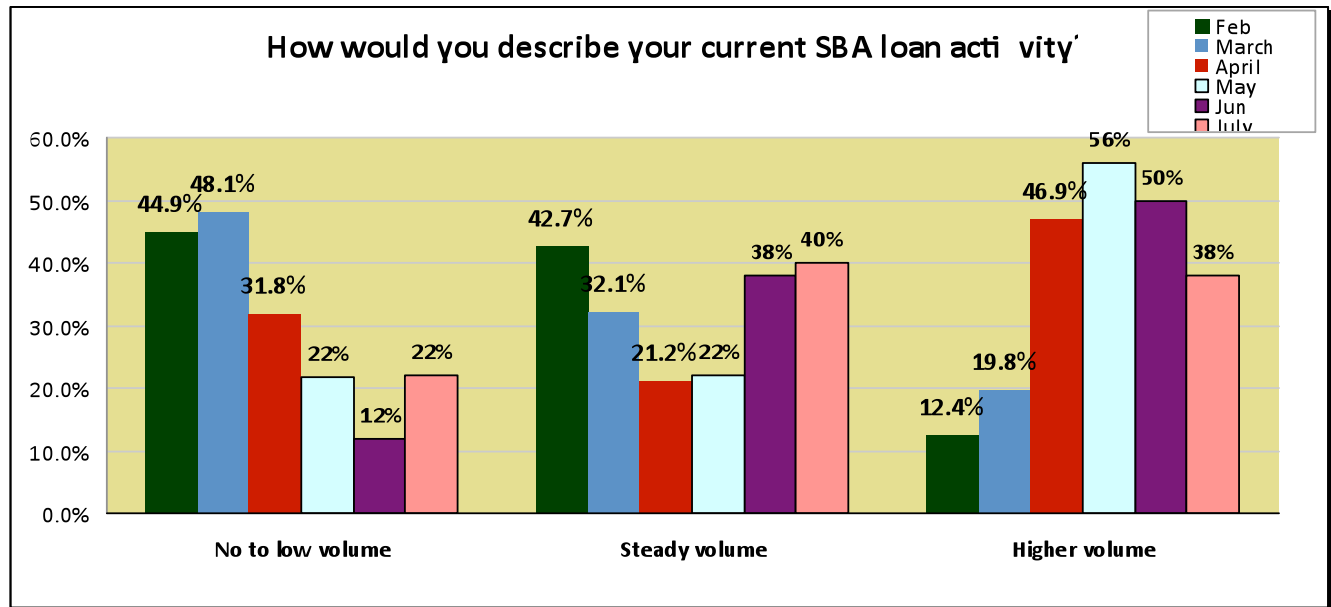


## SBA Lenders Hesitant to Engage in New Loan Programs.

Small Business Lender Sentiment Survey  
On Lending and Employment  
July 2009

In this issue:

SBA Operating on all “eight cylinders”. Banks operating on “four”.  
Are commercial mortgage rising defaults creating another liquidity crisis?  
With the 90% guaranty, is the credit box improving?  
Few takers for SBA’s ARC program. How many takers for SBA Floor Plan?  
Outlook for SBA employment: 90 day outlook.



The SBA is doing everything in its power to stimulate lending. They continue to hire more staff to handle more loan activity they expect from the “Stimulus”. Availability and support have never been better. The good news coming from Karen Mills, the SBA Administrator is that weekly loan approvals are up 40% since March 16<sup>th</sup>. Never in the history of the SBA have we seen so much positive publicity about the SBA.

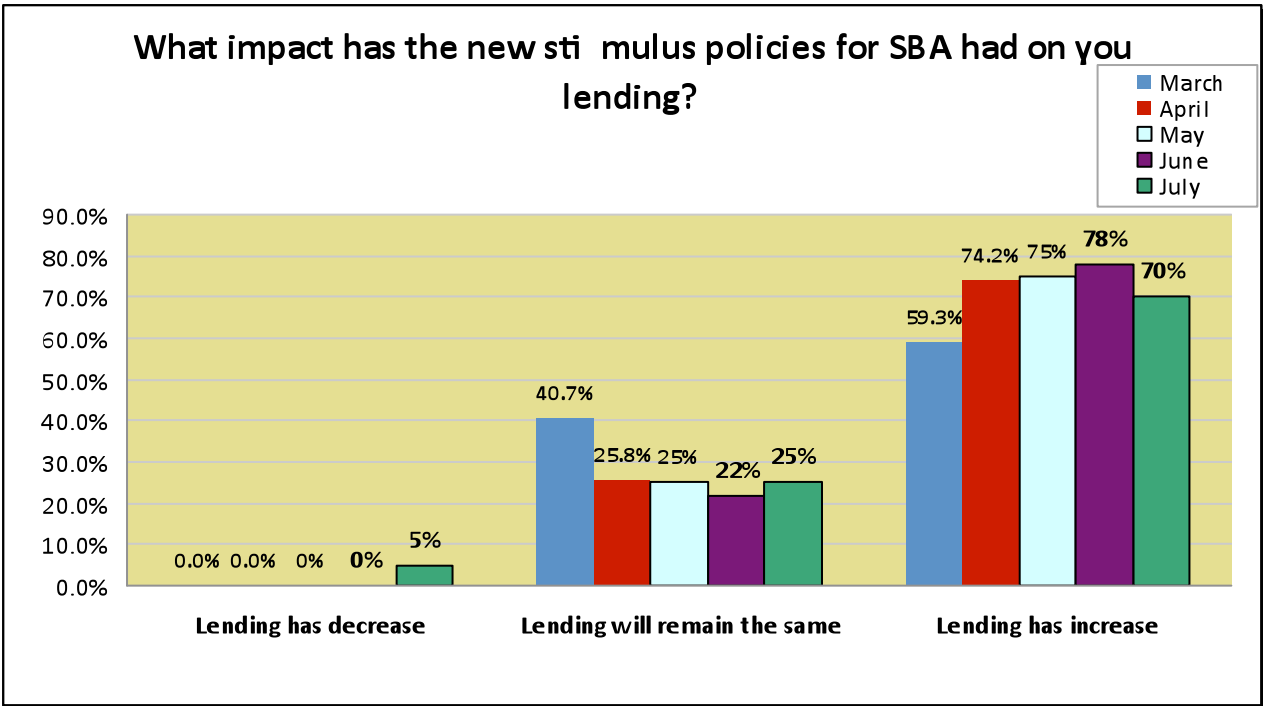
Then what seems to be the problem? Why a sudden shift this month in loan activity? It appears that the culprit is commercial loan delinquencies and defaults. They are rising and lenders are preparing for the worse. Over \$89 Billion dollars in 92 individual bank private placements have been raised in just the last few months. This has allowed some banks to pay back TARP monies. Others are using the money to take advantage of key acquisitions or expand locations. Many are beefing up capital to be prepared for more commercial loan defaults. **But, few are using these new funds to increase lending!**

As seen this month, lenders are retrenching. The majority of responders point to liquidity as the main challenge. Tight liquidity leads to tight credit. Tight credit yields lower volume. In California, several

lenders have even stated that lending is “no to low” due to lack of demand and may lead to some staff reductions.

Now the Obama Administration is discussing using TARP funds to further support small business. It is felt that the SBA may raise the 7a loan size limit to \$3 million or even \$5 million. It has also been suggested that the SBA may increase the allowable amount for lines of credit. But, it will not matter what else the SBA may do if commercial loan delinquencies and defaults continue to rise over the remaining months of this year.

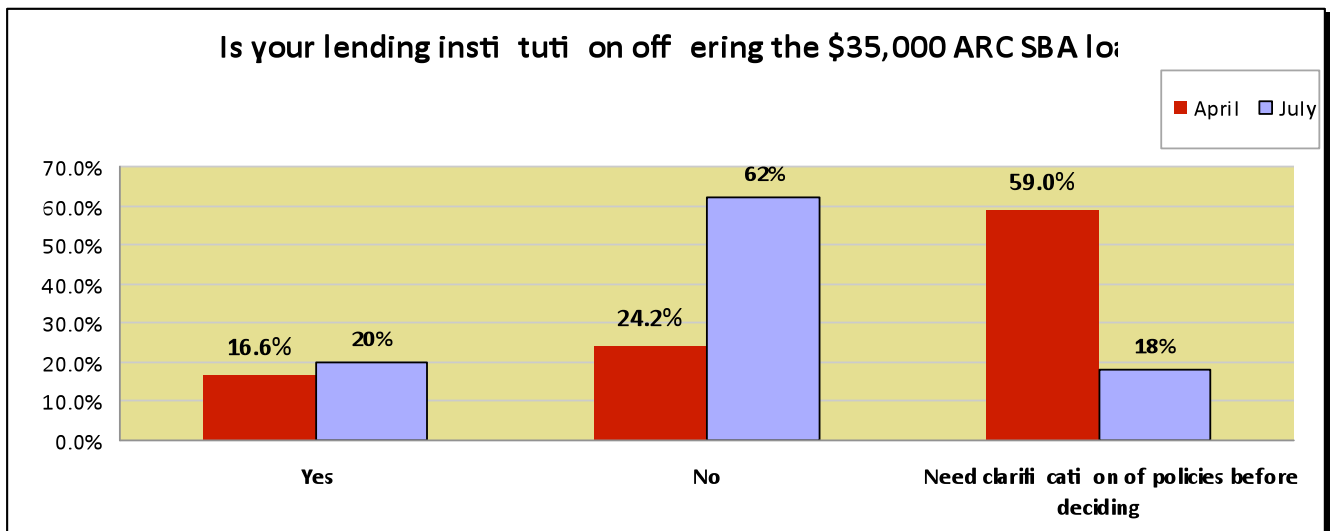
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In talking with the few banks that have decreased lending, it is evident that the issue is largely tied to Herndon loan repairs or denials. So, on the one hand the SBA wants to increase lending and at the same time, loan repairs and denials are starting to effect lenders’ confidence in the SBA guarantee.

For the majority, the stimulus has been a huge success. This month we see an eight percent drop in ‘increased lending’. Most likely this is tied to the issues stated above and not due to pros or cons of the SBA stimulus.

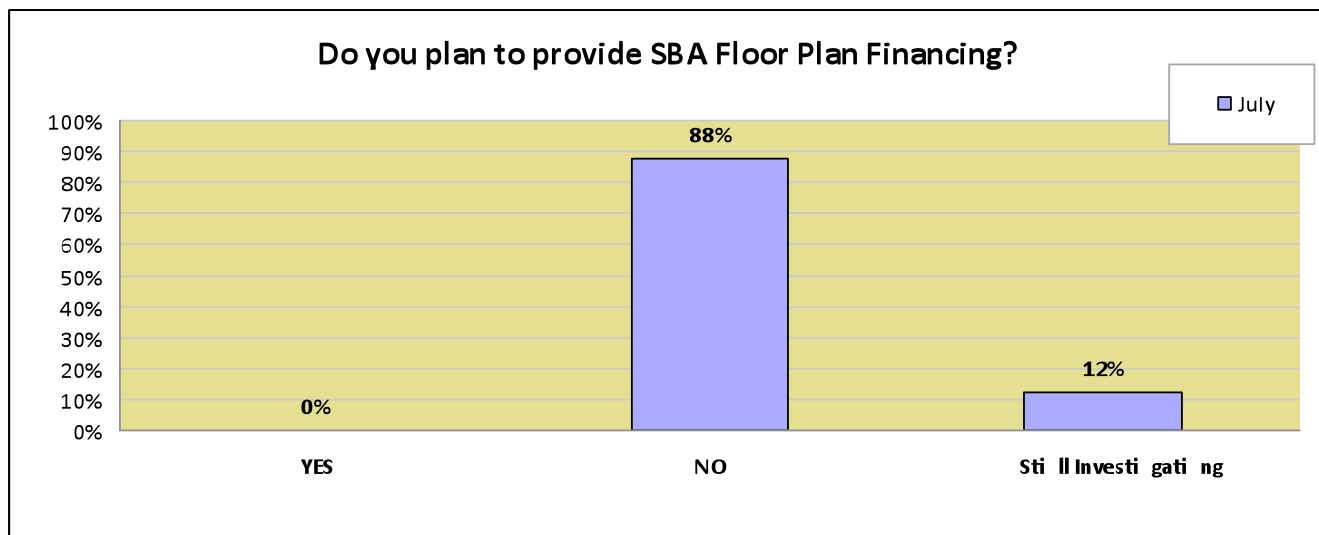
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The SBA's ARC loan program is finally in place. Now the question is "who are the lenders that are providing this new loan program." Sixty two percent have reached a decision to not provide this product. The majority of the lenders who are providing this product state that they are providing it only to their existing customers. **Only a very few lenders are making this available to the public at large.**

Many of the comments received on this issue center on two issues. The cost of providing this loan product outweighs the benefits. There is also expectation that even if they do make the loans (and they go bad) that the SBA guaranty will be denied. "Remember the STAR Program?" was quoted several times.

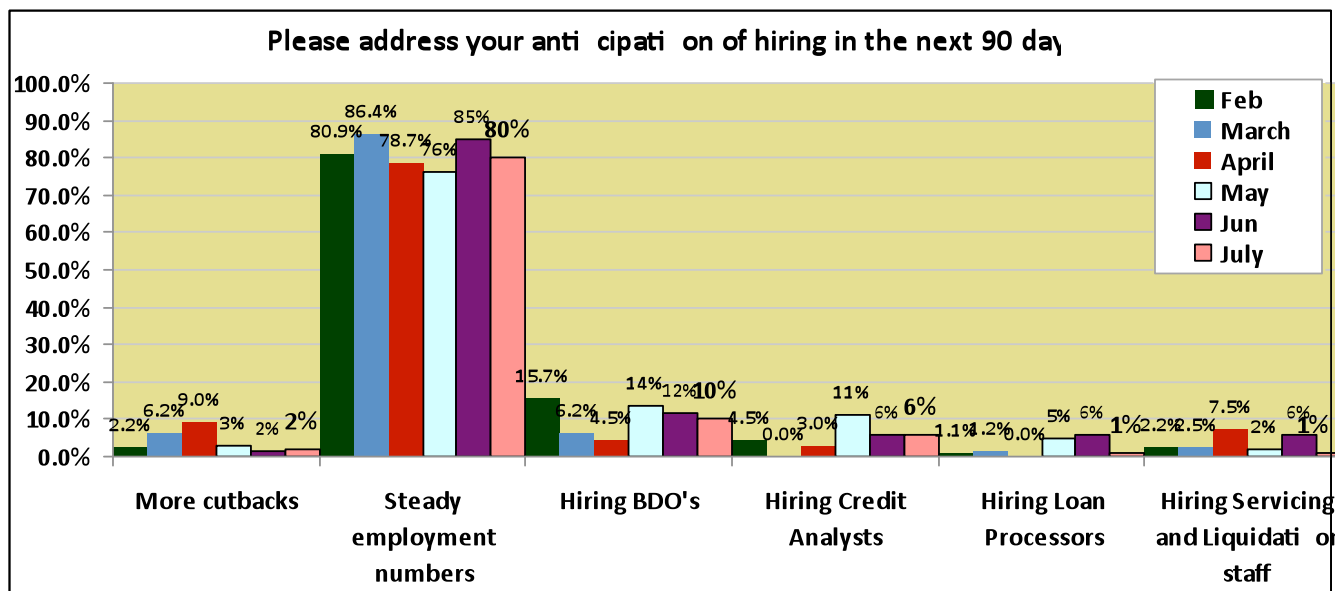
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Another initiative by the Obama Administration is the newly initiated floor plan financing program. Not one of the respondents plan to offer this product. **Most existing SBA departments are not structured to administrate lines of credit or other forms of asset lending.** Twelve percent responded that it is still under investigation. They state that it might make sense if their existing asset lending staff would take on the administration of this program.

The SBA should take note of this as they consider expanding any program that would entail large lines of credit.

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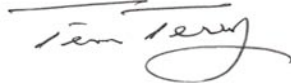
The fact that any cutbacks were reported this month, even though it was only two percent, is disappointing. Reasons cited were lack of demand and yes, even more department shutdowns. Anticipated hiring did climb to eighteen percent this month. BDO and credit represent sixteen percent of this. As stated last month, a continued improvement in hiring can be anticipated but **strong employment growth does not appear to be happening in the third quarter of this year.**

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## Summary

- The SBA is operating on 'eight cylinders'. More money, more programs, more staff and more positive publicity have SBA lending in the national spotlight. Current weekly approvals based on dollar volume (up now to 40% higher than pre-stimulus) continue to climb.
- However, **the SBA may be headed toward a publicity nightmare** with both the ARC program and the new Floor Plan Financing program, which are not being widely accepted by the lending community.
- The major challenge to small business lending this year may have very little to do with small business. Delinquencies and defaults on large commercial mortgages are growing each month. This is potentially creating a new liquidity crisis. Lenders appear to be gearing up for this challenge.
- As a subset to liquidity issues, credit is as tight as it has been all year. Even with the SBA 90% guaranty, banks are still doing their job of making good loans.
- There may be a west coast issue of demand for SBA loans. Both north and southern California lenders reported a great willingness to increase lending, but cited a sizeable lack of demand.
- SBA industry employment looks to make improvements over the next 90 days. However, do not expect a major employment recovery until next year.

With the response to the ARC and Floor Plan Financing programs, it would appear that the Obama Administration may want to throw money at the problem, but lenders across the country are not buying.



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### About Terry & Associates, Inc.

Since 1992 Terry & Associates, Inc. has been providing executive search and consulting services to banks and non-banks who provide Small Business Administration (SBA) government guaranteed loans. The company has also set up new SBA lending departments for banks interested in the many incentives and market advantages that SBA lending can provide. Tim is also a frequent speaker on the SBA industry and has testified before Congress on behalf of small business lending.

Terry & Associates, Inc. is publishing a monthly survey report which offers a national perspective on the status of lending to the small business sector. For more information, contact Tim Terry at 940.381.6200 or tim@sbasearch.com.