ACCESS TO CAPITAL:

Milwaukee's Continuing Small Business Lending Gaps

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Small businesses constitute the backbone of the U.S. economy. The roughly 24 million small businesses nationwide employ 52 percent of the private workforce, contribute 51 percent of private sector output, create the majority of new jobs, and produce 55 percent of innovations. These businesses, and the U.S. economy generally, depend on access to credit, particularly from commercial banks, in order to survive and thrive (Office of Advocacy, U.S. Small Business Administration 1999).

Yet small businesses, and particularly small minority-owned businesses in urban communities, often experience difficulty in obtaining small business loans. Recent evidence indicates that minority-owned firms receive fewer and smaller loans than white-owned firms with identical traits (Cavalluzzo, Cavalluzzo, and Wolken 1999; Blanchflower, Levine, and Zimmerman 1998; Ando 1988; Bates 1989, 1997). Research conducted by the National Bureau of Economic Research found in a 1993 survey that black business owners were three times as likely as whites to be turned down for small business loans. Among firms that were comparable in terms of credit rating, age, size, geographic location, and experience of owners, black-owned firms were twice as likely to be rejected and among those firms that were approved, black ownership paid an average of one percent more in interest (Blanchflower, Levine, and Zimmerman 1998). In addition to these national studies, similar findings have been reported from local case studies of small business lending (Conta and Associates 1990; Immergluck and Mullen 1997; Immergluck and Wiles 2000). Under the federal Community Reinvestment Act (CRA) depository institutions are required to affirmatively ascertain and be responsive to the credit needs of their entire service areas, including low- and moderate-income communities. New regulations promulgated in 1995 require large commercial banks and thrift institutions to report annually small business and small farm lending by geographic location to their regulators (12 C.F.R. §25.42(a); Marsico 1996). Lending activity for the 1996 calendar year was reported to federal financial regulatory agencies and in October 1997 small business and small farm lending data were released to the public for the first time by the Federal Financial Institutions Examination Council (FFIEC). The most recent small business lending data currently available are for the 1999 calendar year.

This study provides a detailed review of small business lending in Milwaukee, Wisconsin and illustrates how this new data set can be utilized to assess small business lending in virtually any local market. Milwaukee is a fairly typical industrial community that has been hit hard by decades of disinvestment but which also has been the location of many successful community reinvestment initiatives in recent years (Squires and O'Connor 2001). Previous research found that among the nation's fifty largest metropolitan areas Milwaukee had the smallest share of small business loans going to low- and moderate-income areas (Norman 1998). Lending to small businesses, that is firms with assets below $1 million, was also found to be below nationwide levels. Small business lending has also been concentrated in white communities with black and Hispanic communities receiving relatively small shares of such loans and loan dollars. But lenders vary dramatically in Milwaukee in terms of the distribution of their small business loans by neighborhood income level (Squires and O'Connor 1999). This study examines changes in small business lending patterns in Milwaukee between 1996, when these data first became available, and 1999, the most recent data that are available.

Data and Methodology

Under the new CRA rules issued in 1995 banks with assets totaling more than $250 million or affiliated with a holding company totaling more than $1 billion in assets are required to report small business and small farm loan information to their regulatory agency beginning with the 1996 calendar year. That information includes the number, dollar volume, and census tract of business loans for less than $1 million and farm loans up to $500,000. Lenders are also required to report lending activity to businesses and farms with annual revenues below $1 million, an approximation of lending to small businesses. In other words, not all small business loans go to small businesses.

Data made available by the FFIEC report aggregate lending (i.e., loans made by all lenders combined) by census tract by county. But individual lender disclosure reports do not provide data at the tract level. For individual lenders data are reported by aggregations of census tracts according to median family income levels of those tracts. The categories used in this analysis are the following: 1) low-income (median family income in the tract is less than 50 percent of the metropolitan area median family income); 2) moderate income (50-79 percent); 3) middle income (80-119 percent); and 4) upper income (120 percent or more).

This study examines small business loans in the four-county Milwaukee metropolitan statistical area

(MSA). The four counties are Milwaukee, Ozaukee, Washington, and Waukesha. Small business loans are defined as those whose original amounts are $1 million or less and which were secured by nonfarm or nonresidential real estate. Generally this includes loans that meet the definition of "loans to small business" that are reported in Call Reports and Thrift Financial Reports (Federal Financial Institutions Examination Council 1996: 13).

Nationwide the number of reporting institutions declined from 2,078 in 1996 to 1,911 in 1999. But the number of reported loans increased from 2.4 million to 3.2 million and the number of reported loan dollars grew from $147 billion to $173 billion (Federal Financial Institutions Examination Council 1997 and 2000). Since smaller institutions are not covered by these reporting requirements, not all small business lending is included. But among depository institutions, these reports account for approximately two-thirds of all small business lending. These loans include originations and purchases with originations accounting for more than 98 percent of the total in 1996 and 96 percent in 1999. A slight majority of these loans went to businesses with annual revenues below $1 million in 1996 with approximately 60 percent of these loans going to such small businesses in 1999 (Federal Financial Institutions Examination Council 1997: 5,6 and 2000: 9; Greenspan 1998: 3). In Milwaukee there were 15,181 small business loans totaling just under $1.5 billion with originations accounting for virtually all (99.8 percent) of them in 1996. The number of loans increased to 17,356 and the number of loan dollars grew to just over $1.6 billion in 1999 with originations accounting for 99.6 percent in 1999. The share of loans going to small businesses declined slightly from 52.2 percent to 50.0 percent.

There are several limitations to these data. First, the location reported for the borrower may not be the same location that is supported with the borrowed funds. A business may have several locations and some or all of the borrowed funds may be invested in neighborhoods other than the one that is reported to the federal regulator as the main address of the organization. Most businesses, however, have only one location so the extent of misclassification is minimal. Second, no information is provided on credit demand. That is, unlike mortgage loans reported under the Home Mortgage Disclosure Act (HMDA), there is no information on the number or types of businesses that applied for a loan. Consequently, there is no information on the disposition (e.g., approval or denial, reasons for denial) of applications for small business loans. Third, again unlike the HMDA data, there is no information on the race, gender, or income of those receiving business loans. Fourth, only loan originations and purchases are reported. Outstanding loans made in previous years are not included so total lending activity in a given area by a particular institution may not be fully accounted for in these reports. Finally, business lending activity is reported only by census tract. Once again unlike HMDA data, individual small business loan data are not reported. Given the limited information about the characteristics of borrowers and the nature of demand for small business loans as well as the limited information on the disposition of the loan and the nature of the supply for such credit, it is important to cautiously interpret any reported differences in the distribution of small business loans (Bostic and Canner 1998).

The following section examines aggregate small business loans and loan dollars by census tract income level for financial institutions doing business in the Milwaukee metropolitan area and compares those patterns to all reporting institutions nationwide in 1996 and 1999. The ratio of loans and loan dollars per person and per business are also presented by tract income level. Loans and loan dollars to businesses with annual revenues of less than $1 million by tract income level are then presented. Business counts were generated by Dun and Bradstreet and provided by the Board of Governors of the Federal Reserve System. Aggregate lending activity on the part of financial institutions serving the Milwaukee area is then examined by racial composition of neighborhoods. Finally, comparative data are provided for each lender that made more than 200 business loans in Milwaukee in both years. This sample includes 14 lenders which accounted for approximately 70 percent of all reported small business loans and loan dollars in the metropolitan area in both years.

Findings

Four basic findings emerge from this analysis. First, lending activity in Milwaukee is concentrated in middle- and upper-income areas, and is more concentrated in such communities than is the case nationwide. These disparities have moderated, but only slightly, in recent years. Second, lending to small businesses (i.e., the proportion of all small business loans and loan dollars that went to firms with assets below $1 million) in Milwaukee is below nationwide levels, particularly in low-income areas, and these gaps have expanded in recent years. Third, small business lending is consistently concentrated in predominantly white communities with black and Hispanic communities receiving relatively small shares of such loans and loan dollars. More significantly, gaps between black and white communities have grown considerably. And fourth, Milwaukee area lenders vary substantially in their distribution of small business loans by neighborhood income level.

Small Business Lending by Neighborhood Income Level

Total small business lending grew much more slowly in Milwaukee than nationwide between 1996 and 1999. And in Milwaukee small business lending has consistently been concentrated in middle and upper income neighborhoods with lending in low- and moderate-income areas below national averages in 1996 and 1999. However, this gap has closed modestly during these years.

The number of small business loans in Milwaukee grew by 14.3 percent compared to 34.0 percent for the nation as a whole. The growth in small business loan dollars was 7.3 percent in Milwaukee and 17.4 percent nationwide (see Table 1). The share of loans going to low- and moderate-income census tracts was approximately 13 percent in Milwaukee and 19 percent nationwide in these years. (These census tracts account for just over 25 percent of the population of the Milwaukee metropolitan area and just under 20 percent of all small businesses.)

Table 1. Small Business Lending by Neighborhood Income Level
Total Loans and Total Loans Dollars
Milwaukee MSA and the U.S., 1996-1999

	Total Loans[1]			**Total Loan Dollars (in thousands)**		
	1996	**1999**	**Percent Change**	**1996**	**1999**	**Percent Change**
Low Income[2] < 50%						
Milwaukee	834	980	17.5	81,729	88,045	7.7
U.S.	113,098	117,717	4.1	8,164,017	8,632,378	5.7
Moderate Income 50-79%						
Milwaukee	1,037	1,401	35.1	87,757	97,666	11.3
U.S.	384,949	471,725	22.5	23,480,138	26,820,033	14.2
Middle Income 80-119%						
Milwaukee	7.597	8,055	6.0	743,557	745,652	0.3
U.S.	1,193,181	1,622,600	36.0	68,758,922	81,294,791	18.2
Upper Income = > 120%						
Milwaukee	5,697	6,707	17.7	546,113	616,528	12.9
U.S.	711,273	1,010,913	42.1	45,482,023	54,704,519	20.3
Income or Tract Unknown						

Milwaukee	16	213	1231.3	3,004	21,135	603.6
U.S.	12,304	12,999	5.6	1,095,384	1,133,283	3.5
Total						
Milwaukee	15,181	17,356	14.3	1,462,160	1,569,026	7.3
U.S.	2,414,805	3,235,954	34.0	146,980,484	172,585,004	17.4

[1]Loans and loan dollars include originations and purchases.
[2]Neighborhood income level is based on Milwaukee MSA and U.S. median-income from 1990 U.S. Census Bureau data.
Source: FFIEC CRA Aggregate & Disclosure, Software Version, 1.0a Copyright 1997 and 1.30 Copyright 2000.

Comparable figures for loan dollars were just under 12 percent for Milwaukee and just under 22 percent for the United States (see Table 2). These numbers reflected a very slight increase in lending activity to these neighborhoods in Milwaukee and a slight decrease for the nation as a whole, but a substantial gap persists.

**Table 2. Small Business Lending by Neighborhood Income Level
Milwaukee MSA and the U.S., 1996-1999**

	Percent of all Loans			**Percent of all Loan Dollars**		
	1996	**1999**	**Change**	**1996**	**1999**	**Change**
Low Income[1]						
< 50%						
Milwaukee	5.5	5.6	0.1	5.6	5.6	0.0
U.S.	4.7	3.6	-1.1	5.6	5.0	-0.6
Moderate Income						
50-79%						
Milwaukee	6.8	8.1	1.3	6.0	6.2	0.2
U.S.	15.9	14.6	-1.3	16.0	15.5	-0.5
Middle Income						
80-119%						
Milwaukee	50.0	46.4	-3.6	50.8	47.5	-3.3
U.S.	49.9	50.1	0.7	46.8	47.1	0.3
Upper Income						
= > 120%						
Milwaukee	37.5	38.6	1.1	37.3	39.3	2.0
U.S.	29.5	31.2	1.7	30.9	31.7	0.8
Income or Tract Unknown						
Milwaukee	0.1	1.2	1.1	0.2	1.3	1.1
U.S.	0.5	0.4	-0.1	0.7	0.7	0.0
Total[2]						
Milwaukee	99.9	99.9		99.9	99.9	
U.S.	100.0	99.9		100.0	100.0	

[1]Neighborhood income level is based on Milwaukee MSA and U.S. median-income from 1990 U.S. Census Bureau data.
[2]Percentage does not add up to 100 due to rounding.
Source: FFIEC CRA Aggregate & Disclosure, Software Version, 1.0a Copyright 1997 and 1.30 Copyright 2000.

Ratios of loans per person and per business were approximately the same in Milwaukee and the U.S. generally though loan dollars per person and per business were much higher in Milwaukee. Unfavorable gaps persist in low- and moderate-income areas though, once again, they appear to be closing.

In Milwaukee, loans per 100 businesses grew from 32 to 37 but the increase was much greater nationwide going from 30 to 40. In low- and moderate-income areas loans per 100 businesses grew from 40 to 53 (a growth rate of 32.5 percent) in Milwaukee and from 50 to 57 (a growth rate of 14.0 percent) nationwide. Even among middle- and upper- income areas loans per 100 businesses were lower in Milwaukee than nationwide in 1999, but this was not the case in 1996. So gaps persist, though at a slightly smaller rate, in low- and moderate-income areas, and new gaps emerged in the wealthier neighborhoods.

Loan dollars per 100 businesses grew from $3,070 to $3,335 in Milwaukee and from $1,816 to $2,131 for the U.S. So loan dollars per business were 69 percent higher in Milwaukee than the nation generally in 1996 and 56 percent greater in 1999. But this is not the case in low- and moderate-income areas. For example, in Milwaukee's low-income census tracts the ratio of loan dollars per 100 businesses increased from $1,950 to $2,255 while nationwide the increase was from $1,800 to $1,903. So loan dollars per business were just 8 percent higher in Milwaukee in low- and moderate-income tracts in 1996 and 18.5 percent higher in 1999 than in comparable neighborhoods nationwide. This did represent a 15.6 percent increase in Milwaukee compared to an increase of 5.7 percent nationwide in such communities (see Table 3 and Figure 1).

A slightly different picture emerges in examining loan dollars per 1,000 persons. This ratio was approximately $1,000 in Milwaukee in both years and between $582 and $684 nationwide. But in low- and moderate-income tracts this ratio was considerably smaller in Milwaukee and, in fact, was well below the national figures. In low-income areas this figure changed from $449 in 1996 to $484 in 1999 compared to a nationwide increase from $661 to $699. (By contrast, loan dollars per 1,000 persons exceeded $1,100 in middle-income areas and $1,400 in upper income areas in Milwaukee during these years compared to

Table 3. Small Business Lending by Neighborhood Income Level
Loans and Loan Dollars per 100 Businesses
Milwaukee MSA and the U.S., 1996-1999

	Number of Loans per 100 Businesses			Loan Dollars per 100 Businesses		
	1996	1999	Percent Change	1996	1999	Percent Change
Low Income[1] < 50%						
Milwaukee	20	25	25.0	1,950	2,255	15.6
U.S.	25	26	4.0	1,800	1,903	5.7
Moderate Income 50-79%						
Milwaukee	20	28	40.0	1,675	1,958	16.9
U.S.	25	31	24.0	1,542	1,771	14.9
Middle Income 80-119%						
Milwaukee	34	36	5.9	3,280	3,323	1.3
U.S.	30	40	33.3	1,718	2,028	18.0
Upper Income = > 120%						
Milwaukee	37	43	16.2	3,561	3,971	11.5
U.S.	34	48	41.2	2,185	2,618	19.8
Income or Tract Unknown						
Milwaukee	8	113	1312.5	1,573	11,242	614.7
U.S.	38	32	-15.8	3,381	2,798	-17.2
Total						
Milwaukee	32	37	15.6	3,070	3,335	8.6
U.S.	30	40	33.3	1,816	2,131	17.3

[1]Neighborhood income level is based on Milwaukee MSA and U.S. median-income from 1990 U.S. Census Bureau data.
Source: FFIEC CRA Aggregate & Disclosure, Software Version, 1.0a Copyright 1997 and 1.30 Copyright 2000.

roughly $550 and $800 nationwide. See Table 4, Figure 1, and Maps 1 and 2). In other words, when comparing Milwaukee to the nation generally, Milwaukee fares better in loan dollars per businesses even in low- and moderate-income areas. But Milwaukee fares worse when the comparison is based on loans per persons. The fact that Milwaukee fares more favorably compared to the nation as a whole when businesses rather than persons is the point of comparison (and this is particularly the case in low- and moderate-income areas) suggests a lower level of entrepreneurship in these communities in Milwaukee. That is there may be

Table 4. Small Business Lending by Neighborhood Income Level
Loans and Loan Dollars per 1,000 Persons
Milwaukee MSA and the U.S., 1996-1999

	Loans per 1,000 Persons			Loan per 1,000 Persons		
	1996	1999	Percent Change	1996	1999	Percent Change
Low Income[1] < 50%						
Milwaukee	5	5	0.0	449	484	7.8
U.S.	9	10	11.1	661	699	5.7
Moderate Income 50-70%						
Milwaukee	5	7	40.0	454	501	10.4
U.S.	8	10	25.0	503	575	14.3
Middle Income 80-119%						
Milwaukee	11	12	9.1	1,114	1,117	0.3
U.S.	9	12	33.3	512	606	18.4
Upper Income = > 120%						
Milwaukee	15	17	13.3	1,407	1,594	13.3
U.S.	12	17	41.7	774	931	20.3
Income or Tract Unknown						
Milwaukee	11	148	1245.5	2,098	14,759	603.5
U.S.	24	26	8.3	2,173	2,249	3.5
Total						
Milwaukee	11	12	9.1	1,020	1,096	7.5
U.S.	10	13	30.0	582	684	17.5

[1]Neighborhood income level is based on Milwaukee MSA and U.S. median-income from 1990 U.S. Census Bureau data.
Source: FFIEC CRA Aggregate & Disclosure, Software Version, 1.0a Copyright 1997 and 1.30 Copyright 2000.

fewer small businesses, or fewer that qualify for credit, relative to the size of the population in Milwaukee than elsewhere.

Overall, small business lending in Milwaukee continues to be concentrated in middle- and upper- income census tracts, and to a greater extent than is the case nationwide. But to some extent the gaps are moderating.

NOTE: PLEASE REFER TO HARD COPY OF REPORT TO VIEW MAPS 1 & 2

Loans to Small Businesses

The share of loans and loan dollars going to small businesses (i.e., firms with assets of $1 million or less) has been consistently smaller in Milwaukee than nationwide, and the gap increased between 1996 and 1999. These disparities were greatest in low- and moderate-income areas.

Total loans to small businesses grew by 9.7 percent in Milwaukee and 45.3 percent nationwide while loan dollars to small businesses grew by just 1.4 percent locally and 34.2 percent for the nation generally (see Table 5). The percentage of these loans that went to small businesses actually declined in Milwaukee by 2.2 percent while increasing nationwide by 4.7 percent. In Milwaukee the share of loan dollars that went to small firms dropped by 2.0 percent compared to a nationwide increase of 6.1 percent (see Table 6).

While these disparities persisted at all income levels, they were greatest in low- and moderate-income communities. The share of loans going to small firms dropped by 3.9 percent and 9.9 percent in low- and moderate-income areas, stayed virtually the same in moderate income census tracts, and dropped by 2.4 percent in upper income areas in Milwaukee. Nationwide, these figures increased in all areas with the increase being the greatest in low- and moderate-income areas. Nationwide the increases in low- and moderate-income areas were 8.9 percent and 5.7 percent compared to 3.4 percent and 5.4 percent in middle- and upper-income areas. The share of loan dollars going to small firms also declined in Milwaukee at each income level while for the nation generally the share of loan dollars going to small businesses increased at each income level.

A relatively smaller number of small businesses or businesses that apply and qualify for credit in Milwaukee compared to the nation generally might account, in part, for these gaps in any given year. Why the share of loans and loan dollars to small businesses should decline over time relative to the nation, however, is more problematic.

Table 5. Small Business Lending by Neighborhood Income Level
Total Loans and Total Loan Dollars to Firms with Assets of $1 Million or Less
Milwaukee MSA and the U.S., 1996-1999

	Total Loans			**Total Loan Dollars (in thousands)**		
	1996	**1999**	**Percent Change**	**1996**	**1999**	**Percent Change**
Low Income[1]						
< 50%						
Milwaukee	314	330	5.1	21,597	22,098	2.3
U.S.	52,957	65,555	23.8	2,885,809	3,422,514	18.6
Moderate Income						
50-79%						
Milwaukee	568	629	10.7	34,073	32,254	-5.3
U.S.	203,238	275,992	35.8	9,357,294	11,857,476	26.7

Middle Income 80-119% **Milwaukee** **U.S.**	3,969 694,871	4,198 998,776	5.8 43.7	275,912 30,427,882	269,279 40,910,448	-2.4 34.5
Upper Income = > 120% **Milwaukee** **U.S.**	3,060 394,097	3,442 614,564	12.5 55.9	212,016 19,638,266	223,930 27,416,040	5.6 39.6
Income or Tract Unknown **Milwaukee** **U.S.**	8 4,661	86 6,983	975.0 49.8	578 274,087	4,208 375,849	628.0 37.1
Total **Milwaukee** **U.S.**	7,919 1,349,824	8,685 1,961,870	9.7 45.3	544,176 62,583,338	551,769 83,982,327	1.4 34.2

[1]Neighborhood income level is based on Milwaukee MSA and U.S. median-income from 1990 U.S. Census Bureau data.
Source: FFIEC CRA Aggregate & Disclosure, Software Version, 1.0a Copyright 1997 and 1.30 Copyright 2000.

Lending Activity By Neighborhood Racial Composition in Milwaukee

In the Milwaukee metropolitan area lending activity has consistently been concentrated in predominantly white communities. These gaps generally grew during these years, in some cases considerably.

Table 6. Small Business Lending by Neighborhood Income Level
Percent of all Loans and Loan Dollars to Firms with Assets of $1 Million or Less
Milwaukee MSA and the U.S., 1996-1999

	Percent of all Loans			**Percent of all Loan Dollars**		
	1996	**1999**	**Change**	**1996**	**1999**	**Change**
Low Income[1] < 50% **Milwaukee** **U.S.**	37.6 46.8	33.7 55.7	-3.9 8.9	26.4 35.3	25.1 39.6	-1.3 4.3
Moderate Income 50-79% **Milwaukee** **U.S.**	54.8 52.8	44.9 58.5	-9.9 5.7	38.8 39.9	33.0 44.2	-5.8 4.3
Middle Income 80-119% **Milwaukee** **U.S.**	52.2 58.2	52.1 61.6	-0.1 3.4	37.1 44.3	36.1 50.3	-1.0 6.0
Upper Income = > 120%						

Milwaukee **U.S.**	53.7 55.4	51.3 60.8	-2.4 5.4	38.8 43.2	36.3 50.1	-2.5 6.9
Income or Tract Unknown **Milwaukee** **U.S.**	50.0 37.9	40.4 53.7	-9.6 15.8	19.2 25.0	19.9 33.2	0.7 8.2
Total **Milwaukee** **U.S.**	52.2 55.9	50.0 60.6	-2.2 4.7	37.2 42.6	35.2 48.7	-2.0 6.1

[1]Neighborhood income level is based on Milwaukee MSA and U.S. median-income from 1990 U.S. Census Bureau data.
Source: FFIEC CRA Aggregate & Disclosure, Software Version, 1.0a Copyright 1997 and 1.30 Copyright 2000.

The number of loans to predominantly white neighborhoods (where blacks constituted less than 10 percent of the population) increased by 8.9 percent but declined in black neighborhoods (where blacks accounted for more than 70 percent of the population) by 10.2 percent. Loan dollars in white areas increased by 4.6 percent and declined in black areas by 47.0 percent. By far the biggest increase was in areas that were between 10 percent and 70 percent black. Loans increased by 62.0 percent and loan dollars grew by 27.7 percent in these neighborhoods. Consequently, as a percentage of all loans, the share in predominantly white and black areas declined slightly. A different picture emerges for Hispanics. In both predominantly white (less than 5 percent Hispanic) and Hispanic areas (greater than 25 percent Hispanic) the number of loans increased about the same (13.9 percent and 12.1 percent) but the number of loan dollars increased faster in Hispanic areas (12.5 percent) than in white neighborhoods (5.9 percent - see Tables 7 and 8 and Figure 2).

More revealing are loans and loan dollars per 1,000 persons. The ratio of loans per 1,000 persons varied from 13 in predominantly white areas to 2 in predominantly black areas in 1996. This gap increased moderately to 14 to 2 in 1999. On this measure, lending activity was more than six times greater in white than in black neighborhoods in 1996 and seven times greater in 1999. Similarly, in 1996 white neighborhoods had almost three times as much lending activity as Hispanic neighborhoods and approximately two and one-half times as much in 1999.

In examining loan dollars a different pictures emerge. The Hispanic gap remained at approximately 3 to 1 as the ratio of loan dollars per thousand persons in white areas compared to Hispanic areas went from $1,056/$330 to $1,126/$372. But for blacks the gap grew substantially. The white/black ratio of loan dollars per thousand persons went from 5.5 in 1996 ($1,192/$215) to 10.2 in 1999 ($1,247/$122). This reflected a decline of 43.3 percent in the loan dollars per thousand persons in predominantly black areas (from $215 to $122) compared to an increase of 4.6 percent in white ($1,192 to $1,247) and 27.7 percent ($668 to $853) in integrated areas (see Table 9, Figure 2, and Maps 3,4,5 and 6).

Lending activity per business by racial composition could not be calculated because the data on the number of small businesses were not available at the individual census tract level. This information was made available only by aggregate census tracts based on income level. From the available data, it is impossible to determine the number of businesses in a group of census tracts characterized by their racial composition.

Racial gaps not only persist but, in comparing black and white communities, they have grown larger. On some measures they have moderated slightly for Hispanics. But on several key measures the white/black gap increased substantially.

Table 7. Small Business Lending by Neighborhood Racial Composition
Total Loans and Total Loan Dollars
Milwaukee MSA, 1996-1999

	Total Loans			Total Dollars (in thousands)		
	1996	**1999**	**Percent Change**	**1996**	**1999**	**Percent Change**
< 10% Black[1]	13,600	14,816	8.9	1,289,091	1,348,676	4.6
10-70% Black	1,256	2,035	62.0	143,934	183,778	27.7
> 70% Black	325	292	-10.2	29,135	15,437	-47.0
Total	15,181	17,143	12.9	1,462,160	1,547,891	5.9
< 5% Hispanic	13,907	15,841	13.9	1,338,920	1,418,388	5.9
5-25% Hispanic	1,134	1,145	1.0	111,733	116,555	4.3
> 25% Hispanic	140	157	12.1	11,507	12,948	12.5
Total	15,181	17,143	12.9	1,462,160	1,547,891	5.9

[1]Racial composition of neighborhood is based on Milwaukee MSA 1990 U.S. Census Bureau data.
Source: FFIEC CRA Aggregate & Disclosure, Software Version, 1.0a Copyright 1997 and 1.30 Copyright 2000.

Table 8. Small Business Lending by Neighborhood Racial Composition
Milwaukee MSA, 1996-1999

	Percent of all Loans			Percent of all Loan Dollars		
	1996	**1999**	**Change**	**1996**	**1999**	**Change**
< 10% Black[1]	89.6	86.4	-3.2	88.2	87.1	-1.1
10-70% Black	8.3	11.9	3.6	9.8	11.9	2.1
> 70% Black	2.1	1.7	-0.4	2.0	1.0	-1.0
Total	100.0	100.0		100.0	100.0	
< 5% Hispanic	91.6	92.4	0.8	91.6	91.6	0.0
5-25% Hispanic	7.5	6.7	-0.8	7.6	7.5	-0.1
> 25% Hispanic	0.9	0.9	0.0	0.8	0.8	0.0
Total	100.0	100.0		100.0	99.9	

[1]Racial composition of neighborhood is based on Milwaukee MSA 1990 U.S. Census Bureau data.
Source: FFIEC CRA Aggregate & Disclosure, Software Version, 1.0a Copyright 1997 and 1.30 Copyright 2000.

Figure 3

Table 9. Small Business Lending by Neighborhood Racial Composition
Loans and Loan Dollars per 1,000 Persons
Milwaukee MSA, 1996-1999

	Number of Loans per 1,000 Persons			Loan Dollars per 1,000 Persons		
	1996	**1999**	**Percent Change**	**1996**	**1999**	**Percent Change**
< 10% Black[1]	13	14	7.7	1,192	1,247	4.6
10-70% Black	6	9	50.0	668	853	27.7
> 70% Black	2	2	0.0	215	122	-43.3
Total	11	12	9.1	1,020	1,088	6.1
< 5% Hispanic	11	13	18.2	1,056	1,126	6.6
5-25% Hispanic	8	9	12.5	863	912	5.7
> 25% Hispanic	4	5	25.0	330	372	12.7
Total	11	12	9.1	1,020	1,088	6.7

[1]Racial composition of neighborhood is based on Milwaukee MSA 1990 U.S. Census Bureau data.
Source: FFIEC CRA Aggregate & Disclosure, Software Version, 1.0a Copyright 1997 and 1.30 Copyright 2000.

Variations Among Milwaukee Area Lenders

Differences between Milwaukee area lenders and lenders nationwide pale in comparison to disparities among financial institutions the Milwaukee metropolitan area. Just as some mortgage lenders have far surpassed their colleagues in levels of service provided to lower-income communities (Squires and O'Connor 1998), business lending in these communities also varied dramatically among lenders.

As indicated above, just under six percent of loans and loan dollars went to low-income census tracts in Milwaukee in 1996 and 1999. Low- and moderate-income areas combined received approximately 14 percent of loans and 12 percent of loan dollars in these years. Among the 14 lenders who

NOTE: PLEASE REFER TO HARD COPY OF REPORT TO VIEW MAPS 3-6

made at least 200 small business loans in 1996 and 1999, the percentage of loans going to low-income areas ranged from zero to 12.9 percent. Three lenders were below the 3 percent level in both years. Combining low- and moderate-income areas, the range was from zero to 27.5 percent (see Table 10). For loan dollars the range was from zero to 10.3 percent in low-income areas. Three lenders were at or below 1 percent. Combining low- and moderate-income areas the range was from zero to 23.3 percent (see Table 11).

Rates of change varied as well. Five lenders had a higher percentage of their loans in low- and moderate-income areas in 1999 than was the case in 1996 with eight exhibiting declines. The largest increase in low- and moderate-income areas was 12.2 percentage points (from 15.3 percent to 27.5 percent for Firstar) while the biggest drop was 17.9 percentage points (from 26.7 percent to 8.8 percent for M & I Northern). For loan dollars six had an increase to low-income tracts and seven had increases to low- and moderate-income areas. The largest increase to low- and moderate-income areas was 8.8 percentage points (from 7.0 percent to 15.8 percent for M&I Marshall & Ilsley) while the steepest decline was 14.3 percentage points (from 23.3 percent to 9.0 percent for M & I Northern). One lender, M & I First National Bank, made zero loans to low- or moderate-income areas in both years.

Loans to small businesses varied as well, with the majority making between 50 percent and 80 percent of their loans to such businesses in both years. Most lenders made between 30 percent and 70 percent of their loan dollars to small firms in these years. Just five provided a larger share of both their loans and loan dollars to small firms in 1999 than in 1996 (see Table 12).

While aggregate data for all lenders reporting loan activity in the Milwaukee area combined are available at the individual census tract level, as indicated above for each individual lender data are available only by aggregations of census tract according to median family income levels of those tracts. Therefore, it is not possible to determine lending activity for an individual institution by racial composition of neighborhood. But lending by income level and to small firms varies substantially among lenders. Given the

Table 10

Table 10. Small Business Lending by Neighborhood Income Level
Loans by Individual Lenders
Milwaukee MSA, 1996-1999

	Total Loans			Low Percent of Total[1]			Moderate Percent of Total		
	1996	**1999**	Percent Change	**1996**	**1999**	**Change**	**1996**	**1999**	**Change**
Advanta[2]	320	655	104.7	5.9	4.3	-1.6	14.1	7.5	-6.
American Express	1,369	1,952	42.6	5.3	4.4	-0.9	9.2	7.5	-1.
Associated Bank, Milwaukee	944	874	-7.4	7.7	6.9	-0.8	4.4	3.4	-1.
Bank One, WI	1,580	687	-56.5	6.8	3.9	-2.9	3.6	10.3	6.
Firstar, Milwaukee	1,040	2,496	140.0	6.5	12.9	6.4	8.8	14.5	5.
M&I Bank, Menomonee Falls	541	470	-13.1	3.7	1.7	-2.0	2.2	1.9	-0.
M&I First National Bank	618	374	-39.5	0.0	0.0	0.0	0.0	0.0	0.
M&I Lake Country	658	378	-42.6	1.2	1.6	0.4	1.2	3.4	2.
M&I Marshall & IIsley	1,609	1,124	-30.1	6.8	6.4	-0.4	11.4	8.5	-2.
M&I Northern	1,098	993	-9.6	4.4	2.7	-1.7	6.3	6.0	-0.
Norwest Bank	233	350	50.2	9.4	7.7	-1.7	11.2	9.4	-1.
Park Bank	492	482	-2.0	9.3	10.2	0.9	10.0	7.9	-2.
Tri City National Bank	340	321	-5.6	3.5	4.7	1.2	10.3	9.3	-1.
Waukesha State Bank	712	690	-3.1	0.1	0.4	0.3	5.3	4.5	-0.
Percentage of MSA Population[3]				12.7	12.7		13.5	13.5	
Percentage of Businesses				8.8	8.3		11.0	10.6	

[1]The percentages of each of these columns refer to the percentage of total loans shown in the first column. For example, in 1996 5.9% of Advantag's 320 small business loans were originated to businesses located in low-income neighborhoods.

[2]These lenders represent those who had at least 200 loan originations in 1996 and who were still in business in 1999.
[3]Population figures are from the 1990 Census which are the most recent data available.
Source: FFIEC CRA Aggregate & Disclosure, Software Version, 1.0a Copyright 1997 and 1.30 Copyright 2000.

Table 11. Small Business Lending by Neighborhood Income Level
Loans Dollars by Individual Lenders
Milwaukee MSA, 1996-1999

	Total Dollars (in thousands)			Low Percent of Total[1]			Moderate Percent of Total		
	1996	**1999**	Percent Change	**1996**	**1999**	**Change**	**1996**	**1999**	**Change**
Advanta[2]	3,413	5,518	61.7	6.1	3.3	-2.8	13.6	7.0	-6.
American Express	9,235	14,235	54.1	4.6	4.0	-0.6	8.2	7.4	-0.
Associated Bank, Milwaukee	109,384	96,118	-12.1	7.8	5.3	-2.5	4.4	6.0	1.
Bank One, WI	118,775	79,656	-32.9	4.7	4.3	-0.4	3.7	10.2	6.
Firstar, Milwaukee	123,657	196,718	59.1	8.1	8.2	0.1	7.0	11.1	4.
M&I Bank, Menomonee Falls	64,024	85,950	34.2	4.0	4.6	0.6	2.3	1.6	-0.
M&I First National Bank	59,007	55,230	-6.4	0.0	0.0	0.0	0.0	0.0	0.
M&I Lake Country	57,832	48,533	-16.1	0.6	1.0	0.4	1.7	4.6	2.
M&I Marshall & IIsley	238,950	179,531	-24.9	7.8	7.7	-0.1	9.6	8.1	-1.
M&I Northern	178,265	164,725	-7.6	3.3	2.8	-0.5	6.1	6.2	0.
Norwest Bank	36,977	34,414	-6.9	5.4	7.3	1.9	8.6	7.7	-0.
Park Bank	86,723	76,942	-11.3	7.5	10.3	2.8	7.5	5.8	-1.
Tri City National Bank	18,593	30,384	63.4	2.4	7.2	4.8	10.0	7.0	-3.
Waukesha State Bank	31,625	48,031	51.9	0.1	0.1	0.0	4.5	2.7	-1.
Percentage of MSA Population[3]				12.7	12.7		13.5	13.5	
Percentage of Businesses				8.8	8.3		11.0	10.6	

[1]The percentages of each of these columns refer to the percentage of total loan dollars shown in the first column. For example, in 1996 6.1% of Advantag's $3,413 small business loan dollars went to businesses located in low-income neighborhoods.

[2]These lenders represent those who had at least 200 loan originations in 1996 and who were still in business in 1999.
[3]Population figures are from the 1990 Census which are the most recent data available.
Source: FFIEC CRA Aggregate & Disclosure, Software Version, 1.0a Copyright 1997 and 1.30 Copyright 2000.

Table 12. Small Business Lending to Firms with Revenues of $1 Million or Less Individual Lenders

Milwaukee MSA, 1996-1999

	Total Loans			Percent of Loans to Small Firms			Total Dollars		
	1996	1999	Percent Change	1996	1999	Change	1996	1999	Percen Chang
Advanta[1]	320	655	104.7	0.0	100.0	100	3,413	5,518	61
American Express	1,369	1,952	42.6	85.6	93.2	8	9,235	14,235	54
Associated Bank, Milwaukee	944	874	-7.4	72.1	42.0	-30	109,384	96,118	-12
Bank One, WI	1,580	687	-56.5	29.6	61.7	32	118,775	79,656	-32
Firstar, Milwaukee	1,040	2,496	140.0	63.4	25.1	-38	123,657	196,718	59
M&I Bank, Menomonee Falls	541	470	-13.1	60.4	57.4	-3	64,024	85,950	34
M&I First National Bank	618	374	-39.5	76.1	79.7	4	59,007	55,230	-6
M&I Lake Country	658	378	-42.6	78.7	61.4	-17	57,832	48,533	-16
M&I Marshall & IIsley	1,609	1,124	-30.1	62.0	58.3	-4	238,950	179,531	-24
M&I Northern	1,098	993	-9.6	43.2	40.8	-2	178,265	164,725	-7
Norwest Bank	233	350	50.2	56.2	41.1	-15	36,977	34,414	-6
Park Bank	492	482	-2.0	32.7	52.5	20	86,723	76,942	-11
Tri City National Bank	340	321	-5.6	78.2	80.1	2	18,593	30,384	63
Waukesha State Bank	712	690	-3.1	77.8	70.3	-8	31,625	48,031	51

[1]These lenders represent those who had at least 200 loan originations in 1996 and who were still in business in 1999.
Source: FFIEC CRA Aggregate & Disclosure, Software Version, 1.0a Copyright 1997 and 1.30 Copyright 2000.

association between income and race, it is likely that lending patterns also vary substantially by the racial composition of neighborhoods as well. In Milwaukee, access to small business loans appears to be at least in part a function of the institution to which a borrower applies. Characteristics of those institutions, along with the credit worthiness of borrowers, likely affect the distribution of small business loans.

Woodstock Institute recently found that banks with branch offices in low- or moderate-income areas make a greater proportion of their loans in those areas (Immergluck and Mullen 1997). This appears to be the case in Milwaukee as well. In 1996 those lenders with branches located within economically distressed census tracts, referred to as the "Target Area" by the Comptroller of the City of Milwaukee (City of Milwaukee 1996: 21), made 6.6 percent of their loans in low-income tracts compared to 5.1 percent for lenders without a Target Area branch. Figures for loan dollars were 6.8 percent and 5.5 percent. But lenders without Target Area branches provided a slightly higher proportion of their loans and loan dollars to small firms (Squires and O'Connor 1999). More research on a range of lender characteristics would yield additional information on the factors influencing the allocation of small business loans. Size of lender, whether it is independently owned or part of a regional or national holding company, working relationships with community organizations, and racial composition of the work force are just some of the factors that might affect the distribution of small business loans.

Research and Policy Implications

In the Milwaukee metropolitan area small business lending continues to be concentrated in upper-income and predominantly white communities. These patterns may reflect differences in demand, credit-worthiness of borrowers, unfamiliarity on the part of potential borrowers and lenders about prevailing opportunities, unlawful discrimination, Milwaukee's low rate of minority business ownership and representation in corporate management compared to other metropolitan areas (Norman 1998) and a range of other factors. But these clearly are not random fluctuations.

These findings also reveal substantial, ongoing differences between Milwaukee area lenders and financial institutions nationwide in the distribution of loans and loan dollars by neighborhood income levels. Compared to their counterparts nationwide, Milwaukee area lenders provide a lower concentration of their lending activity in lower-income neighborhoods and among small businesses though some gaps have moderated. The findings also indicate widespread disparities among lenders in the distribution of small business loans throughout Milwaukee area neighborhoods. These patterns may reflect legitimate differences in marketing strategies among lenders, illegal discrimination against low-income areas and minority communities, business opportunities overlooked by some institutions, or a combination of these and other factors. The broad disparities suggest that something other than the quantity and quality of the demand for credit accounted for current lending patterns since all of these reporting institutions are serving the same metropolitan area.

Clearly, far more research is essential to fully understand the underlying causes and policy implications of these findings. But recent disclosure of small business lending provides additional insight into the lending behavior of financial institutions covered by the CRA. Three minor changes in current small business disclosure requirements would enhance the value of this information.

First, covered lenders should be required to report the number of applications for small business loans they receive along with the disposition of those applications. This would provide at least one measure of demand for such credit and further insight into the response of lenders to that demand. This provision is included in the Community Reinvestment Modernization Act introduced into the U.S. House of Representatives by Tom Barrett (D-Milwaukee) and Luis Gutierrez (D-Chicago) in March 2001.

Second, the Federal Reserve Board should act on a proposal it is currently considering that would allow lenders to solicit information on the race of small business loan applicants. Currently, requesting such information violates the Equal Credit Opportunity Act. The U.S. Departments of Justice and the Treasury, the Comptroller of the Currency, and the Office of Thrift Supervision support the proposed regulatory changes which would facilitate collection of this information (Reno 1998). This change would also be required by the Community Reinvestment Modernization Act.

Anecdotal and econometric evidence suggests that minority-owned businesses have more difficulty accessing small business loans than majority-owned firms. While disclosure of this information alone would not confirm or deny the existence of unlawful discrimination, it would enhance current understanding of racial disparities in access to small business loans. Many businesses, of course, are owned by more than one person. In those cases where there is multiple ownership, if more than 50 percent of the business is owned by members of a particular race, that would be the one which is reported. A multi-race option could also be utilized where no single group is controlling.

Such additional reporting could increase the chances that the identity of a particular business would be revealed. The FFIEC could establish a threshold for a minimum number of loans (e.g., at least three loans in a tract) that must be reported before the individual loan data would be revealed in order to preserve confidentiality where it might otherwise be breached.

Third, the FFIEC should release tract level data for individual lenders and make available tables that display lending activity by racial composition of tracts. Users could locate the racial composition of each tract and then aggregate them in order to examine the distribution of loans for all reporting institutions by neighborhood racial make-up, as has been done here. However, data currently available do not permit such analysis at the individual bank level. FFIEC should provide this information in a similar manner as mortgage lending data are provided in HMDA reports. Selected aggregate HMDA reports display lending activity (e.g., applications, originations, etc.) in tracts that are less than 10 percent minority, those between 10 and 19 percent, 20 to 49 percent, 50 to 79 percent, and 80 to 100 percent. These reports are available for individual lenders and for all lenders combined by metropolitan area. Similar tables reporting business loan activity should be prepared and disseminated by FFIEC. Again, where confidentiality might be breached, the information could be suppressed.

The data examined in this study and called for in these recommendations, alone, would not be sufficient to confirm or deny the existence or prevalence of compliance or non-compliance with the CRA or other fair lending rules. Comparative analysis of individual loan files or paired testing by "mystery shoppers" posing as small business credit applicants would be required for that purpose. Testing has been used quite effectively to detect and remedy discrimination in a variety of areas including mortgage lending, property insurance, employment, and in a number of other everyday commercial transactions and public accommodations like service in restaurants, hailing a taxi, and access to hotel rooms (Fix and Turner 1999). Current testing methodologies could be modified to yield additional information on the level of discrimination in small business lending markets. But even in the absence of such investigative techniques, the patterns that are revealed from analyses of existing small business lending data can provide guidance to regulators, lenders, and others concerned with problems and potential opportunities in accessing such credit. These data can assist regulators in targeting and conducting their examinations, reveal potential trouble spots for lenders, and identify missed opportunities for financial institutions and their community reinvestment partners. The minimally expanded reporting and disclosure recommended here can enhance the value of that guidance.

HMDA and CRA have changed the way many mortgage lenders do business and increased the supply of funds for community reinvestment (Evanoff and Segal 1996; Schwartz 1999; Shlay 1999; Squires and O'Connor 2000;). Hopefully, the new CRA regulations calling for disclosure of small business loans can extend those effects by nurturing an increase in the availability of small business loans in previously underserved communities.

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