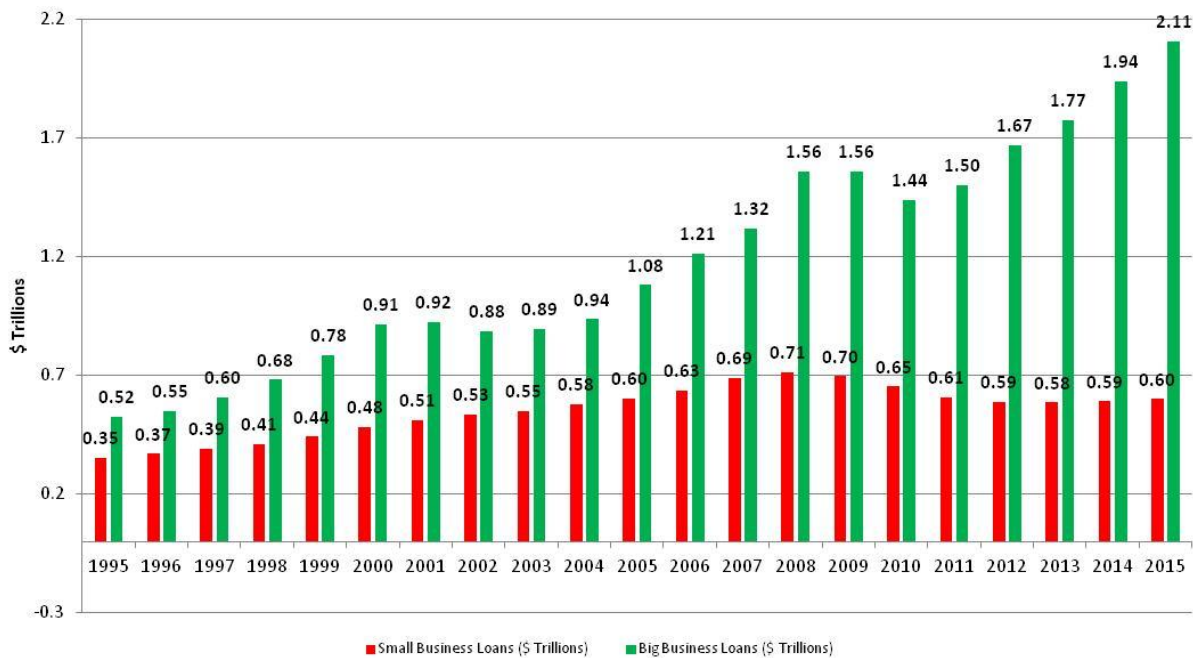


Testimony of Prof. Rebel A. Cole
Illinois Senate Committee on Financial Institutions
January 25, 2016

Sen. Collins and other members of the committee, good afternoon and thank you for inviting me to appear here today. My name is Rebel Cole and I am a Full Professor of Finance at DePaul University here in Chicago. I have been conducting research on the availability of credit to small businesses for more than 20 years, back to my time as a Federal Reserve Board staff economist and co-principal investigator of the Fed's 1993 National Survey of Small Business Finance. My small business research papers have appeared in top academic finance journals, and have been featured in the Wall Street Journal, among other media outlets.

I am here today to provide evidence on the decline in small business lending by banks, and, in particular, by the nation's ten largest banks, which control the vast majority of banking industry assets. I have analyzed publicly available data on the stock of small business lending over the past 20 years, and on the flow of small business lending over the past 10 years

Figure 1:
Amount of Business Lending by U.S. Commercial Banks, 1995-2015



First, let me talk about the stock of small-business lending as well as the stock of big-business lending. Figure 1 shows that the dollar value of bank small business lending increased every single year from 1996 - 2008, from \$350 billion to \$710 billion, an average growth rate of about 5%. Over the same period, the dollar value of bank big-business lending increased from \$520 billion to \$1.56 trillion, an average growth rate of about 10%. As we all know, 2008 was the beginning of the Great Recession and marked the short-term peak of bank lending. From 2008 - 2010, bank small business lending declined

from \$710 billion to \$650 billion--a decline of 8.5%. Over the same period, bank big-business lending declined from 1.56 trillion to 1.44 trillion--a decline of 7.7%.

Beginning in 2011, something very strange and troubling began to happen: banks began to increase big-business lending while, at the same time, continuing to decrease small-business lending. From 2010-2015, bank big business lending increased from \$1.44 trillion to \$2.11 trillion--an increase of 46.5%. Over this same time period, bank small-business lending declined from \$650 billion to a low of \$580 billion in 2013--a decline of 10.8%. During 2014-2015, banks slightly increased small-business lending to \$600 billion, but this amount was still 15.5% below the 2008 peak. In contrast, bank big-business lending had surpassed the 2008 pre-crisis peak by an astounding 35%. Had there been a similar rebound in small-business lending, the amount of small-business loans in 2015 would have been \$960 billion instead of only \$600 billion, a difference of more than 50%. Clearly, the banking industry has largely abandoned small-businesses in favor of Wall Street businesses.

**Figure 2:
Number of Small Business Loans Outstanding at U.S. Commercial Banks, 1995-2015**

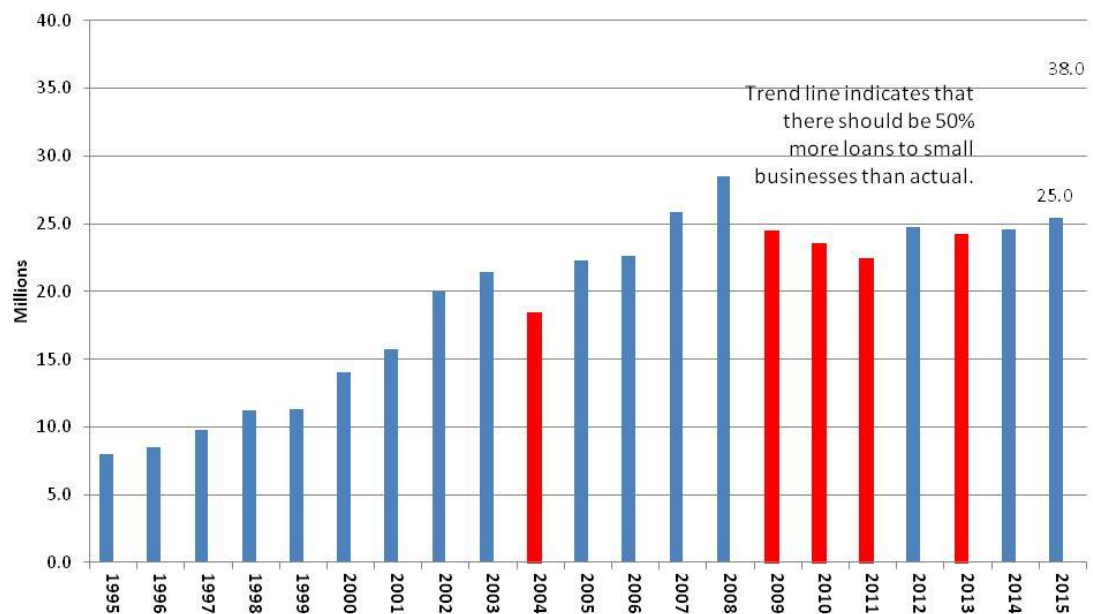
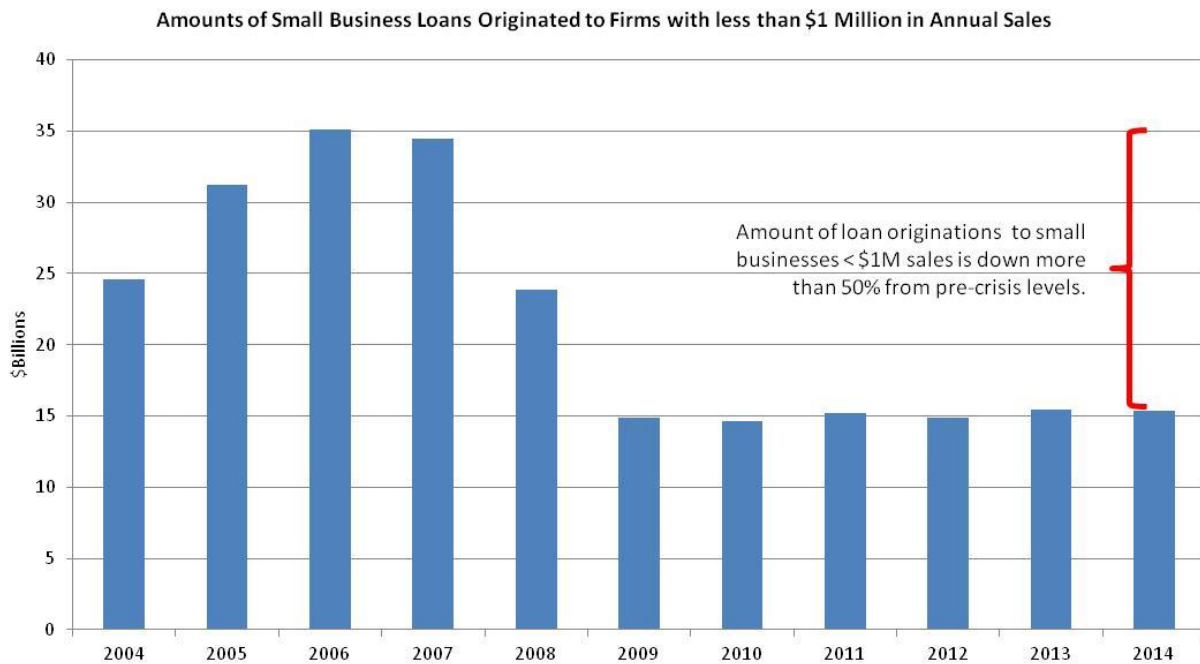


Figure 2 provides additional evidence, documenting how the number of small-business loans outstanding at commercial banks has changed over the 1995-2015 period. Regulators do not collect comparable data on the number of big-business loans. We see that the number of small business loans increased in each year from 1996-2008, except for the post-recession year of 2004, from 8 million to 28 million. Had this trend continued through 2015, there would have been 38 million loans outstanding in 2015. Instead, we see that the number of small-business loans declined from 28 million in 2008 to a low of 22 million in 2011, and has rebounded only to 25 million in 2015. As with the amount of small-business lending, there would have been about 50% more loans had the pre-crisis trend line been followed.

Next, let us turn to the flow of small business loans as measured by the annual number and amount of loan originations. Only banks with more than \$1 billion in assets are required to report this information as part of their compliance with the Community Reinvestment Act, but this covers about 90% of industry assets. I am going to focus on lending by the 10 largest banks by assets as of 2015. At this time, data are only available through 2014. Data for 2015 will be released in August.

Figure 3:
Amount of Small-Business Loan Originations by the 10 Largest U.S. Commercial Banks, 2004-2014

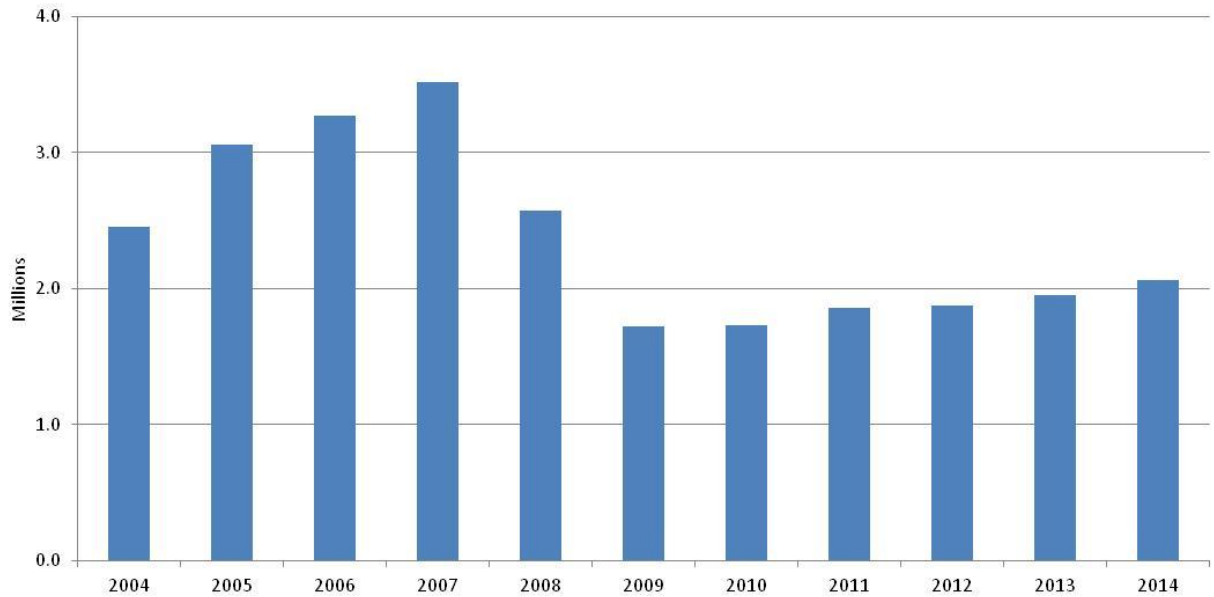


As shown in Figure 3, the amount of loan originations to firms with less than \$1 million in annual revenues increased from \$25 billion in 2004 to a peak of \$35 billion in 2006, declined slightly in 2007, and then plummeted over the next two years by more than 50% to only \$15 billion; since 2009, the amount of originations has remained at about that depressed level--about 50% below pre-crisis levels.

Figure 4 shows the number of loan originations to firms with less than \$1 million in annual revenues. The number of loan originations increased from about 2.5 million in 2004 to 3.5 million in 2007. During the next two years, the number of originations plummeted by more than 50% to only 1.7 million. From 2009-2015, there has been a small increase in the number of originations, from 1.7 million to 2.1 million. Even at that level, originations remain about 40% below the pre-crisis peak.

Figure 4:
Number of Small-Business Loan Originations by the 10 Largest U.S. Commercial Banks, 2004-2014

Numbers of Small Business Loans Originated to Firms with less than \$1 Million in Annual Sales



To summarize, I have looked at both the stock and flow of both the numbers and amounts of small-business lending over the past two decades. In general, both the number and amount of small business lending should be about 50% higher today. The declines in small-business lending have been driven by the largest Wall Street banks. During the post-crisis period, lending to Big Businesses has rebounded sharply; hence, it appears that the Wall Street banks, which are about 50% larger today than in 2008, have largely abandoned small-business lending in favor of lending to their Wall Street brethren.