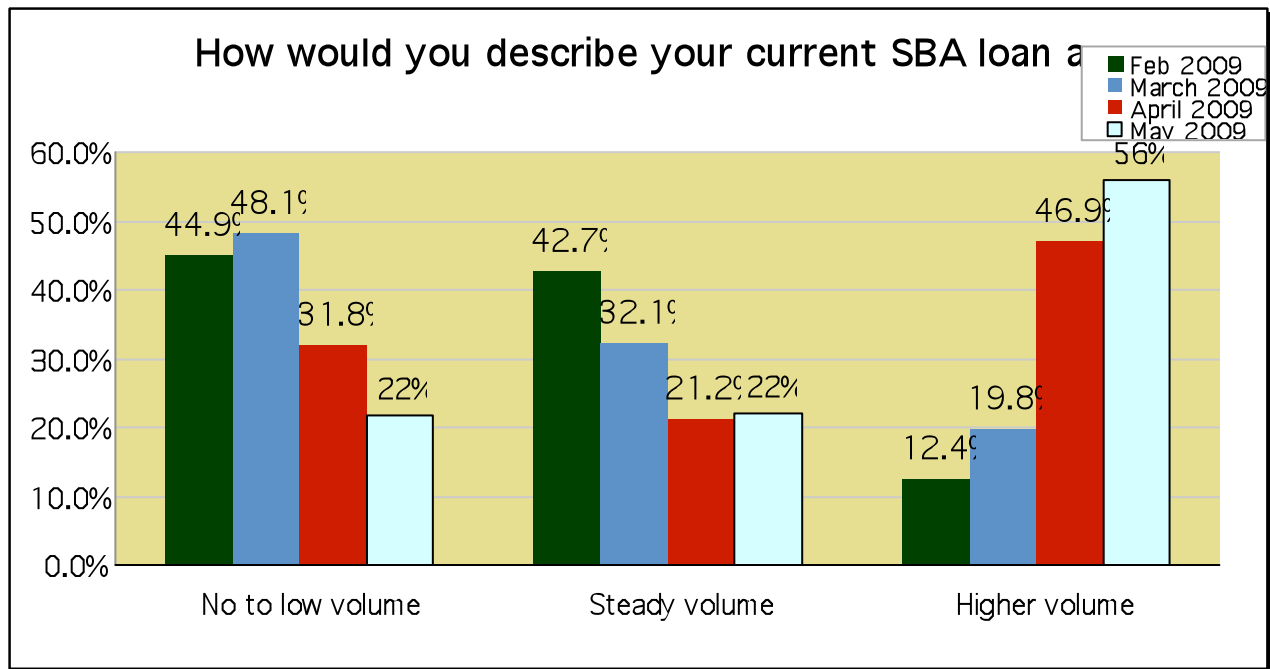


## Significant Increase in SBA Loan Activity Tied to Improvement in the Secondary Market

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

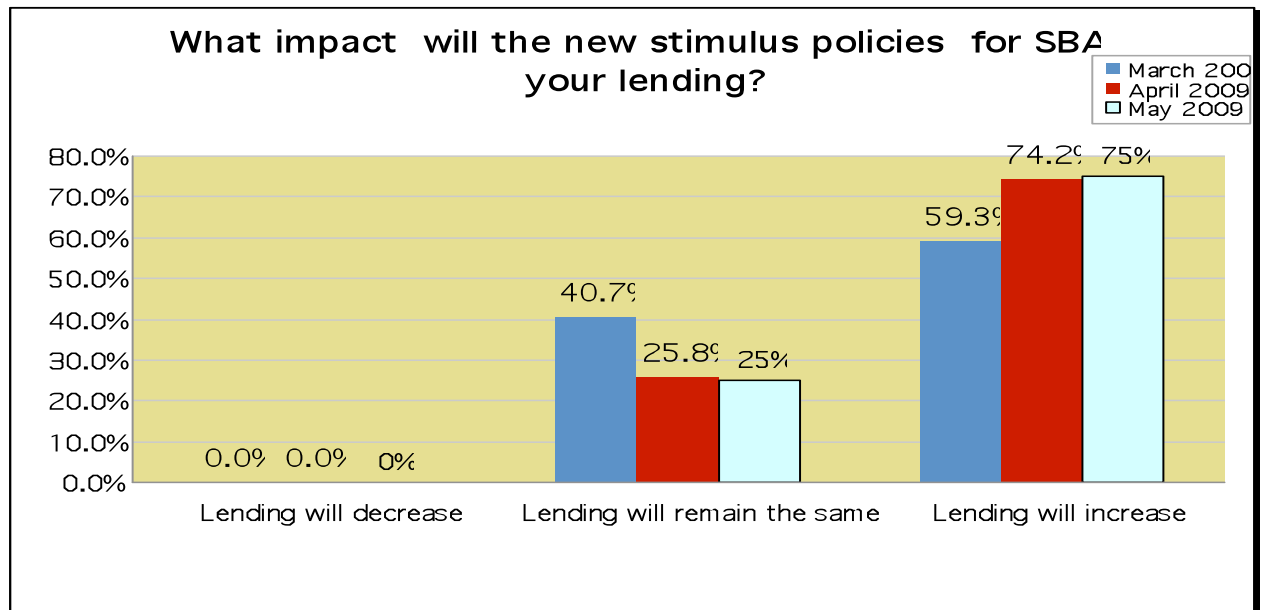
More loan activity! Higher secondary market! Improvement in hiring forecast! This report has it all. But what does it mean long term?



The chart speaks for itself. I believe they call this a “positive trend”. Does it mean that we have hit bottom and have a recovery occurring? Without approval numbers from the SBA supported by loan volume numbers from the lending community, it is impossible to declare a complete turn-around in SBA lending. Hopefully, the SBA and NAGGL will have the specific numbers to share with us soon. Even then, it will be important to continue to see improvement through the remainder of the second quarter. What it *does* say is that each month, for the past 3 months, more lenders are being given the green light to lend. Just 3 months ago 48% of lenders were reporting that they were basically not lending at all. At the same time, only 12% were increasing their lending.

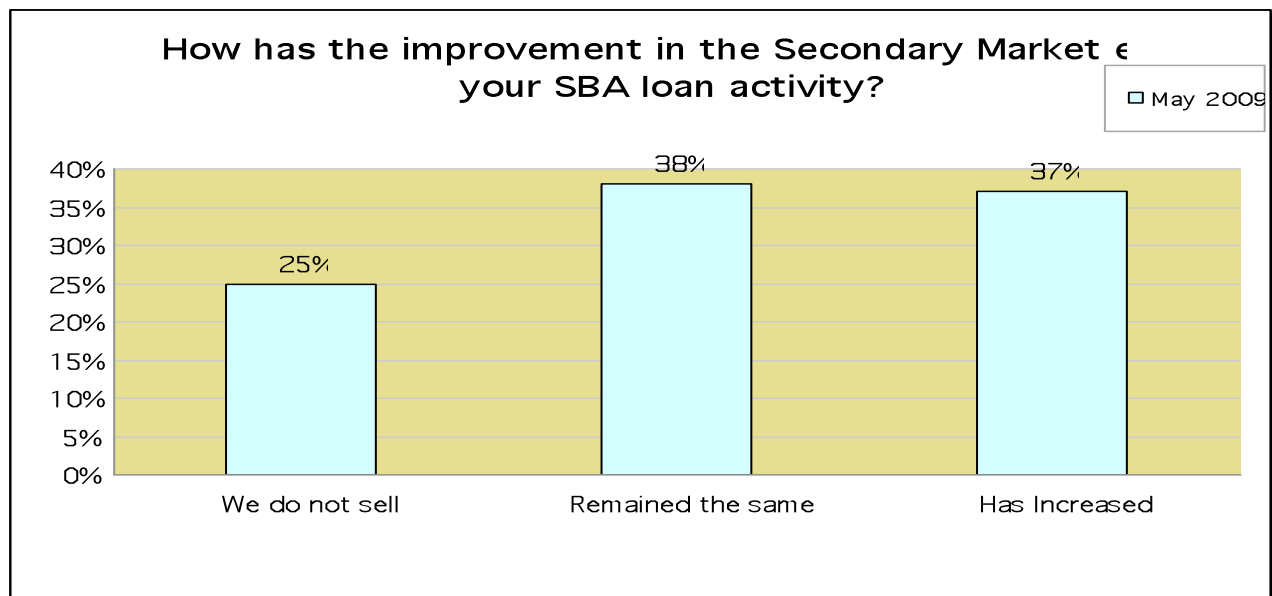
What a turn of events! Just 22% are still sitting on the sidelines while 56% are reporting an increase in lending.

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SBA department managers continue to report that the SBA stimulus policies are working. In discussions with several department heads, they indicate that the number of loan applications has increased. Loan applicants are emerging from the sidelines in anticipation of an economic recovery and the desire to take advantage of the temporary elimination of fees. The challenge continues to be tight credit. However, more applications should lead to increased loan approvals.

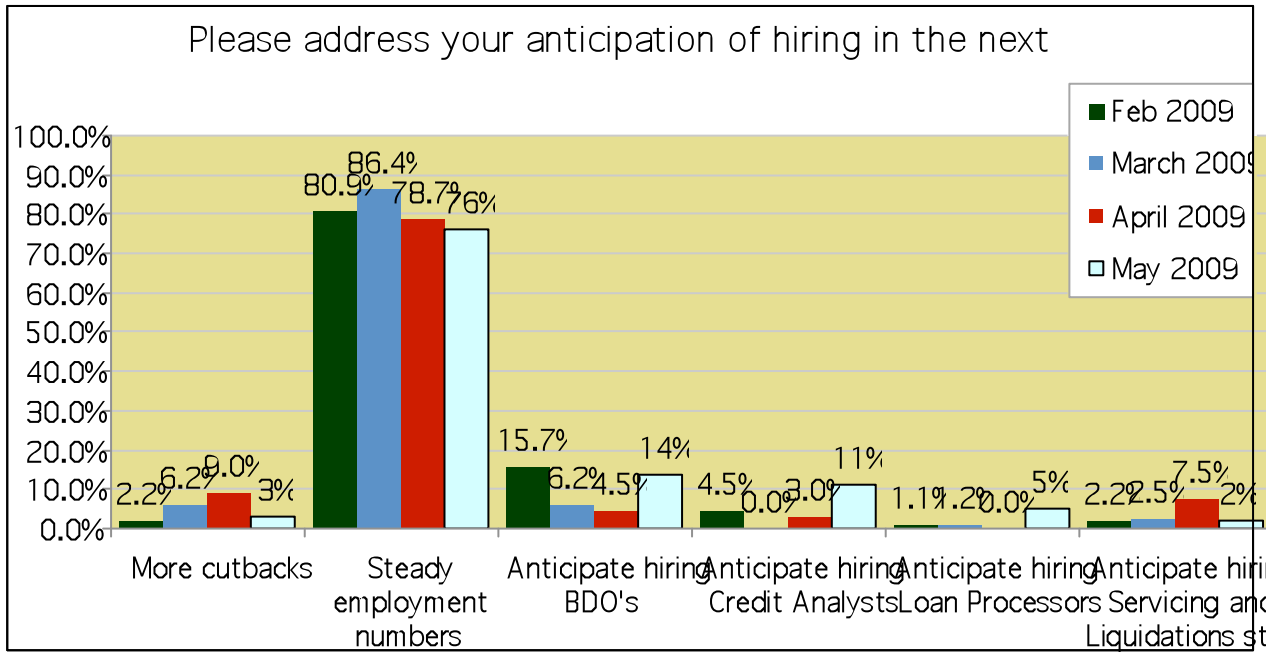
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With some loans selling for over 106 in April, is it any surprise that more lenders are reporting increases in SBA loan activity? One lender reported to me that his bank had significantly reduced its new loan budget for this year due to capital constraints. This particular regional bank has a history of holding their loans. The department manager developed a strategy to significantly increase the new loan budget by recommending the bank begin selling in the secondary market for the remainder of this year. The president gave an immediate answer to “make it happen”.

**SBA lending is still as much a business strategy for the bank as it is a great loan product.**

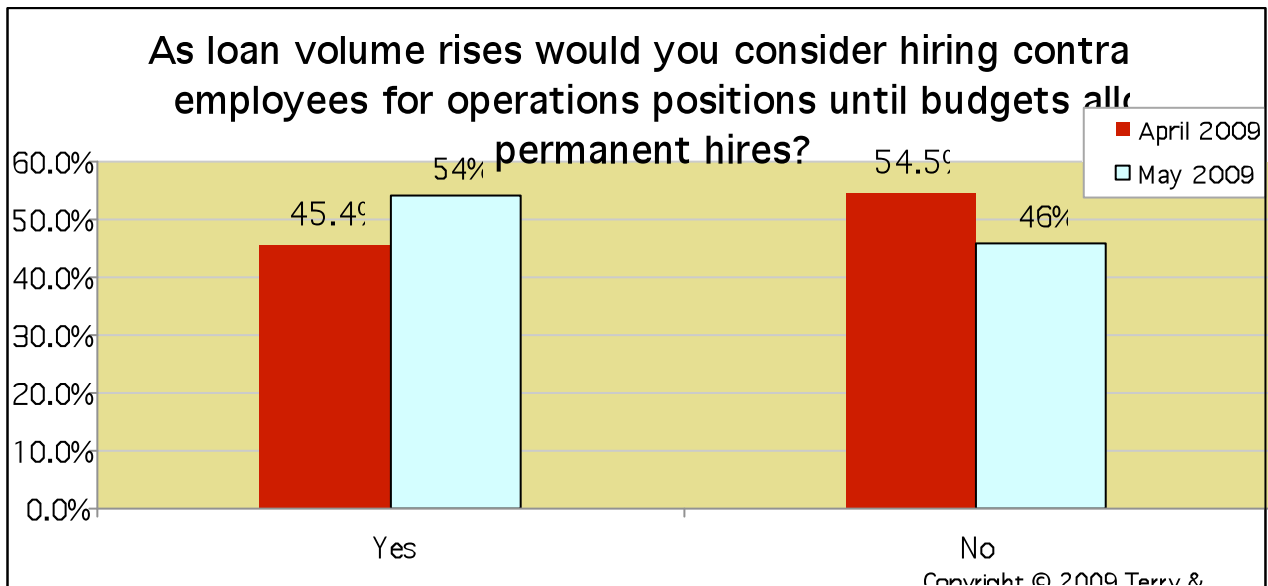
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Less cutbacks – More hiring! With loan activity heating up, so does staffing on the operations side. I have talked with many department managers over the past month who report that their current staffing is near or at capacity. Some managers infer they are fighting to get any new head count. Others are requesting approval for temporary contract staff. **The challenge is the waiting period required to prove up that this loan activity will continue.** If it does, then new operational staff will be justified.

The encouraging sign is the 14% that report that they will be hiring business development staff over the next 90 days. Several lenders who reported major lay-offs in January are already hiring back.

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Terry & Associates started something new to this industry April 1; a temporary / contract employee service. The first month's activity proved the need for such a service is warranted. All requests in April were for credit analyst. Based on the improvement shown in the chart above, it would appear more department heads are giving this concept more consideration. The contract employee actually works for Terry & Associates, who handles all payroll issues. These temps are then assigned to work for the bank. Hopefully more of our industry's valuable, experienced SBA staff will gain this opportunity while waiting for the full-time jobs to appear again. It is in everyone's best interest for this industry to retain its best and brightest talent during this period of economic disruption.

## Summary

[] For the third month running, there is a significant increase in the number of lenders who are ramping up their SBA loan activity.

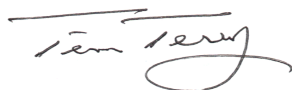
[] The SBA stimulus policies continue to bolster lending activity. SBA reports that weekly approval of new loan dollar volume is up 25% nationally since the stimulus actions went into effect on March 16<sup>th</sup>. In addition, 300 banks have made their first SBA loan since the beginning of the year. Another way of looking at it ...more loan customers are applying with those lenders that have been given the green light to lend. However, quality loan credits are still the buzz words.

[] The secondary market continues to improve with some loans being sold at over 106. As recently as January, the submission of a loan for sale might not get a single bid. Most important, this improvement is coming without the assistance of TARP, TALF or the SBA.

[] SBA industry employment appears to be poised to make improvements over the next 90 days. There are 32% more departments hiring verses just 3% still looking to make cutbacks. However, the number of future SBA jobs in the short-term will, no doubt, be impacted by the loss of another SBA lending department due to a FDIC bank shutdown.

[] More department heads are looking to hire temporary / contract employees as loan volumes increase. Some banks continue to be cautious about hiring full time until they see long-term improvement and stability in the economy.

Many SBA district offices have reported 50% or more loan approvals in March as compared to February. This may simply reflect a pent up demand waiting for the SBA initiatives to take effect. The new April numbers from the SBA should demonstrate the true level of improvement in loan approvals. With this additional data, we may more accurately evaluate whether, in fact, we are witnessing a true industry recovery.



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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.