

Small Business Lending at Bank of America

Bank of America has long touted its commitment to small business lending. In October 2007, the bank announced that it had “been named the top Small Business Administration (SBA) lender in the nation for the tenth consecutive year.”¹ However, a critical look at Bank of America’s record shows a more complicated story:

- Like Bank of America’s profits, its claims of having been the nation’s top SBA lender in the past were also the result of turning a blind eye to some inconvenient truths. Even though it originated the greatest number of loans under the SBA’s main program for several years, the amount of money it lent out was significantly lower than many of its top competitors.
- Bank of America’s small business lending has plummeted since the bank accepted bailout funds last fall, even when compared to the nation’s other top banks. This is true at both the state and federal levels. Furthermore, the bank has thus far refused to participate in the SBA program designed to help healthy businesses survive the recession.
- There are concerns around the kinds of small business loans that Bank of America is making, such as its focus on “Express loans” and its shift towards credit card loans.
- Bank of America has also hurt the ability of smaller banks to resume lending, by requiring the payment of credit lines from banks that had received TARP money.

There are two main SBA programs through which small business loans are administered—the 7(a) program and the 504 program. The overwhelming majority of SBA loans are made through the 7(a) program, because SBA 7(a) loans can be used for financing operating expenses and have lighter underwriting requirements. On the other hand, SBA 504 loans are meant primarily for capital expenditures and require more paperwork to get processed. In FY 2008*, there were nearly eight times as many 7(a) loans made as there were 504 loans. 7(a) loans accounted for about 70% of the total value of SBA loans that year.² For this reason, we focused on 7(a) loans in our analysis.

Not Really #1

Bank of America’s claims that it was the #1 SBA lender for ten consecutive years through FY 2007 were based on the fact that it made the greatest number of 7(a) loans in those years.³ But in reality, even though Bank of America made more 7(a) loans than any other small business lender, there were many other lenders that were actually lending out a lot more money than Bank of America, according to data obtained from the SBA. In fact, CIT Small Business Lending Corporation, which had consistently been the nation’s top 7(a) lender by amount of money actually lent for the past several years, typically lent out more twice as much money through the 7(a) program than Bank of America.⁴

* The SBA fiscal year starts on October 1 and ends on September 30.

Table 1: Bank of America’s Lending Under the SBA 7(a) Program⁵

Year	BofA Rank	BofA 7(a) Loans	Top 7(a) Lender	Top 7(a) Lender’s Loans
FY 2004	7	\$365 million	CIT	\$881 million
FY 2005	5	\$413 million	CIT	\$794 million
FY 2006	5	\$406 million	CIT	\$873 million
FY 2007	7	\$336 million	CIT	\$873 million
FY 2008	21	\$102 million	CIT	\$767 million
FY 2009 through April	70	\$10 million	Wells Fargo	\$353 million

This is because although Bank of America made a lot of SBA 7(a) loans, the average loan amount was fairly small. In FY 2008, the average loan amount for all SBA 7(a) lenders was \$182,492. At Bank of America, the average loan amount was only \$31,032, according to data obtained from the SBA. This trend held true for the past several years. The bank made a lot of little loans, which inflated its SBA 7(a) loan origination figures and allowed it to claim to be the top 7(a) lender even though it was lending out a fraction of the money other lenders were.

Table 2: Average SBA 7(a) Loan Amount⁶

	Bank of America	All SBA 7(a) Lenders
FY 2006	\$30,982	\$149,295
FY 2007	\$30,863	\$143,487
FY 2008	\$31,032	\$182,492

Although Bank of America has backed away from its claim of being the top SBA lender since its small business lending has plummeted, in its *Lending and Investing Initiative Quarterly Impact Report* for the first quarter of 2009, the bank now claims to be the nation’s top small business lender under the SBA 504 program,⁷ which is undeniably is, both by number of loans and amount of money lent out. However, this only hides the fact that the bank has all but stopped lending through the program that accounts for about 70% of all SBA-administered loans—the SBA 7(a) program.

Decreased Lending to Small Business

National level

Over the past two years, Bank of America’s small business lending has plummeted. The decline has been most stark since the bank received bailout funds last October, presumably so that it could start lending again. In FY 2007, the bank made 10,878 loans through the SBA 7(a) program, worth \$336 million. In FY 2008, the bank made only 3,296 SBA 7(a) loans, worth only \$102 million—a third of what it had lent out the previous year. In the twelve months between May 2008 and April 2009, this number further dropped to 484 loans worth a total of \$20 million.⁸

Table 2: Bank of America's SBA 7(a) Loans⁹

	Number of Loans	Loan Value
FY 2007: Oct 06 – Sep 07	10,878	\$336 million
FY 2008: Oct 07 – Sep 08	3,296	\$102 million
TTM 2009: May 08 – Apr 09	484	\$20 million

In the first seven months of FY 2009 (October-April), the bank made only 241 loans through the SBA 7(a) program, worth a total of \$10 million. In the same time period last year, the bank made 3,053 SBA 7(a) loans, worth \$92 million. Bank of America's SBA 7(a) lending has fallen 90% from a year earlier, 97% from two years earlier, and its rank has dropped to #70.¹⁰ It is worth noting that the banks received their first round of bailout funds in October 2008, so FY 2009 lending may appropriately be viewed as post-bailout lending.

Table 3: Bank of America's SBA 7(a) Loans, First Seven Months FY 2008 & 2009¹¹

	Number of Loans	Loan Value
Oct 07 – Apr 08	3,053	\$92 million
Oct 08 – Apr 09	241	\$10 million
<i>Change</i>	<i>-92.1%</i>	<i>-89.7%</i>

During this time, total lending through the SBA 7(a) program for all lenders nationally only dropped 42%, which means that the 90% decline at Bank of America was twice the national average.¹² In fact, Bank of America cut its 7(a) lending more than any of the other leading banks.

Table 4: SBA 7(a) Loans at the Nation's Top Banks, First Seven Months FY 2008 & 2009¹³

Bank	Oct 07 – Apr 08	Oct 08 – Apr 09	Change
Wells Fargo [†]	\$346 million	\$353 million	+1.9%
PNC	\$104 million	\$85 million	-18.2%
US Bank	\$285 million	\$181 million	-36.4%
Wachovia	\$189 million	\$95 million	-49.9%
JPMorgan Chase	\$291 million	\$43 million	-85.3%
Citigroup	\$38 million	\$5 million	-86.2%
Bank of America	\$92 million	\$10 million	-89.7%

State Level

On a state level, this lending cut has hit all states in which Bank of America lends to small businesses. In FY 2007, the bank lent over \$335 million to small businesses in 44 states through the SBA 7(a) program. A search of SBA records received in response to a recent Freedom of

[†] The data received from the SBA broke out Wells Fargo and Wachovia separately. We did not adjust the data to account for any mergers in this case.

Information Act request showed that, in the first seven months of FY 2009, Bank of America did not make any SBA 7(a) loans to small businesses in 14 of these 44 states. The same data also showed that the bank cut off SBA 7(a) loans entirely to nearly a third of the states in which it lent two years ago. The cut was particularly stark in states like Arkansas, where the bank made 49 SBA 7(a) loans worth \$1.4 million in FY 2007, and made zero in the first seven months of FY 2009, and in three New England states (Maine, New Hampshire, and Rhode Island), where the bank went from making 109 loans worth \$2.8 million in FY 2007 to zero so far in FY 2009.

In the top five states in Bank of America's SBA 7(a) portfolio, where the bank lent a combined \$222 million in FY 2007, the figure dropped to less than \$6 million in the first seven months of FY 2009, for a net reduction of \$216 million. While the lending pace could improve in the second half of FY 2009, the timing of this drop in "post-bailout" lending may well have exacerbated state economic woes (for a full table of lending broken out by state, see Appendix).

America's Recovery Capital Program

The SBA launched a new program under the stimulus package in June to help viable small businesses survive the economic downturn. Called the "America's Recovery Capital" (Arc) SBA program, it provides small businesses up to \$35,000 in short-term loans to help them repay existing loans. Payments on Arc loans are deferred for one year, and the borrower does not have to pay any interest for the first five years. Instead, the SBA will make interest payments to the lender during that time, although the interest rate that the SBA will pay is lower than that on ordinary SBA 7(a) loans. This is at least partially offset by the fact that Arc loans come with a 100% SBA guarantee, which means that lenders will get their money back even if the small business owner defaults on the loan.¹⁴

Bank of America has thus far refused to participate in the program designed to help get the economy back on track, even after receiving tens of billions in bailout funds. According to the *Wall Street Journal*, some big lenders, including Bank of America, "are still on the fence about participating, citing concerns about heavy paperwork and strict rules on applicant eligibility."¹⁵ These banks feel that the lower interest rate and deferred payments make the administrative burden not worthwhile.

Quality of Bank of America's Small Business Loans

Express Loans

The SBA has an "Express loan" program for its 7(a) loans, which handles many of the smaller amount loans. This program makes loans to small businesses through supervised banks, which handle most with less paperwork, and requires no collateral for loans under \$25,000.¹⁶ These smaller dollar amount loans have been found more likely to default, sometimes due to less due diligence in the initial processing¹⁷—problems that mirror those encountered with subprime mortgage loans. Lenders like Bank of America became increasingly reliant on these Express Loans for their SBA commitments. In FY 2006, two-thirds of all SBA 7(a) loans nationally for all lenders were of the Express variety.¹⁸

The figure was much higher at Bank of America. From FY 2006 through FY 2008, virtually all of Bank of America's SBA 7(a) lending (over 95%) was through the SBA Express program.¹⁹ Bank of America lowered its underwriting standards for small businesses in order to write more loans, bragging that even "businesses that had existed for one day" could get a loan, rather than two years as previously required.²⁰ Bank of America also offered a "no-doc" option for loans of up to \$50,000.²¹

BofA's Reliance on Express Loans Had Dire Consequences for Its Small Business Loan Portfolio

Any effects of default were magnified with Express loans since they were guaranteed at a lower rate by the SBA. While the SBA backs 80-85% of the value of many of its other loans against default, Express loans are guaranteed to a maximum of 50%.²² Given that the majority of Bank of America's SBA 7(a) portfolio was made up of these loans with lower SBA guarantees, the losses from any small business defaults would have hit the bank even harder.

And defaults have risen. In fall 2008, Bank of America announced that its small business default rate had doubled to match the national rate and possibly exceed it, going from about 6% in 2007 to nearly 12% (annualized) in 2008.²³ Bank of America's Chief Financial Officer Joe Price described the bank's small business lending as performing more like consumer debt than commercial lending.²⁴ CEO Ken Lewis more bluntly called Bank of America's SBA loan portfolio "a damn disaster."²⁵

Credit Cards

Although they are among the most favorable types of loans for small businesses, SBA loans are just one way that banks make small businesses loans. Other small business lending channels include credit cards, lines of credit, and conventional bank loans without SBA guarantees.²⁶ In fact, in 2007, less than 10% of the money that banks lent to small businesses with less than \$1 million in gross revenues[‡] nationally was through the SBA 7(a) program.²⁷ At Bank of America, fewer than 3% of its lending to small businesses with under \$1 million in gross revenues in 2007 was through the SBA 7(a) program.^{§28}

The situation at Bank of America has gotten worse as the credit crisis has unfolded. In March 2009, *CNN* reported that while Bank of America had cut back on SBA loans, bank representatives said that it was "still active in other small business lending channels, including credit cards, credit lines, and loans not backed by the SBA."²⁹ But these 'other' channels are not necessarily in the best interest of small businesses.

Under the Community Reinvestment Act (CRA), banks are required to disclose the number and value of loans they make to businesses with under \$1 million in gross revenues, regardless of whether or not they are backed by the SBA. In 2007 (the most recent year for which this data is

[‡] There are different definitions for what constitutes a small business. The Community Reinvestment Act (CRA) disclosures include all business with gross revenues of \$1 million or less, which is how we define it here.

[§] We obtained Bank of America's total small business lending in 2007 by aggregating data from its CY 2007 CRA disclosure forms for Bank of America, NA and FIA Card Services, NA; FIA is the bank's credit card division.

currently available), more than 75% of Bank of America's small business loans were made through FIA Card Services, its credit card division.³⁰ Bank of America acquired FIA (previously called MBNA) in January 2006. FIA's small business loan volume increased nearly 400% between 2006 and 2007. The \$6.3 billion increase in the bank's total small business lending between 2006 and 2007 came almost entirely from the bank's credit card division.³¹

Table 6: Bank of America Lending to Businesses with Under \$1 Million in Gross Revenues³²

	2006	2007	Change
Bank of America Total	\$3.8 billion	\$10.1 billion	+\$6.3 billion
FIA Card Services	\$1.6 billion	\$7.9 billion	+\$6.3 billion
<i>% FIA Card Services</i>	<i>41.4%</i>	<i>77.7%</i>	<i>+36.3%</i>

According to My Own Small Business, a nonprofit organization that works with entrepreneurs interested in starting small businesses, credit cards typically charge small businesses 16-23% in interest, whereas SBA loans typically have 7-9% interest rates.³³

Small Bank Lending

Bank of America has also cut credit lines to smaller banks, curtailing their ability to make small business loans, and thus cutting into the very heart of the reason for the TARP bailout. Citizens First National Bank in Princeton, IL had to hand over almost two-thirds of its \$25 million in bailout money earlier this year to Bank of America. Citizens had held a \$16 million credit line for 15 years with LaSalle Bank in Chicago, which Bank of America acquired in 2007. By calling in and ending the credit line for Citizens First National, Bank of America greatly curtailed the smaller bank's ability to make the loans called for under the TARP program.³⁴

Stories of Small Businesses hurt by Bank of America credit policies

Bank of America Backing Away from LaSalle Bank Customers After the Takeover

Many of the businesses suffering through Bank of America's tightening credit terms are legacy customers it inherited when it acquired Chicago-based LaSalle Bank. The bank cut off funding to these businesses despite its initial assurances to remain a good corporate citizen.³⁵

- In December 2008, Bank of America denied new credit to Republic Windows and Doors in Chicago, forcing the company to shutter its doors and lay off more than 200 workers three weeks before Christmas. The workers took shifts at a sit-in of the company's plant demanding pay they were owed, and won the support of Americans around the country, including then President-Elect Barack Obama.³⁶ The bank ultimately extended the company a new \$1.35 million loan, apparently in response to the public pressure.³⁷ Republic had originally been a LaSalle Bank customer.³⁸

- Maurice Lenell Cooky Co. in the Chicago suburbs was another LaSalle customer forced into bankruptcy in December 2007 after Bank of America refused to extend its line of credit.³⁹
- Pennsylvania-based HPG International was forced into bankruptcy when Bank of America refused to extend the company additional financing outside of a bankruptcy proceeding.⁴⁰

Bank of America's Other Small Business Clients

Bank of America has had problematic relationships with many other small businesses as well:

- Great Lakes Home Furnishings, an award-winning furniture company in Michigan and Indiana, closed two of its three stores after Bank of America asked it to pay its mortgage debt seven years ahead of schedule even though the owners had never been delinquent on a payment. Owner Ken Machiela pointed out that the bank “seems unwilling to work with a small business so closely related to the housing market.”⁴¹
- A Kansas couple lost their advertising business when Bank of America reneged on a loan commitment. The bank modified the couple’s loan agreement in October 2001 even though they were current on all their loans. The following April, the bank demanded immediate repayment of the \$1.32 million outstanding balance on the loan. The bank eventually liquidated the couple’s personal bank accounts to pay off a credit line and hit them with \$184,000 in fees. In June 2009, a state court ruled that the bank had intentionally defrauded the couple and that its actions had starved the business of working capital, contributing to the company’s failure in 2005. The judge has ordered the bank to pay more than \$1.5 million in actual and punitive damages to the couple.
- According to Marilyn Landis, the Chair of the National Small Business Association, who is also the president of Basic Business Concepts in Pittsburgh, Bank of America increased the interest rate for new purchases on her business credit card from 4% to 27% while her company was expanding. Landis says that she was forced to rely on credit cards in the first place because small business loans were becoming unavailable.⁴²
- The owners of La Guadalupana Wholesale Co., a family-owned tamale factory in Chicago, say Bank of America had pledged to finance an expansion, which the bank denies. When the owners fell behind on payments during a slow season, Bank of America foreclosed on their factories and sent court-approved letters to customers saying any bills owned to the company should be sent directly to the bank.⁴³

Appendix: Bank of America SBA 7(a) Lending by State, FY 2007-2009

State	FY 2007 # of Loans	FY 2007 Loan Value	FY 2008 # of Loans	FY 2008 Loan Value	FY2009 (thru 4/30) # of Loans	FY 2009 (thru 4/30) Loan Value
CA	2,304	\$76,069,600	607	\$18,752,400	53	\$2,884,000
FL	2,095	\$65,981,500	652	\$24,680,200	28	\$1,030,000
NY	1,073	\$41,994,000	368	\$12,674,500	22	\$678,000
TX	697	\$17,148,900	183	\$5,491,500	18	\$620,000
WA	555	\$12,889,600	353	\$7,835,700	15	\$425,000
GA	673	\$20,162,000	140	\$3,809,200	13	\$375,000
NJ	555	\$18,060,300	179	\$5,668,800	13	\$433,000
NC	308	\$9,944,200	75	\$2,513,300	10	\$330,000
MA	286	\$6,481,900	54	\$1,557,100	9	\$205,000
MD	312	\$7,984,400	86	\$2,313,000	8	\$295,000
VA	267	\$7,255,400	61	\$1,960,400	7	\$160,000
NV	160	\$4,445,400	46	\$1,418,000	6	\$219,000
IL	163	\$6,175,300	66	\$8,731,200	5	\$495,000
MI	8	\$229,500	47	\$12,313,026	5	\$150,000
CT	170	\$4,799,700	68	\$1,898,700	4	\$165,000
OR	77	\$2,127,300	33	\$769,700	3	\$80,000
AZ	234	\$6,587,000	93	\$2,889,800	2	\$50,000
PA	142	\$5,423,400	34	\$1,067,200	2	\$75,000
MO	133	\$3,993,900	24	\$598,600	2	\$65,000
TN	112	\$3,071,000	26	\$719,000	2	\$70,000
OK	43	\$1,265,400	10	\$170,500	2	\$90,000
NM	37	\$732,500	11	\$247,800	2	\$60,000
ID	55	\$1,890,200	19	\$401,000	1	\$20,000
KS	39	\$784,400	19	\$487,000	1	\$25,000
DC	26	\$881,000	12	\$253,000	1	\$50,000
IA	17	\$493,800	4	\$60,000	1	\$25,100
OH	6	\$210,000	1	\$7,300	1	\$150,000
IN	2	\$85,000	1	\$20,000	1	\$85,000
CO	1	\$10,000			1	\$94,300
ND					1	\$74,000
AR	49	\$1,437,200	9	\$194,000		
NH	44	\$1,209,100	14	\$390,500		
RI	36	\$850,400	6	\$205,000		
ME	29	\$722,200	12	\$323,000		
MS	3	\$82,000				
UT	3	\$105,000	1	\$10,000		
AL	2	\$81,000				
DE	2	\$45,000	3	\$45,000		
AK	1	\$100,000				
LA	1	\$35,000				
NE	1	\$35,000				
WV	1	\$35,000				
WY	1	\$35,000	1	\$35,000		
MT			1	\$31,000		
Total:	10,878	\$335,728,500	3,354	\$121,408,426	241	\$9,532,400

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- ¹ BofA Press Release, 29 Oct 2007, <http://newsroom.bankofamerica.com/index.php?s=43&item=7906>.
- ² SBA Business Loan Approval (Gross \$) YTD Activity Report, FY 2006-2008.
- ³ BofA Press Release, 29 Oct 2007, <http://newsroom.bankofamerica.com/index.php?s=43&item=7906>.
- ⁴ SBA Lender Rankings, FY 2004-2009; data obtained from SBA.
- ⁵ SBA Lender Rankings, FY 2004-2009; data obtained from SBA.
- ⁶ SBA Lender Rankings, FY 2004-2009; data obtained from SBA.
- ⁷ Bank of America, *Lending & Investing Initiative Quarterly Impact Report*, 1Q09, p. 5, <http://ahead.bankofamerica.com/wp-content/uploads/2009/04/quarterlyimpactreportq109.pdf>.
- ⁸ SBA Lender Rankings, FY 2004-2009; data obtained from SBA.
- ⁹ SBA Lender Rankings, FY 2004-2009; data obtained from SBA.
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- ¹⁴ *American Banker*, 09 Jun 2009, <http://www.americanbanker.com/article.html?id=20090608NG5KMZBC&email=y>.
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- ¹⁷ *Franchise Times*, Apr 2009, <http://www.franchisetimes.com/content/story.php?article=01308>.
- ¹⁸ SBAExpress Loan Approval Volume by Lender, FY 2006-2009 and SBA Lender Rankings, FY 2004-2009; data obtained from SBA.
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- ²⁰ *Wall Street Journal*, 03 Feb 2009, <http://online.wsj.com/article/SB123360400436540445.html>.
- ²¹ *Wall Street Journal*, 03 Feb 2009, <http://online.wsj.com/article/SB123360400436540445.html>.
- ²² Small Business Administration website, <http://www.sba.gov/services/financialassistance/7alenderprograms/sbaexpress/index.html>, Accessed on 17 Jun 2009.
- ²³ *Wall Street Journal*, 03 Feb 2009, <http://online.wsj.com/article/SB123360400436540445.html>.
- ²⁴ *San Francisco Business Journal*, 10 Oct 2008, <http://www.bizjournals.com/sanfrancisco/stories/2008/10/13/story2.html>.
- ²⁵ *Wall Street Journal*, 03 Feb 2009, <http://online.wsj.com/article/SB123360400436540445.html>.
- ²⁶ "How to Finance Your Business," MyOwnBusiness.org, <http://www.myownbusiness.org/s8/>.
- ²⁷ CRA National Aggregate Table for 2007 and SBA Lender Rankings, FY 2004-2009; data obtained from SBA.
- ²⁸ Bank of America, NA CRA Disclosure for Small Business Lending, 2007; FIA Card Services CRA Disclosure for Small Business Lending, 2007; SBA Lender Rankings, FY 2004-2009 (data obtained from SBA).
- ²⁹ *CNN*, 23 Mar 2009, http://money.cnn.com/2009/03/23/smallbusiness/small_biz_bank_lending.smb/index.htm.
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- ³⁴ *Crain's Chicago Business*, Vol. 32, No. 13, http://www.chicagobusiness.com/cgi-bin/article.pl?article_id=31552&seenIt=1.
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- ³⁶ *TIME*, 08 Dec 2008, <http://www.time.com/time/nation/article/0,8599,1865226,00.html>.
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- ³⁸ *Chicago Sun-Times*, 11 Dec 2008.
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- ⁴⁰ *TheDeal.com*, 27 Jan 2009.
- ⁴¹ *South Bend Tribune*, 20 Feb 2009.

⁴² *Cards and Payments Magazine*, Feb 2009.

⁴³ *Wall Street Journal*, 14 Apr 2009, <http://online.wsj.com/article/SB123966623199215191.html>.