



Small banks make high percent of small business lending, study finds

Published: Friday, November 04, 2011, 10:25 AM Updated: Friday, November 04, 2011, 10:40 AM



By **Ed Beeson/The Star-Ledger**

It may take a small bank to lend to a small business.

A study of Federal Deposit Insurance Corp. data finds that many of New Jersey's smallest banks devote the largest portion of their deposits to making small-business loans.

The study by Pennsylvania-based lending advisory firm MultiFunding examined data for 78 banks based in New Jersey with deposits greater than \$100 million. Using quarterly reports filed with the FDIC at the end of June, the study compared deposits to outstanding small-business and small-farm loans of \$1 million or less.

At the top of the list was Heritage Community Bank in Randolph. Its small-business loans accounted for nearly 60 percent, \$77.8 million, of its \$130.8 million in deposits. Cornerstone Bank in Moorestown was second, with \$176.1 million in small-business loans for its \$321.2 million in deposits, a nearly 55 percent ratio.

Rounding out the top-five were BankAsiana of Palisades Park, with about 50 percent of its \$140.2 million in deposits in small-business loans; Indus American Bank of Iselin, at 41 percent of its \$160.3 million; and Highlands State Bank in Vernon, with 40 percent of its \$141.5 million in deposits.

Savings banks dominated the bottom of the list, as they tend to offer less in the way of business banking.

Also low-ranked were some of New Jersey's largest commercial banks. The Provident Bank of Jersey City made \$368 million in small-business loans for its \$5 billion on deposit, or 7.3 percent. Amboy Bank of Old Bridge lent \$75.9 million for its \$1.7 billion on deposit, or 4.4 percent. Investors Bank in Short Hills, a savings bank that is transitioning to a commercial bank, made \$170.7 million in loans for its \$6.9 billion in deposits, or 2.5 percent.

Only three of the top-20 ranked banks had more than \$500 million in deposits.

show of commitment

Ami Kassar, chief executive of MultiFunding, said the study provides a snapshot of "who's committed to small-business lending" in the state. Small businesses have trouble securing loans often because they lack collateral or have poor bookkeeping, Kassar said, but smaller banks tend to more willing, or less constrained, than big banks to work with these businesses.

"We find from our experience much more flexibility and creativity at the smaller banks," he said.

John McWeeney, president of the New Jersey Bankers Association, said it was not surprising to see small community banks dominating the list of small-business lenders. But he disagreed with the notion that the ranking is somehow a measure of a bank's overall commitment to small-business lending.

"With larger institutions, they have to be cautious. There has to be some diversification for risk purposes," he said.

Some large community banks are significant lenders to the smallest business, McWeeney noted. Valley National Bank of Wayne, which reported \$9.8 billion in deposits, also reported just over \$1 billion in small-business loans. "As a percentage of overall deposits, that may not be as high. But they also play a very vital role in small-business lending," he said.

Federal data also shows that big banks extend a great number of loans backed by the Small Business Administration to New Jersey companies. JPMorgan Chase issued 153 such loans during fiscal 2011, amounting to nearly \$23 million. TD Bank came in second at 107 loans totalling more than \$24 million, according to the SBA. The loans account for a fraction of small-business lending.

McWeeney also said lending volumes are down not because banks are unwilling to lend, but because demand is low since small-business owners lack confidence in the economy, he said.

key to economy

Boosting small-business lending is seen as a central part for reigniting the economy, but efforts so far have faltered. The U.S. Treasury Department's Small Business Lending Fund was criticized after it disbursed only \$4 billion of the \$30 billion appropriated to community banks, many of which used the funds to pay back their Troubled Asset Recovery Program loans.

Peter Kenny, president and CEO of Heritage Community Bank, said he was surprised to top the list of small-business lenders, although the sector is his bank's bread and butter. "What we have found in the small-business arena is that we compete very well against the Wells Fargos," he said.

Jasbir Chopra, president of the Indus American Bank, said his bank's focus on the South Asian community makes it primarily a lender to small businesses, from gas stations to doctor's offices. "Because we are targeting a certain niche, we can be more appreciative of their needs," he said.

Other banks said they make more small-business loans than numbers would indicate. The Provident Bank classifies commercial loans under \$3 million as small-business loans, of which it has roughly \$525 million on its books, said Steve Guidette, senior vice president of business banking and lending. Rich Spengler, chief lending officer at Investors Bank, noted that the bank still is relatively new to commercial banking and lending, so it has fewer legacy assets on its balance sheet, although it is attempting to grow the business.

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