

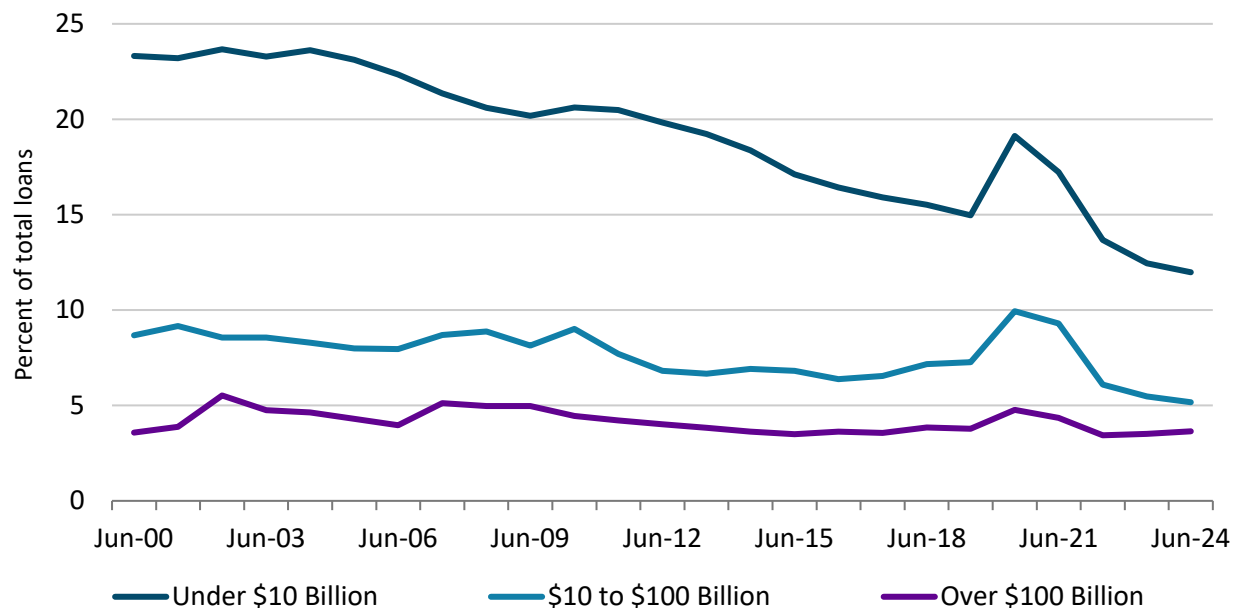
Community Banking BULLETIN: Highlight

Providing insights on community banking

Community bank focus on small business lending

Although community banks continue to allocate more of their portfolios to small business lending than regional and large banks, there has been a long-term declining trend.

Small Business Loans as a Percentage of Total Loans, by Bank Asset Size



Source: Reports of Condition and Income

- Aside from a brief spike in small business lending volume beginning in 2020 as a result of the federal government's Paycheck Protection Program (PPP), bank small business lending has been steadily declining; particularly at community banking organizations¹ (CBOs), which have been most active in the loan segment. Over the last two decades, small business loans at CBOs have declined from 24 percent to 12 percent of total loans as of 2Q 2024.
- Competition and demand may have contributed to the decline. Finance companies and financial technology (FinTech) lenders have become a growing source of competition for small business loans.² Additionally, respondents to the [Kansas City Fed Small Business Lending Survey](#) have reported decreased loan demand for nine consecutive quarters, creating further downward pressure on small business lending.
- Despite the decline, CBOs continue to hold a comparatively larger share of small business loans as a percent of total loans relative to both regional and large banks. As of 2Q 2024, small business loans as a percent of total loans at CBOs was more than double of regional and large banks, highlighting the [critical role of community banks](#) to the vitality of local economies.

Questions or comments? Please contact KC.SRM.SRA.CommunityBankingBulletin@kc.frb.org

¹ Community banking organizations are defined as having \$10 billion or less in total assets

² [Gopal and Schnabl \(2020\)](#) used Uniform Commercial Code (UCC) filings to estimate the volume of small business lending from Finance and FinTech lenders from 2006 to 2016 and concluded that that these entities may account for the "missing" bank lending to small businesses.