

## SBA Stimulus Money Running Out! Lenders Speak Out on what is needed next.

Small Business Lender Sentiment Survey  
On Lending and Employment  
August 2009

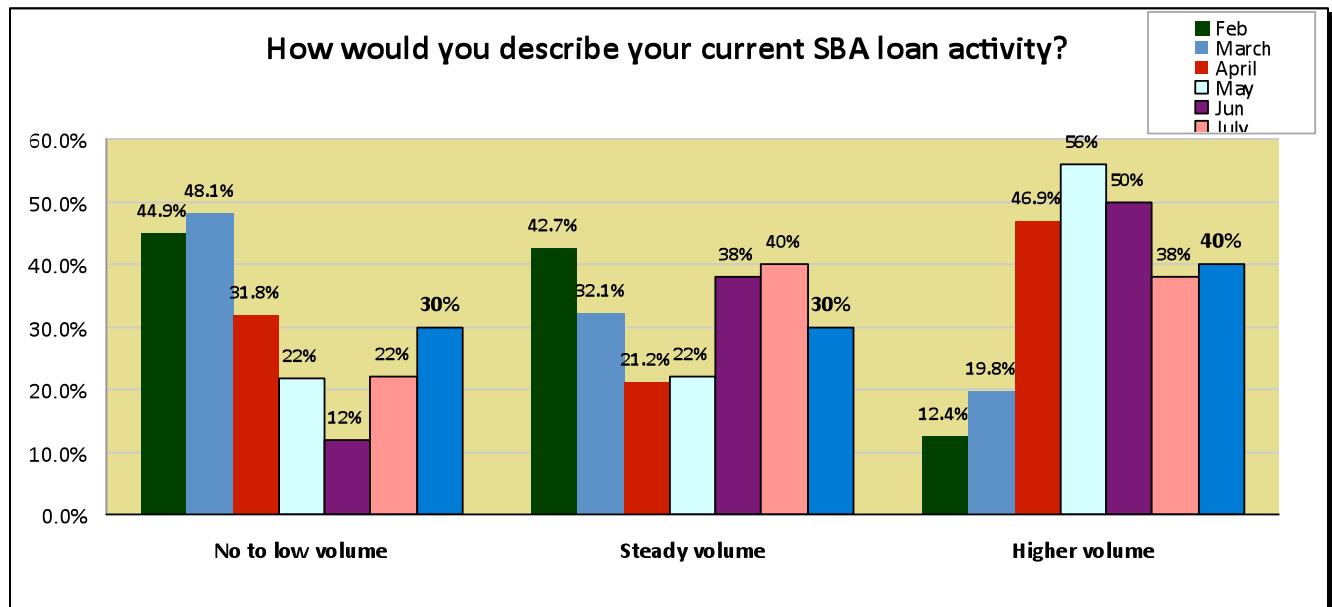
In this issue:

More stimuli needed! What do SBA lenders want it to be?

Lending activity reversing trend. How tight will lending get the next 90 days?

SBA's ARC program gaining momentum, but for whom?

Outlook for SBA employment: 90 day outlook. Will it ever improve?

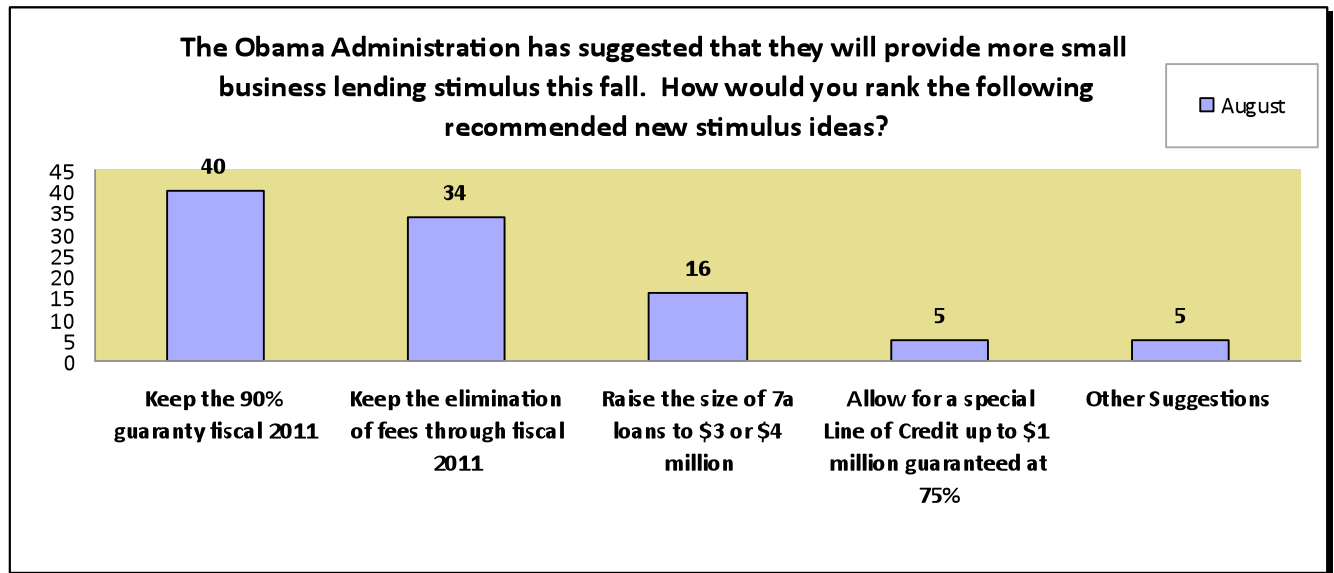


As seen this month, lenders continue to retrench their lending activity. While SBA lending has been going strong all summer, bank management is WAITING FOR THE OTHER SHOE TO DROP. Commercial mortgage defaults brought on largely by 5-year balloon renewals and low appraisals are rising dramatically. Commercial mortgage foreclosures were up 35% through July as compared to the same period last year. And we have yet to hear news about the rising default rate in Alt A loans. While everyone seems to believe that the recession is about over, there is no one saying anything other than "it will be a long slow recovery." **For the banking industry, we may just be in the "eye of the storm"!** TARP loans and capital raised in the last 6 months are largely being set aside for loan loss reserves. No wonder we see an 18% increase in "no loan activity" in the last two months.

On the brighter side of banking, the current SBA stimulus initiatives might go down as the bright spot of the entire Stimulus Plan in impacting the economy where the rubber meets the road. However, the Obama Administration is suggesting that more TARP money will be forth coming to support small business lending this fall. If they are going to do anything, they need to do it quickly.

While the ARC program may last as long as the time allowed (December 2010), the 90% and "no fees" are due to expire at the end of this year OR when money runs out. At the current utilization rate, the SBA expects the money to be fully utilized by late November or early December. Based on the history

of the SBA running out of money, which was widespread in the 90's, I fully expect a RUN on the SBA Bank. That would translate to heavy loan applications in October and effectively tying up the remaining funds then. **That is 60 days from now!**

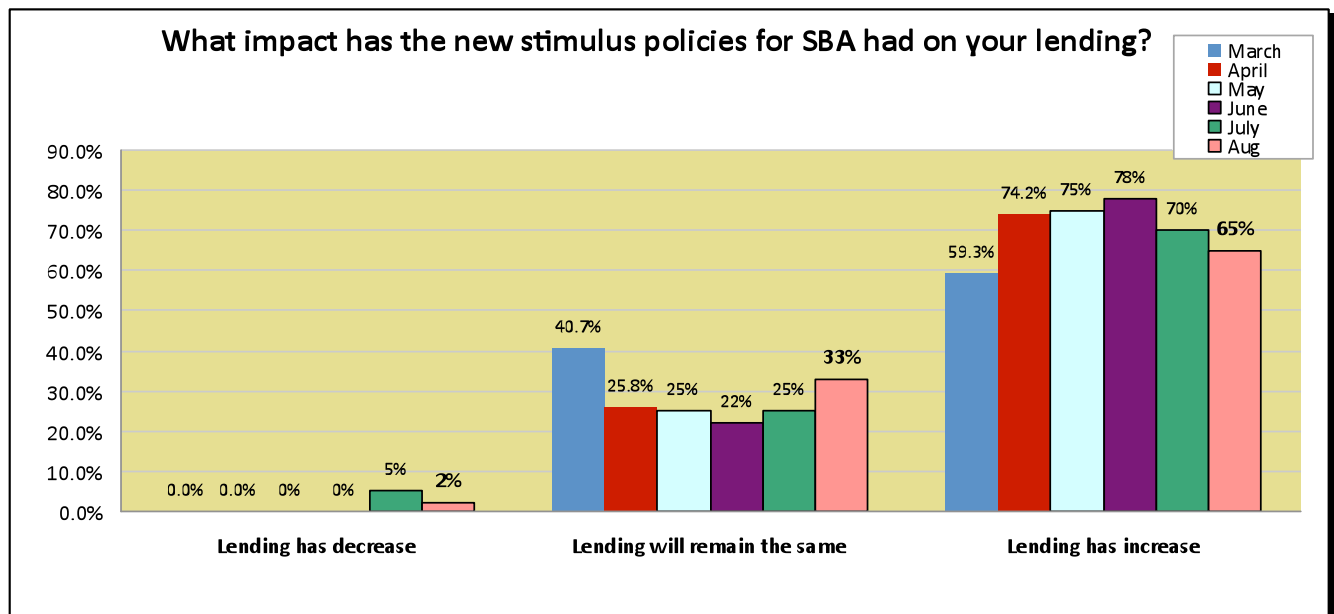


A lot of ideas have been suggested in the media as to what should be done next to help small business. This month lenders gave us their perspective on the matter. It is no surprise that the two hot button issues (by a whopping 74%) were keeping the 90% guaranty and the elimination of customer fees through 2011.

Based on this response, I would hope the SBA and the Obama Administration would also add raising the SBA 7a loan size to at least \$3 million. What is obviously not needed is a “line of credit” program. At some point the SBA needs to recognize that SBA bankers are not set up as asset based lenders. Plus, it would take several months for the SBA to create policies and procedures for any program like this.

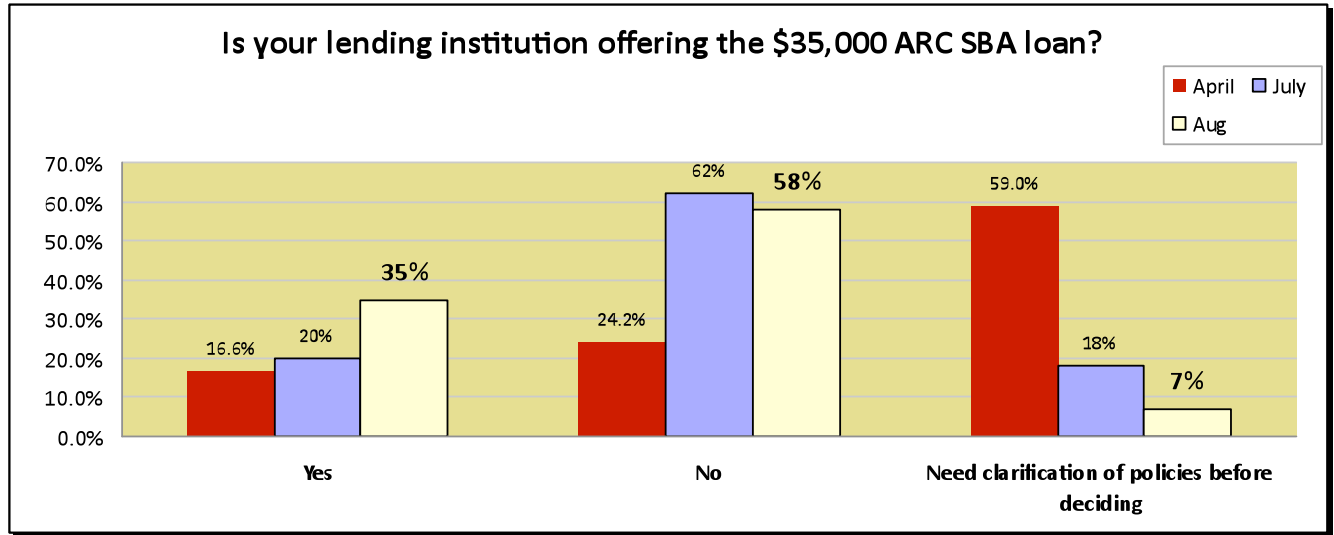
These stimulus initiatives along with the dramatic improvement in the secondary market, have been crucial to many lending institutions. For these programs to expire will likely mean a dramatic slow down in loan demand coupled with even tighter credit for small business. See the chart below: It has already begun.

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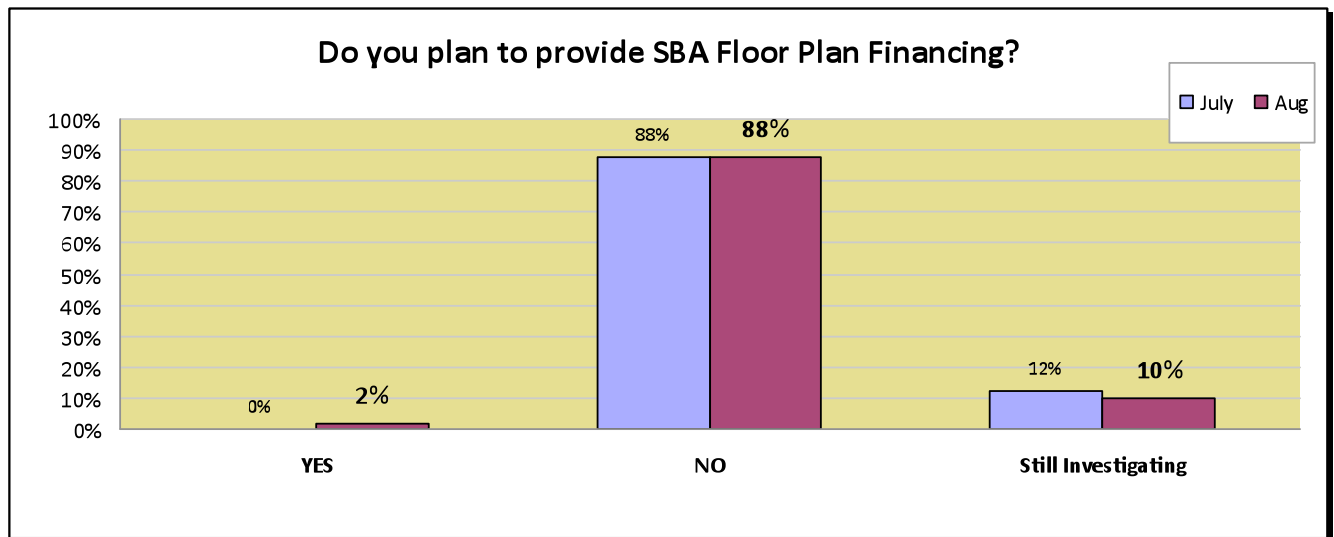
In talking with the few banks that have decreased lending, it is evident that the issue is largely tied to Herndon loan repairs or denials. So, on the one hand, the SBA wants to increase lending and at the same time, loan repairs and denials are starting to affect lenders' confidence in the SBA guarantee.

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We have had a significant increase in lender participation in the ARC program. As of August 14<sup>th</sup>, 1375 ARC loans have been made by 470 different lending institutions as reported by the SBA. **But, it is still very hard to find any lender who is going to make these loans to anyone other than their own customers.**

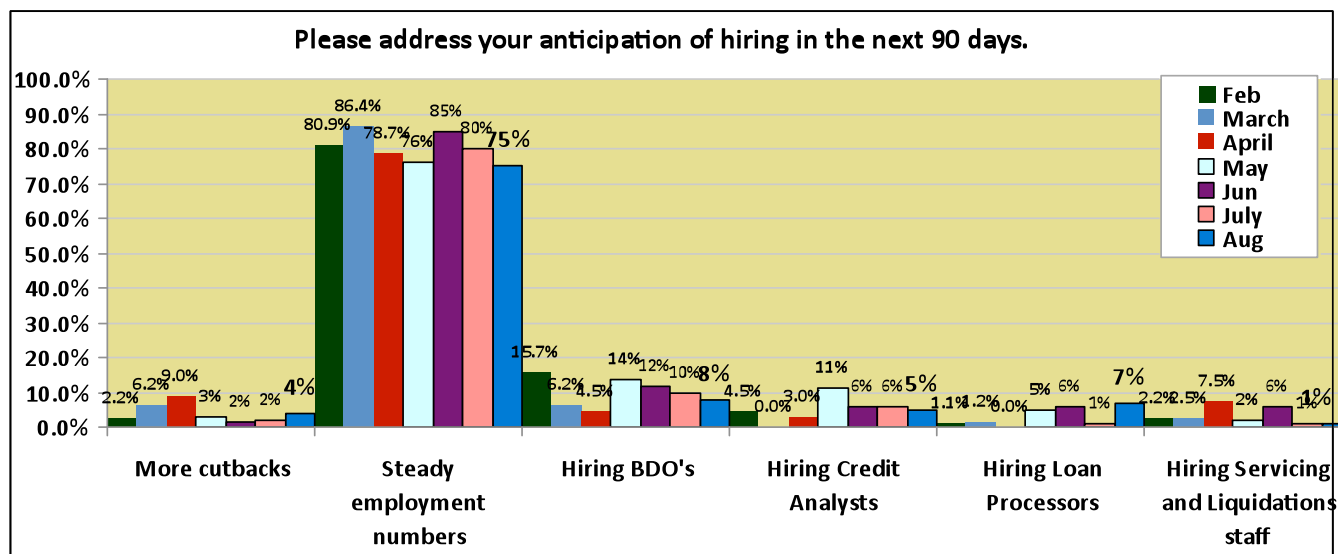
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We have a winner! Yes we found several lenders who have decided to make this new loan program available to EXISTING customers. As of August 23<sup>rd</sup>, one floor plan loan has been approved. Since SBA lenders are not "asset based lenders" the few active participants are only able to provide this financing through the bank's asset based lending division.

I brought this to your attention last month, but let me emphasize it again: The SBA should take note of this as they consider expanding any program that would entail large lines of credit.

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Will the cutbacks ever end? The answer is probably not until the FDIC decides that they are done for now in taking over banks. Again this month, 4% of respondents suggest that there are SBA lending banks that may be out of business before the end of the third quarter. While there is a nice increase of new hires expected over the next 90 days, it amounts to less than 50 new SBA jobs nationwide. This is far from the employment recovery we need.

Many former SBA lending personnel have been unemployed for as many as 9 months. A large percentage is leaving the industry out of necessity. When hiring does pick up momentum the question will be where to find the talent that will be lost.

### Summary

- The SBA stimulus money is running out quickly. My estimate is for that to happen as early as late October.
- If the Obama Administration is going to move some repaid TARP money to help small business lending, it needs to happen quickly. To hear that positive announcement in September before the start of the 4<sup>th</sup> quarter would be a huge boost to the moral of the SBA lending community.
- SBA lenders spoke out and want to see the current initiatives continue, **plus** raising the 7a size standard to at least \$3 million.
- Bank liquidity continues to affect credit. Commercial mortgage defaults and now Alt A loan defaults have necessitated that banks set aside more capital into loan loss reserve.
- SBA industry employment looks to make improvements over the next 90 days. However, by the time banks start hiring again, the question will be finding talent. No one is waiting any longer for a bank job. Career moves are taking the talent pool to a very low depth.

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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.