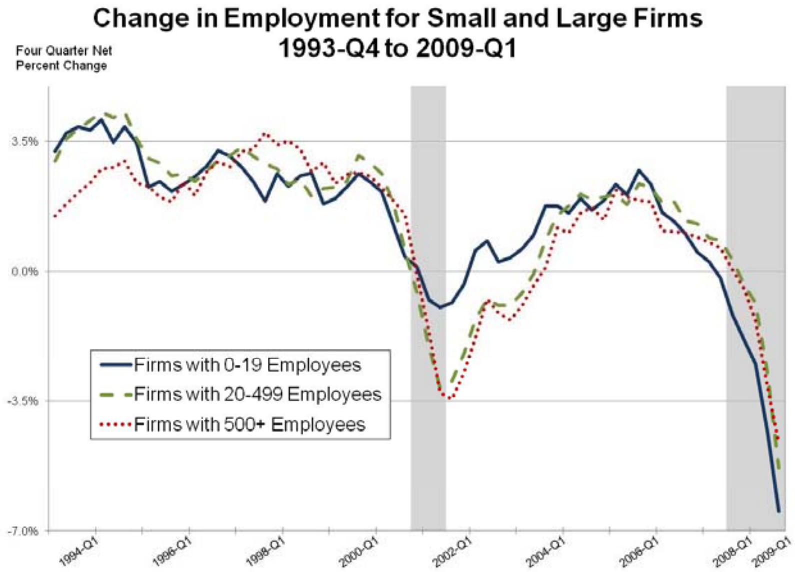
Small Business
Performance and Credit Conditions
in the Current Recession

Small Business Job Losses Are Larger Than in the 2001 Recession

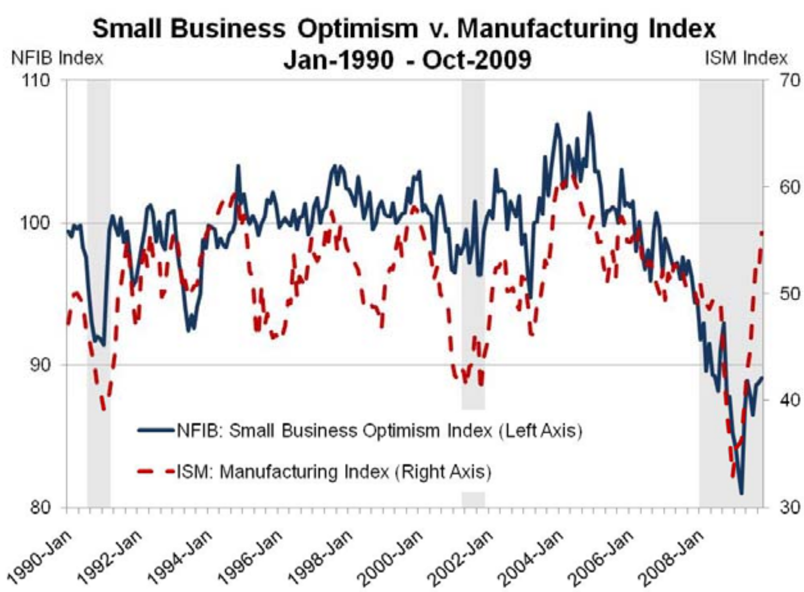
- Very small businesses (fewer than 20 employees) lost fewer jobs and recovered faster than large businesses during the 2001 recession.
- In contrast, very small businesses are losing more jobs than are large businesses in the current recession.
- This highlights that start-ups are especially being affected by the credit crunch.



Source: Business Employment Dynamics, BLS

Small Business Optimism Is Recovering Slowly

- Small businesses have lead the economy out of past recessions.
- However, in the current recession, the NFIB Small Business Optimism Index remains far lower relative to its long-term average than a comparable index of manufacturing production.



Source: NFIB Survey of Small Business, ISM Manufacturing Index

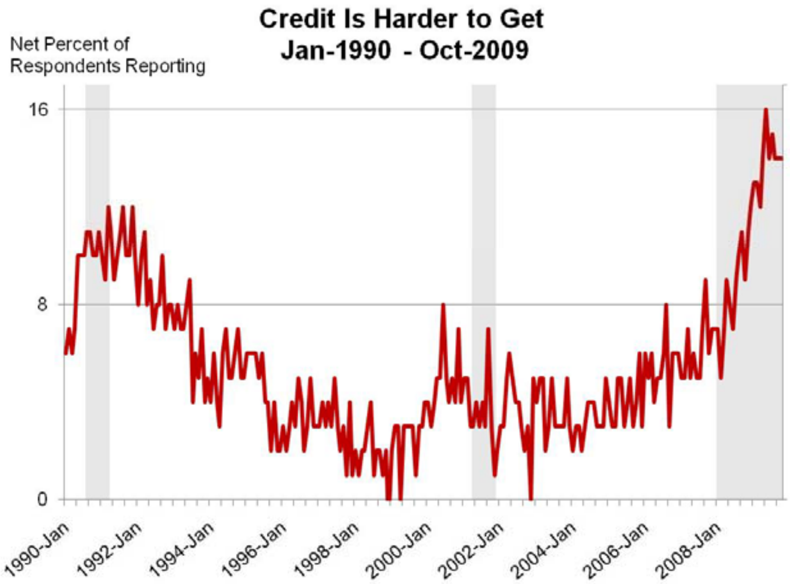
Poor Sales is the Most Important Problem Facing Small Businesses

- Over 30 percent of small businesses surveyed by the NFIB cite poor sales as their single most important problem.
- This underscores how aggregate demand is affecting small business viability.

Source: NFIB Small Business Survey

Small Businesses Reporting Credit Harder to Get Has Come Down, But Still Too High

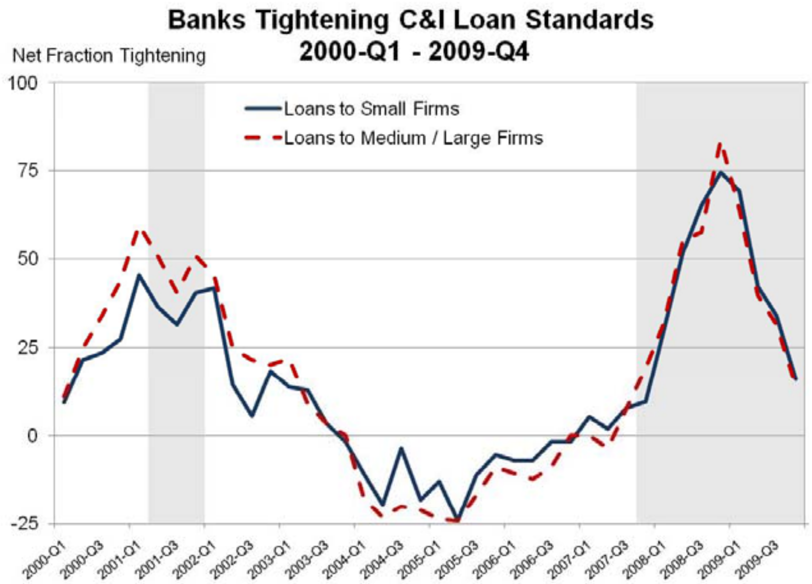
- The net percentage of small businesses reporting credit is hard to get has come down since May, but is still larger than in either the 1991 or 2001 recession.



Source: NFIB Small Business Survey

Fewer Banks Are Tightening Standards, But Challenges for Small Business Remain

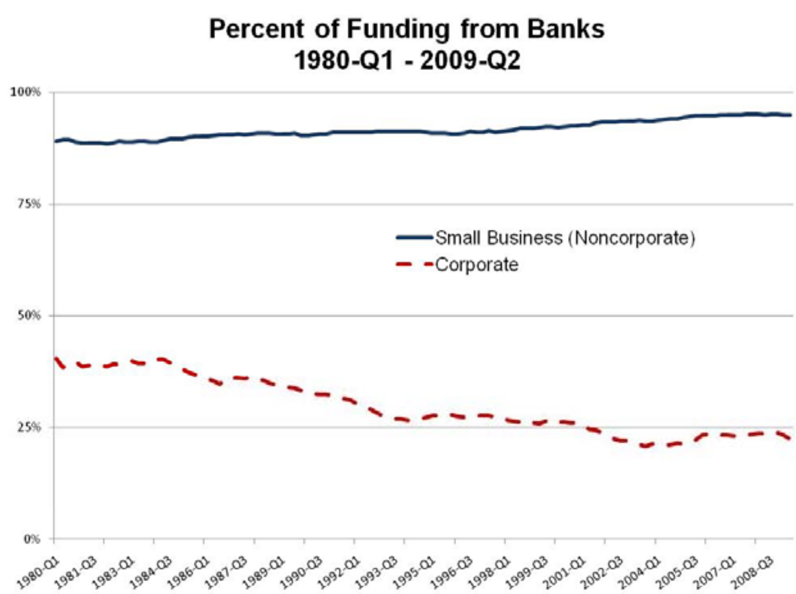
- In the latest Senior Loan Officer Survey, 16 percent of banks report that they are continuing to tighten loan standards for small businesses. The pace of tightening has slowed considerably, as about 75 percent reported tightening standards in October 2008.
- Loan standards for large businesses have tightened at a similar pace.



Source: Federal Reserve Senior Loan Officer Opinion Survey

Small Businesses Depend More on Bank Lending

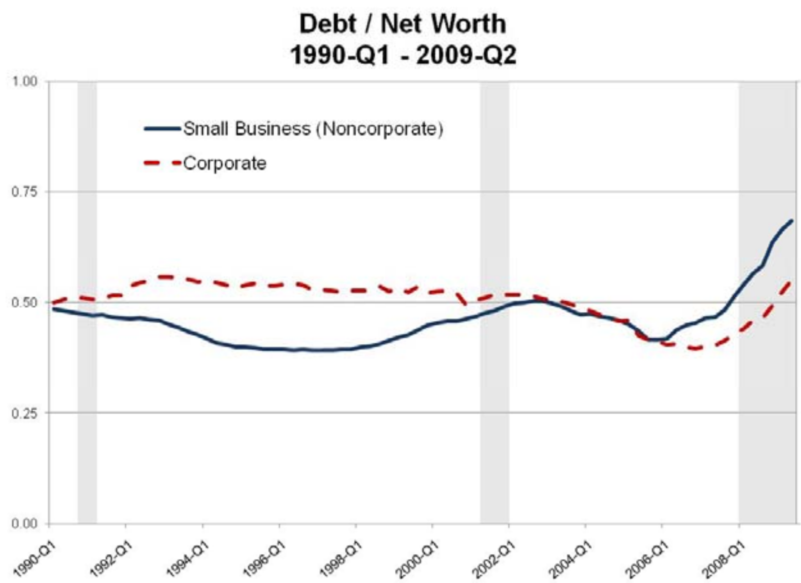
- Large businesses receive 30 percent of their funding from banks, while small businesses receive over 90 percent of their funding from banks.
- Small businesses do not have access to the corporate bond market or the commercial paper market. Thus, the recent recovery in these two markets has not helped small businesses.



Source: Federal Reserve Flow of Funds

Small Businesses Have More Debt than Large Businesses

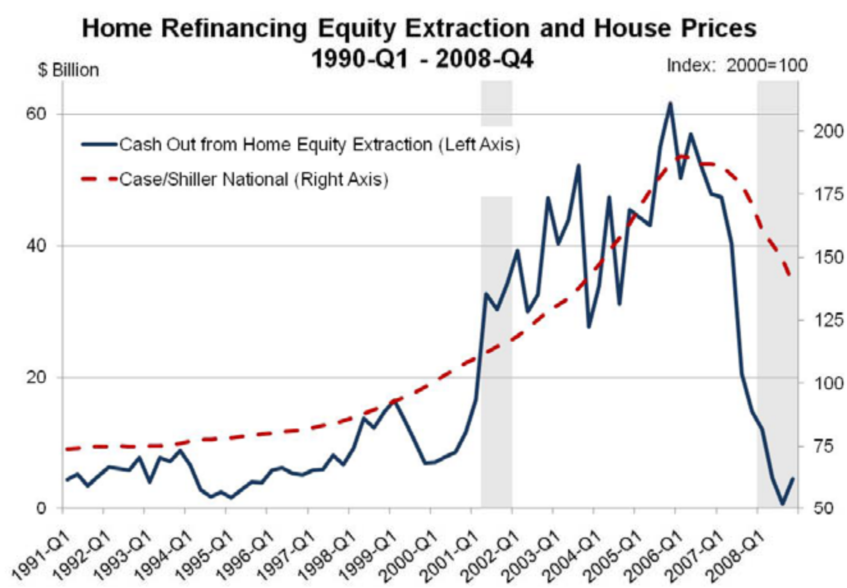
- In recent years, small businesses have accumulated more debt relative to net worth than large businesses.



Source: Federal Reserve Flow of Funds

Home Equity Extraction is No Longer Available

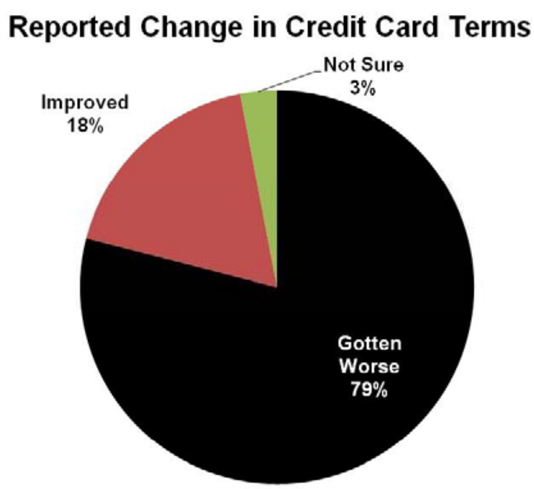
- Many small businesses rely on the owner's investment for start-up financing. During the housing bubble, owners often refinanced their homes to extract equity and fund their start-ups.
- However, due to the fall in housing prices, homeowners are no longer extracting equity from their homes and this source of financing is no longer available to fund small businesses.



Source: Federal Reserve Board, Case/Shiller

Credit Card Terms are Tougher

- Small business owners also rely on credit cards as a primary source of financing.
- Small businesses report that over the past five years the terms on their credit cards have become increasingly tight.
  - o 63 percent report that their interest rate has increased and 41 percent report that their credit limit has been reduced.

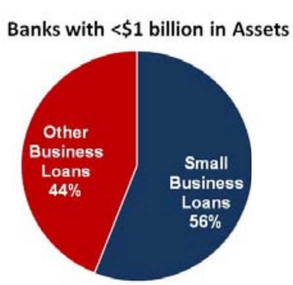


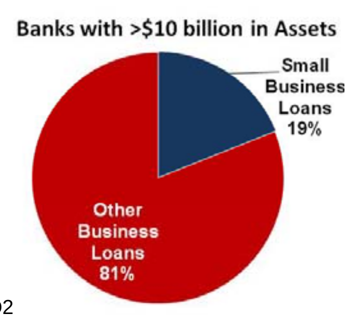
Source: NSBA Survey on Small Business Credit Card Lending, 2009

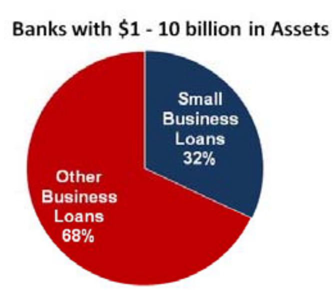
Small Banks Lend to Small Businesses

- According to data from the FDIC Call Reports, over 50 percent of business loans made by small banks (assets <$1 billion) are small business loans. For mid-sized banks (asset $1 – 10 billion), 32 percent of their loans are classified as small business loans.
- The FDIC definition of small business loans likely understates the total amount of loans to small businesses, as many small businesses have loans with principal amounts greater than $1 million. For mid-size banks, the share of business loans to small businesses is likely over 50 percent.
- Small and medium banks (assets <$10 billion) make over 50 percent of all small business loans.

Lending to Small Businesses by Bank Size





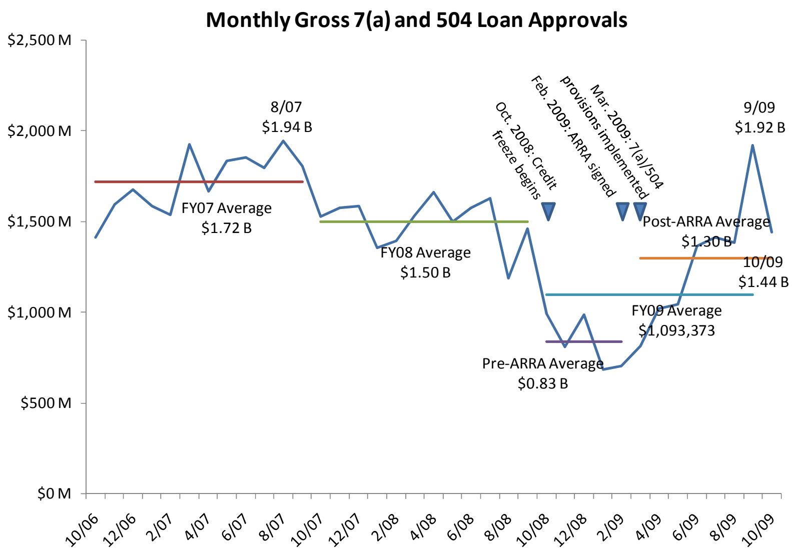


Note: Commercial loans under $1 million used as proxy for small business lending.

Source: FDIC Call Report data, 2009-Q2

The SBA has seen a rebound in lending with the Recovery Act

- While credit markets remained tight, simple tools in the Recovery Act, including fee relief and 90% guarantees, helped to bring volume back to pre-crisis levels



- **Significant and increased loan activity:** SBA has supported $14.7 billion in lending to small businesses. Since the signing of ARRA, weekly loan dollar volumes have risen 79% in the 7(a) and 504 programs, compared to the weeks preceding ARRA's passage.

- The SBA has also seen **increased secondary market participation**, and an increase in **new and returning lenders** in the program

Source: SBA Data