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Dis-Credited:

Disparate Access to Credit for Businesses in the Chicago Region

About business lending and economic opportunity

Small, local businesses create economic opportunity within neighborhoods. Local businesses can increase local employment opportunities, and that can, in turn, lead to higher levels of income growth within the neighborhood. Local businesses can also provide residents with a means of wealth building: entrepreneurship.

For small neighborhood businesses to grow, they need to access capital. Some business owners have personal assets, such as home equity or investments, or personal lines of credit that they can tap to meet the needs of their businesses. Those personal sources of capital, however, may not be as available to people in low- and moderate-income neighborhoods or communities of color because they are less likely to have significant equity in their homes or other assets that can be used to support a business. Apart from personal wealth, common sources of capital for small businesses are loans, lines of credit, and business credit cards (collectively, "small loans") issued by banks and other financial institutions.[1] Bank loans to businesses are an important element for success because businesses that have access to adequate levels of capital grow more rapidly, hire more workers, and make more investments than businesses that do not have access.[2]

This report examines geographic patterns of access to bank capital for businesses in the Chicago six county region, with a focus on smaller loans and other types of credit, in amounts of under $1 million, that are more likely to benefit smaller, local businesses that create economic opportunity within neighborhoods. The data are for large banks, those with assets over about $1 billion, for the period from 2008 to 2012.

Findings

The lower the income level of the tract, the less likely businesses were to receive loans.

Businesses in low-income Census tracts were less than half as likely, and businesses in moderate-income tracts were less than two-thirds as likely, to have received loans as the average for all businesses. Had loans in the Chicago region been made in proportion to the percentage of businesses in the tract, businesses in low-income tracts would have received over 21,900 more loans totaling over $817 million more than they actually received between 2008 and 2012.

The higher the percentage of minority residents in the tract, the less likely businesses were to receive loans. In the Chicago region, businesses in Census tracts that were 80 percent or more minority constituted 8.0 percent of businesses, but they received only 3.8 percent of loans by both number and dollar volume. Had loans in the Chicago region been made in proportion to the percentage of active businesses in the tract, businesses in tracts that are 80 percent or more minority would have received over 34,800 more loans totaling nearly $1.5 billion more than they actually received between 2008 and 2012.

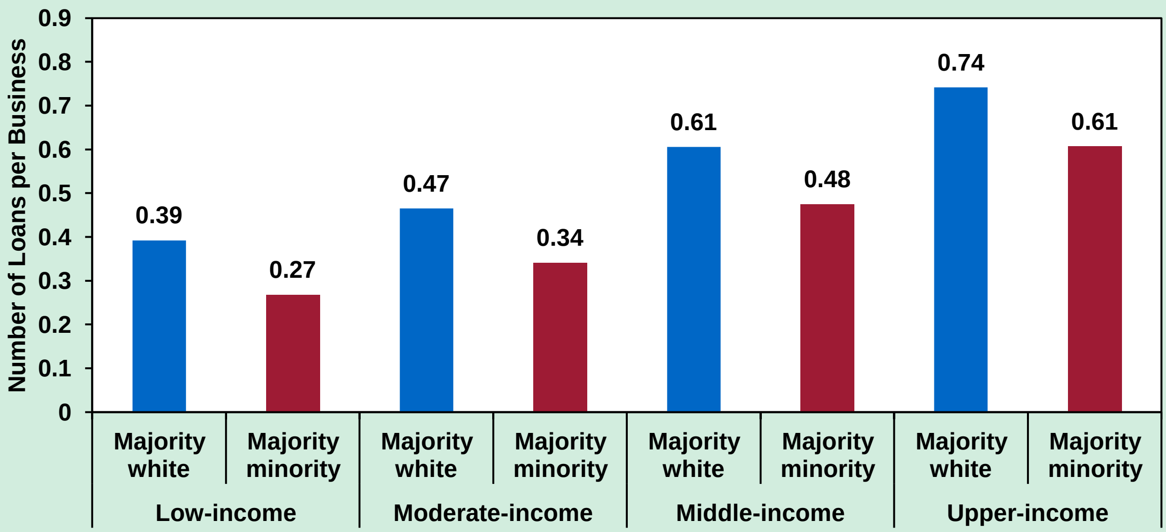
In the Chicago region, businesses in lower-income tracts were less likely to receive loans than businesses in higher-income tracts, regardless of whether the tract was majority white or majority minority. Only about two in seven businesses in low-income, majority minority

[1] Business loans, lines of credit, and business credit cards are collectively reported to the Federal Financial Institutions Examination Council (FFIEC), which oversees financial institution reporting to regulatory agencies, as "loans." For consistency, this report will, therefore, use the term "loan" to refer to extensions of credit to businesses that would be reported as a loan to the FFIEC.
[2] Cole, Rebel A., 2012. *How Did the Financial Crisis Affect Small Business Lending in the United States*. A report prepared for the Small Business Administration, Office of Advocacy. Downloaded 4/11/2014 from www.sba.gov/advocacy.

tracts received loans, compared with nearly three in five businesses in upper-income, majority minority tracts. About two in five businesses in low-income majority white tracts received loans, compared with three in four businesses in upper-income majority white tracts.

In the Chicago region, businesses in majority white tracts were more likely to receive loans than businesses in majority minority tracts of the same income level. Businesses in majority white tracts in all four income levels were more likely to have received loans than businesses in majority minority tracts within the same income level. Only about one in three businesses in moderate-income, majority minority tracts received loans, compared with nearly half of businesses in moderate-income, majority white tracts.

Average Annual Number of CRA Small Loans per Business in the Chicago Six County Region by Income and Race, 2008-2012



Recommendations

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

More information

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