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Introduction

AmericaÕs small businesses are important drivers of the national economy and job creation. Small firms employ half of the United States (U.S.) labor force and since 1995 small businesses have provided approximately 65 percent of net new jobs in the American economy. Moreover, since the Great Recession small businesses have contributed to a significant proportion of American job recovery (Mills and McCarthy, 2014).

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larger SBA loans.[5] Consequently, since 2007 the SBA 7(a) loan profile for these smaller dollar loans decreased by 68 percent.[6]

will be denied (Bates and Robb, 2014). This is especially true among firms located in minority neighborhoods. Table 1 displays the difference in the percent of discouraged borrowers in high minority (24.5 percent) versus low minority (17.3 percent) neighborhoods. These cumulating factors, in addition to the persistent and growing wealth, income and credit score racial disparities, likely explain the decreasing share of SBA loans to African Americans (MBDA, 2010).

Table 1. Credit Needs and Loan-Application Outcomes for Urban Firms, Years 2008-2011 (annual rates)

	Minority Neighborhood Firms	White Neighborhood Firms
All Small Firms		
% Discouraged Firms	24.5	17.3
Applicant Firms Only		
% Always Approved	56.7	62.0
% Always Denied	27.3	20.4

A version of this table was displayed in Bates and Robb (2014)

Black, Hispanic and White-owned firms.[11] Thus, stimulating minority loan demand and deploying more loans to these firms might not be good business practice for lenders or the SBA.

However, small business investments would perhaps be less precarious if minority small businesses are located in *emerging market areas*. For instance, strategic small business investments in minority communities gaining aggregate income (Alwitt and Donley, 1997) and experiencing escalating real estate values (Meltzer and Schuetz, 2012) might be less risky. Certain stable, existing small businesses that understand how to tap into a revitalizing communityÕs existing and changing demographics and preferences might be well suited for investment, growth and expansion (Hyra, in press). Further, evidence suggests that credit score

Borrower Education

Additionally, the SBA should target small business lending education efforts, particularly in the use of the 504 program, to purchase real estate in emerging market zones likely to experience increasing property values. Place-based targeted educational efforts, through SBA District Offices, SCORE chapters, Small Business Development Centers, Women Business Centers, and Certified Development Companies, might help both new and longstanding minority owned businesses benefit from the expanding 7(a) and 504 loan volume.

Strategic Partnerships

The SBA should establish strategic partnerships with certain lenders to stimulate lending to black owned businesses in emerging market areas. Partnerships among the SBA, large volume SBA lenders and historically black owned banks located in emerging market areas could be extremely fruitful. While black owned banks, between 2011 and 2014, in recent studies have been defined as either greater per capital income or higher employment rate.

Below is a review of five selected studies since 2007 that investigated the relationship between SBA lending and indicators of local economic growth. These studies use different data samples and economic models to test whether SBA lending increases or decreases indicators of an areaÕs economic performance. Taken as whole results are mixed among these studies, some suggest that SBA lending is positively associated with local economic growth and employment, while others point to negative associations. Below is a review of these studies in chronological order.

Early Studies Positive Effects

In 2007 Craig, Jackson and Thomson (2007a) investigated if SBA lending had a discernable impact on metropolitan economic growth. In their study, SBA lending was defined as the total dollar amount of SBA loans, scaled by total deposits in the market lagged by one year. The

Craig, Jackson and Thomson followed up on their 2007b study with another in 2008, to test whether metro-level income moderates the relationship they found between SBA lending and employment rate. Using OLS, fixed-effects models, they find that per capital SBA lending (from 1991 to 2001) was only significantly related to increase employment levels in low-income areas. Their research suggests that SBA lending might only positively influence employment levels in low-income areas.

Together these three studies, lead by Craig, suggest a couple of important points. First, greater SBA lending in an MSA counties. They also use period and state fixed effect models, have post Great Recession period data and incorporate variables into their models that previous research has not, such as an interest rate differential variable.

It is quite possible that their negative relationship finding between SBA lending and per capita income is related to the economic crisis. If more SBA loans were made in the places hit hardest by the crisis, this might explain the difference between their findings and all of the other studies. Another possibility might be their assumption of spatial dependency as well the incorporation of their interest rate differential variable. It is perhaps a theoretical stretch to assume that SBA lending in one county affects income growth in a nearby one. Further, the justification for their interest rate differential variable is unclear. Thus, their results might, in part, stem from an inappropriate theoretical assumption as well as model misspecification, which can lead to incorrect results. While the five reviewed studies each have merits and limits, taken as a whole it is clear that the results concerning the impact of SBA lending on local economic conditions are inconclusive.

Further Research

Further research needs to be conducted to better understand effective ways to reduce equity and efficiency concerns related to the core SBA guaranteed lending programs. While a place-based emerging market proposal was made in this white paper, we need more information to better understand if this approach will lead to sound, safe and equitable lending. Furthermore, the relationship between SBA lending and local economic conditions needs to be further studied. Below are four questions, if answered with sound research, might provide a clearer direction for further SBA lending policy on both the equity and efficiency fronts.

What effects does SBA lending have on employment and income in low- and moderate-income communities?

There have been several studies that investigate the relationship between SBA lending and indicators of economic growth at the county and MSA levels, but little research, if any, has examined the impact of SBA lending on smaller geographies, such as a community, neighborhood or census tract. It would be informative to investigate whether per capita SBA lending, controlling for other factors, in low- and moderate-income communities, or census tracts, is associated with employment rates and income levels. Having this information might add to, refine and clarify the effects of SBA lending on economic indicators at distinct geographic levels.

In what ways do SBA lending programs contribute to neighborhood redevelopment?

Several studies have investigated community development outcomes related to government programs, such as the community development block grants (Galster, Tatian and Accordino 2006) and HOPE VI housing grants (Zielenbach, 2003), but few have investigated the relationship between 7(a) and 504 investments and property values near the firms that receive these loans. An investigation that isolated the effects of SBA lending on nearby property values could help to clearly articulate the impact of these programs.

Are 7(a) and 504 default rates lower in redeveloping minority neighborhoods vs. non-redeveloping minority areas?

We know that defaults rates vary along racial and ethnic lines at the individual and neighborhood levels. But a key question is whether redeveloping minority areas are less risky than, similarly situated, non-redeveloping minority areas. If redeveloping minority areas have lower default rates, it would make policy sense to create a place-based emerging market program.

Do SBA loans advance or "crowd out" the conventional small business lending market in low- and moderate-income communities?

LeeÕs study suggests that SBA loans ÒcrowdÓ out conventional loans. While it is plausible for this to occur in credit worthy areas, does this dynamic exist in low- and moderate-income areas? It seems if we are interested in equity and efficiency concerns, an important study would be to test whether SBA lending in low- and moderate-communities advance or Òcrowd outÓ conventional small business loans. The answer to this question would help policy makers better understand whether the SBA programs are efficient in low-income areas.

Conclusion

Small businesses are a vital part of the American economy. They provide half of the employment opportunities in our country. Yet, they pose a challenge for lending institutions because it can be difficult to determine their ability to repay loans. The SBA loan guaranteed programs were designed to support small business lending, particularly during economic downturns and slow growth periods. As America has slowly recovered from the Great Recession, the SBAÕs 7(a) and 504 programs have

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