



Highlights

Highlights of [GAO-18-312](#), a report to the Chairman, Committee on Small Business, House of Representatives

Why GAO Did This Study

Community banks—generally small and locally focused institutions—are important sources of credit to small businesses. Since the 2007–2009 financial crisis, regulators have made significant changes to the regulatory environment. While intended to increase institution soundness and better protect consumers, regulations and supervision can also have effects that Congress or regulators may not have intended. In particular, questions arose as to whether regulatory changes reduced community banks' ability to make small business loans.

GAO was asked to assess the effect of regulatory changes since 2010 on community banks and small business lending. GAO examined the data regulators use to measure small business lending, as well as the extent of any regulatory effects on the amount of community banks' small business lending and their lending processes, changes in bank populations, and financial performance. GAO analyzed community bank lending and financial data from 2001 through 2017, built econometric models using these and other data, and surveyed a nationally representative sample of over 450 community banks. GAO also interviewed staff from community banks (selected to ensure a range of sizes and geographic regions), small business advisers, banking and consumer advocacy groups, and financial regulators.

What GAO Recommends

GAO makes three recommendations to banking regulators to reevaluate and modify, as needed, the data they collect to measure small business lending. They agreed to the recommendations.

View [GAO-18-312](#). For more information, contact Lawrence L. Evans, Jr. at (202) 512-8678 or EvansL@gao.gov or Oliver Richard, at (202) 512-8424 or RichardO@gao.gov.

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COMMUNITY BANKS

Effect of Regulations on Small Business Lending and Institutions Appears Modest, but Lending Data Could Be Improved

What GAO Found

The data that banks report to regulators have characteristics that make determining how community banks' small business lending changed since 2010 difficult. However, GAO's analysis found that the regulatory environment likely had a generally modest effect on various aspects of community banks and their small business lending.

Regulators data on small business lending. The data community banks report to regulators do not accurately capture lending to small businesses because the data exclude some loans to small businesses. Specifically, the definition of small business loans used for banks' reporting excludes loans greater than \$1 million and has not been adjusted for inflation since 1992. In addition, the data capture loans by their size rather than the size of the borrowing entity, and therefore could include small loans to large businesses. These limitations hamper regulators' and policymakers' ability to assess actual changes in banks' small business lending, including any effect of regulation.

Amount of lending . GAO's analysis used alternative measures of small business lending and found that community banks' lending likely declined following the financial crisis but then increased from 2013 through 2017. After adjusting regulators' data to account for community bank mergers and other exits, remaining banks' small business lending increased by 5 percent from 2013 through 2017, and total business lending by all community banks grew to exceed 2010 levels. GAO's econometric models also found that community banks' small business lending since 2010 can be explained largely by macroeconomic, local market, and bank characteristics, and that the potential effect of regulatory changes was likely modest.

Lending processes. Based on our nationally representative survey of community banks, GAO estimates that most community banks made changes to their small business lending processes since 2010. Most banks cited the regulatory environment as the primary reason for these changes, which included seeking more documentation from borrowers and taking longer to make loans. Representatives of entities that assist small businesses were mixed on whether these changes affected small businesses' ability to obtain loans.

Number of community banks. From 2010 through 2017, the population of community banks decreased by about 24 percent, largely due to mergers among community banks and a decline in the rate of new bank formations. However, GAO's econometric model found that macroeconomic, local market, and bank characteristics explained the majority of these trends, but changes in the regulatory environment and other factors may have also played a small role.

Community bank financial performance. Although many institutions reported increasing or reallocating staff and other resources to assist with regulatory compliance since 2010, GAO's analysis suggests that the effect of these changes on profitability and customer service were likely modest.

As regulatory changes do not occur in isolation and their cumulative effect cannot be easily quantified, these results should be interpreted with caution.