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A REPORT PREPARED FOR

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MASSACHUSETTS COMMUNITY & BANKING COUNCIL

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## FOREWORD

The Massachusetts Community & Banking Council (MCBC) is pleased to offer *Small Business Lending in Massachusetts, 2007-2011*, its 14<sup>th</sup> report on small business lending patterns. The report includes data on small business lending across the state and the impact of small business lending on the state's overall economy. As before, this report also focuses on small business lending in low income and traditionally underserved areas. Along with the report, MCBC is also providing supplemental data tables on small business lending in the form of an on-line appendix. The report and the appendix are both available on MCBC's website at [www.mcbc.info](http://www.mcbc.info). MCBC hopes that this report can help to increase access to credit for small businesses by providing a snapshot of current small business lending patterns and the performance of major types of lenders.

MCBC was established in 1990 to bring together community organizations and financial institutions to affect positive change in the availability of credit and financial services across Massachusetts by encouraging community investment in low and moderate income and minority group neighborhoods and providing research, other information, assistance and direction in understanding and addressing the credit and financial needs of low and moderate income individuals and neighborhoods.

MCBC's Economic Development Committee, which includes representatives from city and state programs, regulatory agencies, community and non-profit organizations and financial institutions, oversees preparation of this report and works to identify other ways to leverage public and private resources to support small business development. The Committee regularly hosts speakers from a variety of city, state and community-based programs that assist small businesses and promote economic development in low- and moderate-income areas. Further information on MCBC's committees and programs, along with other MCBC reports, are also available on MCBC's website.

MCBC depends on the financial support of its members to produce reports like *Small Business Lending in Massachusetts*. MCBC thanks the following financial institutions for their 2012 membership:

Abington Bank	Eastern Bank
Avon Co-operative Bank	Everett Co-operative Bank
Bank of America	Fiduciary Trust Company
Bank of Canton	Industrial Credit Union
Blue Hills Bank	Leader Bank, N.A.
Boston Private Bank & Trust Company	Mass Bay Credit Union
Braintree Cooperative Bank	North Cambridge Co-operative Bank
Cambridge Savings Bank	People's United Bank
Central Bank	RTN Federal Credit Union
Chelsea Bank	Sovereign Bank/Santander
Citi	State Street Corporation
Citizens Bank of Massachusetts	StonehamBank – A Co-operative Bank
Colonial Federal Savings Bank	TD Bank
Dedham Savings	Winchester Co-Operative Bank
Eagle Bank	Winchester Savings Bank
East Cambridge Savings Bank	

MCBC's 2012 Community Partners include Chelsea Neighborhood Developers, Community Teamwork, Inc., DotWell, Dudley Square Main Streets, ESAC, the Fair Housing Center of Greater Boston, Interise, the Massachusetts Affordable Housing Alliance, the Massachusetts Association of CDCs, the Metropolitan Boston Housing Partnership and the Somerville Community Corporation.

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## EXECUTIVE SUMMARY

This report is the 14<sup>th</sup> report on small business lending commissioned by the Massachusetts Community & Banking Council (MCBC). The report reviews recent small business lending trends in Massachusetts with an emphasis on traditionally underserved areas across the state. The report also reviews changes in economic conditions and other factors that affect small business lending. The report primarily utilizes two sources of small business lending data: annual data collected under the Community Reinvestment Act (CRA) and quarterly Call Report data. A more detailed discussion of the sources of data is provided in the section entitled Data Sources at the end of this report, and additional detailed data on small business lending trends in Massachusetts is available in the online Appendix.

CRA reported small business loan originations in Massachusetts, which includes the lending activity of large commercial banks that are headquartered outside the state, increased in 2011 after declining in each of the previous three years. At the same time, other more current data sources, including quarterly Call Report data through June 30, 2012, which includes local community banks that are not included in the CRA database, and data compiled by the SBA indicate that small business lending continues to face downward pressures. The following are some of the report's most important findings:

### LOAN VOLUME

- **The annual CRA data shows that the volume of small business loan originations in Massachusetts in 2011 totaled 109,600 loans for \$3.7 billion, which represents an increase compared to the previous year when small business applicants in the state received 97,124 loans for \$3.5 billion.** CRA-reported small business loans in Massachusetts increased by 12.8% and 6.0% in 2011 in terms of the number and dollar amount of loans respectively which was smaller than the overall increase experienced in the rest of the country.
- **The quarterly Call Report data shows that local community banks, many of which are not included in the CRA database, reported 66,007 small business loans for \$10.0 billion as of June 30, 2012, compared to 69,725 loan for \$10.1 billion as of June 30, 2011.** Small business loans at local community banks declined by 5.4% and 1.4% in terms of the number and dollar amount of small business loans during the twelve months ended June 30, 2012 which also deviated from the national trend.
- **Loans guaranteed by the SBA declined in 2012 after reaching record levels in 2011.** SBA guarantees in Massachusetts totaled \$408.8 million for the twelve months ended September 30, 2012 which represents a 3.7% decline compared to the previous fiscal year. On a national basis, SBA guarantees declined by 10.7%.
- **Credit unions in Massachusetts reported 4,938 small business loans for \$1.2 billion as of June 30, 2012, compared to 4,747 loans for \$1.1 billion as of June 30, 2011.** Member business loans at local credit unions increased by 4.0% and 10.0% in terms of the number and dollar amount of loans during the twelve months ended June 30, 2012.

### LENDERS

- **The CRA data shows that local CRA reporters, including the large commercial banks that have a physical presence inside Massachusetts but are headquartered outside the state, originated a total of 18,215 small business loans for \$2.6 billion in 2011, which represented 16.6% of the total number of small business loans in Massachusetts and 70.4% of small business loan dollars.** Local CRA reporters account for the substantial majority of small

business lending activity in Massachusetts although their overall market share declined in 2011 after three consecutive years of increases. In 2011, local CRA reporters saw their share of small business loan dollars decline to 70.4% compared to 72.2% in 2010.

- **A closer examination of the data of local CRA reporters shows that, while their gains were pared slightly in 2011, local Massachusetts-based community banks have generally outperformed the large commercial banks that operate in the state in recent years.** The reasons behind this shift are complex but may be related to the regulatory and internal pressures felt by the nation's largest banks in the wake of the financial crisis to deleverage their balance sheets, tighten their underwriting standards, and improve their capital positions.
- **Local community banks maintained a substantial market advantage over the large commercial banks that have a physical presence in Massachusetts but are headquartered outside the state,** and accounted for 45.3% of small business loan dollars in Massachusetts in 2011 while their larger commercial bank competitors accounted for 26.9% of small business loan dollars.
- **Over the past five years, the average size of CRA-reported small business loans at local community banks has increased while the average loan size at the large commercial banks has declined.** The average size of a small business loan at local community banks increased from \$160,468 in 2007 to \$186,811 in 2011 while the average loan size at the large commercial banks has declined from \$136,958 to \$114,743.
- **Credit card lenders reported an estimated total of 80,800 small business credit card loans in Massachusetts in 2011 for \$510.4 million, which represented 73.7% of the total number of CRA-reported small business loans and 13.7% of loan dollars.** Credit card lenders experienced increases of 11.1% and 10.8% in the number and dollar amount of small business loans in 2011, following declines of 5.2% and 5.6% respectively in 2010.
- **Other out-of-state CRA lenders originated 10,032 CRA-reported small business loans in Massachusetts in 2011 for \$557.2 million, which represented 9.7% of the total number of small business loans and 15.9% of loan dollars.** Other out-of-state lenders experienced increases of 40.7% in the number of CRA-reported small business loans and 15.0% in loan dollars in 2011, following declines of 20.2% and 8.5% respectively in 2010.

#### **LENDING IN TRADITIONALLY UNDERSERVED AREAS**

- **Businesses in low and moderate income census tracts in Massachusetts received a total of 20,662 small business loans in 2011 for \$777.9 million,** compared to the previous year when borrowers in low and moderate income census tracts received 17,799 loans for \$730.2 million.
- **Local CRA lenders continued to account for the vast majority of small business loans dollars in low and moderate income census tracts across the state.** Local CRA lenders made a total of 3,747 loans for \$571.3 million in 2011, representing 18.1% of the total number of small business loans in low and moderate income areas and 73.4% of loan dollars. In comparison, local CRA lenders accounted for 19.1% of the number of small business loans in lower income areas and 74.3% of loan dollars in 2010.
- **Low income areas in Massachusetts experienced a larger increase in small business loan dollars in 2011 than other areas in Massachusetts, while moderate income areas experienced the smallest increase.** Low income census tracts in Massachusetts experienced an overall increase of 10.3% in small business loan dollars from 2010 to 2011 while moderate

income census tracts experienced an overall increase of 4.6%.

- **Low and moderate income census tracts continued to receive a smaller share of small business loans in 2011 than one might expect given the local demographics.** Low and moderate income census tracts, which account for 26.3% of the total population of Massachusetts, received 18.9% of the total number of CRA-reported small business loans in the state in 2011 and 20.9% of the total loan dollars, compared to 18.3% and 20.8% respectively for the previous year.
- **The lowest lending rates in Massachusetts, measured in the amount of loan dollars per 100 firms, were recorded in moderate income communities in 2011 although it is worth noting that the lending rates in low income areas were essentially in line with the rates in middle and upper income areas.** Moderate income census tracts received an aggregate \$674,000 per 100 businesses, representing 84.6% of the overall lending rates across the state, while low income census tracts in Massachusetts received an aggregate \$814,000 per 100 businesses, representing 102.2% of the overall lending rate across the state.
- **In terms of racial composition, the lowest lending rates were recorded in high minority communities in Massachusetts in 2011 while the highest lending rates were recorded in higher income white communities.** High minority census tracts in Massachusetts received \$606,000 per 100 businesses, representing 76.1% of the overall lending rate across the state. Higher-income white communities received an average \$819,000 per 100 businesses or 102.8% of the overall lending rate.
- **At the same time, lending rates in high minority communities rebounded strongly in 2011 after falling sharply in the previous year.** The overall lending rate in high minority census tracts in Massachusetts increased by 23.0% in 2011, which exceeded the increases in other areas, after declining by 19.5% in the previous year. The lowest small business lending rates have been in either low or moderate income census tracts and high minority census tracts in each of the past five years.

#### **GEOGRAPHIC DISTRIBUTION**

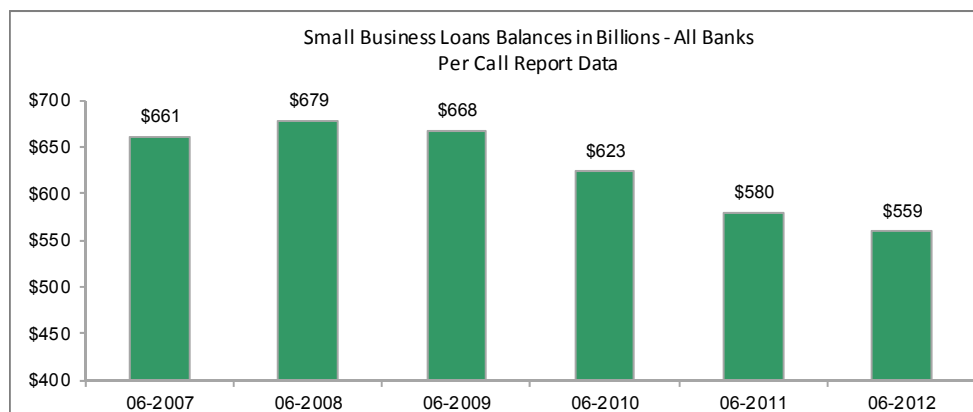
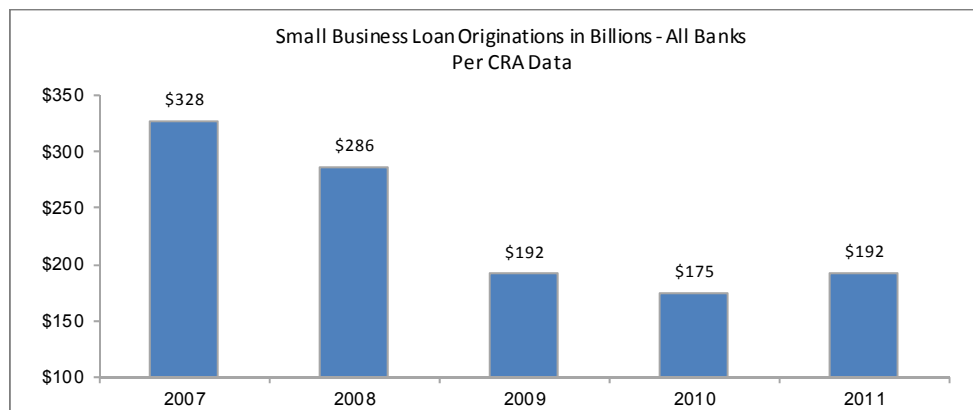
- **A review of the annual CRA data from the 15 largest metropolitan areas across the country shows that greater Boston ranked 8<sup>th</sup> in terms of the change in CRA-reported small business loan dollars in 2011 compared to other most major cities across the country.** Nine of the 15 largest metro areas experienced modest increases in small business loan origination volume in 2011, while six metro areas experienced declines.
- Nine of the fourteen counties in Massachusetts experienced increases in CRA-reported small business lending volume in 2011. On a percentage basis, the changes in small business loan dollars ranged from a 23.5% decrease in Dukes County to a 46.2% increase in Nantucket County. In terms of dollar amounts, the changes in small business loan volume from 2010 to 2011 ranged from a decrease of \$13.0 million in Barnstable County to an increase of \$61.9 million in Suffolk County.
- The city of Boston, which accounts for 9.3% of the state's population, received \$364.4 million in CRA-reported small business dollars in 2011 and accounted for 9.8% of the total loan dollars, while the cities of Worcester and Springfield, which account for 2.7% and 2.4% of the state's population respectively, received 1.9% and 1.3% of the total loan dollars in the state.

# INTRODUCTION

This report is the 14<sup>th</sup> report on small business lending patterns commissioned by the Massachusetts Community & Banking Council (MCBC). The report reviews recent small business lending trends in Massachusetts with an emphasis on traditionally underserved areas across the state. The report also reviews changes in economic conditions and other factors that affect small business lending. The first section of the report focuses on overall small business lending trends in Massachusetts, and examines changes in loan volume, differences between types of lenders, and changes in the business lending climate. The second section focuses on small business lending patterns in lower income and traditionally underserved areas across the state

The vital role that small businesses play in our economy, and the critical relationship between access to credit and economic recovery, are clear. Most businesses – both large or small – use some form of bank financing or other type of credit on a regular basis to sustain and grow their business operations. Since larger businesses generally have a greater capacity to weather economic downturns as well as more options when it comes to funding their operations, reliable access to credit plays a particularly critical role for small businesses. The recent financial crisis and the subsequent economic downturn signaled an end to the days of relatively easy money that characterized the mortgage, consumer, and small business credit markets several years ago. While some economic indicators have improved, the pace and resilience of the recovery remain uncertain, and a review of national small business lending data shows that small business loan originations and balances continue to face downward pressure.

CHART: Small business loans at banks across the country have declined for the past four years





This report utilizes two sources of small business lending data: annual data collected under the Community Reinvestment Act (CRA) and quarterly Call Report data. While there are important differences between the two sources, each offers an important perspective on small business lending trends. The chief advantage of the annual CRA data, which covers primarily the largest banks in the country as well as selection of smaller lenders, is that it includes information about the geographic location of the loan which makes it possible to analyze lending trends in traditionally underserved areas and to analyze the local data of lenders that are not headquartered in Massachusetts. The chief advantage of Call Report data, which covers all insured banks across the country, is that it is representative of all banks regardless of asset size and is available on a quarterly rather than annual basis.

The use of Call Report data was introduced in last year's report in response to a 2011 study of small business lending in Massachusetts undertaken by the Massachusetts Bankers Association (Mass Bankers). Their study, which utilized both annual CRA data and quarterly Call Report data, found that local community banks in Massachusetts, which are better represented in the quarterly Call Report data, experienced a modest increase in small business lending activity over the past few years while large commercial banks and out-of-state lenders that do business in the state, which are better represented in the annual CRA data, experienced substantial declines. The Mass Bankers study confirmed the importance of utilizing both sources of data.

In addition to the annual CRA data and quarterly Call Report data, this report also utilizes credit union lending data and data compiled by the US Small Business Administration (SBA), demographic data compiled by the US Census Bureau, economic data compiled by the Bureau of Labor Statistics, and business demographic data compiled by Dunn & Bradstreet.

The primary goal of this report is to contribute to improved credit flows to small businesses across Massachusetts, particularly in traditionally underserved areas, by presenting a careful *description* of small business lending trends that all interested parties can agree is fair and accurate. It is beyond the scope of this report to offer either an *explanation* of why the observed outcomes have occurred or an *evaluation* of how well lenders have performed. Rather, this report's descriptive contribution is intended to be one input to the complex, on-going tasks of explanation and evaluation.

# **SECTION I**

**SMALL BUSINESS LENDING IN MASSACHUSETTS:**

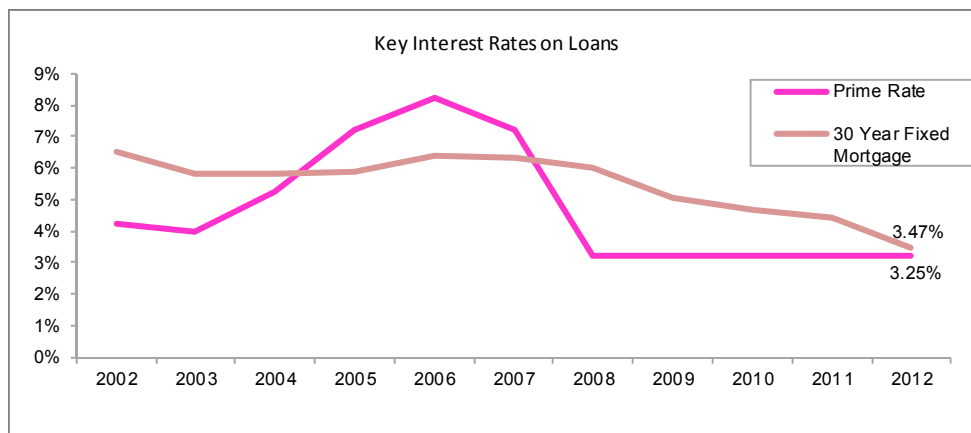
**A STATEWIDE REVIEW**

## CURRENT ECONOMIC CONDITIONS

A review of some of the current economic conditions that influence small business lending shows that the economic climate in Massachusetts and across the country is improving at a sluggish pace, and the outlook for a more robust recovery remains uncertain due to stubbornly high unemployment and uneven economic growth.

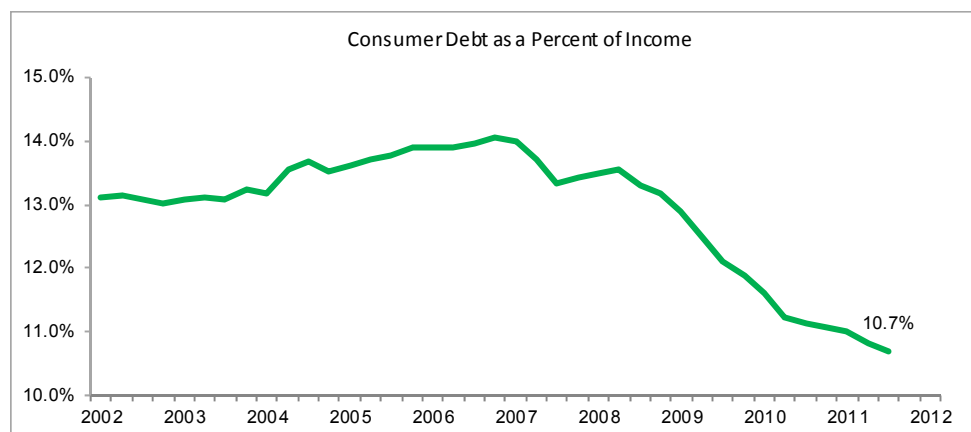
In terms of borrowing costs, the key interest rates for commercial loans and mortgages remain at their lowest levels since the 1950s. **The prime rate, which is the rate that banks charge their best business customers has been pegged at 3.25% for the past four years while the rate on 30 year fixed-rate mortgages has trended down to 3.47% as of September 2012.**

CHART: Key lending rates remain near historic lows



While the attractiveness of low interest rates has persuaded large numbers of consumers and business owners to refinance their homes or take on new business credit in recent years, they have not yet proved sufficient to absorb the oversupply of foreclosed homes or to stimulate robust loan demand and loan growth. In fact, consumers have continued to shed debt in the existing low interest rate environment, and consumer debt as a percent of income is substantially lower now than it was 10 years ago when the country was struggling with its previous major recession.

CHART: Consumer debt has continued to trend down

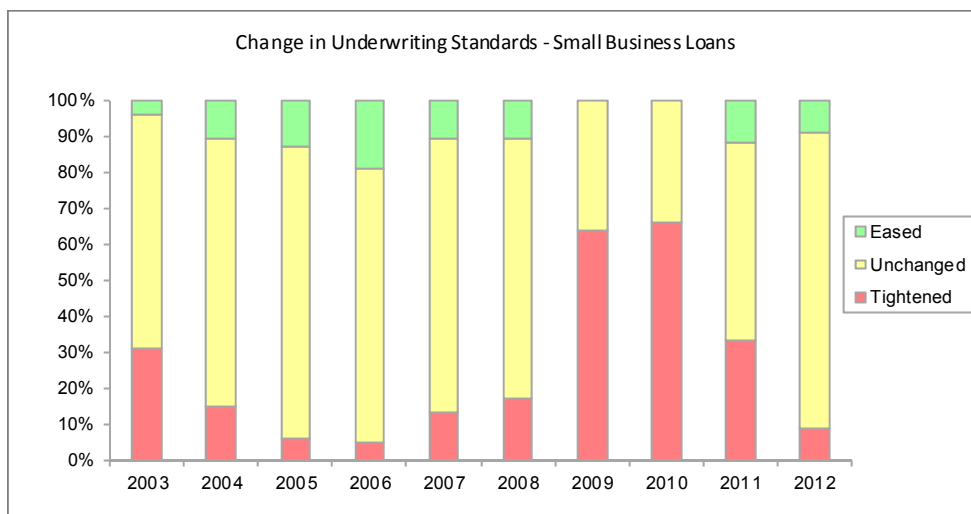


The reasons behind the decline in consumer debt are likely related to high unemployment, job uncertainty, and lack of confidence in the economic outlook. For businesses, many of which have similarly reduced the debt on their balance sheets over the past few years, the reasons appear to be related in part to poor sales, declining collateral values, and the desire to de-leverage during a period of economic uncertainty.

According to a 2011 study undertaken by the Massachusetts Bankers Association (Mass Bankers), one of the key factors contributing to the recent decline in small business lending is the decline in the effective demand for small business loans, which is a measure that combines the desire for a loan with the resources, or credit worthiness, to obtain it. The Mass Bankers study points to the effects of the recent recession on sales and business expansion plans as well as the rise in business loan delinquencies and the decline in business collateral values of many small businesses as factors that reduce both credit demand and credit worthiness.

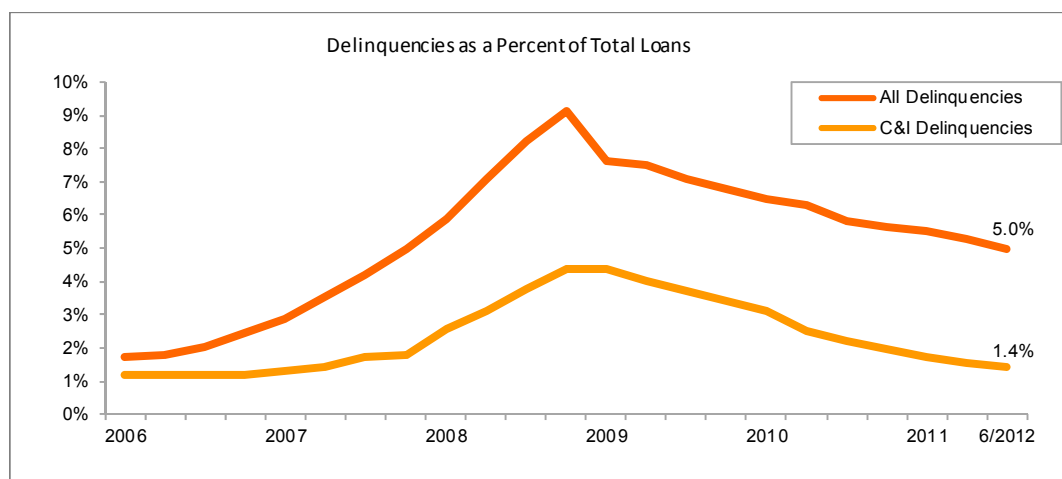
While it is reasonable to link poor economic conditions with a decline in the demand for credit, it is also important to consider the extent to which changes in underwriting standards have contributed to a decline in the supply of credit. **According to the OCC's 2012 Survey on Credit Underwriting Practices, banks substantially tightened underwriting standards in the wake of the recent financial crisis. The survey, which covers all major loan categories, shows that roughly 60% of respondents tightened standards in 2009 and 2010 for small business loans, 33% tightened standards in 2011, and 9% tightened standards in 2012.** While the trend indicates a slowdown in tightening, it is worth noting that only 12% of respondents in 2011 and 9% of respondents in 2012 reported easing of underwriting standards for small business loans, meaning that the tightened standards that were put in place over the past few years remain, in most cases, in place. For those who tightened standards, the economic outlook was cited a major reason among the majority of respondents, while competition was cited by a majority of respondents as a major reason among those who eased standards.

CHART: Underwriting standards for small business loans have been tightened



In terms of asset quality, the overall delinquency rate at banks nationwide, which includes delinquent commercial loans, mortgage loans, and consumer loans, has continued to decline and totaled 5.0% of total loans as of June 30, 2012, an improvement compared to recent levels but still high in historic terms. While the data does not allow us to identify the delinquency rate for small business loans, it is likely that the rate for these loans mirrors the delinquency rate for commercial and industrial (C&I) loans which declined to 1.4% as of June 30, 2012, also higher than historic levels.

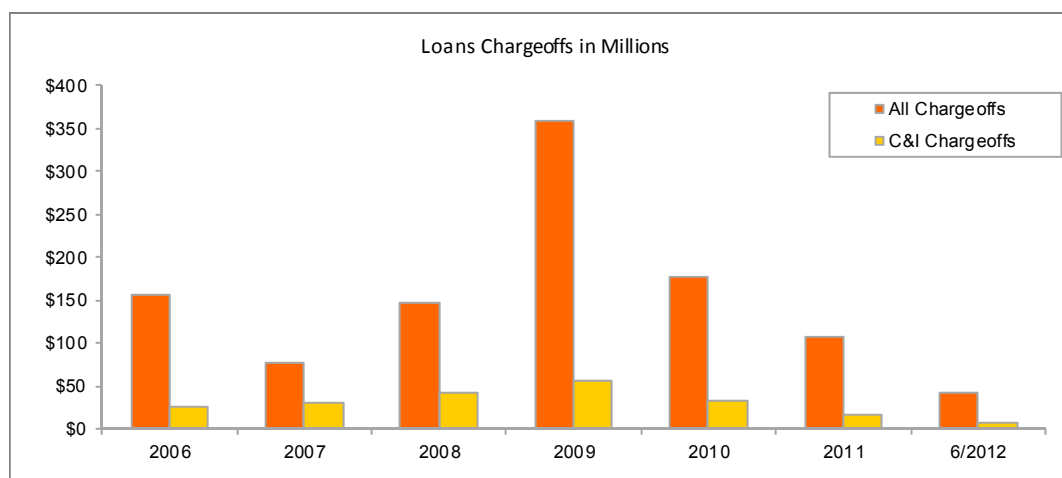
CHART: Loans delinquencies at US banks have steadily improved over the past three years



NOTE: Delinquent loans includes loans 30 days or more past due and still accruing interest as well as nonaccruals

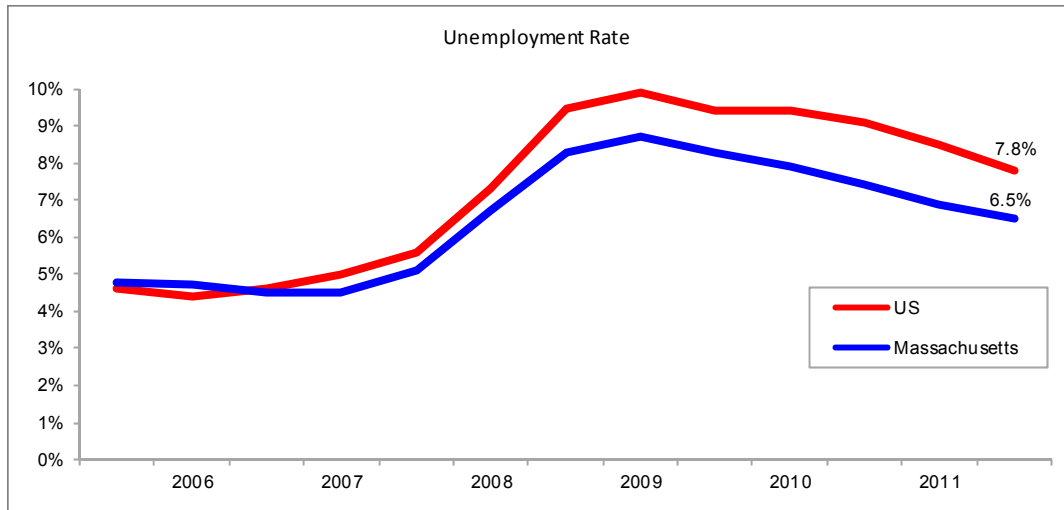
Loan charge-offs at banks have also continued to decline. **For the first six months of 2012, banks reported overall net loan charge-offs of \$42.2 million, which is substantially less than half as much as was charged off during the prior full year.** C&I charge-offs at banks totaled \$6.7 million through June 30, 2012, which is also substantially less than half as much as was charged off during the prior full year. While asset quality problems at banks have declined in recent years, the dramatic rise in charge-offs and delinquencies at the beginning of the recent financial crisis contributed to the greatest number of bank failures across the country since the savings and loan crisis of the 1980s, including the failure of 140 banks in 2009, 157 banks in 2010, 92 banks in 2011, and 30 banks through the first half of 2012. The high level of nonperforming loans have also weighed heavily on bank profits and capital reserves and have discouraged the easing of underwriting standards.

CHART: Loans charge-offs at banks have also declined significantly since their recent peak



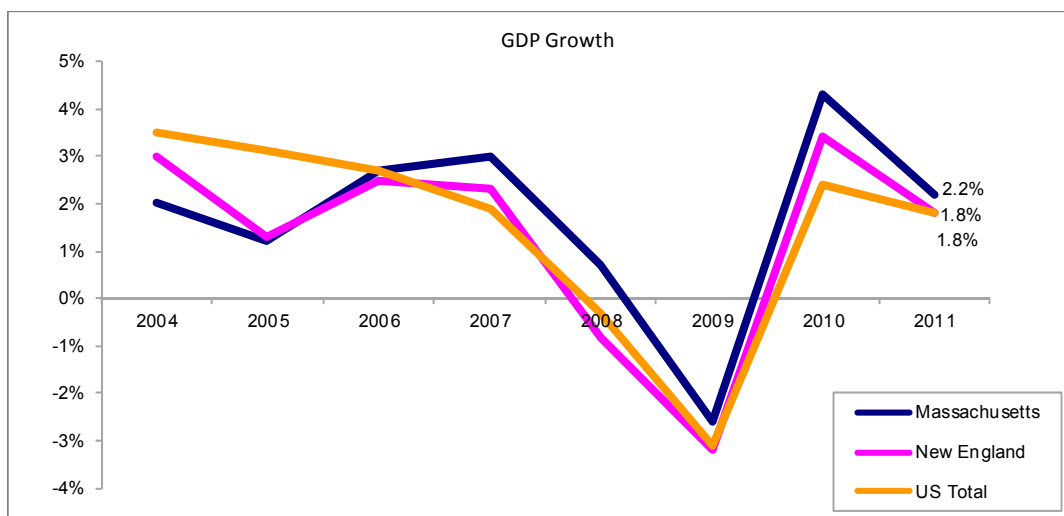
**In terms of job growth, the unemployment rate in Massachusetts declined from 7.2% as of September 2011 to 6.5% as of September 2012, while the national unemployment rate declined from 9.0% to 7.8%. While the Massachusetts unemployment rate has improved over the past two years, it remains well above recent lows.**

CHART: The Massachusetts unemployment rate but remains substantially above recent lows



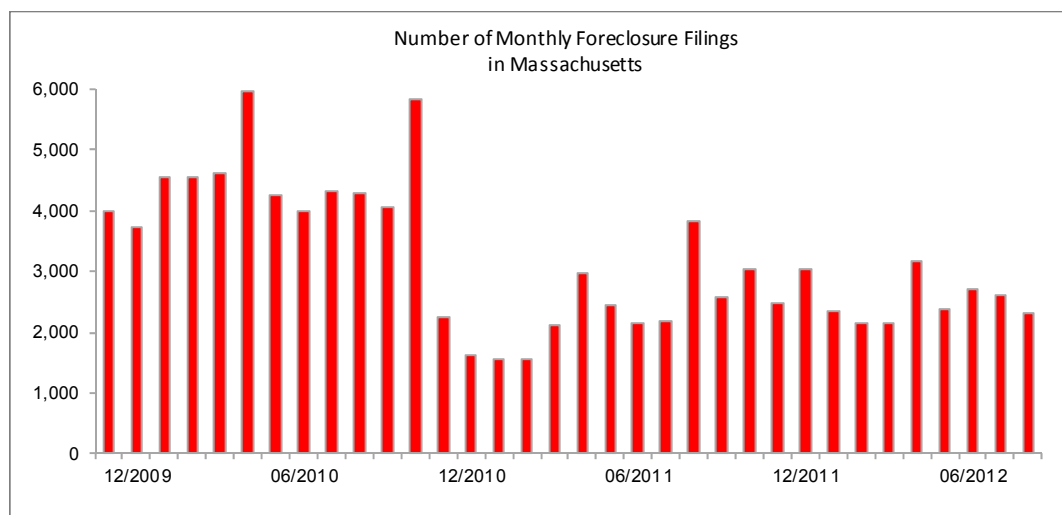
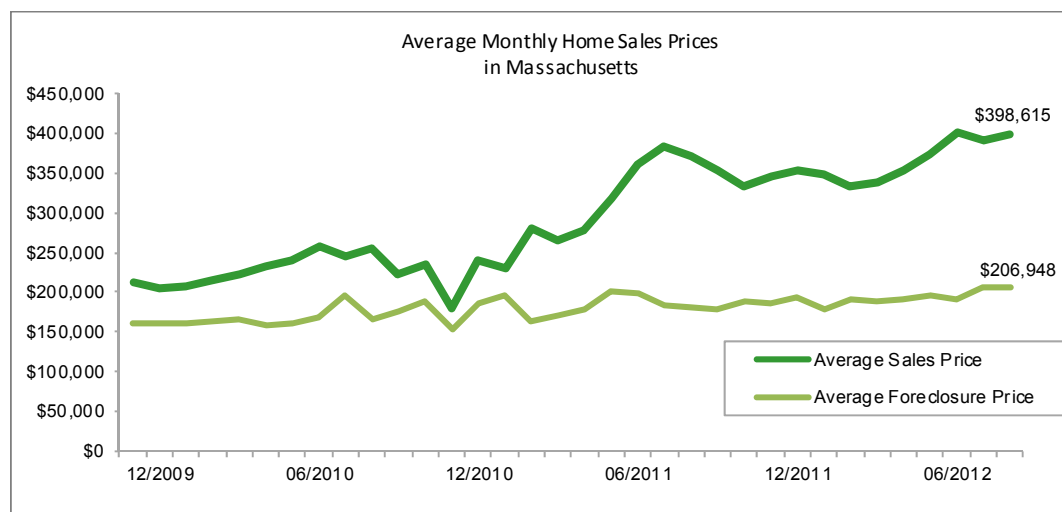
**In terms of economic activity, real GDP growth in Massachusetts declined from 4.3% in 2010 to 2.2% for 2011, while the national GDP figures declined from 2.4% in 2010 to 1.8% for 2011. The sluggish and uneven recovery in economic growth in the wake of the recent recession remains a major concern to economic and business leaders and continues to dampen confidence and negatively impact the spending habits of consumers as well as the expansion efforts of small business owners. National GDP growth figures, which are updated more frequently than state GDP figures, remained sluggish during the first three quarters of 2012, ranging from 1.3% to 2.0%.**

CHART: Massachusetts and national GDP growth declined in 2011 and the outlook remains uncertain



**In terms of real estate values, according to RealtyTrac, an online resource for real estate statistics and foreclosure data, average home sales prices in Massachusetts have trended up in recent months although monthly foreclosure filings continue to weigh the market down.** A sustained improvement in home values could bode well for homeowners and business owners alike as home equity has historically been a reliable source of discretionary spending and business credit both of which ultimately benefit all participants in the economy. The viability of many small businesses in Massachusetts and across the country depends to a large extent on continued stabilization and improvement in home values.

CHARTS: Home prices in Massachusetts have trended up in recent months although foreclosure filings continue to weigh the market down



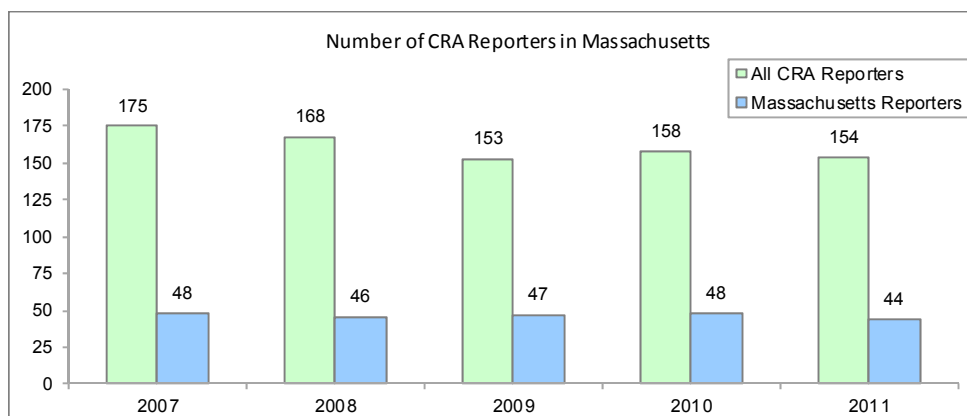
Information regarding changes in small business demographics in Massachusetts, which is updated through 2009 and which traditionally lags the key economic indicators discussed above, is presented in the section on Data Sources at the end of this report.

## CRA DATA AND CALL REPORT DATA

As noted in the introduction, this report utilizes two sources of small business loan data, namely annual CRA data and quarterly Call Report data. While both sources utilize the same definitions for small business loans, the two sources have important differences including the number of institutions that are required to report, the frequency of reporting, and the fact that annual CRA data focuses on small business loan *originations* while quarterly Call Report data focuses on small business loan *balances* at the end of a given period. The differences between the two data sources are discussed in more detail in the Data Sources section of this report.

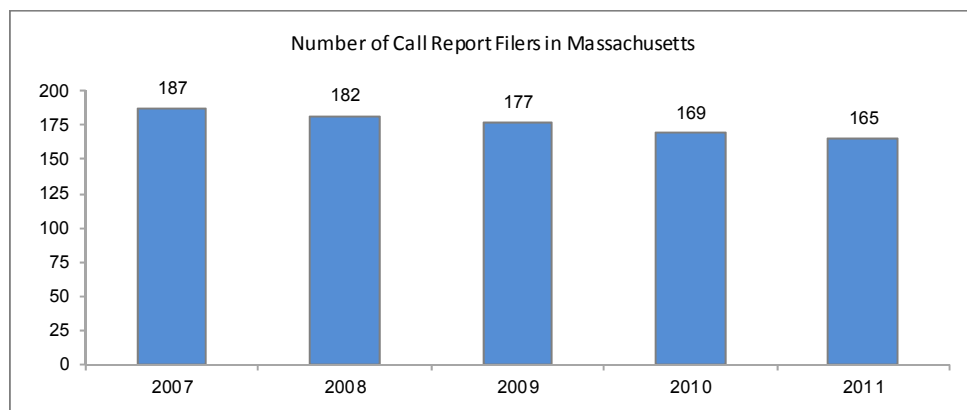
The number of lenders in both the annual CRA database and the Call Report database varies from one period to the next. A review of the CRA database shows that 154 lenders reported small business loan activity in Massachusetts in 2011 compared to 158 lenders in the previous year. Of that total, 44 were local lenders, which includes lenders that are headquartered in Massachusetts as well as lenders that have a substantial branch presence in the state, compared to 48 local lenders in the previous year. On a national basis, there were a total of 859 lenders included in the CRA database compared to 880 lenders in the previous year.

CHART: A review of the CRA database shows that the number of lenders that reported small business loan originations in Massachusetts has also declined in recent years



A review of the Call Report database shows that the number of bank and thrift institutions headquartered in Massachusetts declined from 169 at the end of 2010 to 165 at the end of 2011. On a national basis the total number of banks declined from 7,730 at the end of 2010 to 7,468 at the end of 2011.

CHART: A review of the Call Report database shows that the number of banks and thrifts headquartered in Massachusetts has declined in recent years



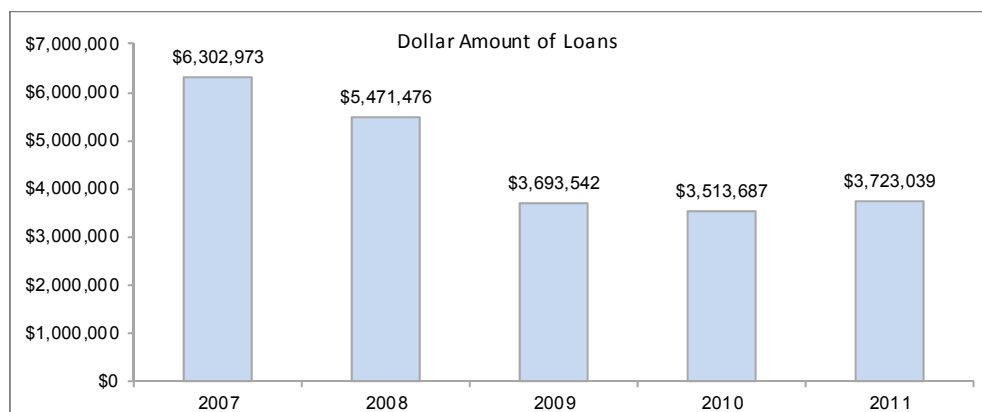
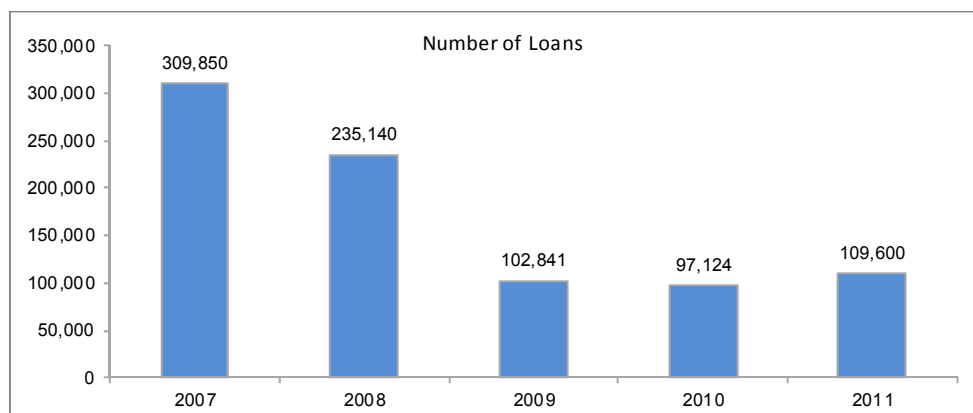


## SMALL BUSINESS LOAN VOLUME

A review of the most recent annual CRA data, which primarily reflects the small business loan activity of the nation's largest lenders, shows that the volume of CRA-reported small business loan originations in Massachusetts in 2011 totaled 109,600 loans for \$3.7 billion, which represents an increase compared to the previous year when small business applicants in the state received 97,124 loans for \$3.5 billion. The 2011 increase is more or less in line with the increase experienced at the national level and represents the first increase in CRA-reported small business loans in the four years since the start of the recent financial crisis. Massachusetts community banks, which are discussed in greater detail in a later section, accounted for substantial portion of the dollar volume of CRA-reported activity in 2011.

It is important to note that the reported CRA small business loan volume is influenced to some extent by both the reporting requirements associated with the CRA law as well as the effects of mergers and acquisitions. In 2011, there were three local community banks with assets above the CRA reporting threshold that reported CRA data for the first time, as well as five lenders with assets below the reporting threshold that did not report CRA data despite having voluntarily reported data in the previous year. In addition, there were two institutions that were acquired by other CRA reporters, including one local lender that was acquired by an out-of-state bank. These structural changes are worth noting although the net effect appears to be a wash. For example, the three new CRA reporters accounted for 2.7% of the CRA reported loan volume in 2011, while the seven lenders that were involved in mergers or acquisitions or otherwise stopped reporting CRA data accounted for 2.9% of loan volume in the previous annual CRA reporting period.

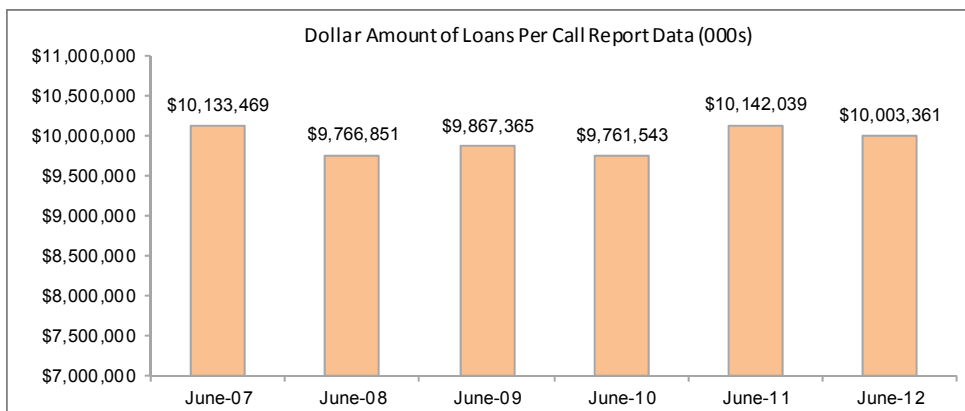
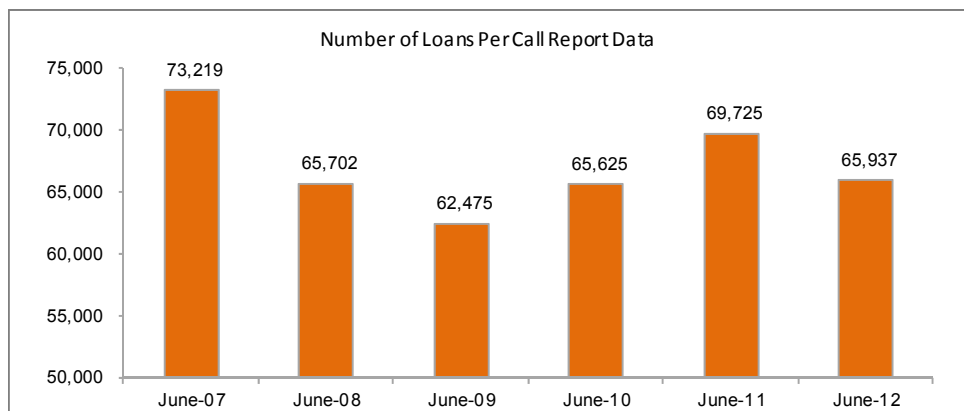
CHARTS: Small business loan originations in Massachusetts per the annual CRA database



The most recent quarterly Call Report data, which includes local community banks that are not included in the annual CRA database, shows that the volume of small business loans at Massachusetts banks and thrift institutions declined over the past year. **The volume of small business loans on the books of local community banks totaled 66,007 small business loans for \$10.0 billion as of June 30, 2012, compared to 69,725 loan for \$10.1 billion as of June 30, 2011.** As will be discussed in more detail in the following pages, the decline in Massachusetts did not follow the national trend.

As was the case with the annual CRA database, it is important to note that the small business loan volume associated with the Call Report database is also influenced by structural changes related to mergers and acquisitions. During the twelve months ended June 30, 2012, there were four local community banks that were acquired by other lenders, including one institution that was acquired by an out-of-state lender. In addition, there were two local community banks that merged to form a new entity. These structural changes are worth noting although the net effect appears to be relatively modest. For example, the one institution that was acquired by an out-of-state bank during the twelve months ended June 30, 2012 accounted for just 2.1% of the small business loan volume in the previous year, while the small business loan activity of the institutions that were involved in mergers or acquisitions involving other Massachusetts banks continued to be reflected in the successors Call Report balance sheets.

CHARTS: Small business loans on the books of Massachusetts banks per the Call Report database

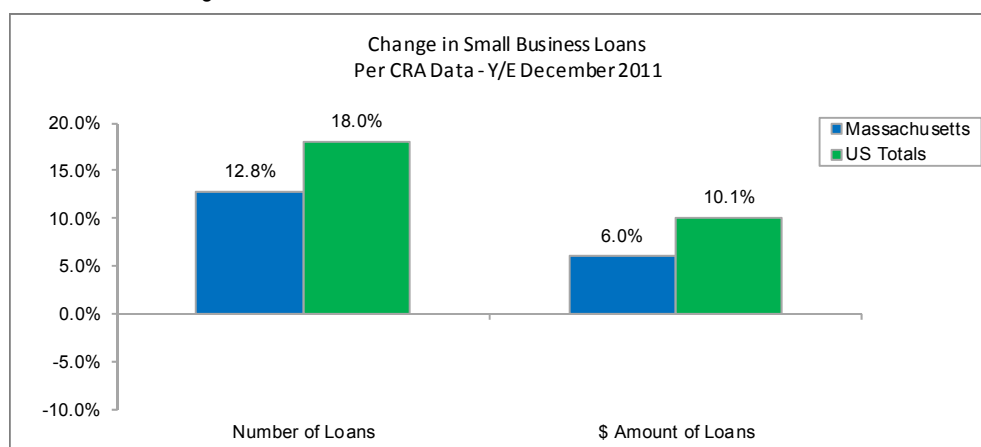


## SMALL BUSINESS LOAN GROWTH

A review of the key sources of small business lending data provide somewhat conflicting perspectives on the direction of lending trends in Massachusetts and across the country.

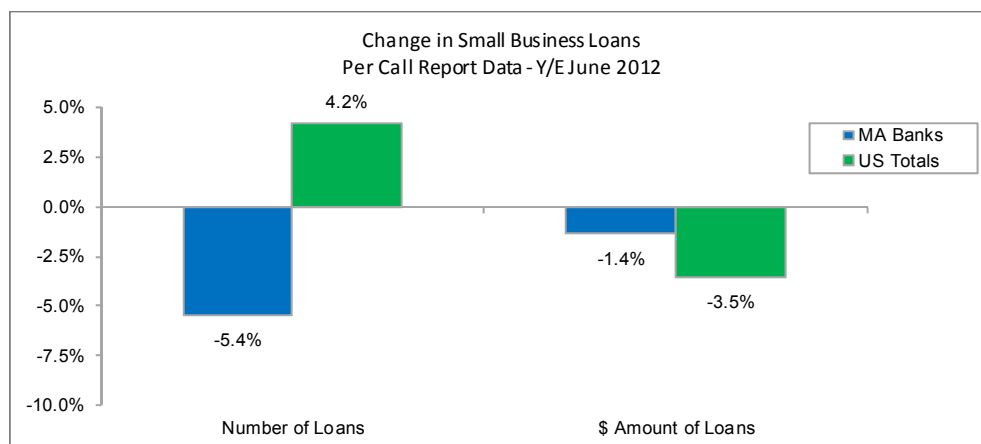
**A review of the most recent CRA data shows that small business loan originations in Massachusetts increased by 12.8% and 6.0% in 2011 in terms of the number and dollar amount of loans, although the improvement was somewhat smaller than the rate of small business loan growth in the country as whole.** As will be discussed in greater detail in the next section, local lenders accounted a substantial portion of the growth in small business loan dollars in 2011 although other CRA reporters, such as the large commercial banks and other out-of-state lenders that operate in Massachusetts, achieved higher rates of growth on a percentage basis compared to the previous year.

CHART: The annual CRA data shows that Massachusetts trailed the country as a whole in terms of small business loan growth in 2011



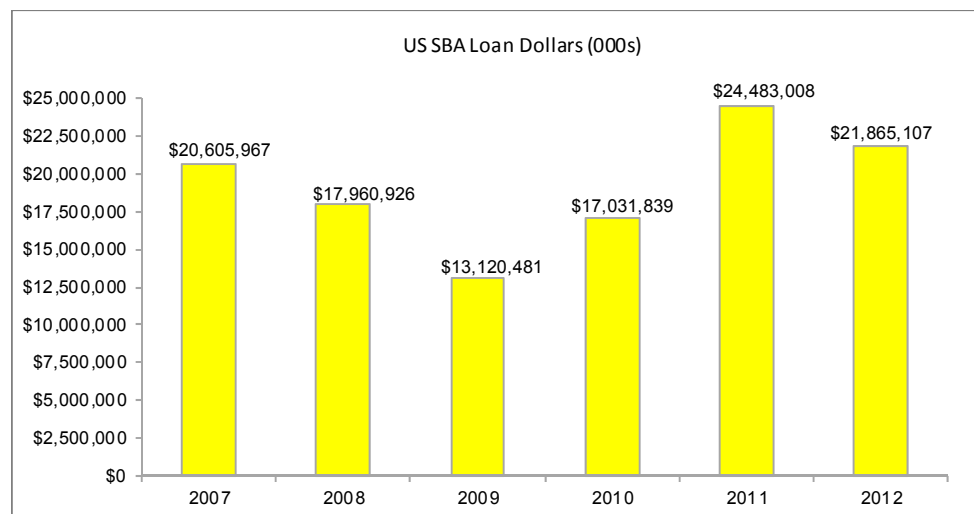
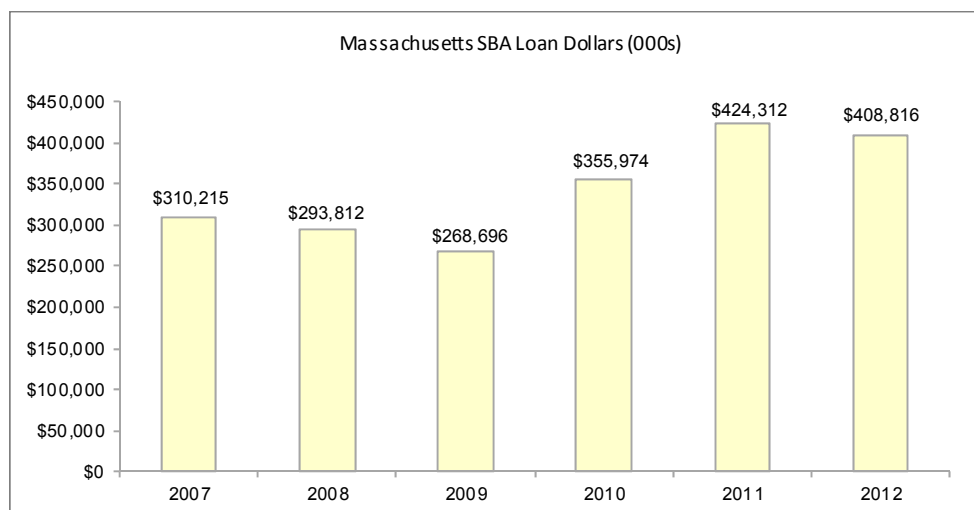
A review of the most recent Call Report data shows that Massachusetts banks and thrifts experienced a modest decline in small business loan volume during the twelve month period ending June 30, 2012. **Small business loans on the books of local community banks declined by 5.4% and 1.4% in terms of the number and dollar amount of small business loans during the twelve months ended June 30, 2012 which also diverged from national averages.**

CHART: The Call Report data shows that small business lending growth at Massachusetts banks diverged from the national averages over the past year



According to the US Small Business Administration, loans guaranteed by the SBA declined in 2012 after reaching record levels in 2011. SBA guarantees in Massachusetts totaled \$408.8 million for the twelve months ended September 30, 2012 which represents a 3.7% decline compared to the previous fiscal year. On a national basis, SBA guarantees declined by 10.7%. While SBA loan levels declined in 2012, it is important to note that the levels achieved in the previous fiscal year were heavily boosted by loan incentives under the Small Business Jobs Act of 2010. It is also worth noting that, despite the overall decline in SBA guarantees, the SBA's 504/Certified Community Development (CDC) program, which enlists the participation of third party lenders and which continued to benefit in 2012 from recently expired incentives that were introduced under the Jobs Act, experienced strong gains in 2012.

CHARTS: SBA loan guarantees declined in Massachusetts and across the country in 2012 but remained near the records levels achieved in 2011



**A review of the annual CRA data from the 15 largest metropolitan areas across the country shows that greater Boston ranked 14<sup>th</sup> compared to other most major cities across the country in terms of the volume of CRA-reported small business loan dollars per 1,000 residents, and 8<sup>th</sup> in terms of the change in loan dollars from 2010 to 2011.** In terms of loan volume, 10 of the 15 largest metro areas recorded lending levels of \$700,000 or more per 1,000 residents, while five metro areas recorded levels below \$700,000. In terms of growth, nine of the 15 largest metro areas experienced modest increases in small business loan originations in 2011, while six metro areas experienced declines.

TABLES: The greater Boston metro area ranked 14<sup>th</sup> compared to the 15 largest metro areas across the country in terms of the volume of CRA-reported small business loan dollars per 1,000 residents, and 8<sup>th</sup> in terms of the change in loan dollars from 2010 to 2011

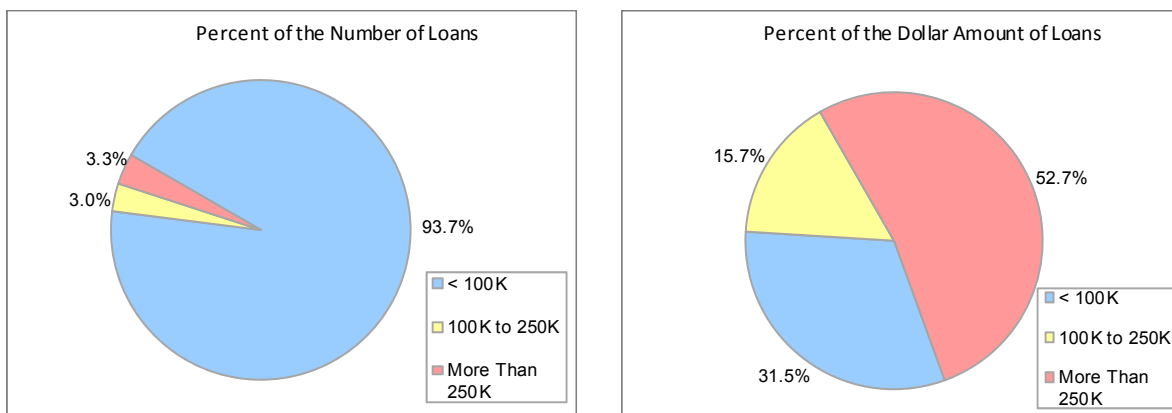
	Total Population	Total Number of Loans	Total Amount of Loans (000s)	Amount of Loans Per 1,000 Residents (000s)
San Francisco (41860)	4,123,740	127,166	\$3,737,837	\$906
Chicago (16980)	9,112,882	157,729	\$7,330,603	\$804
Houston (26420)	4,787,274	106,054	\$3,661,856	\$765
Seattle (42660)	3,043,878	65,201	\$2,321,032	\$763
Atlanta (12060)	4,406,747	89,074	\$3,353,541	\$761
Los Angeles (31100)	12,365,627	316,569	\$9,313,799	\$753
Detroit (19820)	4,452,557	65,852	\$3,341,106	\$750
Phoenix (38060)	3,251,876	82,189	\$2,392,955	\$736
Dallas (19100)	5,166,871	109,393	\$3,760,404	\$728
Washington DC (47900)	4,870,279	87,264	\$3,459,475	\$710
Miami (33100)	5,007,564	129,035	\$3,246,092	\$648
Philadelphia (37980)	5,687,147	91,620	\$3,683,491	\$648
New York (35620)	15,569,089	357,169	\$9,916,275	\$637
Boston (14460)	4,390,500	80,856	\$2,794,506	\$636
Riverside-San Bernardino (40140)	3,254,821	54,656	\$1,439,149	\$442

	2011 Change in Number of Loans	% Change	2011 Change in \$ Amount of Loans (000s)	% Change
Dallas (19100)	10,231	10.3%	\$330,786	9.6%
Houston (26420)	9,472	9.8%	\$271,148	8.0%
Detroit (19820)	4,287	7.0%	\$218,455	7.0%
New York (35620)	47,658	15.4%	\$651,378	7.0%
Miami (33100)	27,730	27.4%	\$87,109	2.8%
San Francisco (41860)	11,590	10.0%	\$60,490	1.6%
Washington DC (47900)	5,024	6.1%	\$49,316	1.4%
Boston (14460)	5,031	6.6%	\$24,361	0.9%
Los Angeles (31100)	30,186	10.5%	\$49,146	0.5%
Chicago (16980)	10,900	7.4%	-\$42,118	-0.6%
Philadelphia (37980)	7,619	9.1%	-\$33,940	-0.9%
Phoenix (38060)	4,841	6.3%	-\$56,011	-2.3%
Riverside-San Bernardino (40140)	3,818	7.5%	-\$37,379	-2.5%
Atlanta (12060)	13,760	18.3%	-\$223,174	-6.2%
Seattle (42660)	5,479	9.2%	-\$184,954	-7.4%

## **BREAKDOWN BY ORIGINAL LOAN AMOUNT**

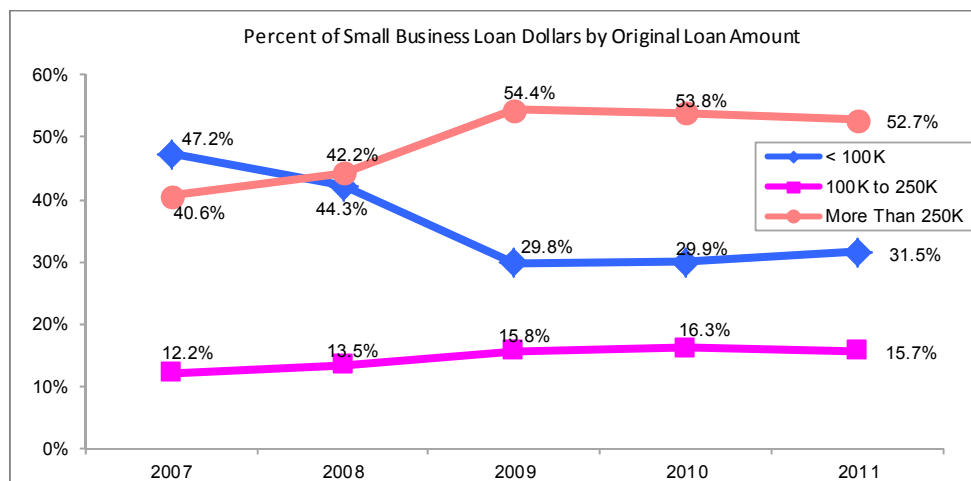
The annual CRA data provides an aggregate breakdown of loan data by the original amount of the loans using the following three loan size increments: under \$100,000, from \$100,000 to \$250,000, and from \$250,000 to \$1 million. CRA-reported small business loans with an original amount of \$100,000 or less accounted for the vast majority of the total number of loans in Massachusetts in 2011, but accounted for less than one-third of small business loan dollars. In Massachusetts, small business loans under \$100,000 accounted for 93.7% of the total number of loans in 2011 and 31.5% of the dollar amount of loans while larger small business loans - those with an original amount between \$250,000 and \$1 million - accounted for just 3.3% of the number of loans but made up 52.7% of loan dollars.

CHARTS: Small business loans with original amounts under \$100,000, though substantially greater in number, represented less than one-third of small business loan dollars in Massachusetts (2011)



**Much of the recent declines in small business lending involved a decline in loans with original amounts under \$100,000 although the volume of these smaller loans increased in 2011 for the second straight year after declining significantly in recent years. Such loans accounted for 31.5% of all small business loan dollars in 2011, still a substantial percentage of total volume but down sharply from 47.2% in 2007. The shift is related to a decline in small business credit card lending, discussed in more detail later in this report, which accounts for a substantial portion of overall small business lending in Massachusetts.**

CHART: Small business loans with original amounts over \$250,000 accounted for more than half of the dollar volume of loans in Massachusetts (2010)

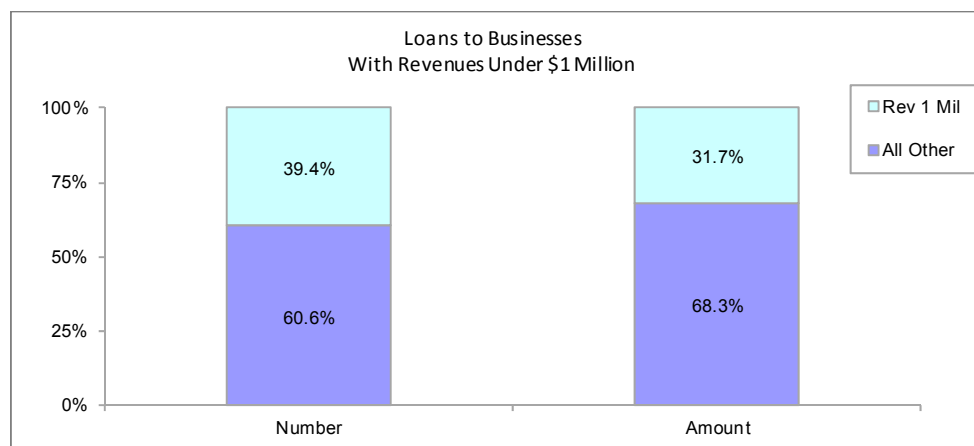


## LOANS TO BUSINESSES WITH REVENUES UNDER \$1 MILLION

The annual CRA data also provides a category specifically for loans to businesses with annual revenues of \$1 million or less. The category is intended to provide a way of identifying small business borrowers from larger business borrowers. However, it is important to note that these loans are probably understated in the CRA database due to the fact that CRA reporters are only required to report the revenues of their business customers when the revenue of the borrower is relied upon to make the credit decision. Consequently, credit decisions based on other factors – such as credit scores – are less likely to be reflected in this category. In addition, the CRA database only identifies borrowers with revenues *under* \$1 million, and does not distinguish between borrowers with revenues *over* \$1 million and borrowers where the revenues were not reported by the lender.

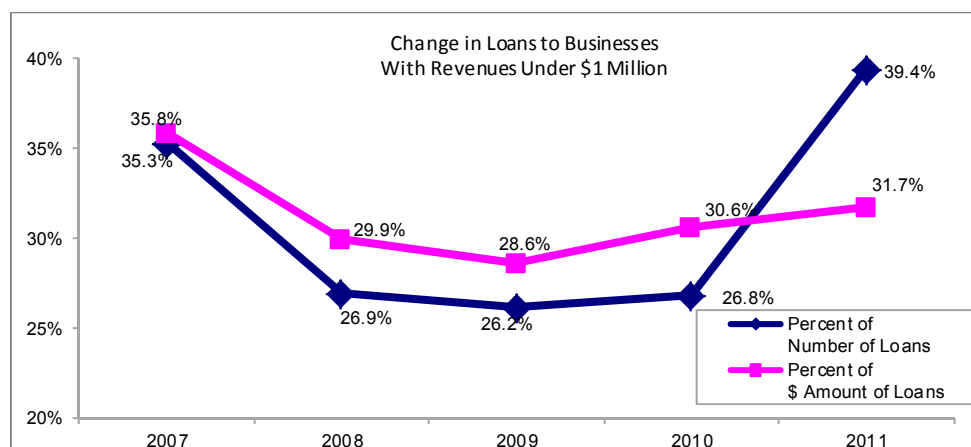
Reported loans to businesses with annual revenues of \$1 million or less accounted for 39.4% of the total number of loans in Massachusetts in 2011 and 31.7% of the dollar amount of loans, compared to the previous year when such loans represented 26.8% of the number of loans and 30.6% of the dollar volume.

CHART: Percentage of reported loans to businesses with annual revenues under \$1 million (2011)



The percentage of reported loans to businesses with revenues under \$1 million increased to 39.4% in terms of the number of loans in 2011 and 31.7% in terms of the dollar amount of loans.

CHART: Change in the percentage of loans to businesses with revenues under \$1 million (2007 to 2011)



## THE ROLE OF LOCAL LENDERS

As noted, the annual CRA data for 2011 contained a total of 40 local community banks that are headquartered in Massachusetts as well as four large commercial banks that are headquartered in other states but that have a substantial branch network across the state involving more than 150 branches. These four large commercial banks, which include Bank of America, RBS Citizens, Sovereign Bank, and TD Bank, are treated as local lenders for the purposes of this report, as they have been in past reports, due to their extensive physical presence in the state. The CRA database also contains a handful of community banks headquartered in neighboring states that make small business loans in Massachusetts, but that have a relatively small branch presence involving 30 or fewer branches. These banks, which include First Niagra, Peoples United Bank, and Webster Bank, are *not* treated as local lenders in this report. Detailed information regarding individual lenders is provided in the online appendix to this report.

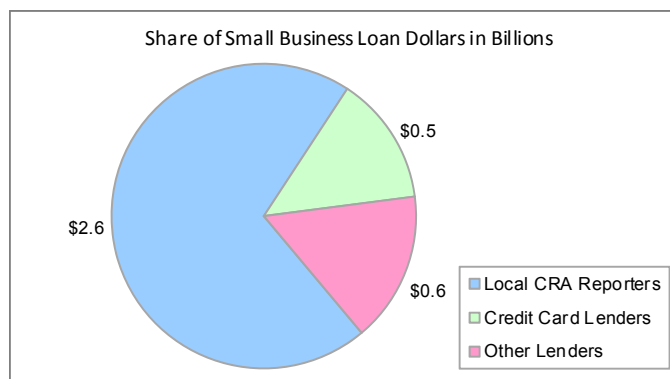
While local CRA reporters account for the vast majority of CRA-reported small business lending in Massachusetts, it is worth noting that most of these lenders are small community banks that typically report fewer than \$25 million in small business loans per year. In 2011, only 14 of the local CRA lenders reported between \$25 million and \$100 million in small business loan dollars, and just 10 additional lenders reported small business loan volume in Massachusetts greater than \$100 million. These largest local CRA reporters include six Massachusetts community banks as well as the four large commercial banks noted above.

In addition to the local CRA reporters noted above, the annual CRA database also contains a substantial number of business credit card lenders that operate across the country as well as other out-of-state banks that routinely make small business loans in Massachusetts. As noted, there are also a large number of community banks and credit unions that make small business loans in Massachusetts but do not report annual CRA data. The roles of each of these competitors are discussed in more detail in the following sections.

**The annual CRA data shows that local lenders originated a total of 18,215 small business loans for \$2.6 billion in 2011, which represented 16.6% of the total number of small business loans in Massachusetts and 70.4% of small business loan dollars.**

TABLE & CHART: Local CRA reporters vs other lenders (2011)

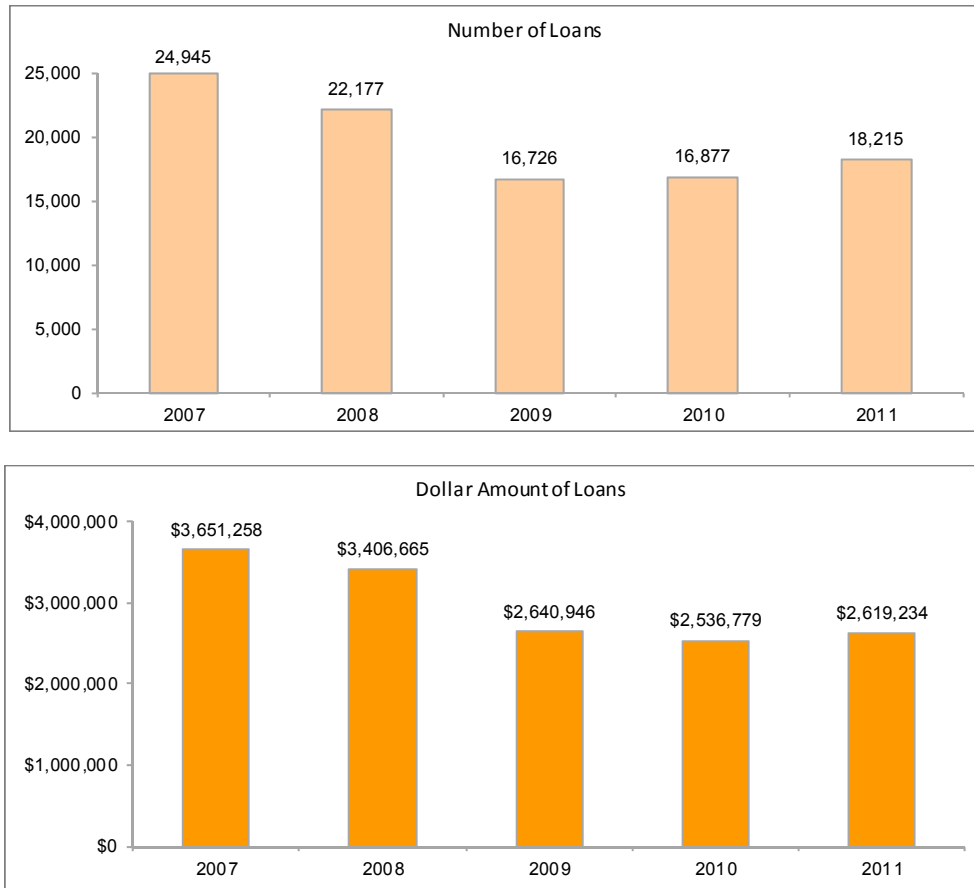
	Number of Loans	% of Total	\$ Amount of Loans (000s)	% of Total
Local CRA Reporters	18,215	16.6%	\$2,619,234	70.4%
Credit Card Lenders	80,800	73.7%	\$510,360	13.7%
Other Lenders	10,585	9.7%	\$593,445	15.9%
Totals	109,600	100.0%	\$3,723,039	100.0%





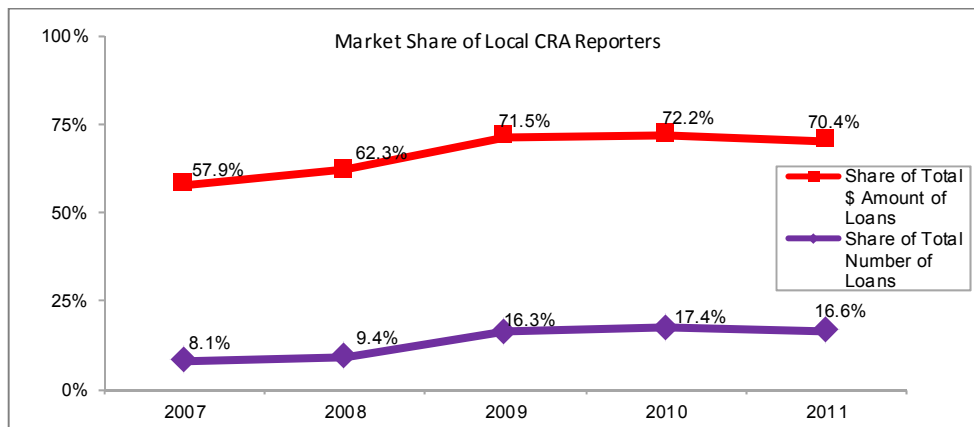
While the volume of small business loans of local CRA reporters appears to have turned the corner, origination activity remains well below the lending levels achieved before the recent financial crisis.

CHART: Small business loan volume increased slightly at local CRA reporters in 2011 but remains well below the levels of several years ago



**Local CRA reporters account for the substantial majority of small business lending activity in Massachusetts although their overall market share declined in 2011 after three consecutive years of increases.** In 2011, local CRA reporters saw their share of small business loan dollars decline to 70.4% compared to 72.2% in 2010.

CHART: The market share of local CRA reporters declined slightly in 2011



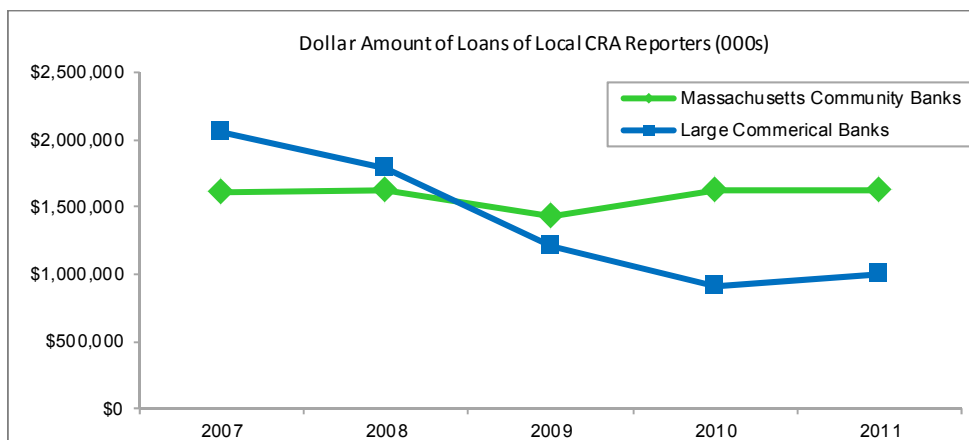
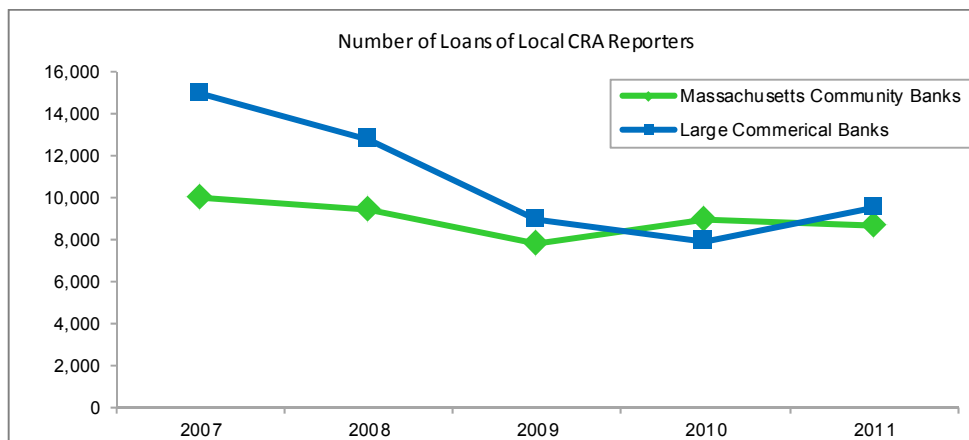
**A closer examination of the data of local CRA reporters shows that, while their gains were pared slightly in 2011, local Massachusetts-based community banks have generally outperformed the large commercial banks that operate in the state in recent years.** The reasons behind this shift are complex but may be related to the regulatory and internal pressures felt by the nation's largest banks in the wake of the financial crisis to deleverage their balance sheets, tighten their underwriting standards, and improve their capital positions.

The annual CRA data shows that local community banks made 8,668 small business loans for \$1.6 billion in 2011 while large commercial banks made 9,547 loans for \$1.0 billion. While local Massachusetts-based community banks continue to enjoy a substantial market share advantage over the large commercial banks that operate in the state, their advantage declined in 2011. Local community banks experienced declines of 3.0% in the number of loans and 0.04% in loan dollars compared to the previous year, while large commercial banks experienced increases of 20.2% and 9.7% respectively.

TABLE: Local community banks vs large commercial banks in Massachusetts (2011 CRA data)

	Number of Loans	% of Total	Percent Change	\$ Amount of Loans (000s)	% of Total	Percent Change
Local Community Banks	8,668	7.9%	-3.0%	\$1,619,281	43.5%	-0.4%
Large Commercial Bank	9,547	8.7%	20.2%	\$999,953	26.9%	9.7%
Totals - Local CRA Reporters	18,215	16.6%	7.9%	\$2,619,234	70.4%	3.3%

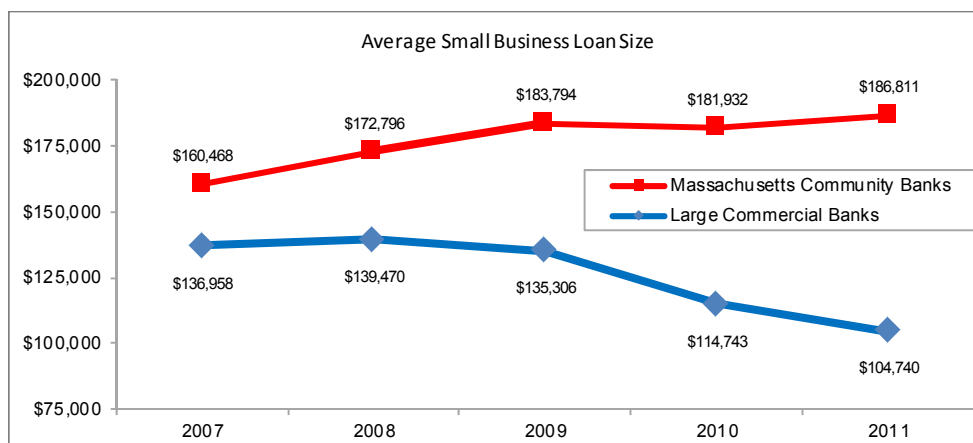
CHARTS: Local community banks have generally outperformed the large commercial banks that operate in the state in recent years although their gains were pared slightly in 2011



Another consequence of the strong performance of local community banks has been a fairly steady increase in the average size of a small business loan. **Over the past five years, the average size of a CRA-reported small business loan at a local community bank has increased from \$160,468 in 2007 to \$186,811 in 2011 while the average loan size at the large commercial banks has declined from \$136,958 in 2007 to \$104,740 in 2011.**

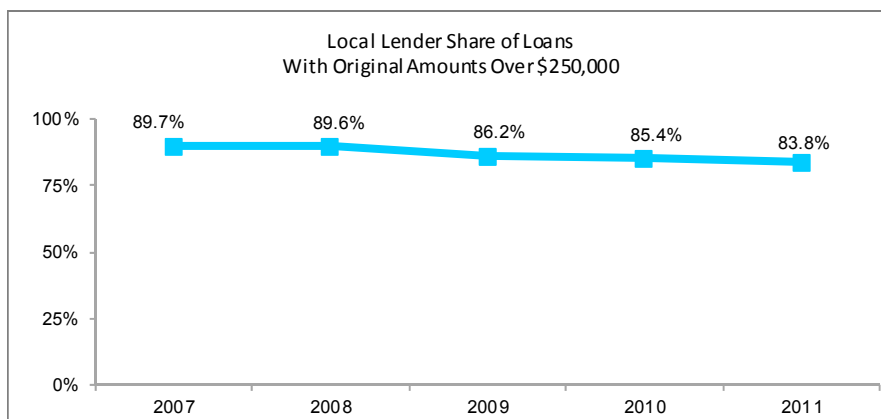
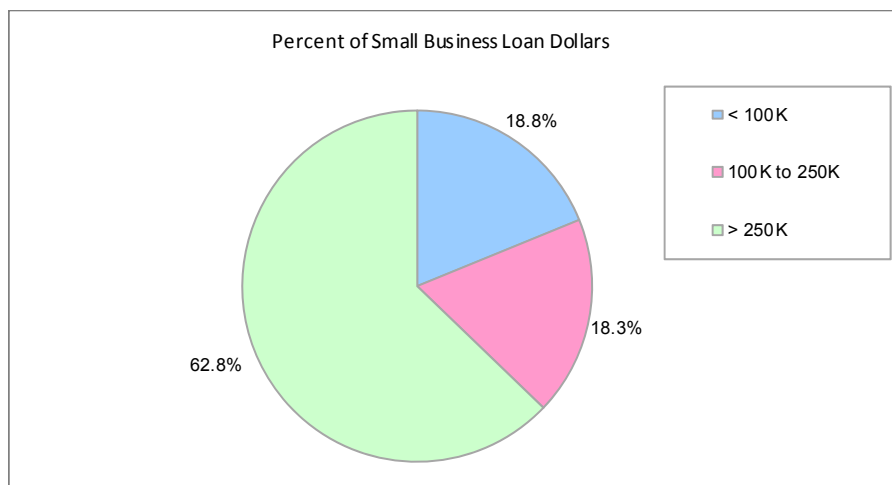
These results may seem counterintuitive given the widely held perceptions that commercial banks have deep pockets and community banks are conservative lenders, but the reasons behind the disparity may be attributable to a difference in the relationship style and level of commitment to the local community. It is worth noting that the average size of a small business loan at credit unions in Massachusetts, which take great pride in their relationship with their member borrowers, totaled \$242,858 as of June 30, 2012.

CHART: The average loan size of a small business loan has increased at local community banks and decreased at the large commercial banks



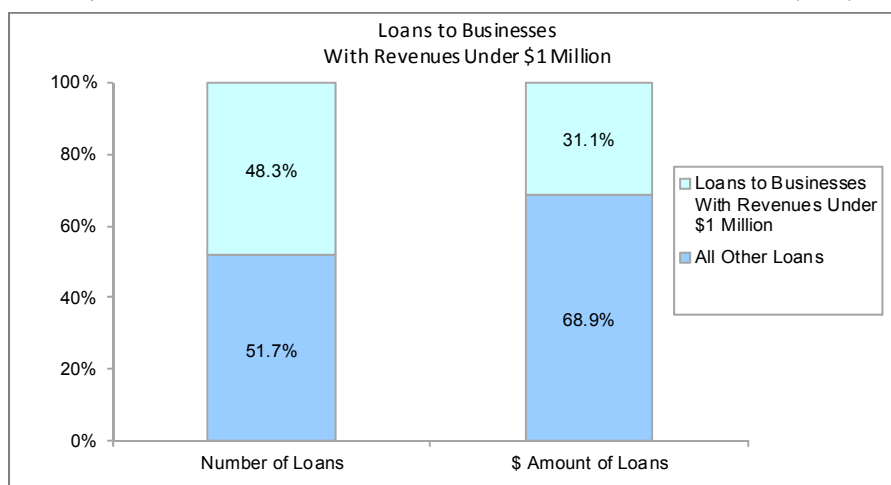
As one might expect given the average size of a small business loan originated by a local lender, a substantial portion of CRA-reported loans made by local lenders had original amounts greater than \$250,000. In 2011 loans with original amounts over \$250,000 accounted for 62.8% of the small business loan volume of local CRA reporters. It is also worth noting that, while local lenders have lost overall market share in recent years primarily at the hands of credit card lenders that deal in smaller loans, they have maintained a dominant share of the market for larger loans – those with an original amount over \$250,000. In 2011, Massachusetts banks accounted for 83.8% of the reported dollar volume of loans over \$250,000. The economic impact of these larger loans is substantial and underscores the vital role that local lenders play in small business lending in Massachusetts.

CHARTS: Larger small business loans – those with an original amount over \$250,000 - account for well over half of small business loan dollars at local banks and on the books of local lenders, and is one area where local banks particularly dominate the market



Local lenders reported 8,797 loans to businesses with revenues under \$1 million in 2011 for \$813.5 million, which represented 48.3% of the total number of loans originated by local lenders and 31.1% of the dollar amount of loans.

CHART: Reported loans to businesses with revenues under \$1 million at local lenders (2011)



The tables on the following two pages show the local CRA reporters and local Call Report filers arranged by their dollar volume of small business loans. More detailed information on these lenders is provided in the online appendix at [www.mcbsc.info](http://www.mcbsc.info).

TABLE: Small business loans by local CRA reporters in Massachusetts by dollar volume (CRA Data 2011)

	Town	Massachusetts Deposits (\$000s) 6/30/2011	Number of Loans	\$ Amount of Loans (\$000s)	Average Loan Size (\$000s)
**BANK OF AMERICA, N.A.	WESTLAKE VILLAGE, CA	\$52,766,315	2,203	\$366,810	\$167
EASTERN BANK	LYNN	\$6,186,454	1,474	\$303,890	\$206
**TD BANK N.A.	FALMOUTH, ME	\$9,806,515	2,773	\$235,737	\$85
**RBS CITIZENS, N.A.	PROVIDENCE, RI	\$28,451,175	3,184	\$219,749	\$69
**SOVEREIGN BANK	WILMINGTON, DE	\$15,398,332	1,387	\$177,657	\$128
ROCKLAND TRUST COMPANY	PLYMOUTH	\$3,815,885	939	\$169,813	\$181
SALEM FIVE CENTS SAVINGS BANK	SALEM	\$1,958,996	414	\$106,810	\$258
MIDDLESEX SAVINGS BANK	WESTBOROUGH	\$3,464,805	442	\$91,193	\$206
ENTERPRISE BANK	LOWELL	\$1,217,603	545	\$88,816	\$163
BOSTON PRIVATE BANK & TRUST CO	BOSTON	\$2,722,779	310	\$82,979	\$268
BRISTOL COUNTY SAVINGS BANK	TAUNTON	\$920,848	264	\$57,100	\$216
BERKSHIRE BANK	PITTSFIELD	\$1,486,266	369	\$56,519	\$153
WESTFIELD BANK	WESTFIELD	\$711,701	362	\$56,199	\$155
BROOKLINE BANK	BROOKLINE	\$1,953,733	147	\$51,705	\$352
CAMBRIDGE SAVINGS BANK	ARLINGTON	\$1,820,303	232	\$48,472	\$209
CAPE COD FIVE CENTS SAVINGS BANK	ORLEANS	\$1,752,477	272	\$45,222	\$166
CENTURY BANK	MEDFORD	\$2,081,025	256	\$44,999	\$176
NORTHERN BANK & TRUST COMPANY	WOBURN	\$532,777	200	\$44,799	\$224
CITIZENS-UNION SAVINGS BANK	SWANSEA	\$687,912	192	\$36,979	\$193
EAST BOSTON SAVINGS BANK	PEABODY	\$1,545,197	88	\$33,356	\$379
SOUTH SHORE SAVINGS BANK	SO WEYMOUTH	\$669,297	260	\$32,957	\$127
UNITED BANK	WEST SPRINGFIELD	\$1,205,307	343	\$26,757	\$78
COMMERCE BANK & TRUST COMPANY	WORCESTER	\$1,203,385	140	\$26,434	\$189
UNIBANK	WHITINSVILLE	\$1,166,171	154	\$23,461	\$152
FRAMINGHAM CO-OPERATIVE BANK	FRAMINGHAM	\$308,171	105	\$19,410	\$185
GREENFIELD SAVINGS BANK	GREENFIELD	\$438,593	146	\$16,960	\$116
INSTITUTION FOR SAVINGS	NEWBURYPORT	\$958,544	58	\$16,203	\$279
BANK OF CAPE COD	HYANNIS	\$110,742	56	\$14,708	\$263
EASTHAMPTON SAVINGS BANK	EASTHAMPTON	\$744,747	131	\$14,140	\$108
FLORENCE SAVINGS BANK	FLORENCE	\$805,224	92	\$12,603	\$137
COUNTRY BANK FOR SAVINGS	WARE	\$973,046	115	\$12,567	\$109
PEOPLESBANK	HOLYOKE	\$1,202,062	73	\$11,035	\$151
EAST CAMBRIDGE SAVINGS BANK	CAMBRIDGE	\$691,515	45	\$8,912	\$198
WATERTOWN SAVINGS BANK	WATERTOWN	\$937,982	44	\$8,462	\$192
HAMPDEN BANK	SPRINGFIELD	\$418,493	55	\$8,386	\$152
THE LOWELL FIVE CENT SAVINGS BANK	LOWELL	\$602,288	63	\$7,304	\$116
WEBSTER FIVE CENTS SAVINGS BANK	WORCESTER	\$465,671	59	\$6,962	\$118
THE SAVINGS BANK	WAKEFIELD	\$386,656	32	\$6,038	\$189
EAGLE BANK	EVERETT	\$369,906	33	\$5,705	\$173
CAPE ANN SAVINGS BANK	GLOUCESTER	\$310,809	40	\$5,230	\$131
BNY MELLON, N.A.	PITTSBURGH	\$2,235,399	16	\$4,976	\$311
BELMONT SAVINGS BANK	BELMONT	\$396,856	24	\$4,045	\$169
NORTH EASTON SAVINGS BANK	SOUTH EASTON	\$416,664	46	\$3,726	\$81
FIDELITY COOPERATIVE BANK	LEOMINSTER	\$400,757	32	\$3,449	\$108
LOCAL LENDER TOTALS		NA	18,215	\$2,619,234	\$144

\*\* Denotes the large commercial banks that have a physical presence inside Massachusetts but are headquartered outside the state

TABLE: Small business loans of local community banks in Massachusetts by dollar volume (Call Report Data – June 2012)

	Town	Deposits (\$000s)	Number of Loans	\$ Amount of Loans (\$000s)	Average Loan Size (\$000s)
ROCKLAND TRUST COMPANY	ROCKLAND	\$4,110,601	4,289	\$734,940	\$171
BERKSHIRE BANK	PITTSFIELD	\$3,421,588	4,502	\$485,593	\$108
ENTERPRISE BANK AND TRUST COMPANY	LOWELL	\$1,453,765	3,178	\$455,909	\$143
EASTERN BANK	BOSTON	\$6,517,999	2,538	\$415,363	\$164
MIDDLESEX SAVINGS BANK	NATICK	\$3,565,949	3,494	\$297,072	\$85
BOSTON PRIVATE BANK & TRUST COMPANY	BOSTON	\$4,711,236	1,508	\$271,547	\$180
CAPE COD FIVE CENTS SAVINGS BANK	HARWICH PORT	\$1,949,388	2,091	\$255,759	\$122
SALEM FIVE CENTS SAVINGS BANK	SALEM	\$1,998,044	1,167	\$242,542	\$208
UNITED BANK	WEST SPRINGFIELD	\$1,277,098	1,897	\$218,857	\$115
BROOKLINE BANK	BROOKLINE	\$2,118,130	787	\$200,280	\$254
COMMERCE BANK & TRUST COMPANY	WORCESTER	\$1,214,190	1,284	\$195,291	\$152
EAST BOSTON SAVINGS BANK	BOSTON	\$1,705,960	762	\$192,359	\$252
BRISTOL COUNTY SAVINGS BANK	TAUNTON	\$1,018,922	1,095	\$172,374	\$157
AVIDIA BANK	HUDSON	\$805,591	1,477	\$161,982	\$110
MERCANTILE BANK AND TRUST COMPANY	BOSTON	\$168,690	742	\$145,044	\$195
BAYCOAST BANK	FALL RIVER	\$753,339	817	\$141,093	\$173
NORTHERN BANK & TRUST COMPANY	WOBURN	\$598,587	710	\$139,351	\$196
THE BANK OF CANTON	CANTON	\$543,114	519	\$137,579	\$265
PEOPLESBANK	HOLYOKE	\$1,349,885	632	\$135,235	\$214
HINGHAM INSTITUTION FOR SAVINGS	HINGHAM	\$830,086	405	\$118,595	\$293
CHICOPEE SAVINGS BANK	CHICOPEE	\$456,424	861	\$113,953	\$132
NORTH SHORE BANK, A CO-OPERATIVE BANK	PEABODY	\$359,685	638	\$113,134	\$177
SOUTH SHORE SAVINGS BANK	SOUTH WEYMOUTH	\$671,230	665	\$109,623	\$165
WESTFIELD BANK	WESTFIELD	\$748,216	1,301	\$106,280	\$82
PROVIDENT BANK, THE	AMESBURY	\$436,896	682	\$100,850	\$148
BANKFIVE	FALL RIVER	\$615,636	1,023	\$96,747	\$95
COUNTRY BANK FOR SAVINGS	WARE	\$956,262	628	\$95,052	\$151
FRAMINGHAM CO-OPERATIVE BANK	FRAMINGHAM	\$308,337	525	\$88,373	\$168
PENTUCKET BANK	HAVERHILL	\$550,022	503	\$87,689	\$174
BRIDGEWATER SAVINGS BANK	RAYNHAM	\$381,071	294	\$85,354	\$290
CAPE COD CO-OPERATIVE BANK	YARMOUTH PORT	\$490,739	473	\$80,942	\$171
CAMBRIDGE SAVINGS BANK	CAMBRIDGE	\$1,962,310	411	\$77,796	\$189
MARLBOROUGH SAVINGS BANK	MARLBOROUGH	\$383,207	222	\$74,940	\$338
NORTH MIDDLESEX SAVINGS BANK	AYER	\$265,693	788	\$73,500	\$93
CAMBRIDGE TRUST COMPANY	CAMBRIDGE	\$1,206,372	463	\$72,248	\$156
CENTURY BANK AND TRUST COMPANY	SOMERVILLE	\$2,360,152	307	\$71,878	\$234
FIDELITY CO-OPERATIVE BANK	FITCHBURG	\$415,727	460	\$70,141	\$152
STONEHAMBANK	STONEHAM	\$313,357	321	\$69,576	\$217
FIRST IPSWICH BANK	IPSWICH	\$240,742	352	\$69,301	\$197
WALPOLE CO-OPERATIVE BANK	WALPOLE	\$273,062	313	\$69,204	\$221
HAMPDEN BANK	SPRINGFIELD	\$436,025	924	\$68,834	\$74
HOMETOWN BANK, A COOPERATIVE BANK	WEBSTER	\$247,145	305	\$68,176	\$224
ROLLSTONE BANK & TRUST	FITCHBURG	\$319,563	420	\$65,211	\$155
DEDHAM INSTITUTION FOR SAVINGS	DEDHAM	\$963,647	264	\$64,428	\$244
THE COMMUNITY BANK	BROCKTON	\$279,974	430	\$64,419	\$150
THE MILFORD NATIONAL BANK AND TRUST COMPANY	MILFORD	\$240,612	417	\$63,504	\$152
LEADER BANK, NATIONAL ASSOCIATION	ARLINGTON	\$392,791	243	\$61,535	\$253
HOOSAC BANK	NORTH ADAMS	\$372,019	416	\$60,201	\$145
ROCKPORT NATIONAL BANK	ROCKPORT	\$170,537	419	\$59,907	\$143
NEWBURYPORT FIVE CENTS SAVINGS BANK	NEWBURYPORT	\$449,302	279	\$58,217	\$209

## CREDIT UNIONS

Credit unions also experienced a modest increase in small business lending in the past year. Of the 207 state and federal credit unions in Massachusetts, 68 reported member business loans on their books as of June 30, 2012. While the credit union reporting requirements and instructions differ from the annual CRA and quarterly Call Report reporting requirements, it is likely that the vast majority of the credit union member business loans have original amounts under \$1 million and would therefore be considered small business loans under the CRA and Call Report instructions. **Credit unions in Massachusetts reported 4,938 small business loans for \$1.2 billion as of June 30, 2012, compared to 4,747 loans for \$1.1 billion as of June 30, 2011.**

TABLE: Credit union business loans in Massachusetts (2007 to 2012)

	Number of CUs w/Loans	Number of Loans	\$ Amount of Loans (000s)
June-2007	55	3,223	\$707,283
June-2008	58	3,632	\$879,175
June-2009	61	3,868	\$980,502
June-2010	65	4,290	\$1,025,789
June-2011	65	4,747	\$1,089,783
June-2012	68	4,938	\$1,199,230

While most lenders in Massachusetts and across the country have experienced declines or modest increases in small business lending over the past few years, Massachusetts credit unions have experienced regular increases in business loans throughout the period covered by the ongoing financial crisis. While their contribution to the overall volume of small business loans may be relatively small when compared to commercial banks, the growth of member business loans at credit unions underscores the important role that credit unions, and other local community lenders, play in meeting local business credit needs. **Small business loans at local credit unions increased by 4.0% and 10.0% in terms of the number and dollar amount of small business loans during the twelve months ended June 30, 2012.** The increases in member business loans at Massachusetts credit has been in line with national credit union averages over the period reviewed.

TABLE: Change in member business loans in Massachusetts (2012)

	Change in Number of Loans	% Change	Change in \$ Amount of Loans (000s)	% Change
June-2008	409	12.7%	\$171,891	24.3%
June-2009	236	6.5%	\$101,327	11.5%
June-2010	422	10.9%	\$45,287	4.6%
June-2011	457	10.7%	\$63,994	6.2%
June-2012	191	4.0%	\$109,447	10.0%

The table on the following page shows local credit unions arranged by their dollar volume of member business loans. More detailed information on these lenders is provided in the online appendix at [www.mcabc.info](http://www.mcabc.info).



TABLE: Member business loans by local credit unions in Massachusetts by dollar volume (June 2012)

	Town	Deposits (\$000s)	Number of Loans	\$ Amount of Loans (\$000s)	\$ Average Loan Size (\$000s)
DIGITAL FCU	MARLBOROUGH	\$3,675,470	558	\$461,675	\$827
GREYLOCK FCU	PITTSFIELD	\$1,069,558	544	\$75,484	\$139
WEBSTER FIRST FCU	WORCESTER	\$528,414	215	\$70,820	\$329
METRO CU	CHELSEA	\$847,459	211	\$55,689	\$264
JEANNE D'ARC CU	LOWELL	\$811,741	212	\$51,078	\$241
HARBORONE CU	BROCKTON	\$1,343,957	552	\$50,209	\$91
ROCKLAND FCU	ROCKLAND	\$971,778	381	\$48,347	\$127
ST. ANNE'S OF FALL RIVER CU	FALL RIVER	\$704,472	159	\$31,778	\$200
WORKERS' CU	FITCHBURG	\$631,861	141	\$28,819	\$204
MILLBURY FCU	MILLBURY	\$268,203	147	\$28,750	\$196
FIRST CITIZENS' FCU	FAIRHAVEN	\$453,482	213	\$20,935	\$98
CENTRAL ONE FCU	SHREWSBURY	\$334,328	67	\$20,205	\$302
ST. MARY'S CU	MARLBOROUGH	\$531,488	47	\$18,898	\$402
GFA FCU	GARDNER	\$276,198	112	\$17,560	\$157
CRESCENT CU	BROCKTON	\$304,954	119	\$17,290	\$145
BRIDGEWATER CU	BRIDGEWATER	\$269,394	92	\$16,007	\$174
COMMUNITY CREDIT UNION OF LYNN CU	LYNN	\$99,816	78	\$14,372	\$184
INDUSTRIAL CU	BOSTON	\$142,008	43	\$13,599	\$316
FREEDOM CU	SPRINGFIELD	\$435,616	72	\$12,862	\$179
FIRST PRIORITY CU	BOSTON	\$104,443	21	\$12,032	\$573
LEOMINSTER CU	LEOMINSTER	\$486,084	111	\$10,271	\$93
RTN FCU	WALTHAM	\$616,864	61	\$10,103	\$166
RIVER WORKS CU	LYNN	\$72,056	56	\$9,292	\$166
MERRIMACK VALLEY FCU	LAWRENCE	\$421,321	70	\$9,034	\$129
HOLYOKE CU	HOLYOKE	\$97,873	40	\$8,332	\$208
SOUTHBRIDGE CU	SOUTHBRIDGE	\$141,689	47	\$7,754	\$165
SHARON CU	SHARON	\$389,105	71	\$7,074	\$100
CAMBRIDGE PORTUGUESE CU	SOMERVILLE	\$91,306	37	\$6,391	\$173
ST. JEAN'S CU	LYNN	\$129,877	30	\$6,149	\$205
MEDICAL AREA FCU	BROOKLINE	\$69,336	28	\$5,811	\$208
FALL RIVER MUNICIPAL CU	FALL RIVER	\$147,360	34	\$4,766	\$140
NO. MASS. TEL WORKERS COMM CU	LOWELL	\$410,883	22	\$4,479	\$204
TAUNTON FCU	TAUNTON	\$113,304	22	\$4,415	\$201
SOMERSET FCU	SOMERSET	\$125,257	27	\$3,293	\$122
ST. MICHAELS FALL RIVER FCU	FALL RIVER	\$26,216	19	\$3,284	\$173
LIBERTY BAY CU	BRAINTREE	\$545,625	27	\$3,094	\$115
MEMBERS PLUS CU	MEDFORD	\$184,715	19	\$2,761	\$145
TREMONT CU	BRAINTREE	\$145,486	14	\$2,562	\$183
ALDEN CU	CHICOPEE	\$81,701	19	\$2,497	\$131
MASS BAY CU	SOUTH BOSTON	\$170,855	10	\$2,285	\$228
LUSO FCU	LUDLOW	\$138,015	18	\$2,139	\$119
BOSTON FIREFIGHTERS CU	DORCHESTER	\$158,753	10	\$2,080	\$208
NOTRE DAME COMMUNITY FCU	FALL RIVER	\$41,661	17	\$2,057	\$121
LUSO-AMERICAN CU	PEABODY	\$60,865	8	\$1,992	\$249
GRAFTON SUBURBAN CU	NORTH GRAFTON	\$105,988	13	\$1,821	\$140
TAUPA LITHUANIAN FCU	SOUTH BOSTON	\$15,770	7	\$1,714	\$245
POLISH NATIONAL CU	CHICOPEE	\$356,240	56	\$1,258	\$22
I-C FCU	FITCHBURG	\$348,116	11	\$1,244	\$113
CITY OF BOSTON CU	BOSTON	\$252,291	6	\$1,046	\$174
HANSCOM FCU	HANSCOM AFB	\$876,965	6	\$816	\$136

## CREDIT CARD LENDERS

While the CRA database does not identify whether a given loan is a small business credit card loan, it does provide a way to estimate which lenders make credit card loans and how big the credit card market is. By reviewing the volume of loans and the average loan size of the largest lenders, a pattern quickly emerges: for some lenders the number of loans reported is quite large but the average loan size is quite small and well below the \$150,000 average loan size of the local lenders that account for the majority of the dollar volume of loans.

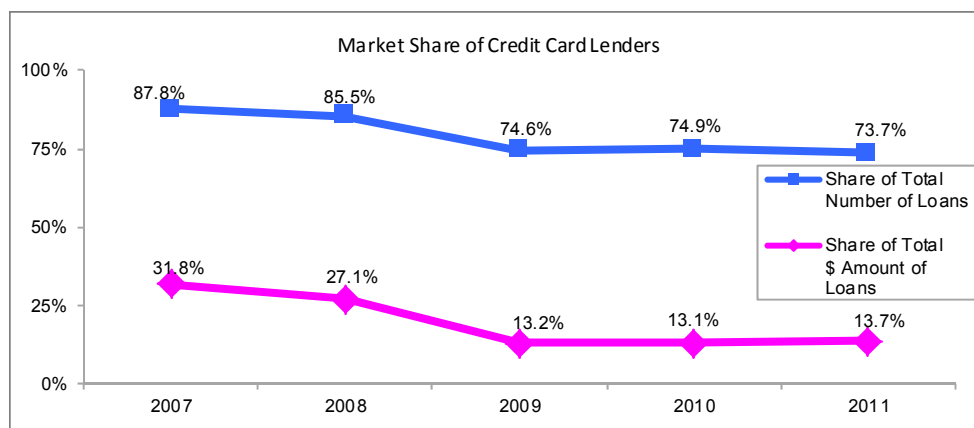
**Based on our estimates, credit card lenders reported 80,800 small business credit card loans in Massachusetts in 2011 for \$510.4 million, which represented 73.7% of the total number of CRA-reported small business loans and 13.7% of loan dollars.**

TABLE: Estimated small business credit card loan volume in Massachusetts (2011)

	Number of Loans	\$ Amount of Loans (\$000s)	\$ Average Loan Size (\$000s)
AMERICAN EXPRESS BANK, FSB	37,171	\$214,630	\$5,774
CHASE BANK USA, NA	8,265	\$72,509	\$8,773
FIA CARD SERVICES	6,469	\$69,656	\$10,768
CITIBANK (SOUTH DAKOTA), N.A.	10,941	\$56,210	\$5,138
CAPITAL ONE BANK USA, N.A.	7,199	\$37,833	\$5,255
GE CAPITAL RETAIL BANK	7,015	\$24,246	\$3,456
US BANK NORTH DAKOTA	2,272	\$24,075	\$10,596
BB&T FNCL FSB	1,007	\$7,793	\$7,739
FIRST NATIONAL BANK OF OMAHA	178	\$2,193	\$12,320
DISCOVER BANK	283	\$1,215	\$4,293
CREDIT CARD LENDER TOTALS	80,800	\$510,360	\$6,316

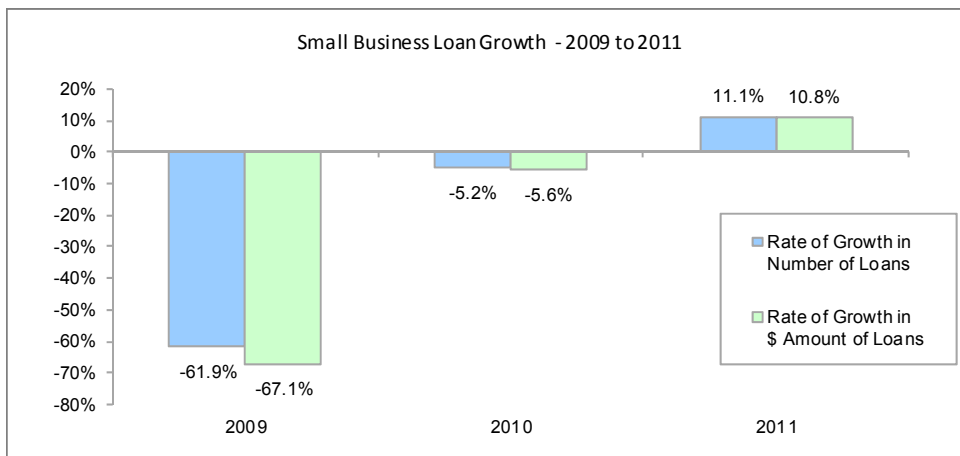
The important role played by credit card lenders in Massachusetts underscores the level of competition for small business loans that exists among all lenders. It also exemplifies the wide variety of loan products and underwriting options that consumers can choose from. Unlike larger, traditional small business loans, which often involve a direct formal relationship with a local bank branch, credit card applications are usually conducted over the phone or by mail. They may also place greater emphasis on the credit score of the applicant than on the reported revenue of the business and are less likely to require a branch relationship. Despite the declines in market share in the wake of the recent financial crisis, the popularity of small business credit cards is demonstrated by the substantial increase in market share that these lenders have gained in recent years and by the fact that more and more local lenders are now offering credit card loans to their own customers.

CHART: Credit card lender market share in Massachusetts (2007 to 2011)



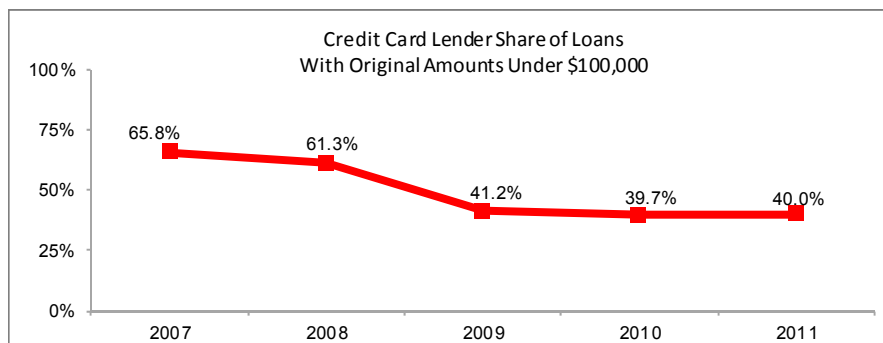
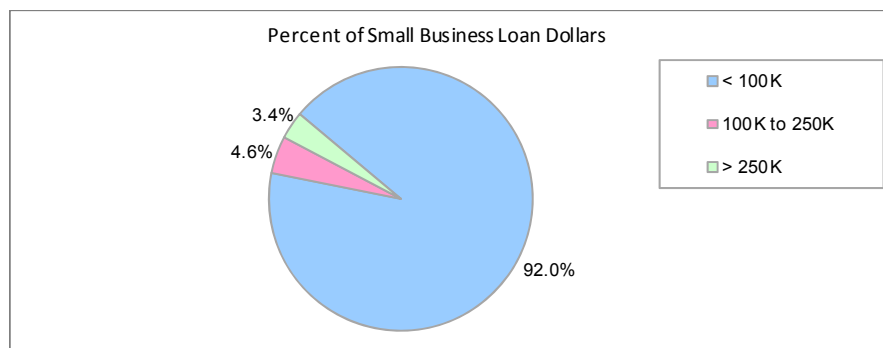
Small business credit card lending in Massachusetts increased in 2011 following a modest decline last year and a precipitous drop two years ago. **Credit card lenders experienced increases of 11.1% and 10.8% in the number and dollar amount of CRA-reported small business loans in 2011, following declines of 5.2% and 5.6% respectively in 2010 and 61.9% and 67.1% in 2009.**

CHART: Small business lending by credit card lenders in Massachusetts increased in 2011 after recent declines



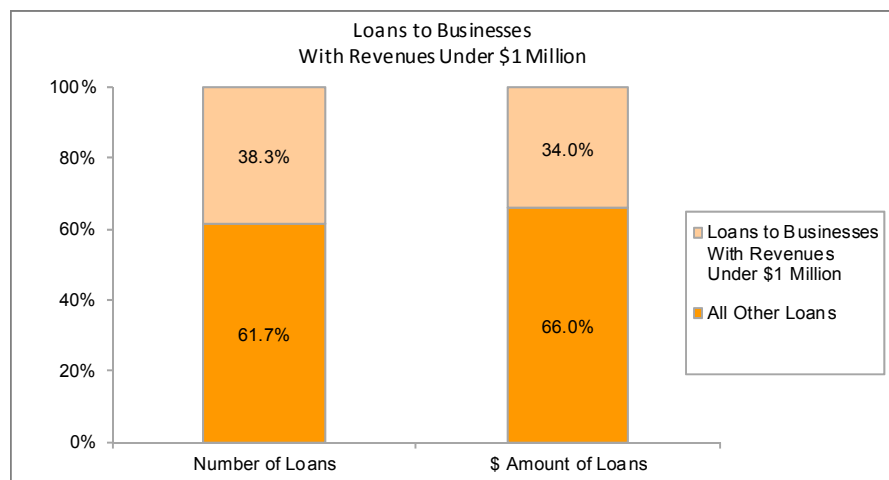
As one might expect given the average size of a small business credit card loan, the vast majority of loans originated by credit card lenders have original amounts less than \$100,000. In 2011, these loans accounted for 92.0% of all small business loan dollars for credit card lenders although credit card lenders have lost market share to local banks and out-of-state lenders in recent years.

CHARTS: Loans with an original amount under \$100,000 account for the vast majority of small business loan dollars by credit card lenders although these lenders have lost market share in recent years



Credit card lenders reported 30,973 loans to businesses with revenues under \$1 million in Massachusetts in 2011 for \$173.7 million, which represented 38.3% of the total number of loans originated by credit card lenders and 34.0% of the dollar amount of loans.

CHART: Loans to businesses with revenues under \$1 million at credit card lenders (2011)



## OTHER OUT-OF-STATE LENDERS

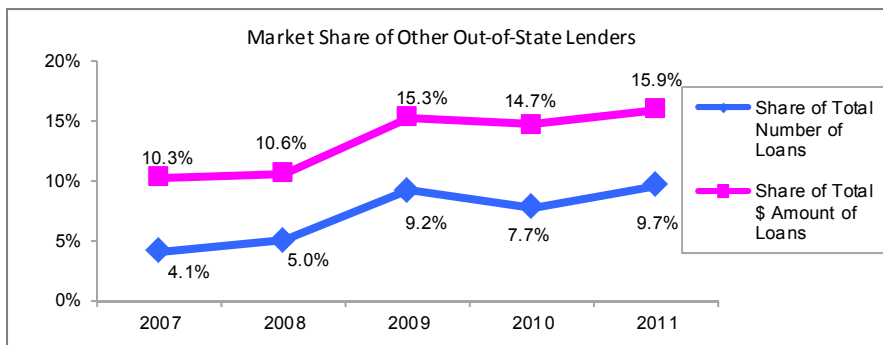
**Other out-of-state CRA lenders reported 10,032 CRA-reported small business loans in Massachusetts in 2011 for \$557.2 million, which represented 9.7% of the total number of small business loans and 15.9% of loan dollars.** The following table shows the total CRA small business loans in 2011 for the 30 largest other out-of-state lenders in Massachusetts ranked by dollar volume. Data for all other out-of-state lenders can be found in the online appendix at [www.mcbc.info](http://www.mcbc.info).

TABLE: Small business loans by the 30 largest other out-of-state lenders by dollar volume (2011)

	Number of Loans	\$ Amount of Loans (\$000s)	\$ Average Loan Size (\$000s)
WELLS FARGO BANK, N.A.	3,938	\$149,108	\$37,864
PEOPLES UNITED BANK	710	\$115,760	\$163,042
M&T BANK	102	\$55,003	\$539,245
WEBSTER BANK, N.A.	248	\$40,911	\$164,964
SILICON VALLEY BANK	192	\$31,152	\$162,250
JPMORGAN CHASE BANK, NA	490	\$21,199	\$43,263
CAPITAL ONE NA	102	\$14,230	\$139,510
TEXAS CAPITAL BANK	2,170	\$13,685	\$6,306
GE CAPITAL FINANCIAL INC.	211	\$11,841	\$56,118
NORTHFIELD BANK	780	\$10,164	\$13,031
FIRST NIAGARA BANK, N.A.	64	\$9,539	\$149,047
US BANK, N.A.	94	\$8,133	\$86,521
CITIBANK, N.A.	80	\$7,937	\$99,213
FIRST REPUBLIC BANK	21	\$7,300	\$347,619
BANK RHODE ISLAND	27	\$6,868	\$254,370
THE HUNTINGTON NATIONAL BANK	212	\$6,273	\$29,590
COMERICA BANK	12	\$5,504	\$458,667
NEWALLIANCE BANK	19	\$5,446	\$286,632
EAST WEST BANK	14	\$4,778	\$341,286
THE WASHINGTON TRUST COMPANY	12	\$4,661	\$388,417
FIRST BANK OF HIGHLAND PARK	48	\$4,060	\$84,583
HSBC BANK USA, NA	345	\$3,807	\$11,035
ALLY BANK	6	\$3,695	\$615,833
SALISBURY BANK AND TRUST CO	17	\$2,550	\$150,000
NBT BANK NA	12	\$2,512	\$209,333
STEARNS BANK N A	63	\$2,371	\$37,635
BRANCH BANKING AND TRUST CO	10	\$2,305	\$230,500
MORGAN STANLEY BANK, N.A.	6	\$2,300	\$383,333
SUNTRUST BANKS, INC	14	\$2,087	\$149,071
CATHAY BANK	13	\$2,070	\$159,231
OTHER LENDER TOTALS	10,585	\$557,249	\$56,065

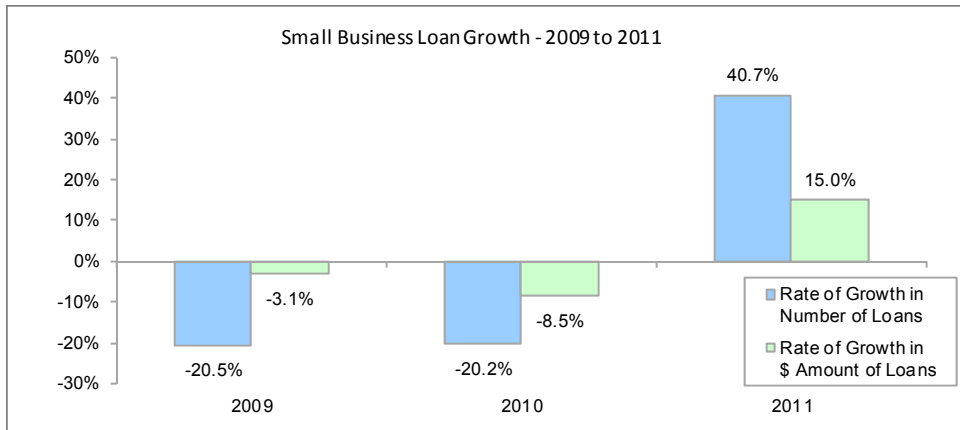
The volume of loans by other out-of-state lenders underscore the important role they play in serving the credit needs of small businesses in Massachusetts as well as the level of competition that exists in the marketplace for small business loans.

CHART: Market share of other out-of-state lenders in Massachusetts (2007 to 2011)



As was the case for credit card lenders in Massachusetts, other out-of-state lenders in Massachusetts also experienced an increase in small business lending in 2011 following declines in the previous two years. **Other out-of-state lenders experienced increases of 40.7% in the number of CRA-reported small business loans and 15.0% in loan dollars in 2011, following declines of 20.2% and 8.5% respectively in 2010 and 20.5% and 3.1% in 2009.**

CHART: Other out-of-state lenders experienced a substantial increase in small business lending volume in 2011 following declines in the previous two years



Loans with original amounts over \$100,000 accounted for roughly half of the small business loan dollars by out-of-state lenders although the average loan size was roughly \$56,000 in 2011.

CHART: Breakdown by loan amount at other out-of-state lenders (2011)

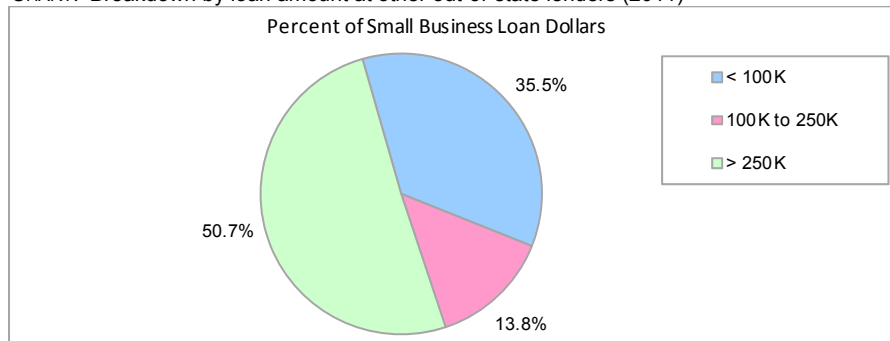
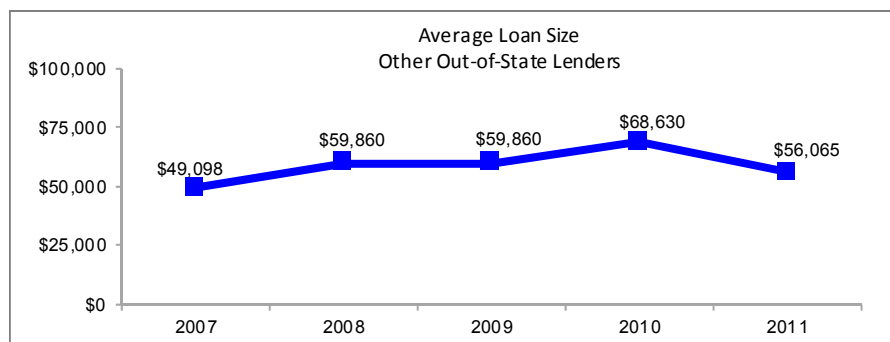
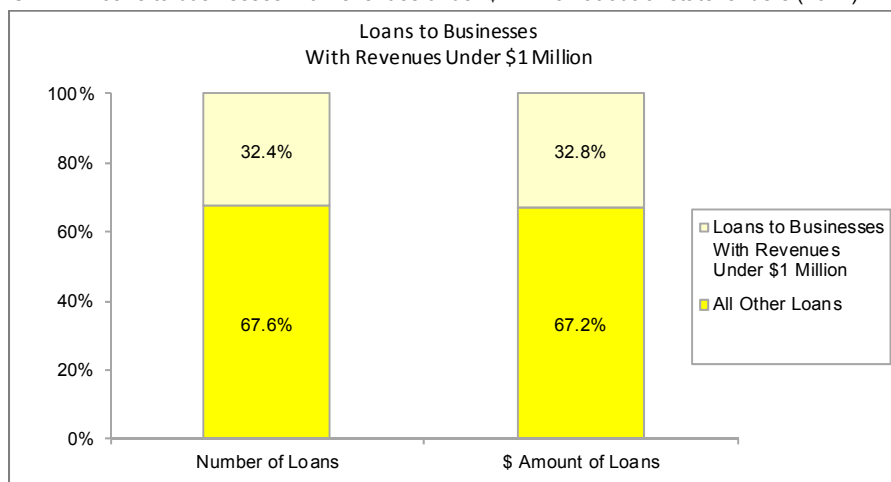


CHART: Average loan size of other out-of-state lenders (2011)



Out-of-state lenders reported 3,431 loans to businesses with revenues under \$1 million in Massachusetts in 2011 for \$194.8 million, which represented 32.4% of the total number of loans originated by out-of-state lenders and 32.8% of the dollar amount of loans.

CHART: Loans to businesses with revenues under \$1 million at out-of-state lenders (2011)



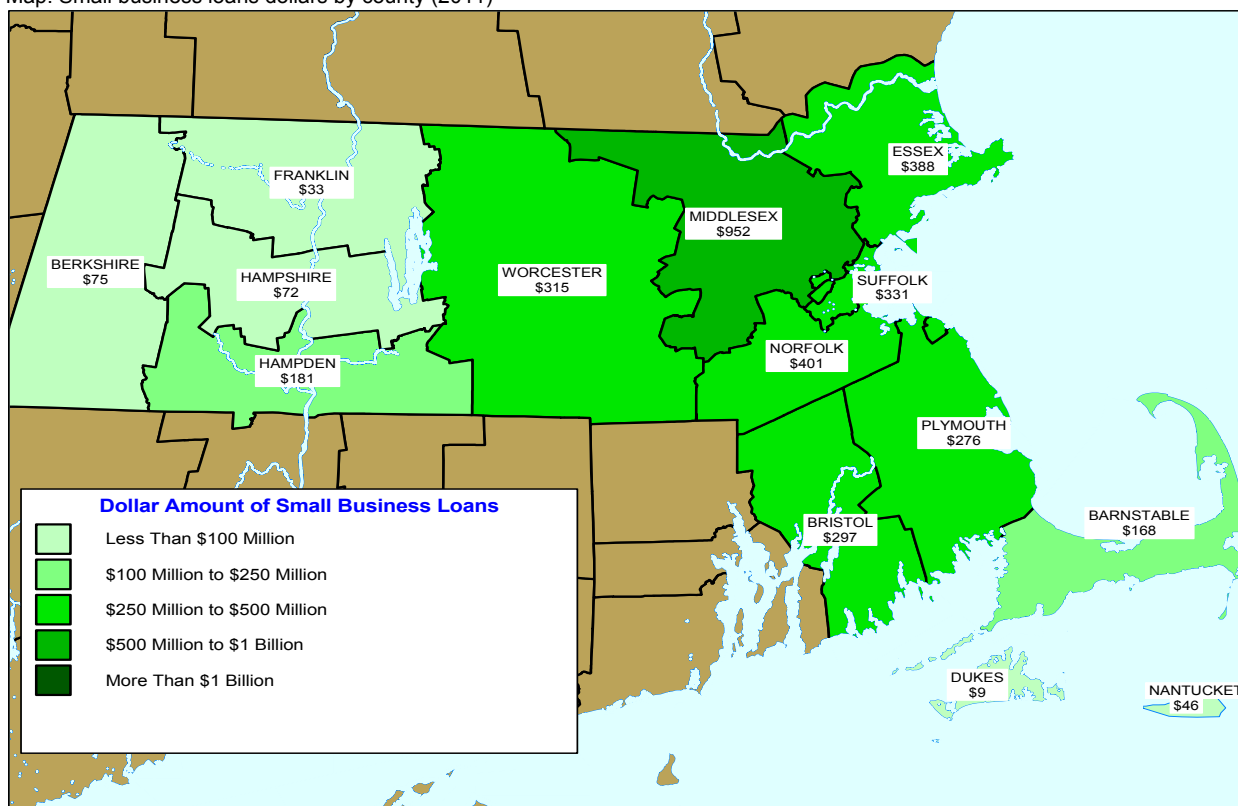
## SMALL BUSINESS LOANS BY COUNTY

The distribution of small business loans by county in Massachusetts generally follows each county's percentage of the total state population. In terms of dollar amounts, the volume of small business loans in 2011 ranged from \$989.8 million in Middlesex County, which accounts for 23.1% of the state's total population, to \$6.8 million in Dukes County, which accounts for 0.3% of the state's total population. Detailed small business loan data for all counties can be found in the online appendix at [www.mcbsc.info](http://www.mcbsc.info).

TABLE: Small business loans by county (2011)

	Number of Loans	% of Total	\$ Amount of Loans (\$000s)	% of Total	Total Population	% of Total
Barnstable	5,004	4.6%	\$154,838	4.2%	222,219	3.5%
Berkshire	2,113	1.9%	\$72,781	2.0%	133,349	2.1%
Bristol	7,673	7.0%	\$287,777	7.7%	534,678	8.4%
Dukes	519	0.5%	\$6,796	0.2%	29,974	0.5%
Essex	12,510	11.4%	\$424,548	11.4%	723,419	11.4%
Franklin	1,060	1.0%	\$28,191	0.8%	67,758	1.1%
Hampden	6,627	6.0%	\$222,301	6.0%	451,510	7.1%
Hampshire	2,533	2.3%	\$75,832	2.0%	147,650	2.3%
Middlesex	28,134	25.7%	\$989,762	26.6%	1,465,396	23.1%
Nantucket	512	0.5%	\$21,648	0.6%	19,040	0.3%
Norfolk	13,004	11.9%	\$430,323	11.6%	650,308	10.2%
Plymouth	8,463	7.7%	\$289,759	7.8%	472,822	7.4%
Suffolk	10,848	9.9%	\$392,432	10.5%	689,807	10.9%
Worcester	10,600	9.7%	\$326,051	8.8%	749,127	11.8%
State Totals	109,600	100.0%	\$3,723,039	100.0%	6,357,057	100.0%

Map: Small business loans dollars by county (2011)



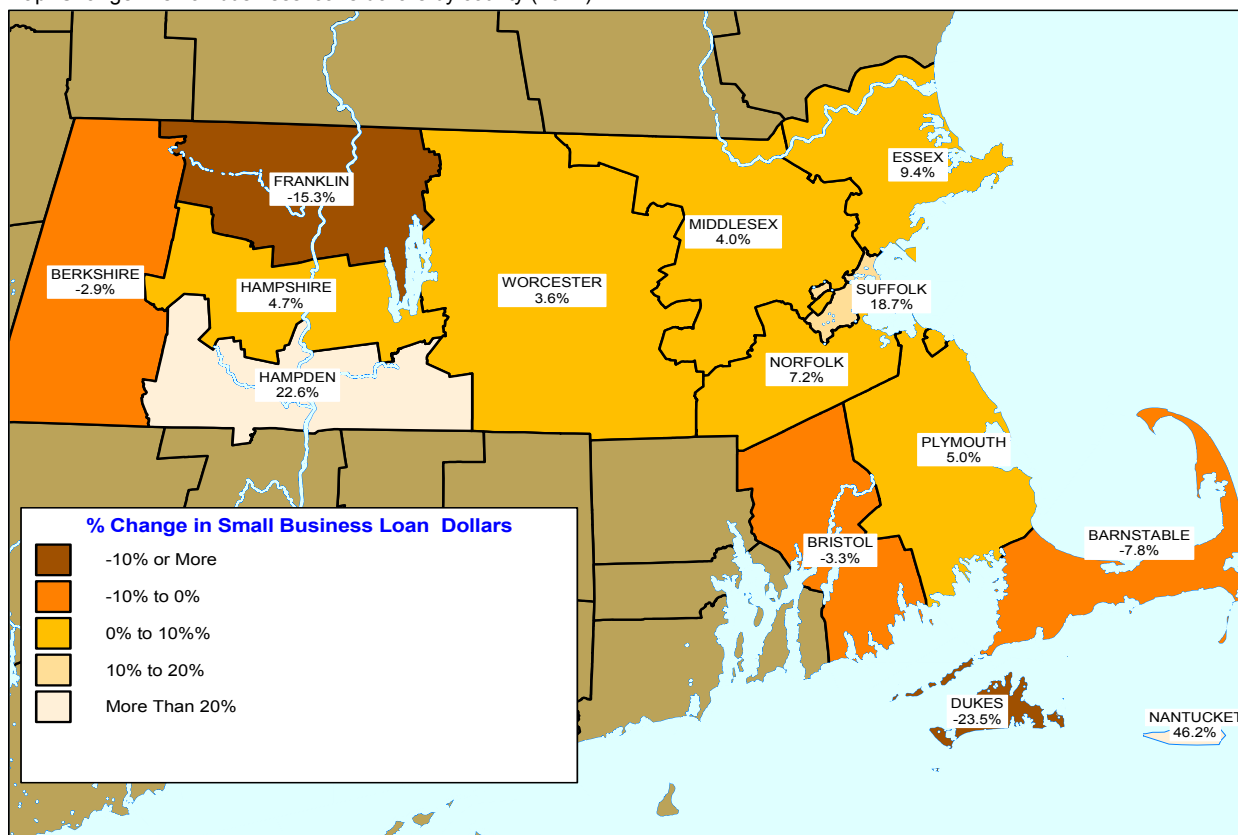


Nine of the fourteen counties in Massachusetts (shaded in the table below) experienced increases in CRA-reported small business lending volume in 2011. On a percentage basis, the changes in small business loan dollars ranged from a 23.5% decrease in Dukes County to a 46.2% increase in Nantucket County. In terms of dollar amounts, the changes in small business loan volume from 2010 to 2011 ranged from a decrease of \$13.0 million in Barnstable County to an increase of \$61.9 million in Suffolk County.

TABLE: Change in small business loans by county (2011)

	2011 Change in Number of Loans	% Change	2011 Change in \$ Amount of Loans (\$000s)	% Change	Total Population	% of Total
Barnstable	514	11.4%	-\$13,023	-7.8%	222,219	3.5%
Berkshire	159	8.1%	-\$2,198	-2.9%	133,349	2.1%
Bristol	667	9.5%	-\$9,684	-3.3%	534,678	8.4%
Dukes	40	8.4%	-\$2,088	-23.5%	29,974	0.5%
Essex	1,317	11.8%	\$36,601	9.4%	723,419	11.4%
Franklin	114	12.1%	-\$5,085	-15.3%	67,758	1.1%
Hampden	1,019	18.2%	\$41,041	22.6%	451,510	7.1%
Hampshire	325	14.7%	\$3,390	4.7%	147,650	2.3%
Middlesex	2,824	11.2%	\$37,872	4.0%	1,465,396	23.1%
Nantucket	52	11.3%	\$6,845	46.2%	19,040	0.3%
Norfolk	1,373	11.8%	\$28,829	7.2%	650,308	10.2%
Plymouth	1,256	17.4%	\$13,791	5.0%	472,822	7.4%
Suffolk	1,629	17.7%	\$61,883	18.7%	689,807	10.9%
Worcester	1,187	12.6%	\$11,178	3.6%	749,127	11.8%
State Totals	12,476	12.8%	\$209,352	6.0%	6,357,057	100.0%

Map: Change in small business loans dollars by county (2011)



## SMALL BUSINESS LOANS BY CITY & TOWN

Compared to the distribution of loans by county, there is somewhat greater variability between the relative distribution of small business loans and total population at the city and town level. **The city of Boston, which accounts for 9.3% of the state's population, received \$364.4 million in CRA-reported small business dollars in 2011 and accounted for 9.8% of the total loan dollars, while the cities of Worcester and Springfield, which account for 2.7% and 2.4% of the state's population respectively, received 1.9% and 1.3% of the total loan dollars in the state.**

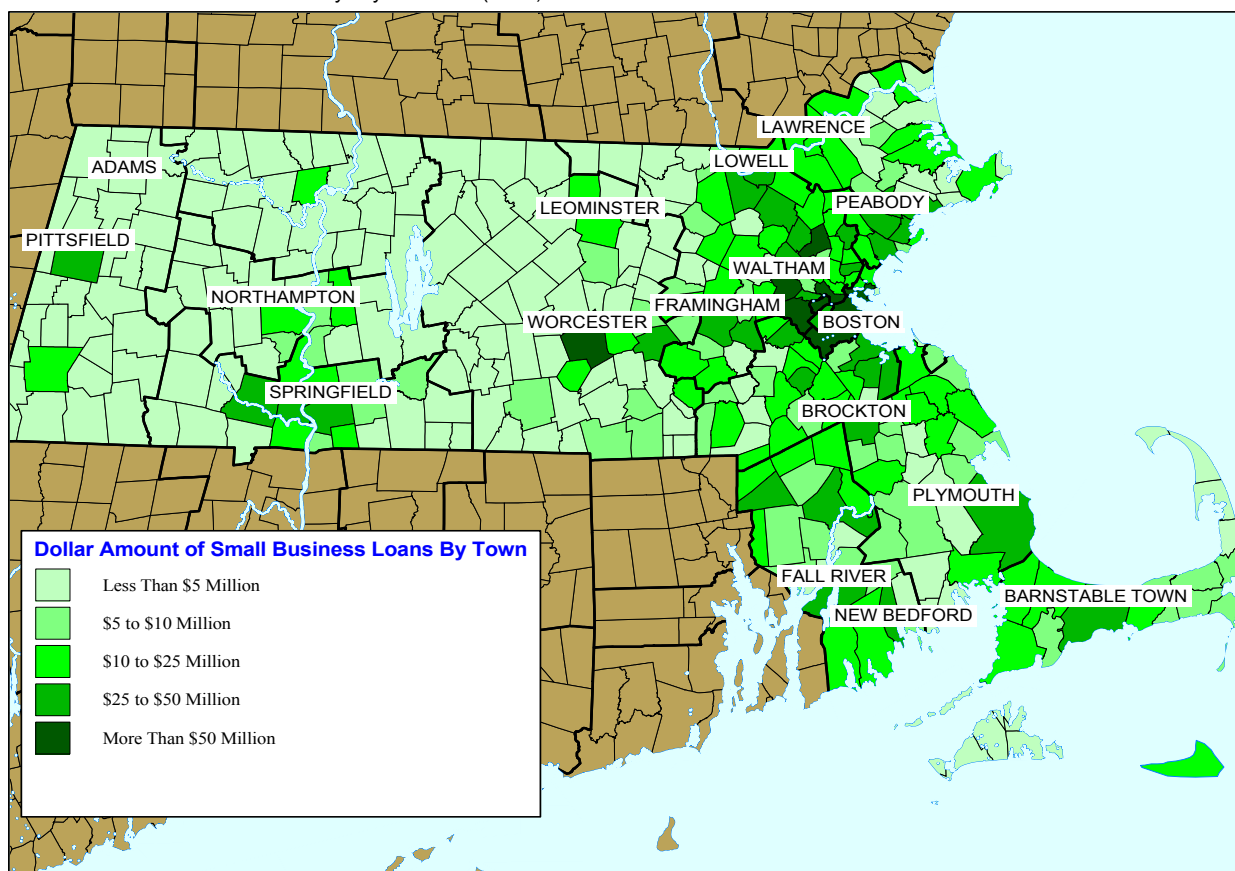
Detailed small business loan data by city and town can be found in the online appendix at [www.mcabc.info](http://www.mcabc.info).

TABLE: Small business loans by city and town (2011)

	Number of Loans	% of Total	\$ Amount of Loans (\$000s)	% of Total	Total Population	% of Total
Boston	9,786	9.1%	\$364,405	9.8%	589,141	9.3%
Worcester	2,141	2.0%	\$71,726	1.9%	172,648	2.7%
Springfield	1,592	1.5%	\$49,876	1.3%	152,082	2.4%
Lowell	948	0.9%	\$33,051	0.9%	105,167	1.7%
Cambridge	2,189	2.0%	\$83,546	2.3%	101,355	1.6%
Brockton	1,007	0.9%	\$35,185	0.9%	94,304	1.5%
New Bedford	1,102	1.0%	\$44,402	1.2%	93,768	1.5%
Fall River	968	0.9%	\$38,960	1.1%	91,938	1.5%
Lynn	735	0.7%	\$25,796	0.7%	89,050	1.4%
Quincy	1,454	1.4%	\$46,580	1.3%	88,025	1.4%
Newton	2,234	2.1%	\$64,404	1.7%	83,829	1.3%
Somerville	888	0.8%	\$24,833	0.7%	77,478	1.2%
Lawrence	555	0.5%	\$24,446	0.7%	72,043	1.1%
Framingham	1,234	1.1%	\$46,677	1.3%	66,910	1.1%
Waltham	1,353	1.3%	\$62,692	1.7%	59,226	0.9%
Haverhill	628	0.6%	\$22,148	0.6%	58,969	0.9%
Brookline	1,147	1.1%	\$30,473	0.8%	57,107	0.9%
Malden	708	0.7%	\$27,276	0.7%	56,340	0.9%
Taunton	693	0.6%	\$25,028	0.7%	55,976	0.9%
Medford	773	0.7%	\$24,800	0.7%	55,765	0.9%
Chicopee	641	0.6%	\$16,666	0.4%	54,653	0.9%
Weymouth	813	0.8%	\$27,226	0.7%	53,988	0.9%
Plymouth	1,131	1.1%	\$43,566	1.2%	51,701	0.8%
Peabody	918	0.9%	\$37,361	1.0%	48,129	0.8%
Barnstable	1,114	1.0%	\$36,117	1.0%	47,821	0.8%
Revere	457	0.4%	\$11,428	0.3%	47,283	0.7%
Pittsfield	636	0.6%	\$31,119	0.8%	45,793	0.7%
Methuen	566	0.5%	\$17,787	0.5%	43,789	0.7%
Arlington	666	0.6%	\$11,045	0.3%	42,389	0.7%
Attleboro	544	0.5%	\$27,581	0.7%	42,068	0.7%
Leominster	517	0.5%	\$24,168	0.7%	41,303	0.7%
Salem	792	0.7%	\$32,532	0.9%	40,407	0.6%
Westfield	694	0.6%	\$34,295	0.9%	40,072	0.6%
Beverly	793	0.7%	\$26,508	0.7%	39,862	0.6%
Holyoke	415	0.4%	\$16,080	0.4%	39,838	0.6%
Fitchburg	392	0.4%	\$16,783	0.5%	39,102	0.6%
Billerica	732	0.7%	\$27,624	0.7%	38,981	0.6%
Everett	437	0.4%	\$14,924	0.4%	38,037	0.6%
Woburn	1,199	1.1%	\$65,781	1.8%	37,258	0.6%
Marlborough	691	0.6%	\$21,089	0.6%	36,255	0.6%

The following map shows that small business loan dollars in Massachusetts in 2011 continue to be relatively concentrated around the state's urban centers and the I-495/Route 128 high-tech corridor.

MAP: Small business loan dollars by city and town (2011)



While the majority of largest cities and towns across the state experienced increases in small business loan volume from 2010 to 2011 (shaded in the table below) there was also considerable variability in terms of changes in lending volume. Boston and Springfield experienced increase in small business loan dollars of 20.9% and 10.5% respectively in 2011, while Worcester experienced a decline of 2.3%. On a percentage basis, the changes in small business loan volume among the largest cities and towns in Massachusetts ranged from a 34.1% decline in Barnstable to a 168.2% increase in Westfield.

Detailed small business loan data by city and town can be found in the online appendix at [www.mcbsc.info](http://www.mcbsc.info).

TABLE: Change in small business loans by city and town (2011)

	2011 Change in Number of Loans	% Change	2011 Change in \$ Amount of Loans (\$000s)	% Change	Total Population	% of Total
Boston	1,559	18.9%	\$63,041	20.9%	589,141	9.3%
Worcester	273	14.6%	-\$1,675	-2.3%	172,648	2.7%
Springfield	266	20.1%	\$4,757	10.5%	152,082	2.4%
Lowell	118	14.2%	\$2,969	9.9%	105,167	1.7%
Cambridge	386	21.4%	\$25,230	43.3%	101,355	1.6%
Brockton	163	19.3%	\$218	0.6%	94,304	1.5%
New Bedford	37	3.5%	-\$2,069	-4.5%	93,768	1.5%
Fall River	144	17.5%	-\$2,345	-5.7%	91,938	1.5%
Lynn	121	19.7%	-\$5,618	-17.9%	89,050	1.4%
Quincy	181	14.2%	\$3,111	7.2%	88,025	1.4%
Newton	276	14.1%	\$7,769	13.7%	83,829	1.3%
Somerville	156	21.3%	\$2,892	13.2%	77,478	1.2%
Lawrence	56	11.2%	\$6,019	32.7%	72,043	1.1%
Framingham	82	7.1%	\$905	2.0%	66,910	1.1%
Waltham	76	6.0%	\$3,262	5.5%	59,226	0.9%
Haverhill	54	9.4%	\$4,269	23.9%	58,969	0.9%
Brookline	145	14.5%	-\$2,806	-8.4%	57,107	0.9%
Malden	49	7.4%	-\$6,128	-18.3%	56,340	0.9%
Taunton	167	31.7%	-\$727	-2.8%	55,976	0.9%
Medford	97	14.3%	\$3,418	16.0%	55,765	0.9%
Chicopee	125	24.2%	\$2,538	18.0%	54,653	0.9%
Weymouth	167	25.9%	\$1,212	4.7%	53,988	0.9%
Plymouth	262	30.1%	\$10,580	32.1%	51,701	0.8%
Peabody	146	18.9%	\$2,742	7.9%	48,129	0.8%
Barnstable	133	13.6%	-\$18,716	-34.1%	47,821	0.8%
Revere	32	7.5%	\$3,435	43.0%	47,283	0.7%
Pittsfield	49	8.3%	-\$1,034	-3.2%	45,793	0.7%
Methuen	40	7.6%	\$2,002	12.7%	43,789	0.7%
Arlington	133	25.0%	\$1,382	14.3%	42,389	0.7%
Attleboro	23	4.4%	-\$3,283	-10.6%	42,068	0.7%
Leominster	-15	-2.8%	\$3,821	18.8%	41,303	0.7%
Salem	136	20.7%	-\$802	-2.4%	40,407	0.6%
Westfield	182	35.5%	\$21,506	168.2%	40,072	0.6%
Beverly	79	11.1%	\$676	2.6%	39,862	0.6%
Holyoke	41	11.0%	\$1,313	8.9%	39,838	0.6%
Fitchburg	12	3.2%	-\$3,988	-19.2%	39,102	0.6%
Billerica	91	14.2%	\$229	0.8%	38,981	0.6%
Everett	49	12.6%	-\$5,571	-27.2%	38,037	0.6%
Woburn	146	13.9%	\$2,784	4.4%	37,258	0.6%
Marlborough	87	14.4%	-\$3,567	-14.5%	36,255	0.6%

## **SECTION II**

**SMALL BUSINESS LENDING IN TRADITIONALLY UNDERSERVED AREAS:**

**A CRA PERSPECTIVE**

## INCOME LEVEL, RACE, & BUSINESS DEMOGRAPHICS

The intent of the federal CRA law is to encourage depository institutions to help meet the credit needs of the residents and small businesses in the communities in which they operate, particularly low and moderate income neighborhoods, consistent with safe and sound business operations. Since the CRA law places a specific emphasis on the distribution of loans by income level, lending performance is generally evaluated in the context of the demographic characteristics of a particular geographic area. While the CRA law does not specifically address the race of borrowers, a subject that is formally covered by federal fair lending laws, this report analyzes the distribution of small business loans by both the census tract income level and the racial composition of local communities.

Readers should be aware that the demographic data used in this report is based on the now-outdated 2000 census data, which banks were required to use from 2002 to 2011 for the purposes of compiling their annual CRA submissions. The recently released 2010 census data, which banks were required to begin using in 2012, reflects significant changes in census tract boundaries and demographic data, including data pertaining to income level classifications and racial composition.

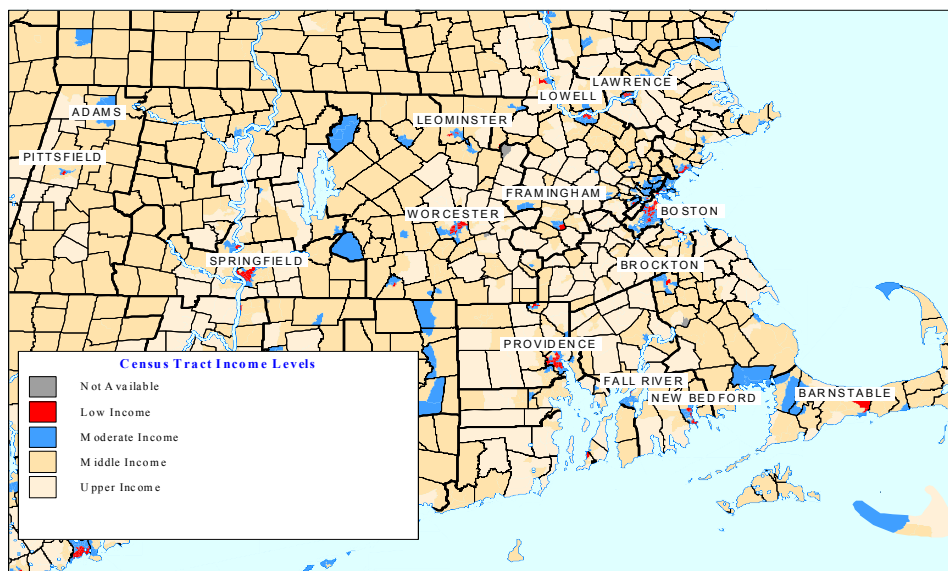
According to the 2000 census data, there are 114 low income census tracts and 295 moderate income census tracts in Massachusetts, which account for 5.7% and 20.5% of the total population of the state.

TABLE : Population by income level in Massachusetts

Census Tract Income Level	Number of Census Tracts	Total Population	% of Total	Minority Population %
Low	114	364,959	5.7%	66.2%
Moderate	295	1,304,855	20.5%	35.9%
Middle	628	3,012,570	47.6%	10.3%
Upper	319	1,646,183	25.9%	7.7%
NA	5	3,983	0.1%	54.6%
Totals	1,361	6,332,550	100.0%	18.1%
Low & Moderate Combined	409	1,669,814	26.4%	42.5%

Low income and moderate income areas are spread out over 63 cities and towns across the state, including 19 cities and towns that have both low and moderate income areas.

MAP : Low and moderate income census tracts are shown in red and blue below



The census data shows a strong correlation between race and income level in Massachusetts and across the country: areas with higher minority populations generally have lower income levels. Previous reports published by the MCBC on small business lending have noted a similar correlation between small business lending and income level: lower income areas and high minority areas generally have lower lending rates than higher income and lower minority areas.

Minorities account for approximately 18.1% of the total population of the state. Blacks, Hispanics, and Asians represent the largest minority groups. There are 72 high-minority census tracts across the state, where the minority population is more than 75% of the total population of the tract, and an additional 275 mixed-race census tracts that together comprise roughly 22.5% of the state's population. Of the high minority tracts, 45 are located in Boston, 10 are located in Springfield, 8 are located in Lawrence, and the remaining 9 census tracts are located in Amherst, Chelsea, Holyoke, Lowell, and Worcester.

TABLES : Massachusetts population totals by race and neighborhood racial composition

	Total Population	% of Total		Number of Census Tracts	Total Population	% of Total
Asian	238,191	3.8%	High Minority (> 75% Minority)	72	248,866	3.9%
Black	318,193	5.0%	Mixed-Race	280	1,177,148	18.6%
Hispanic	428,480	6.8%	White (> 75% White)	1,009	4,906,536	77.5%
Other Race	164,954	2.6%	Total	1,361	6,332,550	100.0%
White	5,182,732	81.8%				
Total	6,332,550	100.0%				
All Minorities Combined	1,149,818	18.2%				

In an effort to measure whether income or race is more important in determining the patterns of lending, we will utilize categories that take both income level and race/ethnicity into account. A finding of lower lending rates in high minority, low income tracts than in white, low income tracts would indicate that the racial makeup of the community is potentially the more important factor. The reverse finding, of higher lending rates in white, low income tracts, would indicate that income level was potentially the more important factor. To simplify our analysis, we have combined low and moderate income tracts together as one group and combined middle and upper income tracts together as another group.

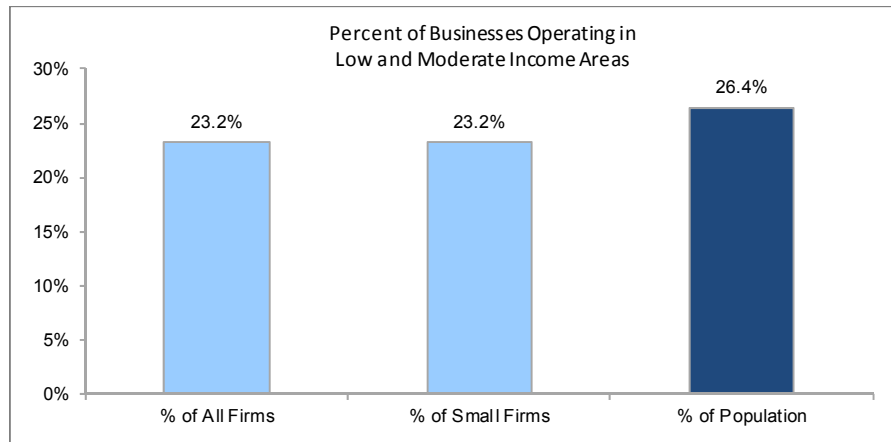
TABLE : Neighborhood composition by race and income level

	Number of Census Tracts	Total Population	% of Total
High Minority & Low-Moderate	71	248,865	3.9%
Mixed-Race & Low-Moderate	209	908,459	14.3%
Mixed-Race & Middle-Upper	67	289,214	4.6%
White & Low-Moderate	129	512,490	8.1%
White & Middle-Upper	880	4,369,539	69.0%
Not Available	5	3,983	0.1%
Totals	1,361	6,332,550	100.0%

While the census bureau provides us with a reliable demographic information down to the census tract level, it is much more difficult to find data sources that quantify the number of firms that operate in a given area since these datasets are generally organized at the state or county level. The number of firms data is used in this report to calculate lending rates, in our case the dollar amount of loans per 100 firms, which allow us to compare small business lending activity between geographic areas and across demographic lines – such as lower income and higher income areas. Analyses that focus exclusively on loan volume can be dramatically affected by population changes and demographic shifts that occur over time, while the use of lending rates tends to neutralize such effects and provide a preferred mechanism for performing geographic or demographic comparisons.

The source for the number of firms data used in this report is Dunn & Bradstreet, which compiles business demographic data by reviewing government business filings as well as direct surveys of business owners. The business information company estimates that 23.2% of all businesses in the state, and 23.2% of businesses with revenues under \$1 million, are located in low and moderate income areas even though lower income areas account for 26.4% of the state's total population.

CHART: Distribution of businesses in lower income areas

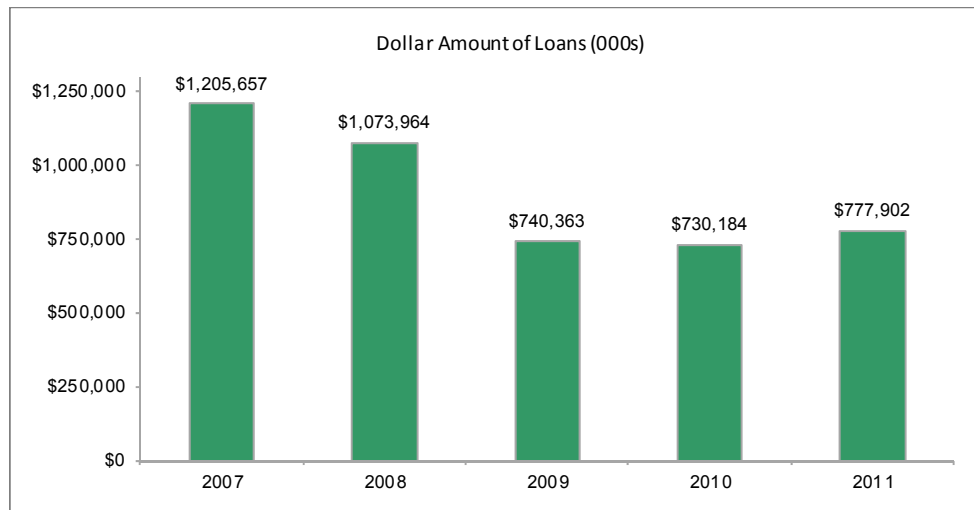
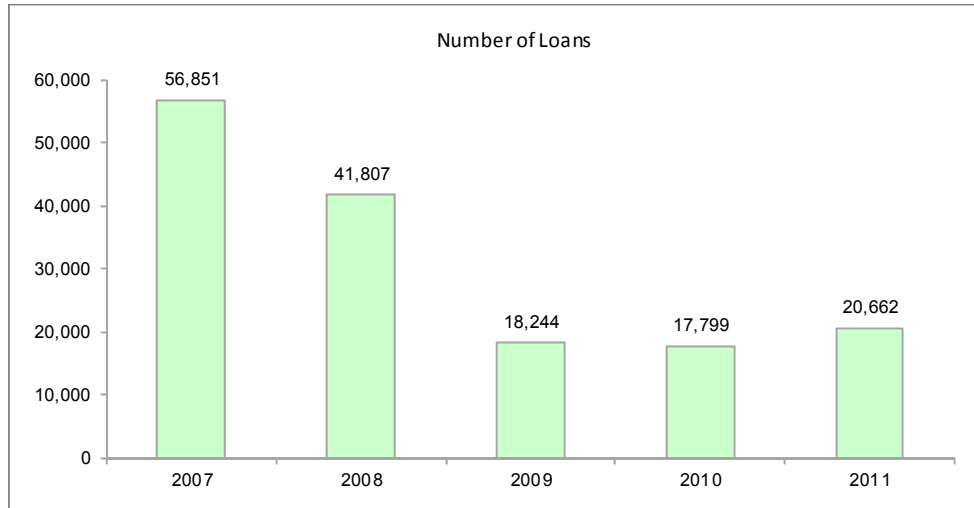




## SMALL BUSINESS LENDING IN LOWER INCOME AREAS

**Businesses in low and moderate income census tracts in Massachusetts received a total of 20,662 small business loans in 2011 for \$777.9 million, compared to the previous year when borrowers in low and moderate income census tracts received 17,799 loans for \$730.2 million.**

CHARTS: Small business lending in lower income areas increased slightly in Massachusetts in 2011



**Low and moderate income census tracts, which account for 26.3% of the total population of Massachusetts, received 18.9% of the total number of CRA-reported small business loans in the state in 2011 and 20.9% of the total loan dollars, compared to 18.3% and 20.8% respectively for the previous year.** While these percentages fall short of the levels one might expect given the size of population that live in low and moderate income tracts, they are essentially in line with comparable results in other New England states and the US as a whole.

TABLE : Small business loans in low and moderate income census tracts by state (2011)

	Number of Loans in Low & Moderate Census Tracts	% of Total	\$ Amount of Loans in Low & Moderate Census Tracts (000s)	% of Total	Total Population in Low & Moderate Census Tracts	% of Total
Massachusetts	20,662	18.9%	\$777,902	20.9%	1,669,814	26.4%
Connecticut	11,856	18.6%	\$516,904	23.8%	907,427	26.7%
Maine	2,956	13.1%	\$163,684	15.1%	159,771	12.6%
New Hampshire	2,582	11.9%	\$102,417	15.5%	190,757	15.5%
Rhode Island	3,122	18.9%	\$153,767	22.8%	269,754	25.7%
Vermont	1,350	11.8%	\$69,528	13.3%	71,481	11.8%
Totals	42,528	17.3%	\$1,784,202	20.2%	3,269,004	23.6%
Memo: US Total	881,930	17.7%	\$40,853,703	21.2%	71,541,392	25.4%

TABLE : Small business loans in Massachusetts by income level (2011)

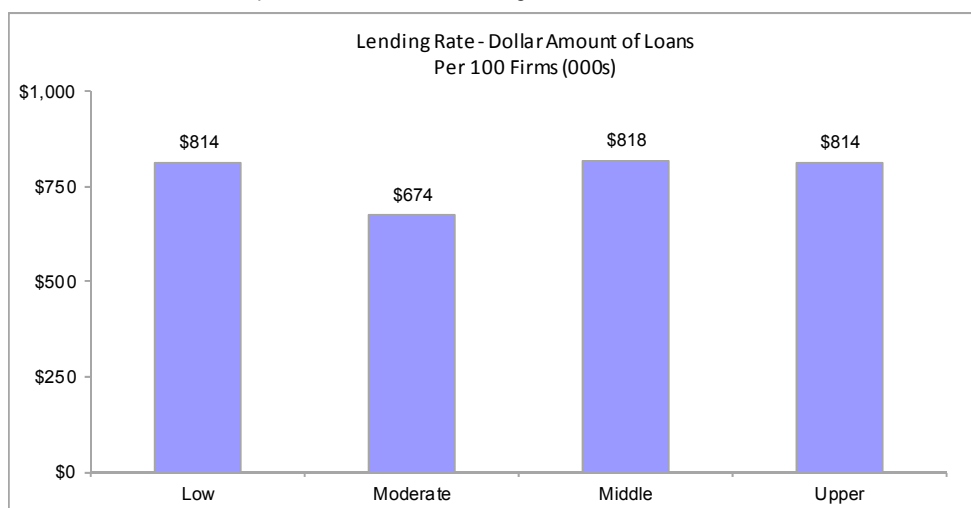
	Number of Loans	% of Total	\$ Amount of Loans (000s)	% of Total	Total Population	% of Total
Low	5,857	5.3%	\$273,068	7.3%	5,857	5.3%
Moderate	14,805	13.5%	\$504,834	13.6%	14,805	13.5%
Middle	51,235	46.7%	\$1,761,359	47.3%	51,235	46.7%
Upper	35,689	32.6%	\$1,167,370	31.4%	35,689	32.6%
NA	2,014	1.8%	\$16,408	0.4%	2,014	1.8%
Totals	109,600	100.0%	\$3,723,039	100.0%	109,600	100.0%
Memo: Low & Moderate	20,662	18.9%	\$777,902	20.9%	20,662	18.9%

Note: The category "NA" includes small business loans where the CRA reporter did not record the census tract location of the loan

As previously noted, since lending rates utilize a combination of loan volume and the number of firms, they can be used to compare small business lending activity within a given geographic area or across different geographic areas regardless of population characteristics or other demographic factors. While loan volume can be dramatically affected by population changes and demographic shifts that occur over time the use of lending rates tends to neutralize such effects and provide a preferred mechanism for performing geographic or demographic comparisons.

**The lowest lending rates in Massachusetts, measured in the amount of loan dollars per 100 firms, were recorded in moderate income communities in 2011 although it is worth noting that the overall lending rates in low income areas were essentially in line with the rates in middle and upper income areas.** Moderate income census tracts received an aggregate \$674,000 per 100 businesses, representing 84.6% of the overall lending rates across the state, while low income census tracts in Massachusetts received an aggregate \$814,000 per 100 businesses, representing 102.2% of the overall lending rate across the state. The lowest small business lending rates have been in either low or moderate income census tracts in each of the past five years.

TABLE : The highest lending rates in Massachusetts were recorded in middle income areas in 2011 while moderate income areas experienced the lowest lending rates

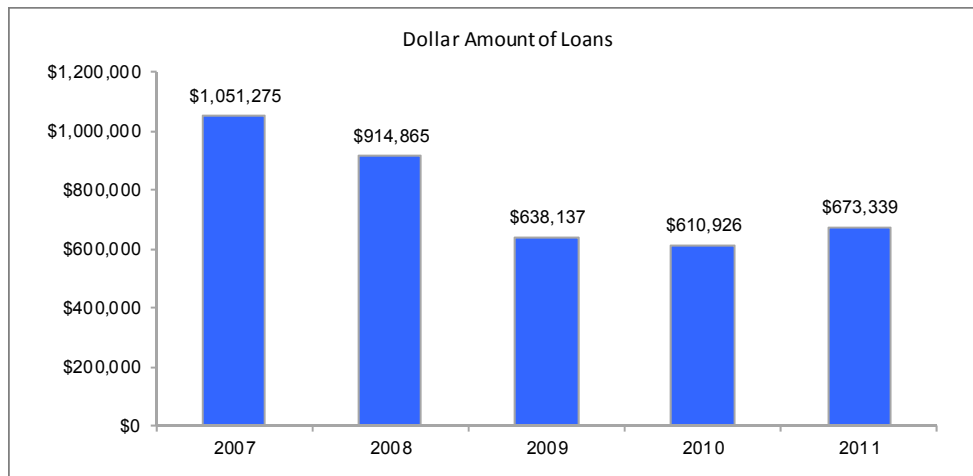
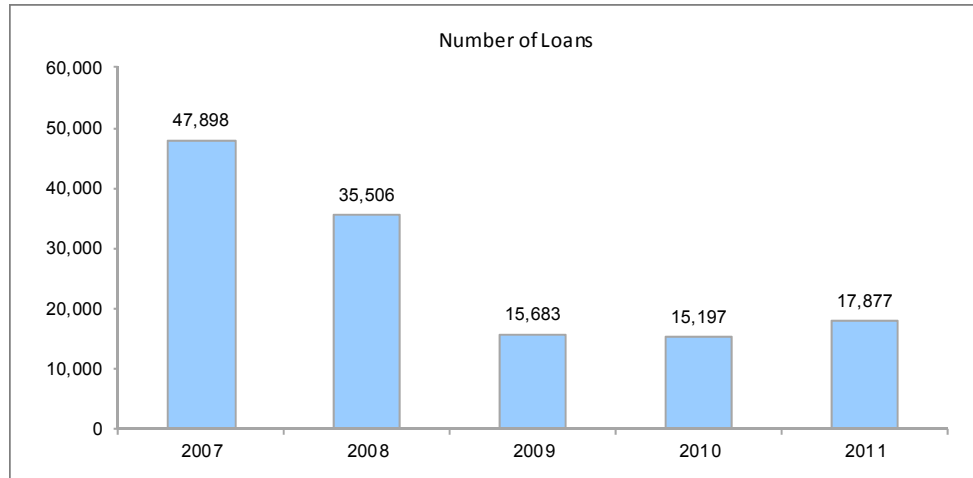


	Lending Rate Per 100 Firms (000s)	% of Overall Lending Rate	2011 Change in Lending Rate
Low	\$814	102.2%	-2.1%
Moderate	\$674	84.6%	9.4%
Middle	\$818	102.7%	-0.1%
Upper	\$814	102.2%	2.5%
Totals	\$797	100.0%	0.8%
Memo: Low & Moderate Areas	\$717	90.0%	5.1%

## **SMALL BUSINESS LENDING IN HIGH MINORITY AREAS**

Businesses in high minority and mixed-race communities across the state received a reported 17,877 small business loans for \$673.3 million in 2011, which represents an increase in total volume compared to the previous year when such businesses received 15,197 loans for \$610.9 million.

CHARTS: The number and dollar volume of small business loans in minority census tracts and mixed-race census tracts in Massachusetts increased in 2011



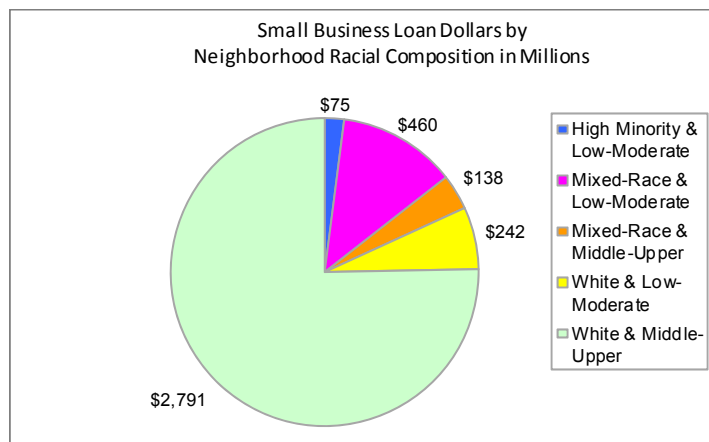
The communities with the highest minority populations in Massachusetts received 2,181 small business loans in 2011 for \$75.3 million, which represents 2.0% of the number of loans and 2.0% of the dollar amount of loans. Lower income mixed-race communities received 11,561 loans for \$460.3 million, representing 10.5% of the number of loans and 12.4% of the dollar amount of loans. While most neighborhood categories received less small business loans than one might expect given their total share of the state's total population, only higher income white communities received a larger share of loan dollars in 2011 compared to their share of the state's total population.

TABLE : Most neighborhood categories received a smaller share of loans dollars in 2011 than one might expect given their share of the state's total population, except higher income white neighborhoods which received a larger share

	Number of Loans	% of Total	\$ Amount of Loans (000s)	% of Total	Total Population	% of Total
High Minority & Low-Moderate	2,181	2.0%	\$75,301	2.0%	248,865	3.9%
Mixed-Race & Low-Moderate	11,561	10.5%	\$460,283	12.4%	908,459	14.3%
Mixed-Race & Middle-Upper	4,135	3.8%	\$137,755	3.7%	289,214	4.6%
White & Low-Moderate	6,920	6.3%	\$242,318	6.5%	512,490	8.1%
White & Middle-Upper	82,789	75.5%	\$2,790,974	75.0%	4,369,539	69.0%
NA	2,014	1.8%	\$16,408	0.4%	3,983	0.1%
Totals	109,600	100.0%	\$3,723,039	100.0%	6,332,550	100.0%

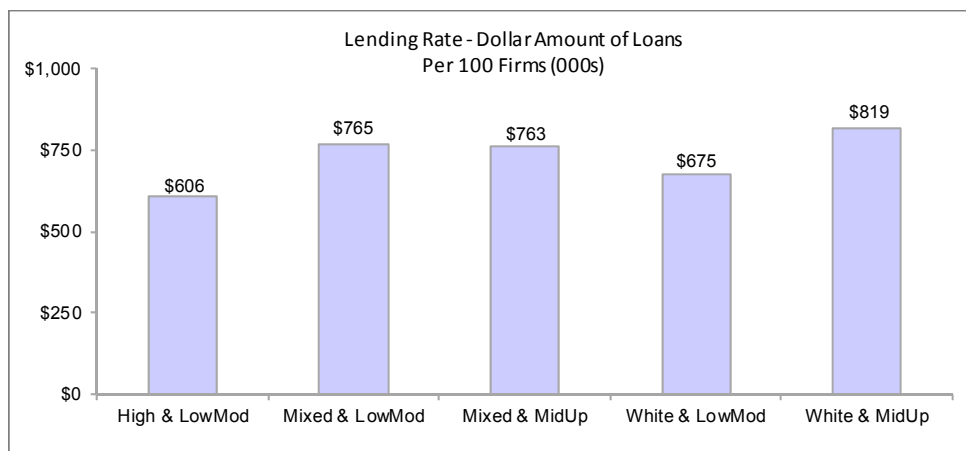
Note: The category "NA" includes small business loans where the CRA reporter did not record the census tract location of the loan

CHART : The communities in Massachusetts with the highest minority populations received \$76.0 million in small business loans in 2011



As was the case in previous reports on small business lending, the lowest lending rates were recorded in high minority communities in Massachusetts in 2011 while the highest lending rates were recorded in higher income white communities. High minority census tracts in Massachusetts received \$606,000 per 100 businesses, representing 76.1% of the overall lending rate across the state. Higher-income white communities received an average \$819,000 per 100 businesses or 102.8% of the overall lending rate. In each of the past five years, lower income minority neighborhoods in Massachusetts have experienced lower lending rates than lower income white neighborhoods.

CHART & TABLE: The lowest lending rates were recorded in high minority areas in 2011



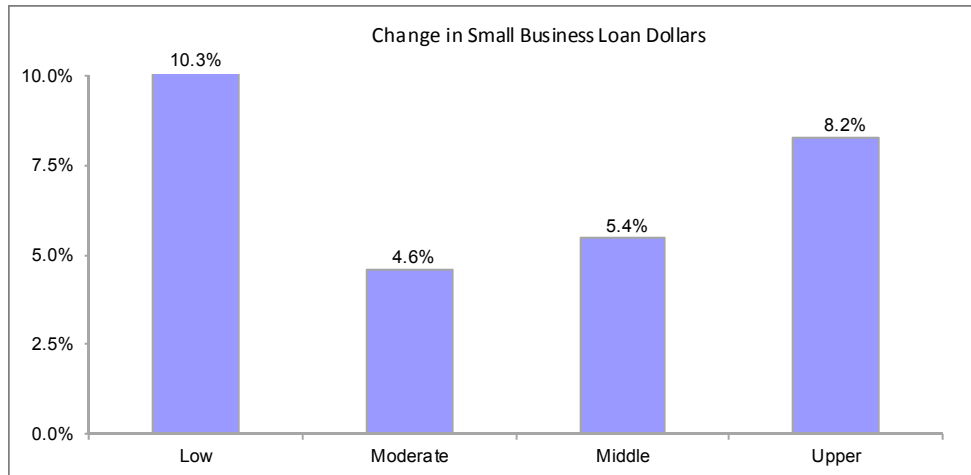
	Lending Rate Per 100 Firms (000s)	% of Overall Lending Rate	2011 Change in Lending Rate
High Minority & Low-Moderate	\$606	76.1%	23.0%
Mixed-Race & Low-Moderate	\$765	96.0%	7.7%
Mixed-Race & Middle-Upper	\$763	95.8%	12.4%
White & Low-Moderate	\$675	84.7%	0.2%
White & Middle-Upper	\$819	102.8%	6.3%
Totals	\$797	100.0%	6.0%

Readers are urged to use caution when interpreting the findings discussed in this report, given the strong correlation between high minority populations and low income levels.

## SMALL BUSINESS LOAN GROWTH

**Low income areas in Massachusetts experienced a larger increase in small business loan dollars in 2011 than other areas in Massachusetts, while moderate income areas experienced the smallest increase.** Low income census tracts in Massachusetts experienced an overall increase of 10.3% in small business loan dollars from 2010 to 2011 while moderate income census tracts experienced an overall increase of 4.6%.

TABLE & CHART: Low income census tracts experienced a larger increase in small business loan dollars in 2011 than other areas in Massachusetts, while moderate income areas experienced the smallest increase

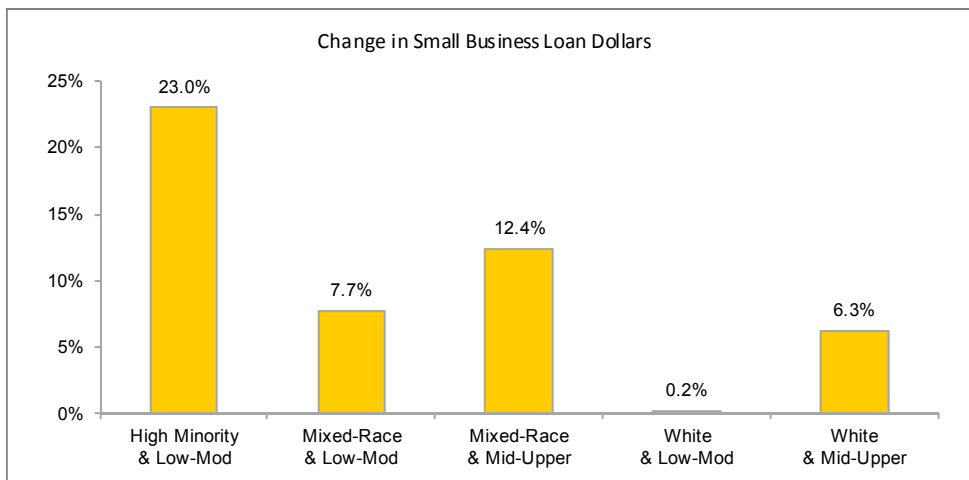


	2011 Change in Number of Loans	% Change	2011 Change in \$ Amount of Loans	% Change
Low	849	17.0%	\$25,476	10.3%
Moderate	2,014	15.7%	\$22,242	4.6%
Middle	6,109	13.5%	\$91,020	5.4%
Upper	3,838	12.0%	\$88,906	8.2%
NA	-334	-14.2%	-\$18,292	-52.7%
Totals	12,476	12.8%	\$209,352	6.0%
Memo: Low & Moderate	2,863	16.1%	\$47,718	6.5%

Note: The category "NA" includes small business loans where the CRA reporter did not record the census tract location of the loan

**When the racial composition of the area is also taken into consideration, the data shows that small business loan volume rebounded strongly in 2011 after falling sharply in the previous year.** The overall lending rate in high minority census tracts in Massachusetts increased by 23.0% in 2011, which exceeded the increases in other areas, after declining by 19.5% in the previous year.

CHART & TABLE: High minority communities in Massachusetts experienced a larger increase in small business loan volume in 2011 than other areas



	2011 Change in Number of Loans	% Change	2011 Change in \$ Amount of Loans	% Change
High Minority & Low-Moderate	485	28.6%	\$14,083	23.0%
Mixed-Race & Low-Moderate	1,607	16.1%	\$33,099	7.7%
Mixed-Race & Middle-Upper	588	16.6%	\$15,231	12.4%
White & Low-Moderate	771	12.5%	\$536	0.2%
White & Middle-Upper	9,359	12.7%	\$164,695	6.3%
NA	-334	-14.2%	-\$18,292	-52.7%
Totals	12,476	12.8%	\$209,352	6.0%

Note: The category "NA" includes small business loans where the CRA reporter did not record the census tract location of the loan

The dramatic slowdown in small business lending since 2007 has placed additional pressures on all communities across the state, particularly lower income neighborhoods and high minority areas. The economic revitalization of these traditionally underserved communities depends to a large extent on an extended recovery in small business lending and continued reduction in lending gaps.



## THE ROLE OF LOCAL LENDERS

**Local CRA lenders continued to account for the vast majority of small business loans dollars in low and moderate income census tracts across the state.** Local CRA lenders made a total of 3,747 loans for \$571.3 million in 2011, representing 18.1% of the total number of small business loans in low and moderate income areas and 73.4% of loan dollars. In comparison, local CRA lenders accounted for 19.1% of the number of small business loans in lower income areas and 74.3% of loan dollars in 2010.

TABLE & CHART: Local lenders accounted for a substantial majority of the small business loan dollars in in lower income areas in 2011

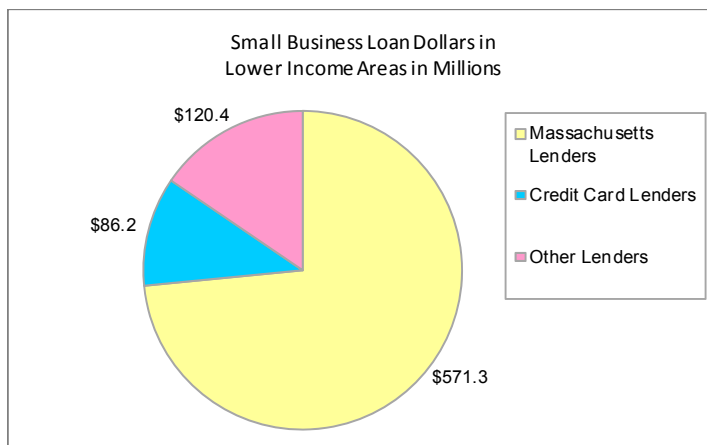
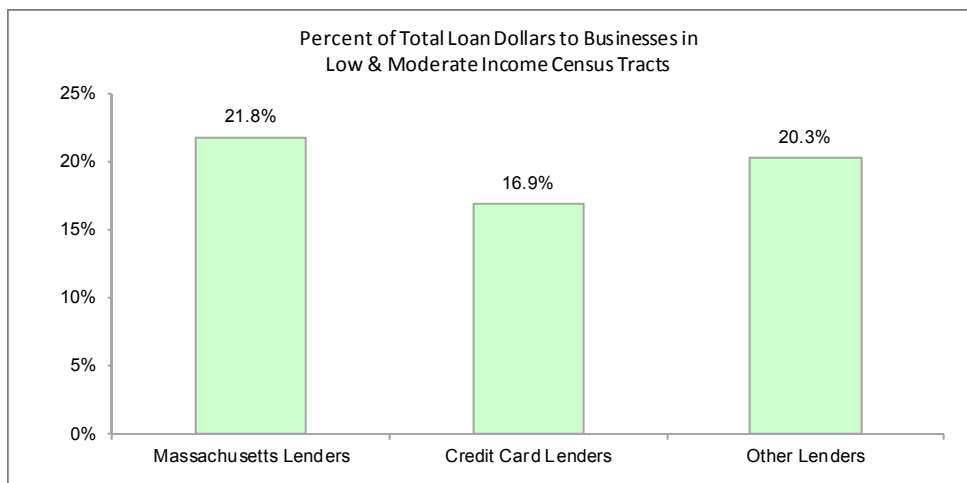


TABLE : Change in small business loans in lower income areas (2011)

	Number of Loans	% of Total	\$ Amount of Loans (000s)	% of Total
Local Lenders	3,747	18.1%	\$571,347	73.4%
Credit Card Lenders	14,520	70.3%	\$86,151	11.1%
Other Lenders	2,395	11.6%	\$120,404	15.5%
Totals	20,662	100.0%	\$777,902	100.0%

Local lenders and traditional out-of-state lenders historically make a larger percentage of their loans in low and moderate income census tracts than credit card lenders. In 2011 local lenders and traditional out-of-state lenders made 21.8% and 20.3% of their overall small business loan dollars in low and moderate income areas across the state respectively, compared to 16.9% for credit card lenders. The 2011 results are fairly typical of the results in previous years.

CHART: Local lenders, credit card lenders, and other out-of-state lenders made a comparable portion of their loans in low and moderate income tracts in 2011



Local lenders reported an overall 5.3% increase in the number of small business loans in lower income areas in 2011 and a 10.1% increase in the dollar amount of such loans, and credit card lenders and other out-of-state lenders also recorded increases in lending volume in 2011.

TABLE : Change in small business loans in lower income areas (2011)

	2011 Change in Number of Loans	% Change	2011 Change in \$ Amount of Loans (000s)	% Change
Local Lenders	345	10.1%	\$28,538	5.3%
Credit Card Lenders	1,619	12.5%	\$5,851	7.3%
Other Lenders	899	60.1%	\$13,329	12.4%
Totals	2,863	16.1%	\$47,718	6.5%

It is important to note that the local lenders that are included in the 2011 CRA data are considered to be *CRA-covered* lenders in that most of their banking activities in Massachusetts are subject to CRA regulatory review. Credit card lenders and other out-of-state lenders that do not have a branch presence in Massachusetts are considered *non-covered* lenders in that their banking activities in Massachusetts are not subject to CRA regulatory review.

The following table shows the statewide small business loan volume in low income and moderate areas of the state for local lenders that reported small business lending activity in 2011. More detailed information on these lenders is provided in the online appendix at [www.mcbsc.info](http://www.mcbsc.info).

TABLE: Small business loans in lower income areas by local lenders in Massachusetts (2011)

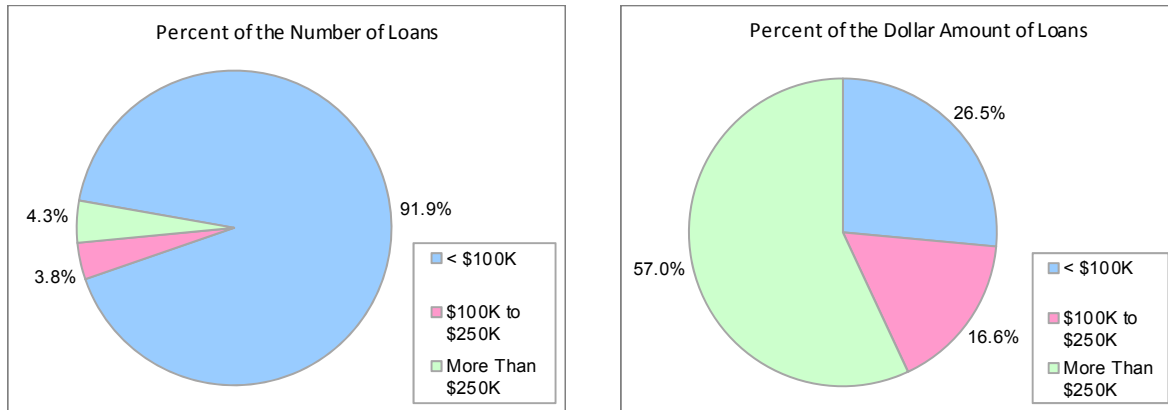
	Town	Massachusetts Deposits 6/30/2010 (\$000s)	Number of Loans	\$ Amount of Loans (\$000s)	\$ Average Loan Size (\$000s)
EASTERN BANK	LYNN	\$6,186,454	332	\$70,633	\$213
**BANK OF AMERICA, N.A.	WESTLAKE VILLAGE	\$52,766,315	369	\$60,936	\$165
**RBS CITIZENS, N.A.	PROVIDENCE	\$28,451,175	625	\$49,878	\$80
**TD BANK N.A.	FALMOUTH	\$9,806,515	515	\$48,781	\$95
**SOVEREIGN BANK	WILMINGTON	\$15,398,332	350	\$47,576	\$136
ENTERPRISE BANK	LOWELL	\$1,217,603	178	\$29,026	\$163
ROCKLAND TRUST COMPANY	PLYMOUTH	\$3,815,885	149	\$27,426	\$184
SALEM FIVE CENTS SAVINGS BANK	SALEM	\$1,958,996	91	\$26,161	\$287
BOSTON PRIVATE BANK & TRUST CO	BOSTON	\$2,722,779	67	\$19,686	\$294
WESTFIELD BANK	WESTFIELD	\$711,701	114	\$16,811	\$147
CITIZENS-UNION SAVINGS BANK	SWANSEA	\$687,912	91	\$16,311	\$179
CAMBRIDGE SAVINGS BANK	ARLINGTON	\$1,820,303	55	\$15,107	\$275
CENTURY BANK	MEDFORD	\$2,081,025	85	\$13,620	\$160
COMMERCE BANK & TRUST COMPANY	WORCESTER	\$1,203,385	65	\$13,331	\$205
BERKSHIRE BANK	PITTSFIELD	\$1,486,266	83	\$10,851	\$131
BROOKLINE BANK	BROOKLINE	\$1,953,733	26	\$10,712	\$412
EAST BOSTON SVG BK	PEABODY	\$1,545,197	32	\$10,598	\$331
NORTHERN BANK & TRUST COMPANY	WOBURN	\$532,777	33	\$8,930	\$271
UNITED BANK	WEST SPRINGFIELD	\$1,205,307	98	\$8,087	\$83
BRISTOL COUNTY SAVINGS BANK	TAUNTON	\$920,848	36	\$6,489	\$180
MIDDLESEX SAVINGS BANK	WESTBOROUGH	\$3,464,805	29	\$5,513	\$190
BANK OF CAPE COD	HYANNIS	\$110,742	17	\$5,058	\$298
SOUTH SHORE SAVINGS BANK	SO WEYMOUTH	\$669,297	29	\$5,050	\$174
CAPE COD FIVE CENTS SAVINGS BA	ORLEANS	\$1,752,477	27	\$4,319	\$160
EAST CAMBRIDGE SAVINGS BANK	CAMBRIDGE	\$691,515	16	\$4,272	\$267
THE LOWELL FIVE CENT SAVINGS B	LOWELL	\$602,288	24	\$3,965	\$165
HAMPDEN BANK	SPRINGFIELD	\$418,493	17	\$3,664	\$216
FRAMINGHAM CO-OPERATIVE BANK	FRAMINGHAM	\$308,171	23	\$3,579	\$156
PEOPLESBANK	HOLYOKE	\$1,202,062	22	\$3,500	\$159
WATERTOWN SAVINGS BANK	WATERTOWN	\$937,982	20	\$3,294	\$165
EAGLE BANK	EVERETT	\$369,906	14	\$3,215	\$230
GREENFIELD SAVINGS BANK	GREENFIELD	\$438,593	20	\$2,762	\$138
COUNTRY BANK FOR SAVINGS	WARE	\$973,046	12	\$2,072	\$173
WEBSTER FIVE CENTS SAVINGS BAN	WORCESTER	\$465,671	15	\$2,058	\$137
CAPE ANN SAVINGS BANK	GLOUCESTER	\$310,809	14	\$1,414	\$101
UNIBANK	WHITINSVILLE	\$1,166,171	8	\$1,395	\$174
THE SAVINGS BANK	WAKEFIELD	\$386,656	7	\$1,334	\$191
BNY MELLON, N.A.	PITTSBURGH	\$2,235,399	4	\$1,200	\$300
EASTHAMPTON SAVINGS BANK	EASTHAMPTON	\$744,747	16	\$1,147	\$72
FIDELITY COOPERATIVE BANK	LEOMINSTER	\$400,757	8	\$826	\$103
NORTH EASTON SAVINGS BANK	SOUTH EASTON	\$416,664	5	\$357	\$71
FLORENCE SAVINGS BANK	FLORENCE	\$805,224	3	\$165	\$55
INSTITUTION FOR SAVINGS	NEWBURYPORT	\$958,544	1	\$150	\$150
BELMONT SAVINGS BANK	BELMONT	\$396,856	2	\$88	\$44
LOCAL LENDER TOTALS			3,747	\$571,347	\$152

\*\* Denotes local commercial banks headquartered outside Massachusetts

### **BREAKDOWN BY ORIGINAL LOAN AMOUNT**

The 2011 CRA data shows that there is some variability in the breakdown by original loan amount in lower income areas in Massachusetts versus higher income areas, although the variance does not appear to be significant. Small business loans under \$100,000 accounted for 91.9% of the total number of loans in lower income areas in 2010 and 26.5% of the dollar amount of loans (versus 93.1% and 29.9% for all income groups in the state) while larger small business loans - those with an original amount between \$250,000 and \$1 million - accounted for 4.3% of the number of loans and 57.0% of loan dollars (versus 3.6% and 53.8% statewide).

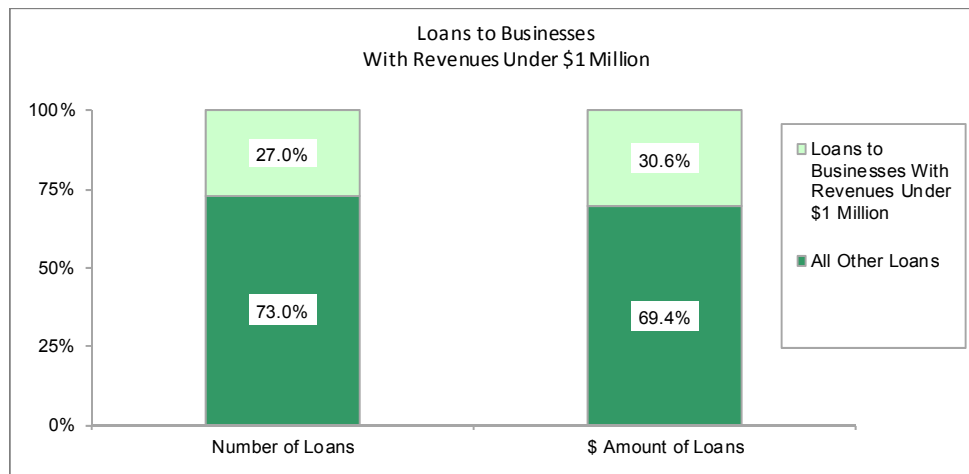
CHARTS: Breakdown of small business loans by original loan amount in lower income areas in Massachusetts (2011)



### **LOANS TO BUSINESSES WITH REVENUES UNDER \$1 MILLION**

The 2011 CRA data also shows that there is also some variability in the percentage of loans to businesses with annual revenues of \$1 million or less, although again the variance does not appear to be significant. In 2010, loans to businesses with annual revenues of \$1 million or less accounted for 27.0% of the number of loans in lower income areas and 30.6% of the dollar amount of loans (compared to 26.8% and 30.6% for all income groups statewide).

CHART: Breakdown of loans to businesses with annual revenues under \$1 million In lower income areas of Massachusetts (2011)



## SMALL BUSINESS LOANS BY COUNTY

The CRA database has historically shown that there is some correlation between the percentage of small business loans *originated* in lower income areas and the percentage of the population *living* in lower income areas, although considerable variability exists in this relationship. In 2011, four of the fourteen counties in Massachusetts recorded a higher percentage of small business loan dollars in lower income areas than one might expect given the percentage of their populations living in lower income areas (shaded in the table below). Essex, Middlesex, and Suffolk Counties, which have the largest lower income populations in the state, recorded a lower percentage of small business loan dollars in lower income areas than one might expect given the percentage of their populations living in lower income areas.

TABLE : Small business loans in low and moderate income census tracts by county (2011)

	Number of Loans	% of County Total	\$ Amount of Loans (\$000s)	% of County Total	Total Population	% of County Total
Barnstable	706	15.7%	\$24,695	14.7%	19,553	8.8%
Berkshire	349	17.9%	\$9,987	13.3%	26,236	19.7%
Bristol	1,590	22.7%	\$66,678	22.4%	146,616	27.4%
Dukes	--	--	--	--	0	0.0%
Essex	2,104	18.8%	\$83,966	21.6%	184,281	25.5%
Franklin	190	20.1%	\$6,882	20.7%	12,040	17.8%
Hampden	1,960	35.0%	\$75,769	41.8%	152,859	33.9%
Hampshire	56	2.5%	\$3,230	4.5%	13,633	9.2%
Middlesex	5,060	20.0%	\$194,024	20.4%	377,754	25.8%
Nantucket	7	1.5%	\$30	0.2%	423	4.4%
Norfolk	153	1.3%	\$7,363	1.8%	13,933	2.1%
Plymouth	1,100	15.3%	\$40,257	14.6%	81,187	17.2%
Suffolk	5,349	58.0%	\$186,940	56.6%	459,589	66.6%
Worcester	2,038	21.7%	\$78,081	24.8%	181,710	24.3%
State Totals	20,662	21.3%	\$777,902	22.1%	1,669,814	26.4%

Nine counties experienced increases in small business loan dollars in lower income areas in 2011 (shaded in the table below), although there was considerable variability from one county to the next. As an example, small business loan dollars declined by 27.1% in the lower income areas of Berkshire County in 2011 while increasing by 28.3% in the lower income areas of Hampden County. At the same time, Nantucket and Hampshire Counties, which have relatively small populations living in lower income areas, experienced wide swings in small business dollar volume from 2010 to 2011.

TABLE : Change in loan volume in lower income areas (2011)

	2011 Change in Number of Loans	% Change	2011 Change in \$ Amount of Loans (\$000s)	% Change
Barnstable	91	14.8%	-\$12,295	-33.2%
Berkshire	32	10.1%	-\$3,709	-27.1%
Bristol	141	9.7%	\$2,056	3.2%
Dukes	0	--	\$0	--
Essex	202	10.6%	\$5,718	7.3%
Franklin	22	13.1%	\$347	5.3%
Hampden	401	25.7%	\$16,914	28.7%
Hampshire	23	69.7%	\$2,234	224.3%
Middlesex	721	16.6%	\$10,052	5.5%
Nantucket	-7	-50.0%	-\$77	-72.0%
Norfolk	23	17.7%	\$1,626	28.3%
Plymouth	158	16.8%	-\$2,359	-5.5%
Suffolk	867	19.3%	\$25,677	15.9%
Worcester	189	10.2%	\$1,534	2.0%
State Totals	2,863	16.1%	\$47,718	6.5%

Lending rates in 2011 were lower in low and moderate income areas compared to middle and upper income areas in seven counties in Massachusetts that have low or moderate income census tracts. The lending rates in counties with lower income areas ranged from \$48,000 per 100 firms in Nantucket County to \$1,089,000 per 100 firms in Norfolk County, while the lending rates in higher income areas ranged from \$259,000 per 100 firms in Dukes County to \$1,155,000 per 100 firms in Nantucket County.

TABLE : Lending rates in lower income vs higher income areas (2011)

	Low & Moderate Areas		Middle & Upper Areas	
	Lending Rate Per 100 Firms (\$000s)	% of Overall Lending Rate	Lending Rate Per 100 Firms (\$000s)	% of Overall Lending Rate
Barnstable	\$639	89.1%	\$682	83.5%
Berkshire	\$382	53.2%	\$725	88.8%
Bristol	\$808	112.7%	\$923	113.1%
Dukes	--	--	\$259	31.7%
Essex	\$760	106.0%	\$850	104.0%
Franklin	\$627	87.5%	\$565	69.2%
Hampden	\$739	103.1%	\$890	109.0%
Hampshire	\$776	108.3%	\$724	88.7%
Middlesex	\$811	113.1%	\$860	105.4%
Nantucket	\$48	6.6%	\$1,155	141.5%
Norfolk	\$1,089	151.9%	\$832	101.9%
Plymouth	\$749	104.4%	\$885	108.4%
Suffolk	\$658	91.8%	\$801	98.1%
Worcester	\$625	87.2%	\$669	81.9%
State Totals	\$717	100.0%	\$816	100.0%

## SMALL BUSINESS LOANS BY CITY & TOWN

As was the case at the county level, there also exists considerable variability at the city and town level between the percentage of small business loans *originated* in lower income areas and the percentage of the population *living* in lower income areas.

Detailed small business loan data by city and town can be found in the online appendix at [www.mcbsc.info](http://www.mcbsc.info).

TABLE: Volume of small business loan in lower income areas by town (2011)

	Number of Loans	% of Town Total	\$ Amount of Loans (\$000s)	% of Town Total	Population in Lower Income	% of Town Total
Boston	4,759	48.6%	\$167,276	45.9%	47,085	46.5%
Worcester	1,222	57.1%	\$52,599	73.3%	36,439	77.1%
Lowell	837	88.3%	\$31,088	94.1%	3,828	14.3%
Springfield	1,014	63.7%	\$35,938	72.1%	4,091	8.5%
New Bedford	778	70.6%	\$32,580	73.4%	53,475	56.7%
Fall River	692	71.5%	\$28,608	73.4%	7,429	19.9%
Lynn	534	72.7%	\$21,711	84.2%	4,193	49.4%
Lawrence	507	91.4%	\$22,200	90.8%	8,718	21.6%
Somerville	669	75.3%	\$18,356	73.9%	20,005	33.9%
Brockton	500	49.7%	\$16,253	46.2%	10,020	48.2%
Cambridge	929	42.4%	\$41,464	49.6%	12,023	26.3%
Everett	437	100.0%	\$14,924	100.0%	6,705	76.1%
Revere	323	70.7%	\$7,757	67.9%	5,533	19.4%
Malden	491	69.4%	\$21,746	79.7%	6,786	41.3%
Chelsea	267	84.0%	\$11,907	90.6%	34,199	60.7%
Holyoke	338	81.4%	\$14,333	89.1%	7,508	51.1%
Fitchburg	233	59.4%	\$10,942	65.2%	7,847	43.2%
Framingham	358	29.0%	\$16,639	35.6%	65,183	73.2%
Medford	330	42.7%	\$13,331	53.8%	23,390	59.8%
Wareham	347	100.0%	\$12,956	100.0%	8,598	9.8%
Haverhill	199	31.7%	\$7,070	31.9%	71,437	76.2%
Waltham	449	33.2%	\$17,275	27.6%	5,341	13.3%
Chicopee	213	33.2%	\$5,970	35.8%	95,029	55.0%
Marlborough	204	29.5%	\$4,946	23.5%	12,505	41.3%
Gloucester	207	38.6%	\$7,363	48.9%	6,587	20.0%
Pittsfield	225	35.4%	\$7,856	25.2%	22,781	40.9%
Athol	74	100.0%	\$2,417	100.0%	30,892	77.5%
Gardner	84	55.6%	\$2,886	69.2%	11,299	100.0%
Southbridge	69	50.0%	\$889	31.5%	70	1.1%
Amherst	21	5.8%	\$434	3.2%	91,279	86.8%
Taunton	120	17.3%	\$5,490	21.9%	2,904	36.0%
Salem	273	34.5%	\$10,251	31.5%	32,836	93.6%
Quincy	98	6.7%	\$4,152	8.9%	7,178	15.0%
Greenfield	149	55.6%	\$6,276	56.2%	9,931	28.5%
North Adams	70	58.8%	\$1,185	42.3%	9,997	58.1%
Woburn	146	12.2%	\$6,645	10.1%	9,560	17.1%
Plymouth	253	22.4%	\$11,048	25.4%	4,275	38.4%
Leominster	115	22.2%	\$4,021	16.6%	7,377	14.3%
Barnstable	366	32.9%	\$17,190	47.6%	4,004	9.1%
Webster	70	33.2%	\$402	22.2%	390,314	66.3%

Lower income areas in Boston, Worcester, Lowell, Springfield, and Fall River experienced increases in small business loan dollars from 2010 to 2011 respectively, while lower income areas in New Bedford and Lynn experienced declines.

Detailed small business loan data by city and town can be found in the online appendix at [www.mcabc.info](http://www.mcabc.info).

TABLE: Change in small business loan volume in lower income areas by town (2011)

	2011 Change in Number of Loans	% Change	2011 Change in \$ Amount of Loans (\$000s)	% Change	Population in Lower Income Areas	% of Town Total
Boston	812	20.6%	\$24,074	16.8%	390,314	66.3%
Worcester	154	14.4%	\$1,938	3.8%	95,029	55.0%
Lowell	102	13.9%	\$3,412	12.3%	91,279	86.8%
Springfield	186	22.5%	\$5,043	16.3%	89,672	59.0%
New Bedford	6	0.8%	-\$1,597	-4.7%	71,437	76.2%
Fall River	123	21.6%	\$4,052	16.5%	65,619	71.4%
Lynn	84	18.7%	-\$3,269	-13.1%	65,183	73.2%
Lawrence	52	11.4%	\$5,714	34.7%	65,002	90.2%
Somerville	107	19.0%	\$722	4.1%	62,216	80.3%
Brockton	106	26.9%	\$168	1.0%	53,475	56.7%
Cambridge	211	29.4%	\$12,820	44.8%	47,085	46.5%
Everett	49	12.6%	-\$5,571	-27.2%	38,037	100.0%
Revere	10	3.2%	\$1,428	22.6%	36,439	77.1%
Malden	28	6.0%	-\$3,290	-13.1%	34,199	60.7%
Chelsea	45	20.3%	\$175	1.5%	32,836	93.6%
Holyoke	59	21.1%	\$757	5.6%	30,892	77.5%
Fitchburg	13	5.9%	\$363	3.4%	23,390	59.8%
Framingham	37	11.5%	\$584	3.6%	23,240	34.7%
Medford	42	14.6%	\$2,256	20.4%	22,781	40.9%
Wareham	23	7.1%	-\$1,011	-7.2%	20,335	100.0%
Haverhill	-7	-3.4%	\$3,041	75.5%	20,005	33.9%
Waltham	92	25.8%	-\$472	-2.7%	18,749	31.7%
Chicopee	55	34.8%	\$3,251	119.6%	16,990	31.1%
Marlborough	24	13.3%	-\$543	-9.9%	13,370	36.9%
Gloucester	28	15.6%	\$1,570	27.1%	12,505	41.3%
Pittsfield	28	14.2%	-\$1,169	-13.0%	12,023	26.3%
Athol	25	51.0%	\$635	35.6%	11,299	100.0%
Gardner	17	25.4%	\$914	46.3%	10,020	48.2%
Southbridge	-22	-24.2%	-\$2,406	-73.0%	9,997	58.1%
Amherst	9	75.0%	-\$97	-18.3%	9,931	28.5%
Taunton	12	11.1%	-\$399	-6.8%	9,560	17.1%
Salem	63	30.0%	\$1,640	19.0%	8,718	21.6%
Quincy	12	14.0%	\$1,207	41.0%	8,598	9.8%
Greenfield	17	12.9%	\$2,525	67.3%	7,847	43.2%
North Adams	-3	-4.1%	-\$2,501	-67.9%	7,508	51.1%
Woburn	9	6.6%	-\$1,947	-22.7%	7,429	19.9%
Plymouth	29	12.9%	-\$1,516	-12.1%	7,377	14.3%
Leominster	-24	-17.3%	-\$1,390	-25.7%	7,313	17.7%
Barnstable	1	0.3%	-\$13,197	-43.4%	7,178	15.0%
Webster	5	7.7%	-\$370	-47.9%	6,786	41.3%



Lending rates were generally lower in lower income areas compared to higher income areas although there was considerable variability by town. The lending rates in the lower income areas in Boston, New Bedford, and Fall River fell short of the lending rates in those cities' higher income areas in 2011. At the same time, the lending rates in the lower income areas of Worcester, Lowell, and Springfield exceeded the lending rates in those cities' higher income areas.

Detailed small business loan data by city and town can be found in the online appendix at [www.mcbsc.info](http://www.mcbsc.info).

TABLE: Small business lending rates by town (2011)

	Low & Moderate Areas		Middle & Upper Areas	
	Lending Rate Per 100 Firms (\$000s)	% of Overall Lending Rate	Lending Rate Per 100 Firms (\$000s)	% of Overall Lending Rate
Boston	\$663	89.1%	\$830	111.6%
Worcester	\$807	118.2%	\$480	70.3%
Lowell	\$711	103.5%	\$447	65.1%
Springfield	\$619	101.5%	\$587	96.2%
New Bedford	\$833	92.2%	\$1,177	130.4%
Fall River	\$812	96.2%	\$948	112.2%
Lynn	\$748	111.8%	\$429	64.1%
Lawrence	\$715	97.2%	\$1,026	139.4%
Somerville	\$529	92.2%	\$754	131.4%
Brockton	\$570	77.8%	\$970	132.5%
Cambridge	\$1,027	121.7%	\$718	85.1%
Everett	\$673	100.0%	--	--
Revere	\$474	94.7%	\$567	113.3%
Malden	\$1,012	115.2%	\$578	65.8%
Chelsea	\$762	99.6%	\$799	104.4%
Holyoke	\$795	107.2%	\$477	64.4%
Fitchburg	\$675	93.8%	\$822	114.2%
Framingham	\$932	113.2%	\$773	93.9%
Medford	\$919	117.2%	\$670	85.4%
Wareham	\$865	100.0%	--	--
Haverhill	\$488	71.7%	\$835	122.7%
Waltham	\$1,034	91.6%	\$1,170	103.6%
Chicopee	\$682	103.1%	\$651	98.4%
Marlborough	\$430	69.5%	\$715	115.5%
Gloucester	\$684	109.6%	\$576	92.3%
Pittsfield	\$497	57.6%	\$1,150	133.1%
Athol	\$399	100.0%	--	--
Gardner	\$423	112.0%	\$304	80.6%
Southbridge	\$131	45.3%	\$649	224.8%
Amherst	\$194	25.9%	\$824	110.4%
Taunton	\$674	82.6%	\$867	106.3%
Salem	\$1,050	97.7%	\$1,087	101.1%
Quincy	\$1,128	134.9%	\$815	97.5%
Greenfield	\$751	83.6%	\$1,201	133.7%
North Adams	\$188	65.0%	\$479	165.5%
Woburn	\$1,001	66.4%	\$1,597	106.0%
Plymouth	\$1,076	94.8%	\$1,156	101.9%
Leominster	\$492	54.5%	\$1,083	120.0%
Barnstable	\$848	129.9%	\$540	82.7%
Webster	\$84	46.4%	\$270	149.2%

## **CONCLUSION**

The issue of small business lending growth remains an area of concern in Massachusetts and across the country. A review of the most recent annual CRA data shows that small business loan originations in Massachusetts increased in 2011, while quarterly Call Report data and data compiled by the SBA in 2012, which represent more current data sources, shows that small business lending activity continues to face downward pressures. While there are signs that economic conditions are beginning to improve, the pace and strength of the economic recovery remains uncertain.

The data also shows that lower income areas in Massachusetts, which account for roughly one-quarter of the state's population, continued to experience overall lower small business lending rates than higher income areas in 2011, although lending rates increased more in lower income areas than in higher income areas for the third consecutive year. The data further shows that high minority communities continued to experience lower small business lending rates than lower income white communities although lending in high minority areas rebounded in 2011 after a sharp decline in 2010.

# **DATA SOURCES**

## **ECONOMIC CLIMATE**

An effort has been made to incorporate the most current economic data as possible in this report. Due to the reporting differences of the various sources of data utilized, the “as of” dates for the data presented in the section on Economic Climate may vary widely.

Prime rate data was obtained from the Wall Street Journal and 30 year fixed-rate mortgage data was obtained from Freddie Mac.

Survey data on underwriting standards was obtained from the Office of the Comptroller of the Currency.

Consumer debt data was obtained from the Federal Reserve Board.

Loan delinquency data, loan charge-off data, and bank failure data was obtained from the Federal Deposit Insurance Corporation.

State and national unemployment data was obtained from the Bureau of Labor and Statistics, a division of the US Department of Labor.

State and national GDP data was obtained from the Bureau of Economic Analysis, a division of the US Department of Commerce.

Housing price data and foreclosure data was obtained from RealtyTrac, an online resource for real estate sales statistics and foreclosure data.

## **SMALL BUSINESS DEMOGRAPHICS**

Employer firm data was obtained from the Office of Advocacy within the US Small Business Administration Office and is compiled by the US Census Bureau and is based on tax return information filed with the Internal Revenue Service.

Sole proprietorship data was obtained from the US Census Bureau and is based on tax return information filed with the Internal Revenue Service.

The number of firms data used in the calculation of lending rates, which is discussed in more detail below in the section on CRA small business loan data, was obtained from Dunn & Bradstreet and is based on 2005 data. The author of the report has elected to use number of firms data for 2005 in order to minimize the year-to-year variability inherent in this data source. Such variability made it difficult in past reports to analyze the impact of changes in lending volume in traditionally underserved areas. The number of firms data is scheduled to be updated in future reports in conjunction with the update to other demographic data, which is discussed in more detail in the following section.

## **DEMOGRAPHIC DATA**

All demographic data, including total population data, income level data, and minority population data, was obtained from the Federal Financial Institutions Examination Council (FFIEC, which is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

The demographic data used in this report is based on the now-outdated 2000 census data, which banks were required to use from 2002 to 2011 for the purposes of compiling their annual CRA submissions. The recently released 2010 census data, which banks were required to begin using in 2012, reflects significant changes in census tract boundaries and demographic data, including data pertaining to income level classifications and racial composition.

Census tract income levels are defined in accordance with CRA guidelines and are broken down into low, moderate, middle, and upper income categories where low is less than 50% of the median family income of a given metropolitan statistical area, moderate is 50% to 80%, middle is 80% to 120%, and upper is 120% or more.

High minority neighborhoods are defined for the purposes of this report as census tracts where the white non-Hispanic population is less than 25%. Mixed-race neighborhoods are defined for the purposes of this report as census tracts where the white non-Hispanic population is between 25% and 75%. White neighborhoods are defined for the purposes of this report as census tracts where the white non-Hispanic population is greater than 75%.

## **SMALL BUSINESS LOAN DATA**

The annual CRA data is compiled by the FFIEC in accordance with the annual disclosure requirement of the CRA law, which is a provision that generally applies only to the nation's largest banks and which provides information regarding the number and original amount of originated small business loans during the preceding calendar year. In contrast, the quarterly Call Report filing requirements mandate that all banks regardless of their size provide detailed information regarding their small business loans although, instead of focusing on origination activity during the preceding time period, the Call Report data focuses on the total number of loans and the current balances on the books as of the close of the reporting period. Another important difference involves the fact that the annual CRA data includes detailed information about the geographic location of the loan, whereas the quarterly Call Report does not.

Despite their differences, both databases serve as valuable sources of information. The chief advantages of the CRA database are that it makes it possible to analyze lending trends in traditionally underserved areas as well as to analyze the local data of lenders that are not headquartered in Massachusetts. The chief advantages of Call Report data are that it covers all FDIC-insured banks across the country and is available on a quarterly rather than annual basis.

The number of lenders that are reflected in both databases varies from one reporting period to the next, primarily due to the effects of mergers, acquisitions, and consolidations within the banking industry. In addition, the number of lenders that are included in the annual CRA data is also influenced by the asset-size threshold for the CRA disclosure requirement, which was raised several years ago from \$250 million in assets to \$1 billion and which is now pegged to the Consumer Price Index (CPI) to keep pace with inflation. The asset-size threshold was increased to \$1.122 billion for 2011 and will increase to \$1.160 billion for 2012. Banks with assets below the reporting threshold also have the option to file an annual

CRA disclosure if they wish, and many such banks are also included in the CRA database. Credit unions, on the other hand, whether state or federally chartered, are not subject to the provisions of the CRA law, including the annual disclosure requirement, and are not included in the annual CRA database.

Consequently, the annual CRA database does not reflect the lending activity of all lenders that make small business loans, and this is particularly true for local financial institutions and other lenders that make loans in the state. In specific terms, there were a total of 164 banks and thrifts headquartered in Massachusetts at the end of 2011, most of which make small business loans but of which only 40 were included in the annual CRA database. There were also 215 state and federal credit unions in Massachusetts at the end of 2011, many of which also make member business loans but none of which were included in the annual CRA database. In addition there were a large number of other lenders from around the country that made small business in Massachusetts in 2011 but that were not required to file an annual CRA disclosure and were therefore not included in the database.

Despite these shortcomings, the annual CRA database is fairly representative of a substantial majority of small business lending activity due to the fact that banks with assets over \$1 billion, which are those that are most likely to be included in the annual CRA database, account for most of the lending activity across the country. According to the Call Report database, as of June 30, 2012 banks with assets over \$1 billion accounted for 82.6% of the total number of small business loans and 66.0% of the dollar amount of small business loans on the books of FDIC-insured financial institutions across the country, and this percentage has edged up slightly since the start of the financial crisis in 2007.

Credit union data was obtained from the National Credit Union Administration and is based on the quarterly financial report filed by state and federal credit unions.

State and national SBA data was obtained from the Massachusetts regional SBA office and the Office of the Chief Economist of the SBA respectively. SBA data includes all major lending programs for the fiscal years ending September 30.

CRA small business lending rates were calculated using CRA small business loan data obtained from the FFIEC and number of firms data obtained from Dunn & Bradstreet. Lending rates used in this report show the amount of loan dollars per 100 firms. The numerator of the calculation is the dollar amount of loans and the denominator of the calculation is the number of firms divided by 100.

Local CRA lenders are defined for the purposes of this report as banks that filed an annual CRA disclosure with their federal regulator and are either based in Massachusetts or are headquartered outside the state but maintain a substantial local branch presence. Local CRA lenders includes Massachusetts community banks and the four large commercial banks that are headquartered outside the state, specifically Bank of America, RBS Citizens, Sovereign Bank, and TD Bank.

Credit card lenders are estimated for the purposes of this report based on a review of CRA small business loan volume and average loan size. Institutions that are included in this category generally reported several hundred or more small business loans with an average loan size of \$15,000 or less.

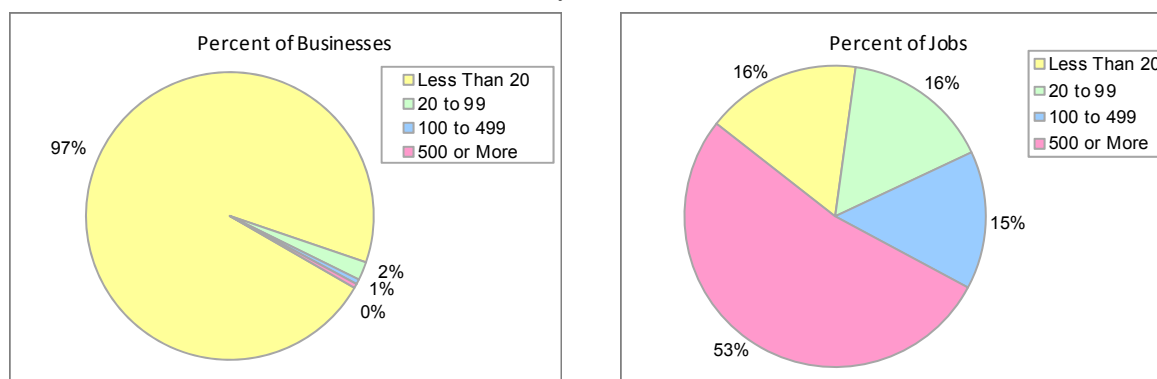
## SMALL BUSINESS DEMOGRAPHICS

Unlike the state and national economic data discussed in this report, which is updated continuously, current information related to business demographics – such as the number of businesses operating within a particular geographic area – is harder to come by. The most recent business demographic data reviewed in this report actually pre-dates much of the economic data and small business lending data contained in this report and is shown in this section to provide a basic overview of business demographics in Massachusetts.

Data compiled by the Census Bureau and the Bureau of Labor Statistics indicates that there were approximately 609,807 businesses in Massachusetts as of March 2009 consisting of 138,370 firms with employees and an additional 471,437 sole proprietorships or non-employers, which together account for 3.4 million jobs in the state. The majority of these firms are private, for-profit business organizations although the figures also include data for non-profit employers which are a growing source of employment and represent approximately 6% of the firms in the state and an estimated 14% of the workforce. It is important to note, however, that the figures do not include government employers, which account for an additional 12.5% of the state's workforce, as well as self-employed individuals who do not operate as sole proprietorships and for which little data is available. The business demographic data and employment data is also complicated by the fact that many people have two or more jobs or may work for two or more firms or sole proprietorships, while others may work as an employee of a firm while also operating a sole proprietorship. The data is further muddled by the fact that a small number of sole proprietorships are not active, going concerns and a small number of businesses, such as cash-only businesses, operate completely under the radar.

Identifying the number of *small* businesses is even more challenging since, despite the frequency with which the term is used in our lexicon, there is no universally accepted definition of a small business. The most common measures of business size are based on the number of employees or the annual revenues of the business as compiled by the Census Bureau and the Bureau of Labor Statistics. While these measures are essentially arbitrary and vary from industry to industry, they represent our best source of information about small business demographics. Regardless of the measure used, it is clear that small businesses account for the majority of the *number* of businesses in Massachusetts and across the country. What is less clear is the precise contribution that small businesses make toward the overall economy since different people define small businesses in different ways. When we define small businesses as businesses with fewer than 20 employees, which is a commonly used measure, we find that such businesses account for 97% of the total number of businesses in Massachusetts and 32% of the jobs across the state.

CHARTS: The data shows that businesses with fewer than 20 employees far outnumber larger businesses in Massachusetts, and account for a substantial share of the jobs in the state



According to the Census Bureau data, the number of sole proprietorships in Massachusetts has increased significantly in recent years. Sole proprietorships in Massachusetts increased by 3.5% from 455,641 in 2008 to 471,437 in 2009 while the annual receipts of sole proprietorships grew by 9.0% from \$20.916 billion in 2008 to \$22.796 billion in 2009.

CHART: The number of sole proprietorships in Massachusetts has increased significantly in recent years but declined in 2008

