SECTION 5
Markets and Competition

This section examines the market for small business loans in terms of the location of a bank's small business lending—its geographic market—and the competitors that banks face for small business loans. Findings from the 2016 SBLS, reported in FDIC (2018), suggest that geography and competition are often closely related. FDIC (2018) shows that most banks lend near their physical branch locations and primarily compete with other banks that have branches in their local market. The 2022 survey delved more deeply into these findings by exploring the factors that determine the span of a bank's geographic market and by studying the intensity of competition between different types of institutions. The 2022 SBLS also provided an opportunity to explore how recent developments in remote communication and the increasing presence of nonbank small business lenders may have changed the overall geographic and competitive landscape.

A bank's branch footprint is a common proxy in academic research for a bank's geographic market. A bank's branches are a key way they reach their customers, likely because they represent a direct connection to a particular community and serve as a place to house the staff that conduct the day-to-day operations of small business lending.[51]

The period since the 2016 SBLS has seen a decline in total bank branches of 14 percent. Recent research suggests that this decline may be a result of consolidation, as larger banks have less need for a dense branch network, possibly because they use less soft information in their underwriting.[52] Other research suggests that the adoption of services such as online banking is largely unrelated to the decline.[53] Understanding the importance, if any, of a bank's physical locations in relation to where they make small business loans can help inform the discussion around the drivers of the decline in bank branches.

A separate consideration when measuring the impact in the reduction of bank branches is the relative size of a bank's market for small business lending. FDIC (2018) shows that about three-quarters of small banks described their markets as county- or city-based in 2016, while most large banks characterized their markets as Metropolitan Statistical Area (MSA)- or state-based. This difference may result from variations in the scale of banks' branch networks rather than from distinct approaches banks use to define their markets. In 2021, the average large bank had 287 branches and the average small bank had slightly fewer than seven branches; thus, an MSA or state may be the only geographical designation large enough to contain a localized collection of branches for larger banks.[54] Academic research suggests that most small business lending is in the immediate vicinity of a bank's offices, often within ten miles.[55] Due to data limitations, this research has largely excluded small banks entirely and, even for large banks, cannot easily be reconciled with a market that is MSA- or state-based. The analysis of the 2022 SBLS provides a nationally representative measure of the size of markets for small business lending and further describes the factors that limit the size of these markets.

The 2022 survey also provided a measure of the intensity of competition banks face for small business loans. The survey asked banks about the competition they face from other banks as well as credit unions and other types of nonbank institutions. FDIC (2018) finds that banks largely compete with banks of a similar size and that frequent competition with nonbanks in the small business lending market was relatively uncommon

[51] FDIC (2021) and Sakong and Zentefis (2023).
[52] Keil and Ongena (2024) and Jiang, Yu, and Zhang (2023). For more on the use of soft information in underwriting, see Section 3.
[53] Jiang, Yu, and Zhang (2023); Huang, Jiang, and Xiao (2023); Koont (2023); Wang and Wu (2024); and Amberg and Becker (2024).
[54] Author calculations using the 2021 FDIC Summary of Deposits for full-service, brick-and-mortar branches.
[55] Nguyen (2019); Granja, Leuz, and Rajan (2022); and Adams, Brevoort, and Driscoll (2023).

in 2016. To some extent, the lack of competition with nonbanks may reflect different business models used by nonbanks that focus on the margins of the small business lending market, as suggested by findings in academic research.[56] Technological advances and changes in the regulations governing credit unions and other nonbanks also may have led to competitive shifts since 2016.[57] The extent of competition with credit unions and other nonbanks matters for accurately defining markets and measuring competition within them, as differences in regulatory structure mean that the presence of credit unions and other nonbanks will not be captured by bank-based measures of competition. The 2022 survey probed the frequency of competition with different types of nonbank institutions to better assess such linkages and how they may have changed since 2016.

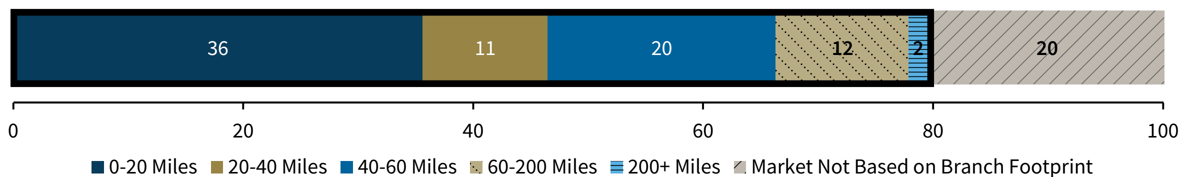
Competition between banks is an important issue given the continuing consolidation in the banking industry. As discussed in Section 3, small and large banks differ in the types of information on which they base small business lending decisions. These differences may coincide with a segmentation of the market, meaning large banks serve different types of customers than small banks serve. If so, the continued decrease in the number of small banks could have significant adverse effects on the availability of credit for certain small business customers. One way to assess the extent of market overlap is to determine how commonly small and large banks compete with each other. To this end, the 2022 survey provided an updated measurement of inter-bank competition differentiated by asset size and presence of the bank in the same local market. This section discusses these results and compares them with the findings from SBLS 2016 to provide a sense of prevailing trends.

5.1 Geographic Markets for Small Business Lending

A common approximation of a bank's geographic market for small business lending is the bank's branch footprint, aligning with the notion that customers prefer to borrow from a nearby bank. However, advances in remote communication and FinTech may have reduced the importance of proximity and, to some extent, untethered markets from physical branches. To assess the role of physical locations, the 2022 SBLS asked banks whether they define their market for small business lending based on branch footprint and, if so, how far from a branch that market typically extends.

Banks largely define their small business lending market as the area immediately surrounding their branch network. As shown in Figure 5.1, 80 percent of banks define their geographic market based on where their physical branches are located.[58] The

FIGURE 5.1
Percentage of Banks Reporting a Certain Size of Geographic Market



Source: SBLS 2022 Question II.A1.
Note: The black rectangle indicates the 80 percent of banks that define their geographic market for small business lending based on their branch footprint. Geographic market is defined as the physical area or areas where a bank's small business loan customers are generally located. The survey question asked banks how far their geographic market for small business lending extends. Responses to the question of fewer than 20 miles were combined and answers 20 miles and above were tabulated as shown. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information). Results may not sum to 100 percent due to rounding.

[56] Tang (2019); Balyuk, Prabhala, and Puri (2020); Beaumont, Tang, and Vansteenberghe (2022); Cornelli, Frost, Gambacorta, and Jagtiani (2022); Erel and Liebersohn (2022); and Bickmore, MacKinlay, and Tellez (2023).
[57] For details of changes in the regulation of credit unions, see 81 Fed. Reg. 13530–13559.
[58] The survey provided six ranges of market distance denoted in miles, a write-in option to specify a number greater than 20 miles, and an option stating that the market was not based on their branch footprint. These options were re-classified into the set of categories presented in Figure 5.1.

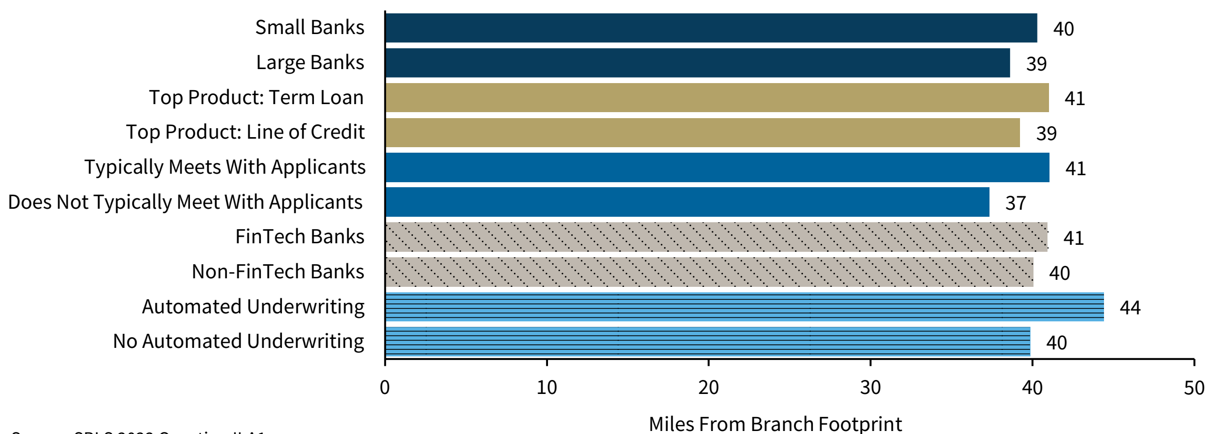
remaining 20 percent of banks do not limit their market for small business customers based on their branch network.

Banks that define their market for small business lending using their branch footprint tend to lend within a short distance of their branches. Two-thirds of all banks (or 83 percent of banks that use their branch footprint) report that the general location of their small business customers is within 60 miles of one of their branches. A significant share of banks lend even closer to their branches; 36 percent of all banks (45 percent of those using their branch footprint) report a market within 20 miles of their branches. While some banks report a market that extends quite far from their branch network, on average the bank market for small business loans extends 40 miles from the branch footprint.[59]

Small banks, or those that rely more heavily on soft information to underwrite their small business loans, may reasonably be expected to have a smaller market than large banks. Conversely, banks that rely more heavily on hard information such as credit scores may have larger markets because of the relative ease of transmitting this type of information across distances (see Section 3). But a surprising finding from the survey results is the lack of significant differences in the size of geographic markets across different types of banks.

As shown in Figure 5.2, the area where a bank's small business customers are located does not vary much across factors that intuitively could generate differences, such as the size of the bank, the bank's top lending product, whether the bank typically meets with applicants, whether the bank uses FinTech for small business lending, and whether the bank uses automated underwriting for some loans. Although the reported geographic market for small business lending varies widely across the industry, it averages about 40 miles for each of the bank groupings in Figure 5.2. Taken together, these results show that branches remain central to how banks define their market and that the variation in the industry is not strictly a function of bank size, business model, or technology use.

FIGURE 5.2
Average Market Size in Miles, by Selected Bank Characteristics



Source: SBLS 2022 Question II.A1.
Note: The average market distance across all banks is 40.25 miles. The distance measure was created using the midpoint of answer options corresponding to fewer than 20 miles and the exact values for 20 or more miles. Banks reporting markets not based on branch footprint or a reported distance of more than 200 miles were dropped from this analysis. *Top Product* refers to the top product by volume other than credit card and government-guaranteed lending (see Section 2.2). *Meets With the Applicants* refers to whether a decision-maker typically meets with an applicant during the approval process (see Section 3.3). *Automated Underwriting* refers to banks that at least partially automate the underwriting of some loans (see Section 3.7). *FinTech Bank* refers to a bank that currently uses FinTech in at least one step of its loan application process (see Section 4.1). Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
None of the differences shown here are significant at the 10 percent level.

[59] For all analyses involving specific mileage, a small number of observations above 200 miles were dropped to focus on banks that primarily lend to the community immediately around their branches. Banks reporting that they do not lend based on branch footprint were likewise excluded. Some assumptions were made to calculate the average from answers involving ranges. Specifically, a midpoint was used for answers provided in a range (e.g., 7.5 miles for "5 to less than 10 miles"). These midpoints were then combined with the distance banks wrote in for answers of 20 miles or more to compute the average.

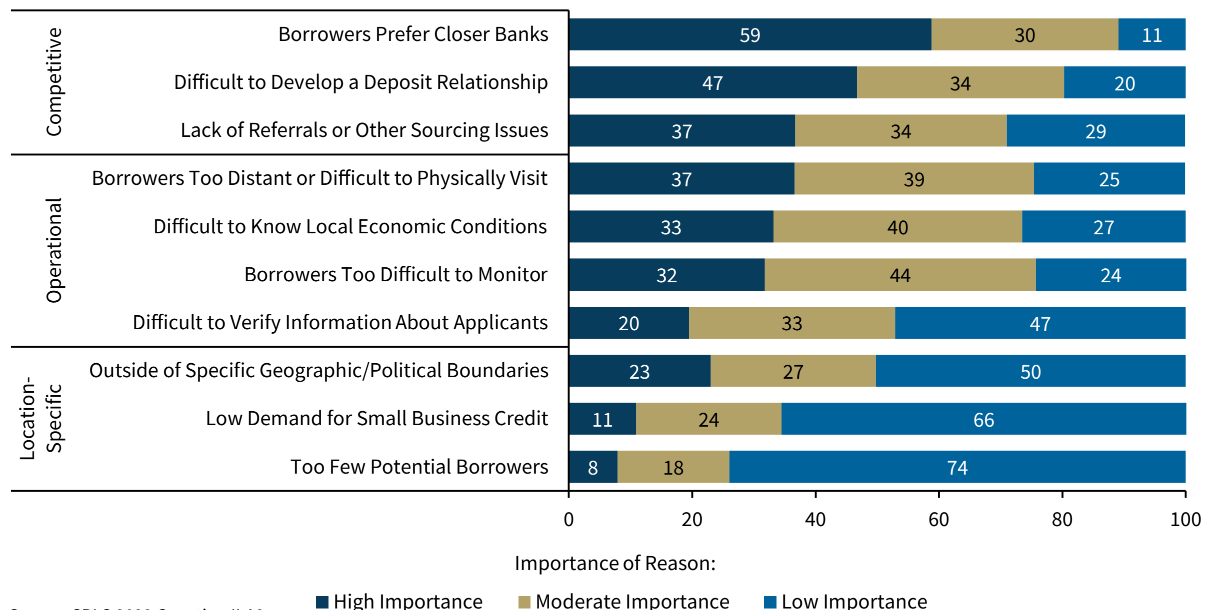
5.2 Factors That Drive Variation in Market Size

To better understand the differences in geographic markets for small business lending, the survey asked banks about the importance of several factors in limiting the size of their geographic market. The factors, listed below, were grouped into the following three broad categories:

- Competitive factors – customer preference for closer banks, difficulty forming a deposit relationship with the small business, and difficulty finding referrals for or sourcing potential applicants.
- Operational factors – difficulty conducting visits, difficulty monitoring loans, difficulty understanding local economic conditions, and difficulty verifying applicant information.[60]
- Location-specific factors – insufficient demand outside the current market, few potential borrowers, and presence of geographic or political boundaries.

Figure 5.3 shows the potential reasons a bank's market does not extend farther, with the percentage of banks citing a particular reason's importance as high, moderate, or low and grouped by the type of reason cited. The three top factors all relate to the competitive pressure banks face when attempting to lend outside their general geographic market, while most of the middle-ranked items pertain to operational concerns. Fifty-nine percent of banks report that borrowers outside of their geographic market prefer to borrow from banks with branches closer to them, and an additional 30 percent report that competition from banks closer to the borrower is of moderate importance in limiting how far their market stretches. Difficulty forming a deposit relationship was of high importance for 47 percent of banks and of moderate importance for 34 percent. These two factors directly reflect the competitive pressure on banks and how that pressure limits the size of bank markets.[61]

FIGURE 5.3
Percentage of Banks Citing Selected Reasons for Not Lending Outside Their Geographic Market



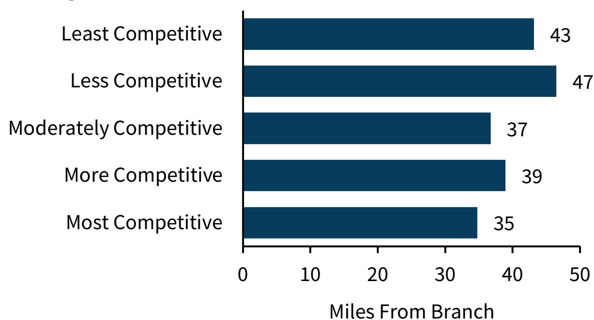
Source: SBLS 2022 Question II.A2.
Note: The survey asks about potential problems that keep banks from lending outside their geographic market. The survey defines geographic market as the physical area or areas where a bank's small business loan customers are generally located. *High Importance* combines "very high" and "high" responses. *Low Importance* combines "low and "very low" responses. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information). Results may not sum to 100 percent due to rounding.

[60] For further discussion of the impact of operational factors, see Heitz, Martin, and Ufier (2023).
[61] The difficulty in forming a deposit relationship may also somewhat reflect operational concerns.

About one-third of banks consider each of the operational factors, except difficulty verifying applicant information, highly important for determining why a bank does not lend outside of its geographic market. The challenges that operational factors pose to a bank looking to expand its market reflect the importance of high-touch and staff-intensive practices for generating and maintaining relationships with borrowers (see Section 6). Only a small share of banks consider location-specific conditions or boundaries highly important.[62] These findings suggest that most banks believe their market for small business lending could be larger but that competitive or operational pressures limit market size; for a minority of banks, however, location-specific conditions or boundaries significantly limit their potential market size.

As shown in Figure 5.3, the majority of banks report that borrowers outside their geographic market prefer closer banks, which suggests that competition is an important determinant of market size. This relationship is explored more directly by comparing the market distance a bank reports to a common measure of competition, the Herfindal-Hirschman Index (HHI). A deposit-based HHI value is calculated for each market, where the market is the MSA when the county is inside an MSA and the county itself for those counties not in an MSA. A weighted HHI for each bank is calculated by weighting the HHI from each market in which a bank has a presence by the share of the bank's deposits in each market and summing the weighted HHI across markets to arrive at a value for each bank. The HHI values are calculated for every market and bank in the 2021 FDIC Summary of Deposits. Each bank is then placed into one of five buckets defined by the industry-level quintiles of weighted HHI values. These buckets are combined with the 2022 SBLS results to explore whether differences in relative competition explain differences in market size. This deposit-based approach captures the variation in competition a bank faces across markets weighted by the relative importance of that market to the bank. A bank with most of its deposits in competitive markets will have a low HHI value and be in a lower bucket. A bank that operates in only one market and has little competition for deposits in that market will have a relatively high HHI value and be in a higher bucket.

FIGURE 5.4
Average Market Size in Miles, by Market Competition



Source: SBLS 2022 Question II.A1.
Note: This figure shows how the market distances reported in the survey vary with a measure of how competitive the markets are where the bank has a branch presence. The distance measure was created using the midpoint of answer options corresponding to fewer than 20 miles and the exact values for 20 or more miles. Banks reporting markets not based on branch footprint or a reported distance of more than 200 miles were dropped from this analysis. The measure of competitiveness is based on the Herfindahl-Hirschman Index for deposits within a county (for more information see Appendix A.7). Question is keyed to the bank's highest volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

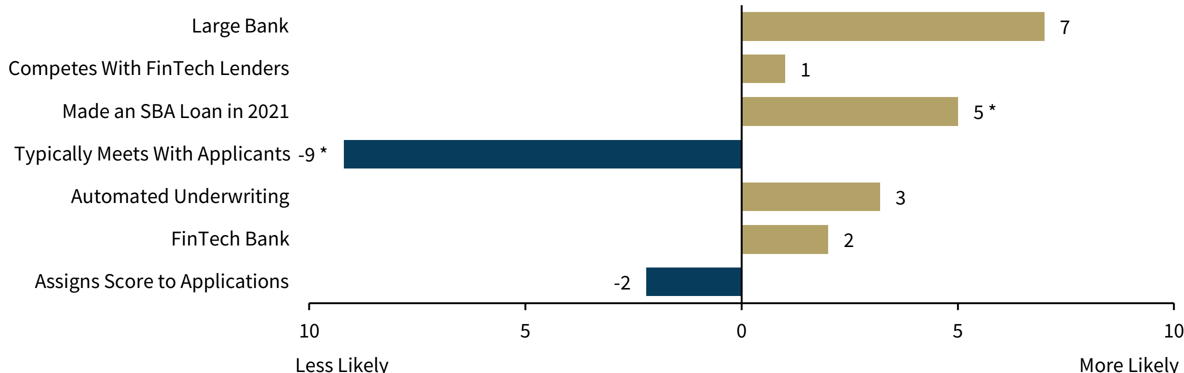
Figure 5.5 shows that banks in relatively more competitive markets report smaller markets for small business lending. Moving from the most competitive quintiles to the least competitive quintiles generates a difference of ten miles in how far from a bank branch small business loans are generally located. The salience of competition aligns with the results in Figure 5.3, which shows that banks report that at the edge of their geographic markets, potential customers prefer to borrow from closer banks. While intuitive, this finding implies that the market for small business credit varies not only with where a bank has branches but also with the intensity of competition near those branches. With the context of results shown in Figure 5.4, the importance of local competition may outweigh factors like size of the

[62] These conditions include a lack of local demand for small business credit. Historically, political boundaries were very salient. Their relative unimportance here may reflect the dramatic change within the banking industry since the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, which, among other things, allows banks to open branches across state lines.

BANKS THAT DO NOT LEND BASED ON BRANCH FOOTPRINT

FIGURE 5.BOX1

Percentage of Banks That Do Not Define Their Geographic Market by Branch Footprint, by Specific Bank Characteristics



Source: SBLS 2022 Question II.A1.

Note: This figure presents the difference in the percentage of banks that do not define their geographic market by their branch footprint when separated by selected characteristics. The geographic market is defined in the survey instrument as the physical area or areas where the bank's small business borrowers are generally located. The branch footprint is the set of physical offices of the bank. *Large Bank* compares banks with assets of at least $10 billion to those below $10 billion. *Competes With FinTech Lenders* compares bank that responded they compete often or most of the time with online nonbank lenders in question II.B1. *Made an SBA Loan in 2021* compares banks that did and did not make at least one loan through the Small Business Administration (SBA) 7(a) program in calendar year 2021 (see Section 2.4). *Typically Meets With Applicants* refers to whether a decision-maker typically meets with an applicant during the approval process (see Section 3.3). *Automated Underwriting* compares banks that do and do not at least partially automate the underwriting of some loans (see Section 3.7). *FinTech Bank* compares banks that do and do not currently use FinTech in at least one step of its loan application process (see Section 4.1). *Assigns Score to Applications* compares banks that do and do not assign a grade or numeric score to applications as part of their underwriting process in survey question I.C1. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

* Denotes a statistically significant difference between the set of compared banks at the 10 percent level.

Twenty percent of banks report that physical locations do not determine the location of their geographic market, making it important to examine factors other than branch footprint, such as use of technology and participation in government-guaranteed loan programs, that may influence where the bank lends.

Figure 5.BOX1 presents the results of tests for differences between banks that do not lend based on their branch footprint (non-footprint banks) and banks that do (footprint banks) across several characteristics. The figure shows significant differences between these lenders in terms of those that typically meet with applicants and those that participate in the SBA 7(a) loan program. For example, non-footprint banks are 9 percentage points less likely than footprint banks to typically meet with applicants, including through videoconference or a telephone call, suggesting the limits of remote communication in small business lending. Non-footprint banks are also 5 percentage points more likely to have made one 7(a) SBA loan in 2021, which is consistent with an SBA guarantee reducing the risk of extending credit to customers farther away (see Sections 2.4 and 7.2). Together, these results suggest that non-footprint banks manage the risk of lending to small businesses in distinct ways from footprint banks.

The figure also shows no significant differences across characteristics of banks where such differences would have been expected. For example, large banks are not statistically more likely than small banks to be non-footprint banks. Further, non-footprint banks do not seem to rely more on technology to bridge physical distance, as they are no more likely than footprint banks to automate underwriting, use FinTech, compete with FinTech lenders, or assign loan applications a grade when underwriting. These results suggest that size or greater use of technology does not necessarily render a physical presence unnecessary to the small business lending process.

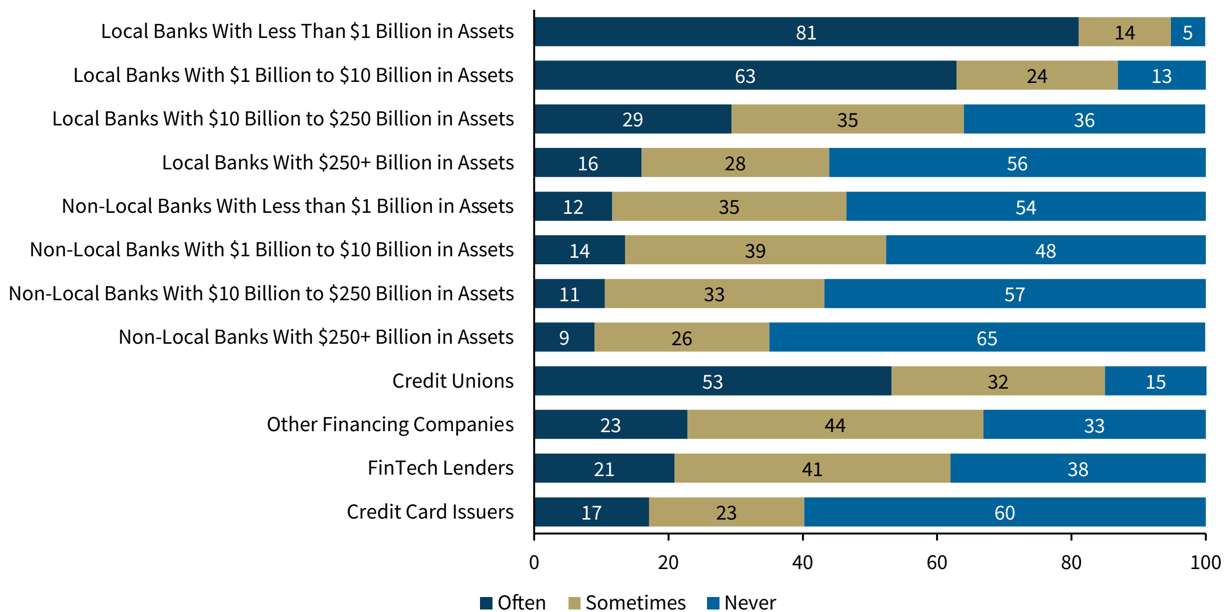
bank, underwriting process, and business model in determining the geographic size of a small business lending market.

5.3 Competition for Small Business Lending Borrowers

Understanding competition in the small business lending market provides valuable context to the ongoing consolidation in the banking industry. Appropriate measures of concentration are affected by the degree to which markets are geographically segmented. If banks compete only with other nearby institutions, then measures aggregated to the industry may mask wide variation at the local level. Similarly, the degree to which market participants include multiple types of lenders can change qualitative conclusions. If banks face increasing competition from nonbanks and credit unions, then measures of concentration in the banking industry may underestimate the degree of competition within the small business lending market. One goal of the Small Business Lending Survey is to provide a nationally representative characterization of competition at the industry and sub-industry levels.

The results of the 2016 SBLS show that banks largely compete with local banks of a similar size for small business loans and that frequent competition with nonbanks is relatively rare. Responses to the 2022 survey illustrate how competition for small business loans changed between 2016 and 2022.[63] The 2022 survey asked banks how often they compete for small business borrowers with a range of institutions, including different-sized local and non-local banks and a selected set of nonbanks and credit unions; answers ranged from “never or rarely” to “most of the time.” This approach permits us to separately analyze competition along several different dimensions: whether the competition is frequent or occasional, whether the competitor is a bank or non-bank, and for bank competitors, the size of the competitor bank and whether it has a branch in the local market.

FIGURE 5.5
Percentage of Banks Competing With Each Type of Financial Institution



Source: SBLS 2022 Questions II.B1.
Note: Local banks are banks with a branch presence in the bank’s market(s). Non-local banks are banks without a branch presence in the bank’s market(s). FinTech Lenders are nonbank online lenders. *Often* combines “often” and “most of the time.” Results may not sum to 100 percent due to rounding.

[63] For a detailed discussion of trends, see Section 5.4.

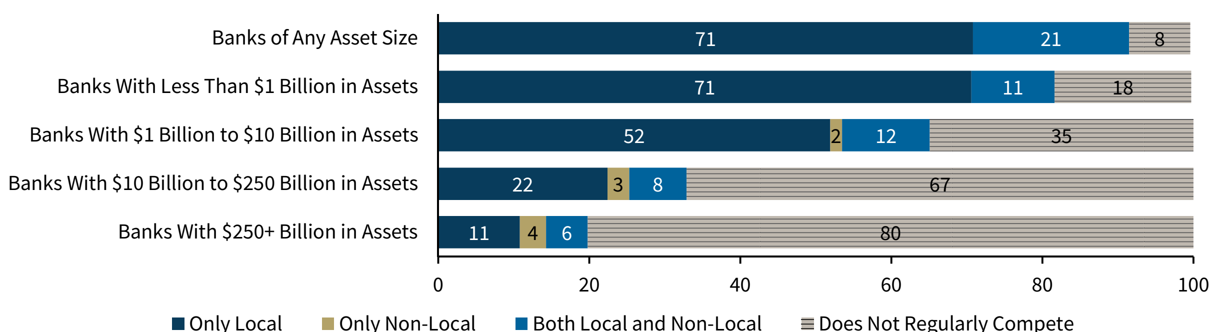
Banks cite other local banks and credit unions as their most common competitors (Figure 5.5). Banks most often compete with small local banks for small business loans: 81 percent of banks report competing often with other local banks with less than $1 billion in assets, and 63 percent report competing often with local banks with $1 billion to $10 billion in assets. The widespread competition with small banks aligns with their overall prevalence: small banks held 44 percent of small C&I and CRE loans to businesses and made up 97 percent of banks at year-end 2021.[64] The next most common competitor identified by banks are credit unions; 53 percent of banks report them as often being a competitor.

A sizable minority of banks also report competing often with local banks with more than $10 billion in assets and non-depository institutions such as FinTech lenders and other financing companies.[65] About 30 percent of banks often compete with local banks with $10 billion to $250 billion in assets, and 16 percent of all banks compete often with local banks with more than $250 billion in assets. About 20 percent of banks report competing often with nonbank financing companies (23 percent), FinTech lenders (21 percent), and credit card issuers (17 percent).

Combining the share of banks that compete often and those that compete sometimes in Figure 5.5 gives a sense of the general competition banks face. Almost two-thirds of banks report competing at least sometimes with other financing companies (67 percent), local banks with $10 billion to $250 billion in assets (64 percent), and FinTech lenders (62 percent). On the other hand, more than half of banks report competing rarely or never with local banks with assets of at least $250 billion and credit card issuers.

To further explore the local nature of small business lending competition, Figure 5.6 presents the percentage of banks that compete only with a local bank, only with a non-local bank, with both local and non-local banks, and with no particular group of banks (i.e., does not compete). The figure shows that almost all banks (92 percent) compete often with at least one other bank. However, the vast majority of that competition is only with banks that are present in their local market (71 percent). Less than 1 percent of banks exclusively compete with non-local banks. The figure also shows that regular competition largely happens when the competitor bank has a local presence, regardless of the size of the competitor. Fewer banks overall compete regularly with large banks, but the majority of banks that do often compete with large banks do so only

FIGURE 5.6
Percentage of Banks Competing With Local and Non-Local Banks



Source: SBLS 2022 Question II.B1.
Note: This figure depicts the percentage of banks that reported competing "often" or "most of the time" with each type of competitor bank. The "Only Non-Local" category rounds to zero for both "Banks of Any Asset Size" and "Banks With Less Than $1 Billion in Assets" and has been excluded from the figure for readability. Results may not sum to 100 percent due to rounding.

[64] All numbers are from bank Consolidated Reports of Condition and Income (Call Reports). Small loans to business are the outstanding balances as of December 31, 2021, on commercial and industrial and commercial real estate loans less than $1 million at origination.

[65] Other financing companies include asset-based lenders, factoring companies, leasing companies, and firms offering credit such as a merchant cash advance or trade credit.

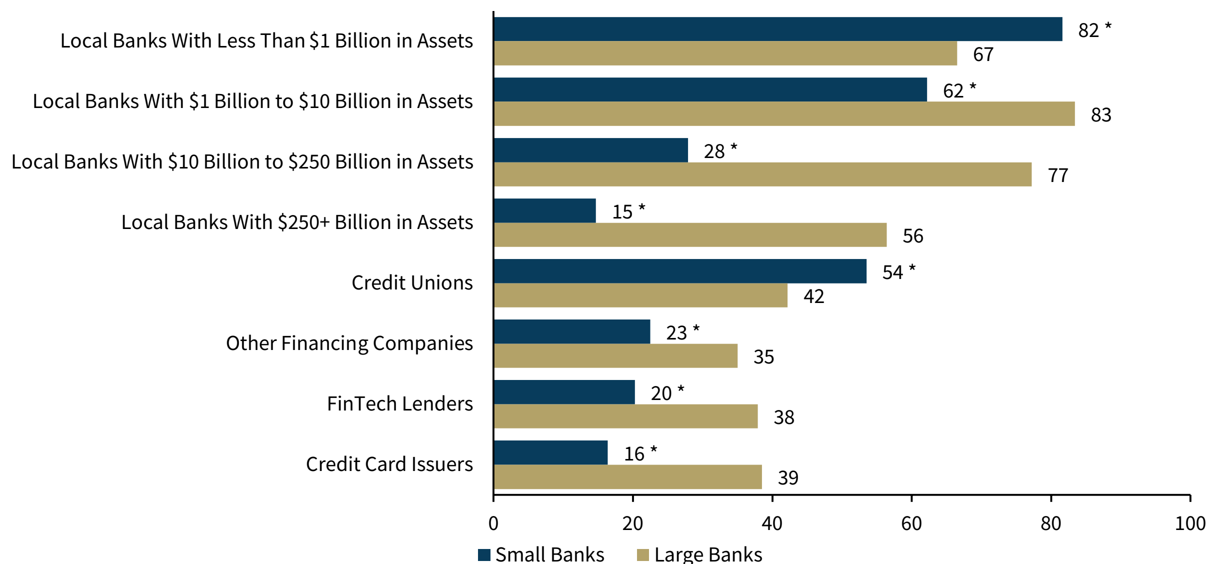
when those banks have a local presence. The probability of competing often with only a non-local bank increases with the size of the competitor bank, but the highest likelihood of doing so is only 4 percent. Collectively, these findings suggest that small business lending competition between banks remains largely local and that industry-level measures of competitiveness may mask important aspects of the competitive landscape.

Another way the market for small business lending might exhibit segmentation is if small and large banks generally serve separate sets of small business customers, for example, because of differences in underwriting practices (see Section 3). In the extreme, this segmentation would imply that a market with one small and one large bank would experience less competition than a market with two banks of a similar size. To explore this possibility, Figure 5.7 presents the percentage of small and large banks that compete regularly (i.e., often or most of the time) with other types of institutions. Because small banks make up the vast majority of banks, the results for small banks closely resemble those for all banks, with the likelihood of regularly competing with a bank decreasing as the size of the competitor bank increases. Regular competition with the smallest set of banks (less than $1 billion in assets) is slightly less common for large banks than for small banks (67 percent of large banks compared with 82 percent of small banks). However, large banks are more likely than small banks to compete regularly with banks in the other size categories. More than three-quarters of large banks report competing regularly with banks with $1 billion to $250 billion in assets, and more than half of large banks regularly compete with banks with more than $250 billion in assets. These results indicate that large banks generally compete often with banks of all sizes.

A second pattern evident in Figure 5.7 is the difference between small and large banks in their competition with nonbanks and credit unions. About half (54 percent) of small banks compete regularly with credit unions, but only about 20 percent compete regularly with nondepository institutions. Conversely, large banks are slightly less likely than small banks to report regular competition with credit unions (42 percent) and are substantially more likely to report regular competition with FinTech lenders (38 percent), credit card issuers (39 percent), and other financing companies (35 percent). This pattern may reflect differences in the competitive advantages of credit unions and other nondepository

FIGURE 5.7

Percentage of Banks Competing With Each Type of Financial Institution, by Bank Size



Source: SBLS 2022 Question II.B1.
Note: In this figure, competition is defined as banks indicating they compete "often" or "most of the time" with the specified type of institution. FinTech Lenders are nonbank online lenders. Competition with non-local banks is omitted for readability.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

institutions, with credit unions more closely aligning with advantages held by small banks (see Section 6.3) and nondepository institutions aligning more closely with advantages held by large banks. The findings also suggest that the size of bank matters for the likelihood that it faces competition from nonbanks and credit unions. Small banks are more likely to face competitive pressure from credit unions, while large banks are more likely to face competition from non-depository institutions. In either case, bank-only measures of competition would miss any added competition from nonbanks and credit unions.

5.4 Changes in Competition Since the 2016 Survey

The results of the 2016 SBLS show that banks largely compete with other banks and that competition with nonbanks other than credit unions is relatively muted. In contrast, findings from the 2022 survey suggest the growing importance of credit unions and other nonbank institutions in the market for small business loan customers. This subsection provides a more in-depth analysis of potential changes in the competitive landscape between the 2016 and 2022 survey periods. Before presenting the results, several differences in the language of the 2016 and 2022 survey questions are worth highlighting. Because of these differences, results of the comparisons of the two surveys should be viewed as suggestive of qualitative changes in the competitive landscape for small business lending, not as quantitatively definitive.

Researchers constructing the questions about competition for the 2022 survey sought to maintain as much comparability between the two surveys as possible while incorporating lessons learned to improve the information gleaned from the survey responses. For example, the list of institutions that are potential competitors was intentionally kept the same; however, the way the question measured the degree of competition was changed. In the 2016 survey, banks selected the types of institutions that they competed with and, of those, which types of institutions were their first, second, and third competitors. The 2022 survey elicited more detail by asking how frequently a bank competed with each type of institution, with answers ranging from “never or rarely” to “sometimes,” “often,” and “most of the time.” Thus, banks answering the 2016 and 2022 surveys may have used different thresholds to decide whether to label a type of institution as a competitor. As a result, the comparisons of competitors across the years are presented in two ways to account for the ambiguity in the differences across the response options. The two comparisons provide upper and lower ranges that we believe are likely to bracket the true magnitude of the change.[66]

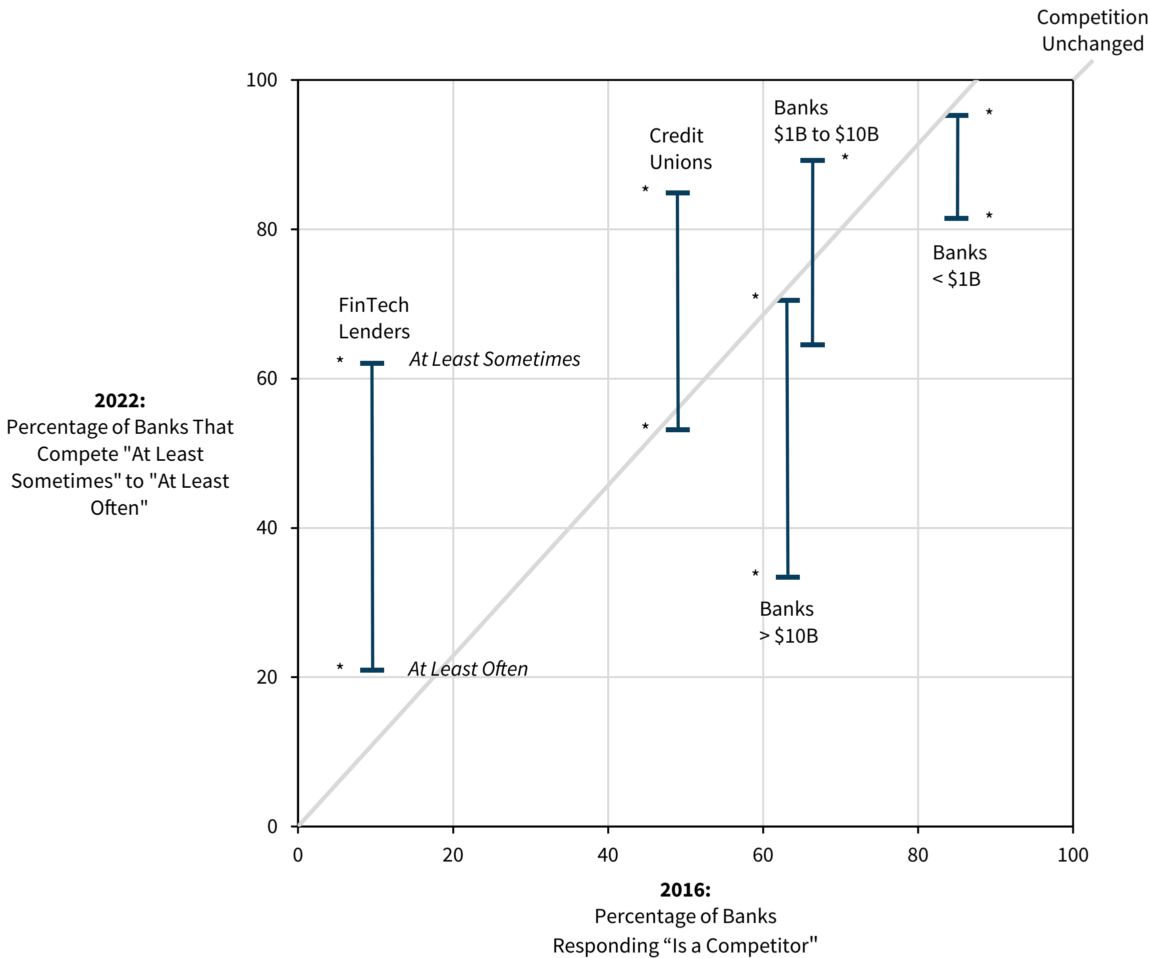
A more fundamental change in the 2022 survey involves the scope of the lending to small businesses that banks were asked to consider when answering the questions. In the 2016 survey, banks were asked about competitors for their commercial and industrial loans to small businesses. In contrast, the 2022 survey asked about competitors for “business purpose” loans to small businesses. Thus, the 2022 survey uses a wider definition of lending beyond traditional commercial and industrial lending that notably also includes owner-occupied commercial real estate lending (see Part IA of Appendix B for more information). The differences in the scope of lending could have significantly affected how banks answered questions about competition in 2016 compared to 2022. For example, if bank responses in 2022 more closely reflected their experiences in originating owner-occupied commercial real estate loans, then changes may reflect differences in the specific competitors for that product rather than overall competition.

With these caveats, Figure 5.8 shows how competition for small business lending seems to have changed between the 2016 and 2022 surveys. The figure shows the range in the level of reported competition with a specific type of institution; the horizontal axis denotes responses in 2016, and the vertical axis denotes responses in 2022. For the 2016 survey, any point on the horizontal axis denotes

[66] The wording of the 2022 question is available in Part IIB of Appendix B. The wording of the 2016 question is available on page 74 of FDIC (2018). These comparisons are weighted averages across all banks that responded in 2016 and all banks that responded in 2022. No adjustments are made for changes in the size of the population, mergers, or re-sampling.

FIGURE 5.8

Percentage of Banks Competing With Selected Types of Financial Institutions, 2016 and 2022



Source: SBLS 2022 Question II.B1.

Note: This figure compares the percentage of banks responding that they compete with different types of institutions in the 2016 and 2022 surveys. In the 2016 survey, banks were asked about their competitors for commercial and industrial loans. In the 2022 survey, banks were asked how often they compete with other types of institutions on loans for business purposes that include all types of small business lending except Paycheck Protection Program loans. The figure compares the percentage of banks responding "Is a Competitor" in 2016 to the percentage of banks responding they compete *At Least Often* and *At Least Sometimes* in 2022. *At Least Often* combines responses stating they compete "often" and "most of the time." *At Least Sometimes* combines responses stating they compete "sometimes," "often," and "most of the time." *FinTech Lenders* are nonbank online lenders.

* Denotes a statistically significant difference at the 10 percent level between the percentage of banks saying they compete with that type of institution in 2016 and 2022.

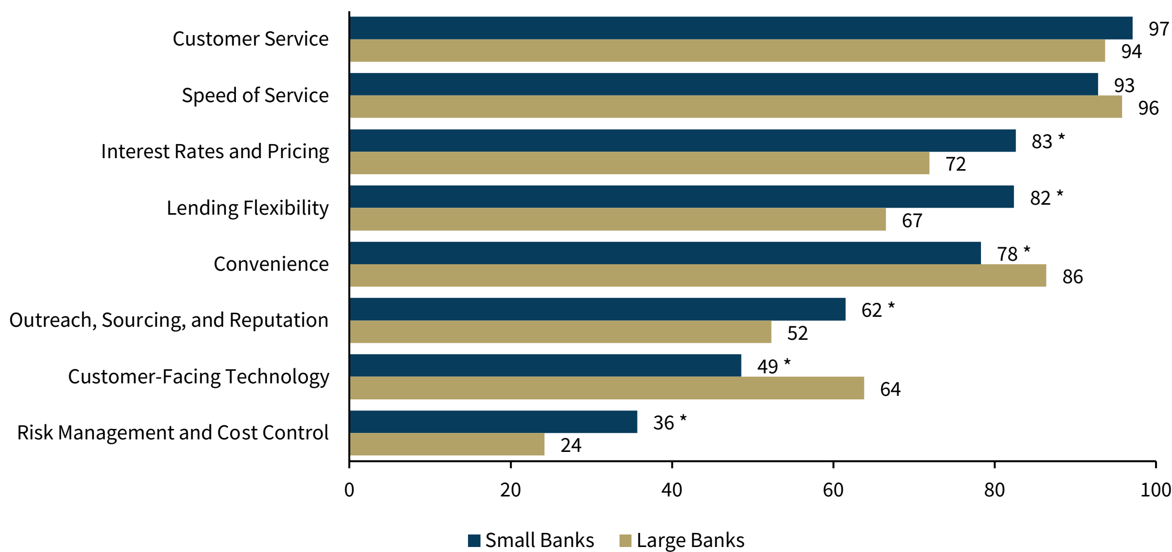
the percentage of banks that reported this type of institution as a competitor. For the 2022 survey, a vertical line is shown for each type of competitor; the lower end of the vertical line is the percentage of banks that reported competing often or most of the time with this type of institution, and the upper end of the vertical line is the percentage of banks that reported competing at least sometimes with this type of institution. Points above the diagonal suggest an increase in competition between the two surveys and points below suggest a decline; any points close to the diagonal suggest minimal change. The upper ends of most vertical lines are above or well above the diagonal, which suggests either that the likelihood of competition with that type of institution has increased or that competing sometimes might be too weak of a threshold to call the bank a "competitor" as in the 2016 survey. Most of the lower ends of the vertical lines are near the diagonal, indicating that either the change in competition has been modest or that competing often or more might be too strong of a threshold. Accordingly, the best estimate of the change in competition likely lies somewhere along the vertical lines.

One takeaway evident from Figure 5.8 is the increase in the percentage of banks competing with both FinTech lenders and credit unions. While only 10 percent of banks listed FinTechs as a competitor in 2016, between 20 and 60 percent of banks cited them as a competitor in 2022. Similarly, 49 percent of banks reported competing with credit unions in 2016, compared with 50 to 85 percent in 2022. The increased relevance of credit unions as a competitor matches regulatory changes in January 2017 that expanded the ability of credit unions to make commercial loans and began a period that has seen a nearly 250 percent increase in total outstanding commercial loans across all credit unions.[67] While financial reporting on the lending activities of nonbank FinTech lenders is relatively scarce, the large increase in salience as a competitor suggests FinTechs are a growing presence in the market for small business lending. For more analysis on the competitive advantages of credit unions and FinTech lenders, see Section 6.4. For information on FinTech use at banks, see Section 4.

Competition with other banks has remained relatively constant. In 2022, the percentage of banks that describe banks with less than $1 billion in assets and banks with $1 billion to $10 billion in assets as frequent competitors remains roughly the same as or higher than in 2016. But the 2022 survey results show a small decline in competition with large banks. In 2016, 63 percent of banks cited banks with more than $10 billion in assets as competitors, but in 2022 only 33 percent reported competing with such banks often. However, about 71 percent of banks reported competing with large banks at least sometimes, suggesting that any true decline is somewhere between the measures and likely relatively modest in magnitude.

Several reasons may account for the decline in competition for small business lending by the largest banks. The market for small business credit may have become more segmented, meaning large and small banks compete for different customers or compete in different areas (see Section 3.5 for differences in underwriting criteria). To explore this hypothesis,

FIGURE 5.9
Percentage of Banks Citing Selected Areas of Importance to Bank Borrowers, by Bank Size



Source: SBLS 2022 Question II.B4.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

[67] Author calculations based on data from the National Credit Union Administration's Quarterly Credit Union Data Summary third quarter 2017 and third quarter 2022 reports. For details of changes in the regulation of credit unions, see 81 Fed. Reg. 13530–13559.

Figure 5.9 shows the percentages of small and large banks that believe their customers highly value a particular competitive area. A small bank is about 16 percentage points more likely to think that their small business customers highly value lending flexibility. In contrast, large banks disproportionately perceive convenience (8 additional percentage points) and customer-facing technology (15 additional percentage points) as more important to their customers. The figure suggests some sorting among the small business customers of small and large banks.

Another possible explanation for the apparent decline in competition from large banks is the COVID-19 pandemic. The pandemic had a profound effect on small business lending, especially through the Paycheck Protection Program, which may have changed the demand for and supply of credit for large and small banks in both transitory and permanent ways. Understanding whether this apparent decline in competition represents a larger trend or a one-off shock requires further study beyond the scope of this report.

5.5 Conclusion

Results from the 2022 survey show that a large majority of banks lend to small business customers generally located in fairly close proximity to their branch locations. On average, this market extends about 40 miles from the bank's branch footprint. About one-third of banks report that their small business lending is to borrowers generally within 20 miles of their branch footprints. While estimates from academic research suggest that most lending occurs somewhat closer to a bank's branch network, the difference is likely a result of a broader definition of small business lending and a nationally representative sample, both of which are difficult to obtain in commonly available data sources.

The survey finds that the size of a bank's market is remarkably independent of characteristics that otherwise signify important differences between banks. The most salient factors limiting the size of the small business lending market are competitive pressure from other banks located closer to the small business customer and operational issues related to gathering information about the small business customer. Together, these findings suggest that the size of a bank's geographic market is largely determined by fundamental limitations in forming and maintaining relationships rather than more discretionary factors like technological investment, scale of operations, or underwriting practices.

When asked about their competitors for small business customers, banks report competing most often with other local banks of a similar or smaller asset size and credit unions. However, the majority of banks also compete at least sometimes with relatively large banks and other nonbanks, including FinTech lenders. The vast majority of banks compete only with banks that have a branch presence in their market, though competition with non-local banks is more common for larger banks. While large banks report competing often with banks of all sizes, relatively few small banks cite banks with more than $10 billion in assets as regular competitors. Small banks are more likely to compete often with credit unions, while large banks are more likely to compete often with FinTech lenders, credit card issuers, and other financing companies. Relative to findings in FDIC (2018), banks seem to be significantly more likely to compete regularly with credit unions and FinTech lenders, and competition with large banks may have slightly declined. These changes highlight the importance of considering comprehensive approaches to measure market competitiveness.