

Out-of-State Holding Company Affiliation and Small Business Lending

by Gary Whalen

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Abstract

Opponents of interstate banking and branching assert that larger organizations, particularly those headquartered outside local markets, are either less willing or less able to make small business loans than smaller competitors. The expected outcome of ongoing acquisition activity by companies with interstate operations is higher prices and reduced volumes of credit to small business borrowers in affected local markets. This study attempts to determine whether or not these effects are evident.

Small business lending levels, prices, and margins for a sample of 1,377 banks located in the states of Illinois, Kentucky, and Montana are examined using simple univariate statistical tests and regression analysis. In general, the results are not consistent with the assertions of those opposed to interstate banking and branching. Analysis of the available data for these states indicates that the volume of small business lending by out-of-state bank holding company (OSHC) subsidiaries compares favorably with both independent banks and in-state bank holding company subsidiaries.

The analysis also shows that out-of-state holding company subsidiaries do not systematically discourage small business borrowing through their loan pricing. Small loan rates at OSHC bank subsidiaries generally are lower than those at other types of banks. OSHC subsidiaries also appear to be willing to accept lower margins on small commercial loans. The results demonstrate that independents do not appear to be at a competitive disadvantage relative to OSHC subsidiaries, at least in this particular product line.

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