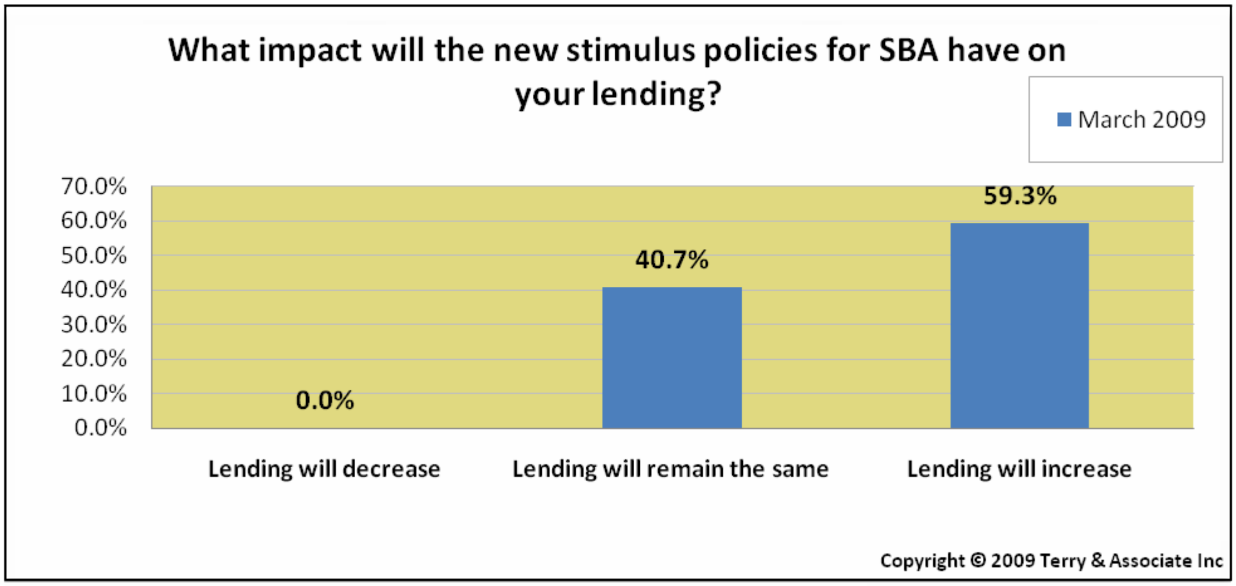
Terry & Associates, Inc.

Commercial & SBA Executive Search

www.SBAsearch.com

60% of lenders say the new Stimulus Initiatives will increase lending!



Small Business Lender Sentiment Survey
On Lending and Employment
March 6, 2009

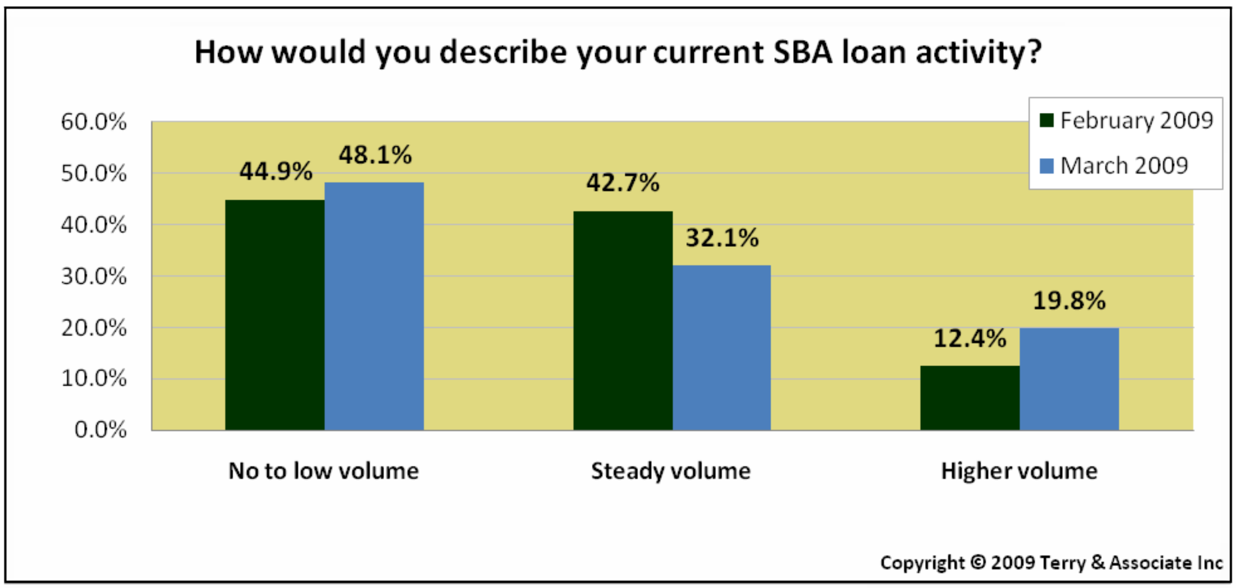
The Obama administration has recently put in place initiatives to bolster the SBA and encourage lending. Additionally, the much anticipated release of TALF funds should stimulate the secondary market if the government gets the pricing right for investors. But, what do lenders expect the real impact to be on small business lending? This survey was designed to reveal lenders' expectations of these actions and to determine employment trends for this devastated industry.

Documented in this report are the findings from a short survey of department managers and hiring managers working for banks and non bank lenders throughout the country.

They represent SBA lenders who have substantial SBA lending programs. We specifically did not reach out to lenders that though registered with the SBA, do just a few SBA loans a year. Note that the national lending programs that are no longer in small business lending were not included.

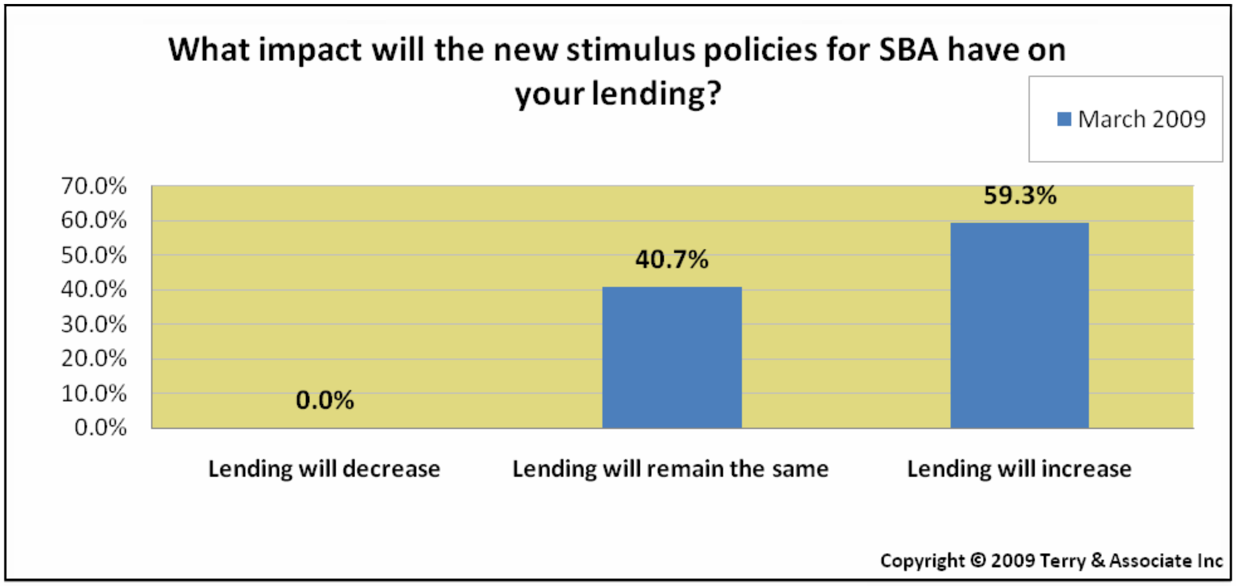
Results from this second survey conducted the first week of March are being compared with the first survey completed the first week of February. The first survey is our plumb line to identify key performance differences that should reveal where the small business lending industry is in its road to recovery.

We also added three new questions to this short survey. The first seeks to gain an understanding of the potential impact of the just published SBA lending initiatives. The second attempts to identify the potential impact of the roll out of TALF funds. The third new question seeks to gain insight into the secondary market. As important as the secondary market is too much of the small business lending industry, where will market pricing have to be before we realize a significant rebound in small business lending?



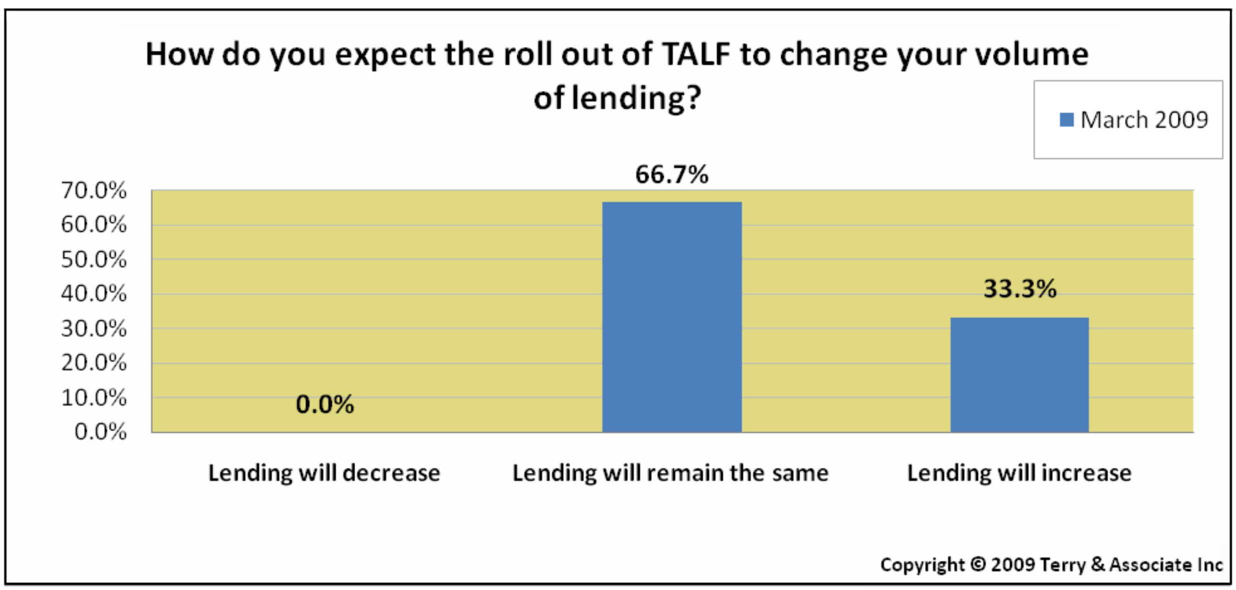
It would appear looking at the above chart, that lending departments are firming up their attitude toward small business lending. Results show that 48% are basically not lending at all. This is about a 3% increase in “no lending”. At the same time, we see a significant 7.4% bump coming from those lenders who are committed to increasing their lending, but this is still just 20% for the entire industry. This increase is predominantly coming from portfolio lenders. While this is encouraging news, the chart still shows there is more “stimulus” and economic recovery needed before we see a broad industry return to lending.

* * * * *



There appears to be a strong sentiment toward the new Stimulus Bill containing new money and favorable policies for the SBA. An astounding 59.3% of respondents expect their lending to increase with these new initiatives. Quick action by the SBA to publish regulations and procedures is a mandate if results are truly going to occur. These are expected within the next week. If there are not any new "barriers" created, these new policies could produce significant increases in lending within the next four to six weeks. It is important to note that there were no respondents who felt lending would decrease.

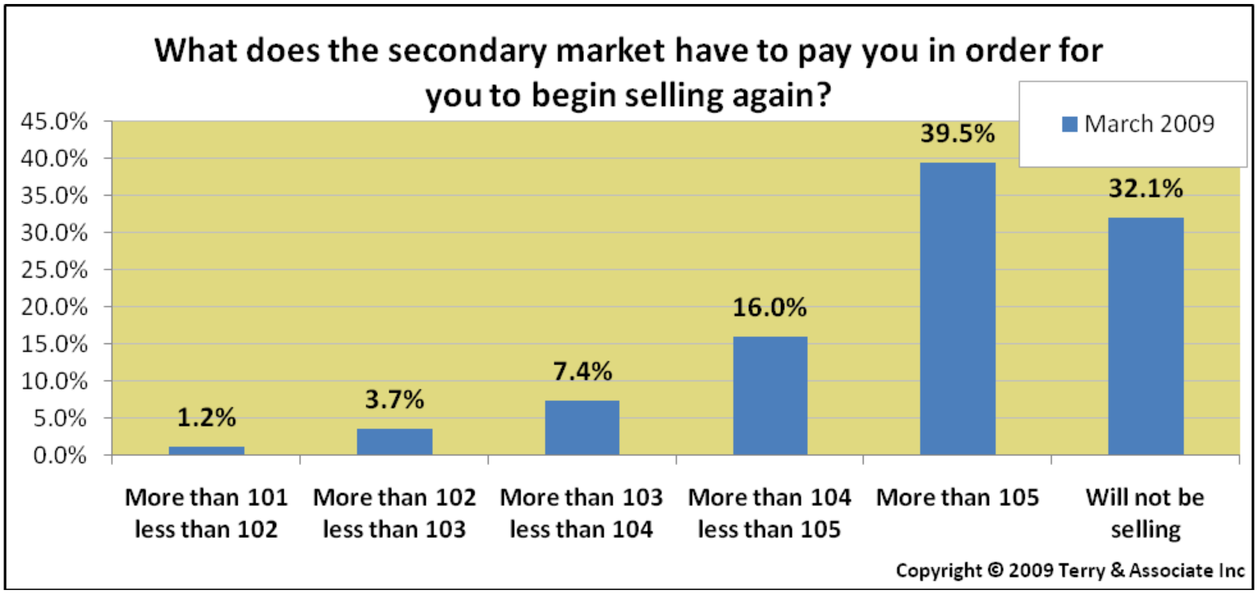
* * * * *



While the industry feels strongly about the potential impact of the new SBA initiatives which are spelled out and will be made available immediately, the TALF initiative is not drawing as much confidence. Only 33.3% reported that it would provide an increase in lending. In talking with some of the respondents, it became very clear that in order for their lending to increase, there would first have to be "evidence" that TALF is working.

"Working" can be defined as reviving the secondary market to the point that small business loans can be sold at a price that fits the lender's economic model. This is further discussed below. Again, it is very important to point out that not one respondent saw TALF as having a negative impact on lending.

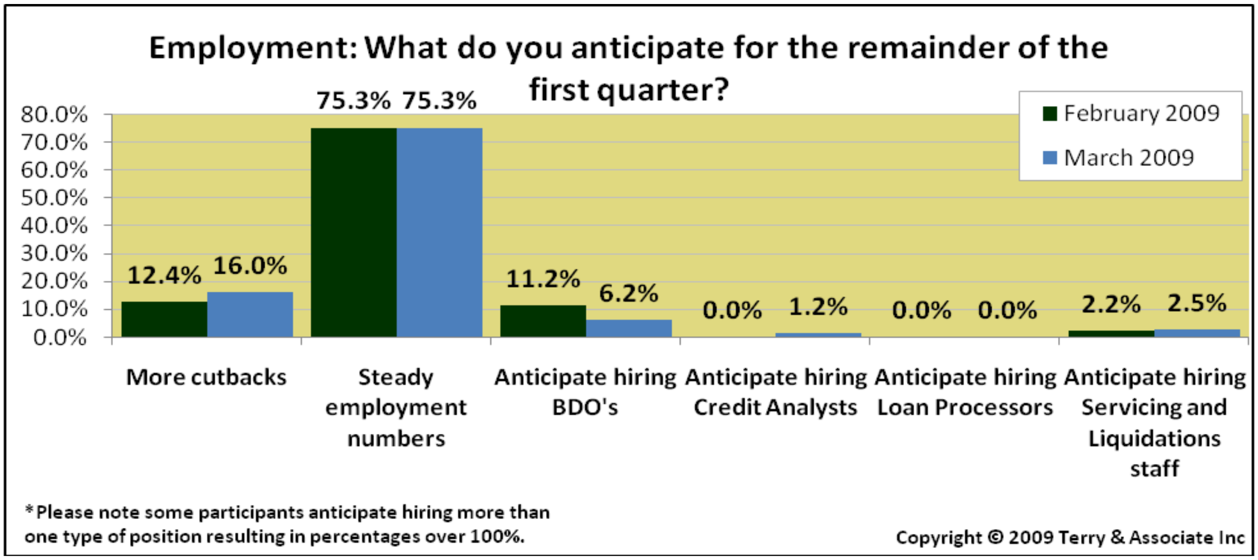
* * * * *



The impact that TALF can have on small business lending is shown in that 68% of respondents rely on the secondary market. A reviving of the frozen secondary market has been greatly discussed as a major factor in reviving lending to small business. But, how do we define "revive?" Based on the above chart, a mere "thawing out" is not going to do the trick. Each lender has its own strategy and objectives in utilizing the secondary market. One foundational economic model may be to sell at par and retain a higher servicing fee. Others sell selectively to "make their numbers". But, the majority who participate in the secondary market see it as their life blood. Without it, they may not be in existence as evidenced by the large number of lending companies and departments that are no longer in business.

The survey shows that only 12.3% (more than 101 but less than 104) of respondents would return to the secondary market if premiums stay below 104. That jumps significantly by an additional 16% if the market premium can climb just a little bit more. But to have the kind of impact needed by the majority of respondents, the premium has to be 105 or higher. TALF will begin funding investors on the 25th of March and it may be a full month before we can measure the immediate impact on small business lending. While the government did modify the pricing for TALF investors, it is general thought that the haircut is still too high and it will keep many investors away. If the response from investors is weak, the government will most likely improve the terms again. In which case, we may have to wait yet another month before we see any true impact from TALF. So be prepared to add another 60 to 90 days to recovery.

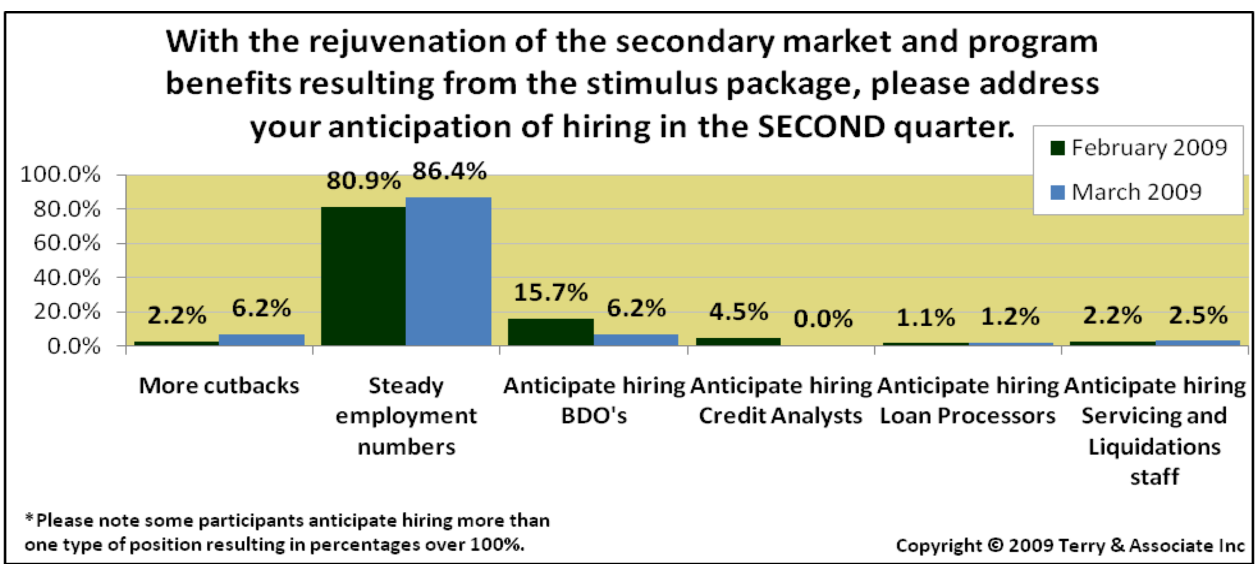
* * * * *



Employment in the small business lending industry is at a critical state. The majority of respondents have had lay-offs during this crisis and based on these employment charts, it is clear we have not hit bottom. More cutbacks are coming in the month of March with 16% of respondents saying it is not over. Last month only 12.4% said that there would be more cutbacks. Factoring in new hiring, we see the net impact of hiring going from .08% negative growth to 6.1% negative growth. So not only will there be more cuts, but not as many new employees will be hired.

I discussed this with several respondents and it appears that the cause of this negative employment growth is tightening of the profitability belt. Management is simply not willing to continue overhead without seeing evidence that things are improving. What evidence is needed? Simply stated: more qualified loan requests. If loan volume begins to climb, then employment can be justified. With the new stimulus initiatives along with a recovery in the secondary market, we may start to see just that.

* * * * *



The biggest news concerning employment in this industry is that 86.4% of respondents see a commitment to steady employment in the second quarter. That is up significantly from 80.9% last month. This bodes well for **most** current employees. However, in spite of great optimism regarding the stimulus initiatives, more cutbacks are still expected in the second quarter. "Do more with less staff" is management's mandate. Evidence, as stated above, will continue to be required before the bleeding in employment stops.

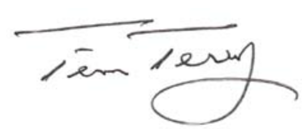
Last month's survey showed only 2.2% of surveyed lenders expected more cutbacks. That climbed this month to 6.2%. New employment last month showed 23.5% anticipated hiring. That has now slowed to 9.9%. So we have gone from anticipating a second quarter positive employment growth of 21.3% to just 3.7% anticipated in the second quarter.

Summary

We are clearly seeing the SBA lending industry nearing or at the bottom provided that the stimulus initiatives come with no new hurdles and TALF begins to rejuvenate the secondary market. All respondents expressed strong optimism. However, there is still evidence of strong pressure on some programs that depend on the secondary market, with "case in point' the shut down of one of the Top 10 SBA lenders in February. Further significant employee cutbacks and the changes in sentiment toward hiring reinforce the significance of a strong secondary market.

A significant increase in loan applications is not expected until policies and regulations are published on the new SBA initiatives, TALF begins to fund late this month and buying begins in the second quarter. If the results are positive, we could begin to see significant improvements in lending and an uptick in employment by mid-to-late second quarter.

Many lending departments are operating at a "bare bone" capacity. It will not take a lot of new loan volume to swamp the back rooms. That is the operational policy in place and many hope that is exactly what happens. "From my mouth to God's ear."



Tim Terry
President
tim@sbasearch.com
940-381-6200