NCRC
National Community Reinvestment Coalition

December 9, 2019

RE: Docket ID OCC-2019-0021, Loans to Small Businesses and Small Farms

To Whom it May Concern:

The National Community Reinvestment Coalition (NCRC), an association of more than 600 community-based organizations that promote access to basic banking services, affordable housing, entrepreneurship, job creation and vibrant communities for America's working families, suggests that the agencies carefully consider revisions to small business and small farm Call Report data. The agencies should also coordinate any rulemaking on Call Report data with revisions to the Community Reinvestment Act (CRA) regulations and the Consumer Financial Protection Bureau's rulemaking on Section 1071 small business loan data.

Coordinating the rulemaking is necessary in order to create a consistent set of instructions for lending institutions and an understandable and usable set of data for the public across Call reports, CRA data, and Section 1071 data. The definitions of a small business and a small business loan should be as identical as possible for the three regulations.

NCRC is not suggesting that Call reports, CRA data, and Section 1071 be the same database. When the government collects similar data for different purposes, however, it should to the extent possible use consistent definitions of key variables so that the various databases are as clear and consistent as possible for reporting entities as well as the general public. Our comments are aimed at developing an effective definition of small business loans, fully recognizing and expecting that some of the databases such as CRA data will continue to include data for lending to larger businesses in addition to small businesses. Developing consistent definitions of small business loans facilitates comparisons across databases and improves the ability of analyses to assess credit availability for small businesses compared to their larger counterparts.

The data must be refined based on objective research and analysis so that access to credit for the smallest businesses and farms can be accurately assessed. Any rulemaking that is not based on rigorous research will run afoul of CRA's mandate to require institutions to meet community credit needs, particularly those of low- and moderate-income communities and other underserved communities. If the data does not accurately measure access to credit for small and disadvantaged businesses and farms, it will provide a false picture of whether banks are actually responding to credit needs of businesses and farms. In addition, as pointed out by the request for comment, the Federal Reserve Board relies on robust and accurate small business loan data so that it can appropriately gauge economic strength and adjust monetary policy accordingly.

Size Standards for Small Business Loans (Questions 3a, c, and 6)

NCRC believes that the current definition of small business lending as non-residential loans of $1 million is basically sufficient but could be updated to take inflation into account. A GAO report finds that the $1 million limit for a small business loan should be updated to $1.6 million to account for inflation.[1] It would be reasonable to update this limit to account for inflation since the costs of equipment and other needs has increased for small businesses.

However, the data does not support a further increase beyond inflation. Using CRA loan data, NCRC conducted research to investigate dollar amounts of loans to the largest businesses with revenues above $1 million during 2016. NCRC excluded lenders with average loan amounts of $10,000 or less as these are banks that focus on smaller credit card loans. The sample was constructed to identify the loans of the largest dollar amounts. The average loan amount was $70,611 and the average loan amount for the quartile of loans with the largest amounts was $343,469. These loans do not come close to the $1 million limit. Therefore, according to the publicly available data, NCRC does not observe that banks are scraping up against the $1 million limit or are constrained by it.

In addition to a dollar size limit, the agencies should also adopt a revenue size limit to define small business and small farm loans. The CFPB concluded that the vast majority of small businesses had revenues less than $1 million.[2] The Call Report data should therefore adopt $1 million in revenues as a criterion to define a small business. A small business loan is therefore a loan of $1 million or less (adjusted for inflation) to a business with revenues under $1 million.

A revenue size limit effectively differentiates small businesses from their larger business counterparts. As the request for comments suggests, small businesses are more dependent on bank loans than larger businesses that raise funding through other mechanisms such as the corporate bond market. Therefore, the more precise is the definition of small business, the better the Call Report and CRA data will capture lending trends to these businesses.

The revenue size limit to define a small business should not be automatically updated to account for inflation. The great majority of small businesses under $1 million in revenue (about 82 percent) have no employees.[3] When considering any revenue increases to define a small business, the agencies should consult with the CFPB, SBA, and the Census for the most current revenue estimates for businesses with no employees, and those with few such as one or two employees. This would be the most accurate way of determining appropriate revenue size estimates for small businesses. Since these businesses are very small, it is unlikely that their revenue size will increase at the rate of inflation. These businesses such as landscaping are likely concentrated in the services sector and thus experience small revenue growth.

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[1] GAO, Effect of Regulations on Small Business Lending and Institutions Appears Modest, but Lending Data Could be Improved, August 2018, p. 15, https://www.gao.gov/assets/700/693755.pdf

[2] Consumer Financial Protection Bureau (CFPB), Key Dimensions of the Small Business Lending Landscape, p. 10, May 2017, https://www.consumerfinance.gov/data-research/research-reports/key-dimensions-small-business-lending-landscape/

[3] Ibid., p. 8.

Loan Stratification and Categorization (Questions 3b and 6)

Every five years, the agencies should adjust the overall dollar size for classifying a loan as a small business or small farm loan as well as the subcategories. Adjustments more frequently than every five years would be burdensome for lenders and would make year-to-year comparisons of lending trends difficult.

A hypothetical exercise illustrates the feasibility of the five year adjustment. From 1992 through 2017, the $1 million loan size would have increased to $1.6 million according to the GAO in order to take inflation into account. Over a five year time period, the increase in loan size is about $115,000; the new loan limit after five years would be $1,115,000 or about 112 percent greater than $1,000,000. In addition to increasing the overall size limit, the subcategories also would be increased by 112 percent.

Currently, in addition to the overall size limit of $1 million, the call reports include data for the number and dollar amount of loans for loans under $100,000, loans in amounts of $100,000 to $250,000, and loans in amounts of $250,000 to $1,000,000. Multiplying these subcategories by 112 percent and rounding would create new categories of loans up to $111,000, loans between $111,000 and $280,000 and loans above $280,000 and less than $1,115,000.

Small Business Administration (SBA) Standards for Small Business Classification (Question 7)

NCRC believes that SBA standards are not suitable for Call Report data because they are not consistent with the focus of CRA on underserved small businesses and LMI communities. For example, the SBA considers a brewery with 1,250 employees, and a television broadcast company with average annual receipts of $38.5 million, to be small businesses.[4] NCRC believes that it makes sense to use these standards in evaluating contracting opportunities as the SBA does, but that it is inappropriate to apply them to a bank's CRA performance, particularly on the lending test criterion of lending to small businesses with revenues under $1 million. The CRA evaluates how well financial institutions are meeting capital needs of underserved businesses, and businesses with annual revenue of $38.5 million do not face the same obstacles at securing financing as businesses with less than $1 million.

New or Outstanding Originations (Question 8)

The Call Report data should contain separate fields for new loans and outstanding loans. The CRA data submission requires data on new loans so adding fields related to new originations should not be burdensome for banks. In addition, Call Report data on originations in addition to

[4] U.S. Small Business Administration Table of Small Business Size Standards Matched to North American Industry Classification System Codes. Version 2017. Available online at https://www.sba.gov/sites/default/files/2018-07/NAICS%202017%20Table%20of%20Size%20Standards.pdf.

outstanding loans provides more information, which is valuable for the Federal Reserve's mission to measure and influence economic activity via monetary policy. The general public would also benefit from data on new originations so that they can assess how well banks are adhering to their CRA responsibilities of meeting their affirmative and continuing obligations to respond to credit needs. Data on originations provides the most direct indication of whether banks are adequately responding to new requests for credit.

Exemptions (Question 5)

The agencies must not exempt institutions based on a certain number or total amount of small business or small farm loans from Call Report requirements. The Call Reports are critical for determining a baseline of the total number of small business and small farm loans and the numbers and amounts of these loans for various asset categories of banks. Obtaining an accurate baseline of information of small business lending is vital for economic decision-making of the Federal Reserve Board and other agencies. In addition, the federal bank agencies have exempted banks below approximately $1 billion in assets from more detailed CRA loan reporting requirements. The Call Report data at least provides some baseline information of the overall market presence of these exempted lenders. Should their market presence increase significantly as indicated by Call Report data, the agencies would want to revisit their CRA exemptions for these banks.

Benefits Exceed Burden (Questions 10 & 11)

NCRC's suggestions maintain essentially the current practice of defining a small business and a small business loan in Call Report data and CRA data. Therefore, these suggestions do not represent any significant burden for lenders. Moreover, the benefits of NCRC's suggestions and refinements exceed burden since they provide more clarity and information about small business and small farm lending markets, which is vital for CRA and also the Federal Reserve's overall management of the economy. Banks collect data on their lending activity in order to judge their success in the market and the soundness of their underwriting. Therefore, prudent public sector reporting requirements do not entail any significant new costs to the data collection in which banks are already engaged.

Conclusion

The agencies should not make revisions to the Call Report data in isolation but instead should coordinate any revisions to Call Report data to be consistent with revisions to the CRA regulations and the Section 1071 data. The definition of a small business and a small business loan should be made as consistent as possible across the regulations. This work must also be informed by empirical research and analysis about how to best capture trends in the lending marketplace and how to best capture all of the lending in the marketplace undertaken by depository institutions. Establishing definitions or categories that exclude substantial amounts of small business or farm lending will undermine the agencies' statutory responsibilities to ensure that lenders are responding to credit needs for small business or small farm loans.

Thank you for your consideration of our views on this important matter. Feel free to contact me or Josh Silver, Senior Advisor, if you have any questions about our views.

Sincerely,

Jesse Van Tol
CEO