines
have led many banks to establish commercial finance, mortgage banking and fac-
toring companies through bank and bank holding company subsidiaries. It is con-
ceivable that many small businesses that might have formerly received loans from
a bank may now be referred to a financial affiliate in which higher interest
rates are charged. There are, of course, legitimate banking reasons why loan
applications might be rejected by a bank and referred, with the borrower better
off as a result.

At one bank holding company which did not have such nonbank financial sub-
sidiaries, it was pointed out that the subject of referrals is a sensitive one.
They could result in injury, particularly to new businesses and naive small
businessmen. However, the company might make referrals if they would generate
additional revenues. At another holding company, that did have such subsidiaries,
it was accepted as general policy that business loan applicants that did not meet
the standards of the bank might be referred to a financial subsidiary -- so called
"asset-based banking."
As noted above, referrals to independent financial companies or even venture capitalists has long been common in banking. A rejected loan applicant may require a different kind of financing than the bank provides. Representatives of commercial finance companies, for example, will periodically visit banks to obtain referrals where possible.

In the course of the interviews, there was no indication that such referrals were made in consideration of a fee. There were several indications, however, that when such a referral were made, and the loan applicant received financing, the referring bank expected to retain the rejected applicant's transactions balances.

Since it is plausible that referrals to independent nonbank financial institutions are for some consideration, the effect of holding company diversification is uncertain. However, since referrals made to an affiliate may not only result in deposit balances for the bank but also additional revenue for the holding company, there may be a greater incentive to make referrals by diversified holding companies than by non-affiliated banks. In any event, this matter deserves further study.

D. INTENSIFICATION OF COMPETITION

The growth of large banking organizations, expansion through multiple offices into new market areas and into new "closely related" lines of activity, have tended to increase the numbers of competitors in many local areas. So, for example, in one local area in which interviews were conducted, the numbers of banks increased from 4 to 8 in a period of a year or two as large organizations established new offices. There is a presumption that competition in the local market for small business loans would likewise increase.
In several interviews, the condition of local areas facing increased competition was discussed. Respondents reported an intensification of competition for small business customers as large multiple-office banks attempted to establish themselves in a new area. There was some indication that credit standards were lowered to attract local customers. Some of the customers obtained by the new banks indicated dissatisfaction with their local banks or, simply, that they could not, for non-rational reasons, achieve a relationship with their local bankers. Other borrowers used offers from the new banks to obtain concessions from local banks. The expanding banks seemed to welcome new customers, sometimes with little credit investigation. Their loan losses, it was reported, were initially high.

As mentioned, the entering banks found a need to have their new offices manned by people who were known in the local community. The competition for staff appears to have been particularly disturbing to local banks. Nevertheless, this type of rivalry would appear to be an important competitive element. If nothing more, it would disrupt cooperative patterns of conduct that might exist in highly concentrated banking markets.

Over the longer-run, the intensity of competition appears to have lessened. As the new banks established themselves and high loan losses developed, they became wary of new customers, and less willing to undercut interest rates. The local banks found they had certain advantages, in terms of knowledge of the area and customer loyalty that would permit them to compete effectively with the newly entered banks and retain profitable customers without making extreme concessions.

However, as noted above, there is reason to believe that the increase in numbers would provide permanent competitive benefits to small business borrowers. One competitive implication emerges from the observation that large banks generally
provide more diverse forms of credit than small banks. The wider range of credit offerings at large banks entering new local areas suggests more intensive competition in such areas for each type of small business loan.

E. FOREIGN BANKS IN THE UNITED STATES

The attitudes, practices and policies of foreign banks in the United States raise important but complex problems that could only be partially addressed in the interviews undertaken. Interviews undertaken subsequently in connection with another study are also reported below.

Interviews were conducted with banking officials in two foreign banks in the course of the present study. One was a rapidly growing regional bank that had recently been acquired by a large foreign organization. Another was a large long-established foreign bank that had recently acquired a substantial number of new offices from a domestic banking organization.

In neither case was there any suggestion that foreign ownership and control might undermine interest in domestic lending in general, and lending to small business in particular. Both banks seemed quite active in lending to small business, made many different types of loans and reported a local-orientation as intense as any of the banks interviewed. One of the banks appeared to be among the most aggressive in lending to small business. It provided term as well as working capital loans to very small and new businesses. It had recently acquired new offices from an established bank that was predominantly a wholesale institution, concentrating on large national and regional accounts. Presumably, the acquisition would result in more funds devoted to small business lending.

Officials at the recently acquired domestic bank pointed out that the bank had been profitable and that this was the principal reason for the acquisition. As a result, the foreign organization would probably do little or nothing to change the practices and policies of the bank it had acquired. It was noted that the foreign bank's return on equity in the U.S. was four times as great as
in its home country. It was further suggested that the foreign bank was in a position to compete effectively for small business loans in the United States because it could take greater risks than local and regional banks. This advantage was seen as deriving from its larger size and greater diversification, lower capital requirements in accordance with current supervisory standards, and being able to raise needed capital more cheaply. The extent to which foreign control might shape policy in the future should, for example, the U.S. subsidiary become less profitable, could not be determined.

A more comprehensive set of interviews aimed at throwing light on foreign bank motives for entry and expansion in the United States were recently undertaken in connection with another study. The interviews were conducted with officials of foreign banking institutions in nine countries. Relevant findings were as follows:

"In moving abroad, virtually all banks place top priority on prime corporate wholesale business—specifically their own and foreign multinational companies. Retail banking is a low priority for all but a few of the large institutions, such as the Japanese banks active in California..."

"From the interviews conducted in the nine countries, we can observe an evolutionary process repeated in countries throughout the world whereby the major banks proceed along the following steps in establishing an international presence:

1. trade finance and correspondent banking;
2. medium-term lending to overseas corporations and sovereign risk lending as a participant in credits of other banks;
3. the development of a dollar funding capability through units in New York, London, or other financial centers;
4. the aggressive seeking out of banking relationships with prime international corporate and sovereign risk names through a growing overseas network; and
5. the development of specialist skills—merchant banking, energy finance, leasing, etc.—in an effort to establish a strategic competitive advantage..."

1The interviews were conducted by Steven Davis and reported in Shull and Horvitz, op.cit., pp. 20-26
"Lending strategies vary widely, but priority is understandably given to prime corporate names with a trade or investment connection with the home country of the foreign bank. In many cases, particularly for French, United Kingdom, Japanese, and German banks, a pragmatic approach is taken to the selection of corporate clients with no particular preference given to those with home country connections. Fortune 500 names are almost universally regarded at least initially as the highest priority, although many banks subsequently focus on smaller, even middle-market firms as they come up against the problem of developing a profitable relationship with these sought-after names..."

A comparison of the two sets of interviews, the first with foreign bank officials in the United States and the second with foreign bank officials abroad, are not necessarily inconsistent. It does raise questions, however, with respect to differences among foreign banks (some of whom are more retail and possibly small-business-oriented than others) and timing patterns on the implementation of overall strategies (that do not indicate an interest in small business lending) after acquisition of domestic banks.

IV. SUMMARY AND CONCLUSIONS

Rapid change in the U.S. banking structure over the past decade raises questions about the effect of such change on bank attitudes, practices and policies toward small business lending. In considering this matter, a number of structural changes have been identified. These include the growth of bank size, the expansion of multiple-office banking, the diversification of banking into "closely-related" nonbanking lines of activity, the intensification of competition in local areas and, to a limited degree, the expansion of foreign banks in the United States.

On the basis of the existing literature, a number of plausible hypotheses regarding structural change and small business lending were discussed. So, it has been suggested that the replacement by large banks of small banks in many local markets may imply a lesser interest in the local community by banks, but a greater willingness to accept risk and a greater ability to provide
more diverse forms of credit.

The expansion of multiple-office banking, resulting in the establishment of branch offices (of holding company-affiliated banks) in local communities would have similar results. A branch office might exhibit a reduced interest in small businesses in the local community, but also might be willing to take on greater risks. It has also been contended that branch offices are less willing to make unsecured loans. Furthermore, a displacement of small business loans by consumer loans at retail-oriented branch banks is possible.

Large multiple-office banking organizations have also expanded into "closely-related" lines of activity, including commercial finance, mortgage banking and factoring. It is possible that this product diversification may result in referrals of rejected loan applicants to higher-cost forms of credit offered by affiliates or subsidiaries.

For a number of reasons, it appears that competition in many local market areas has intensified over the past two decades. An intensification of local market competition should be beneficial to small business borrowers.

In recent years, foreign-owned banks have expanded rapidly in the United States. It has been argued that foreign banks are particularly aggressive competitors and that they enjoy certain advantages in competing with U.S.-owned banks. At the same time, it has been argued that they may be internationally-oriented and less willing than U.S.-owned banks to provide credit to small businesses.

Interviews with banking officials were undertaken in light of the hypotheses and concerns discussed above. The results of these interviews may be briefly summarized: (1) In making loans to small businesses, commercial banks of different size and structure appear to distinguish between "large" or what might be termed "upper level" small businesses and "small" or what might be termed "lower level" small businesses. Upper level small businesses might roughly be characterized as those with yearly gross revenues of about $5 million
or more. Lower level small businesses can be characterized as those with revenues of less than $2 million. New businesses, including those in process of organization, might be further separated out from the lower level small businesses. The distinctions are in terms of risk and administrative costs of lending, with new and other lower level small businesses representing significantly higher risks and costs.

(2) Large multiple-office banks and small local banks did not appear to be differentially attuned to local credit demands. Upper level small businesses were viewed by both as among the most desirable and profitable of customers.

(3) Large banks appear more technical and impersonal in implementing their standards of creditworthiness than do small banks.

(4) Larger banks appear somewhat more willing to make loans to new and lower level small businesses. This willingness may reflect the ability of larger and more diversified banks to take greater risks. It might also reflect the technical credit analysis characteristic of larger banks that would, presumably, substitute for "rule of thumb" approaches to reduced risk—rules such as "no loans to newly organizing businesses unless the entrepreneur is independently wealthy."

(5) Larger banks characteristically offered many different types of loans to small businesses. Smaller banks appeared to offer fewer types of credit.

(6) Large, multiple-office banking organizations appeared to emphasize secured lending in loans to small businesses. But some types of lending offered by the larger organizations might not be offered by small banks at all.

(7) Large, multiple-office banks appeared to be more retail-oriented than small local banks. It appeared that this retail orientation could be distracting to branch managers in developing small business loans. Moreover, differential credit approaches to evaluating the creditworthiness of consumers and small businesses would seem to entail a bias against small business lending, particularly during periods of tight money. Two of the large multiple-office banks interviewed were aware of the first-mentioned problem and had reorganized
to overcome it.

(8) Rejected loan applicants might be referred to commercial finance or other higher cost financial institutions by both large bank holding company banks and unaffiliated small banks. Referrals by subsidiary banks to affiliated financial institutions could involve advantages to the holding company organizations that do not exist for unaffiliated banks.

(9) In local areas subject to entry by multiple-office banks, both officials in multiple-office and in local banks reported an immediate intensification of competition for small business customers. Competition appeared to moderate over time as new banking offices became established. But significant improvements of a permanent nature seemed evident.

(10) There is a suggestion in the evidence reviewed that some important foreign-owned banks in the U.S. may be more oriented to large and less to small business lending than domestic banks. But no definitive conclusions are possible.

The suggestive nature of these findings require that their acceptance be tentative pending further study. Certain recommendations in this respect can be made:

(1) Future survey work should distinguish between upper level and lower level small business customers, and also between "new" and "established" business customers. Policies with regard to these different types of small businesses could shed light on the willingness of different types of banks to accept risk.

(2) It would be useful to survey small businessmen. Particularly in areas in which large, multiple-office banks have entered, their views would compliment the views reported by commercial banks. It would also be useful to obtain businessmen's views on the value of referrals to higher cost financial institutions by both large, product-diversified banking organizations and unaffiliated banks.
(3) Further survey work should focus on the methods and formulas by which large, multiple-office banks allocate funds both geographically and to particular product-lines (e.g. between consumer loans, business loans, etc.). Such knowledge could help support inferences with respect to the effects of larger banks and multiple-office banking expansion on small business lending in particular areas.

(4) Relatively little is known, at present, on the policies of foreign banks in the United States with respect to small business lending. Further investigation would be desirable.

A final comment might be made on another aspect of structural change that has fallen beyond the scope of this study - the expansion of large U.S. banks abroad. Little is known about the impact on small business lending, if any, of this expansion. The recommendation in (3) above should encompass the possible shifting of funds between domestic and international uses.
APPENDIX A

QUESTIONNAIRE GUIDE FOR
INTERVIEW WITH COMMERCIAL BANKS
ON SMALL BUSINESS LENDING*

I. Background Information

A. Name of Bank/banking Organization
B. Location
C. Total deposits (12/31/79)
D. Officials interviewed

II. Description of Structural Change Affecting Bank/Banking Organization

III. General Characteristics of Loan Policies

A. In terms of the conventional loan classifications (commercial, consumer, real estate, etc.), what kinds of loans are generally considered most and least profitable?
B. Where do loans to small business (defined in accordance with SBA classifications and/or interviewee) fall within this range? Do you have specific policies with regard to allocation of funds to each type of loan?
C. What, if anything, makes small business loans different from other kinds of business loans?
D. Are there any special policies with regard to loans to new businesses (prior to establishment and/or for several years thereafter)?
E. What policy guidelines have been established for evaluating creditworthiness of loan applicants? (Written loan guidelines reviewed where possible).
F. How is risk evaluated in reviewing loan applications? Is it expected that some losses in the business loan portfolio will be incurred? If so, to what extent, if any, is the potential return related to the potential loss in your evaluation? Is there any particular loss rate that is considered acceptable (or desirable?) with regard to your loan portfolio?
G. How do policy guidelines discussed in E. and evaluation of loan applications discussed in F. compare to guidelines and evaluation prior to structural change discussed in II? In your view, has structural change made a difference?
H. Indicate role of the parent organization (if any) in establishing policies and guidelines for lending and, in particular, in making loans to small and new business.

*This "Questionnaire Guide" was adapted from the Questionnaires used in the Federal Reserve’s 1957 Survey, op.cit., pp. III-89 to III-94.
IV. Small Business Loan Policies

A. Does your organization have any special definition of "small business?" If so, how is it defined?

B. What special efforts, if any, do you make to accommodate small business borrowers? (e.g., small business loan departments, special loan policies, special counseling, etc.)

C. Is there any difference in your current efforts, indicated in B., from efforts made prior to the structural change, indicated in II.

D. In what form does bank now extend credit to small business; in general, to what degree?
1. Equipment financing
2. Purchase of consumer paper from retail stores
3. Accounts Receivable
4. Loans secured by inventory
5. Loans otherwise secured (indicate nature of security)
6. Unsecured loans
7. Construction loans
8. Mortgage loans on business property
9. Loans secured by non-business related collateral (life insurance, home mortgages, etc.)
10. Other ( Specify )

E. If not all forms are used, why some and not others?

F. How, if at all, would the answers to D. and E. differ prior to the structural change?

V. Loan Policies to New Firms

A. Were loans to new firms made prior to the structural change?

B. Has there been any change in terms on such loans attributable to the structural change?

C. Is there any difference in the forms of credit extended to new businesses and small businesses? (Compare to IV.D.)

VI. Loan Rejections

A. Describe the approval-rejection process currently in existence, including review procedures.

B. How does this process differ from the process prior to the structural change?

C. Indicate the reasons for loan rejections involving small business and their relative frequency:
1. insufficient equity
2. inadequate management
3. poor earnings record
4. insufficient collateral
5. past record with regard to debt
6. line of business not handled by bank/banking organization
7. type of loan not handled by bank/banking organization
8. no deposit relationship
9. liquidity restrictions or diversification requirements of bank/banking org.
10. other (specify)

VII. Efforts to Assist Rejected Loan Applicants

A. Is there any general policy with regard to assistance for rejected loan applicants?

B. Are referrals made to other lenders? If so, to whom and how frequent?

1. commercial finance companies
2. venture capital companies
3. Small Business Administration
4. Other (specify).

IX. Institutional Factors

In your experience, have any of the following factors had an important effect on your lending to small and new business?

1. loan limits (capital)
2. interest rate ceilings
3. examination/supervision
4. credit restraint programs
5. other similar factors (specify)

X. General Questions

A. Indicate in general your views of the issues and problems with regard to small business lending.

B. To the best of your knowledge, do other banks/banking organizations differ in their practices and policies in any substantial way?

C. If so, can you relate these differences to the size or organizational structure of the bank?