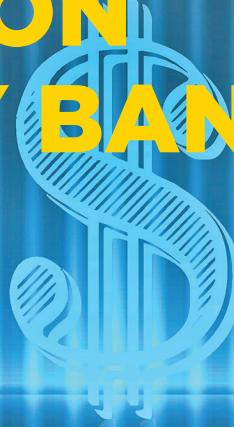


SPOTLIGHT ON COMMUNITY BANK LENDING

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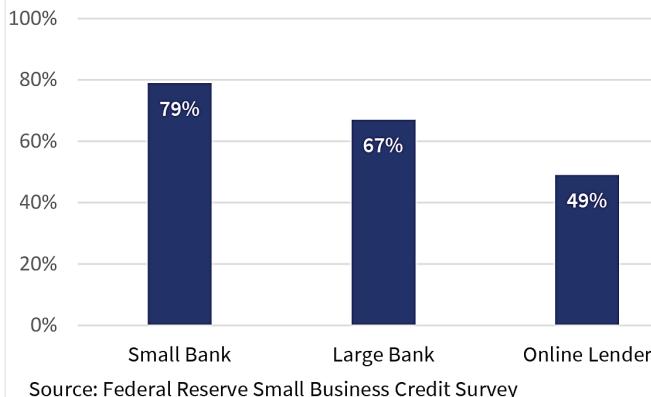
At a glance

Community banks are small businesses' most important source of capital. They are generally defined as smaller in size, engaging in basic banking activities, and operating in a limited geographic area. Avenues for credit have grown in recent years, and include conventional bank loans, lines of credit, venture capital, and new sources of online lending. Still, as Chart 1 illustrates, small banks, which are predominantly community banks and more likely to be located in rural areas, received the highest satisfaction rates from small businesses amongst lending sources. (Source: FDIC Federal Reserve)

Lending by community banks is a critical source of capital for small businesses

Community banks have larger shares of small business loans relative to their assets than large banks. The FDIC Call Reports provide insight into community bank lending to small businesses. Commercial and industrial (C&I) loans from community banks to small businesses are typically used for expenses such as working capital or capital expenditures, and are usually backed by collateral. In the fourth quarter of 2018, there were 1,441,109 outstanding C&I small business loans held by community banks worth over \$94 billion. (Source: FDIC)

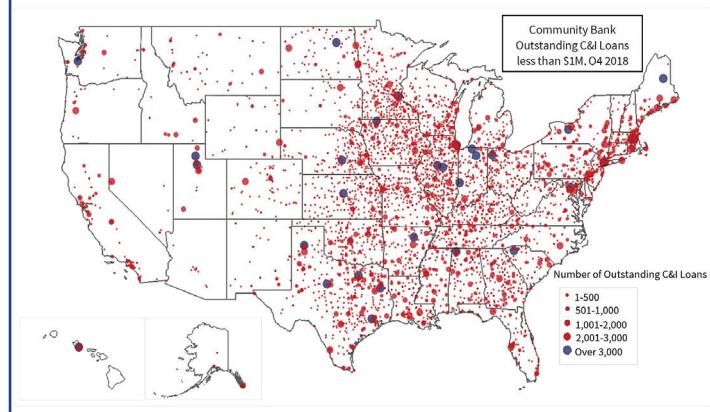
Chart 1. Small Business Lender Satisfaction, 2019



Community bank lending varies by geographic area

Chart 2 shows the number of outstanding small C&I loans in the fourth quarter of 2018 at individual community banks. The median number of C&I loans outstanding at a community bank is 155, and the most is nearly 40,000. C&I lending by community banks is concentrated in the eastern half of the U.S. (including the Plains and Texas), and is less prevalent in the Mountain states and West Coast. The top five states for community bank C&I lending are Texas, Illinois, Alabama, Iowa, and Minnesota. (Source: FDIC)

Chart 2. Where Are Community Banks Doing the Most Small Business Lending?



Community banks have been declining over the past few decades

Despite these high satisfaction rates, community banks have been declining in number for the past few decades. In the fourth quarter of 2018, there were 4,979 FDIC-insured community banks, down significantly from 7,442 at the end of 2008, and 14,323 at the end of 1988. Reasons for the long-term decline include regulatory changes, bank closures (mostly during economic downturns), banking mergers (mostly during economic expansions), and the decline in new bank charters. (Source: FDIC and Federal Reserve)