

## SBA Lenders say continued stimulus crucial to success in 2010

Small Business Lender Sentiment Survey

On Lending and Employment

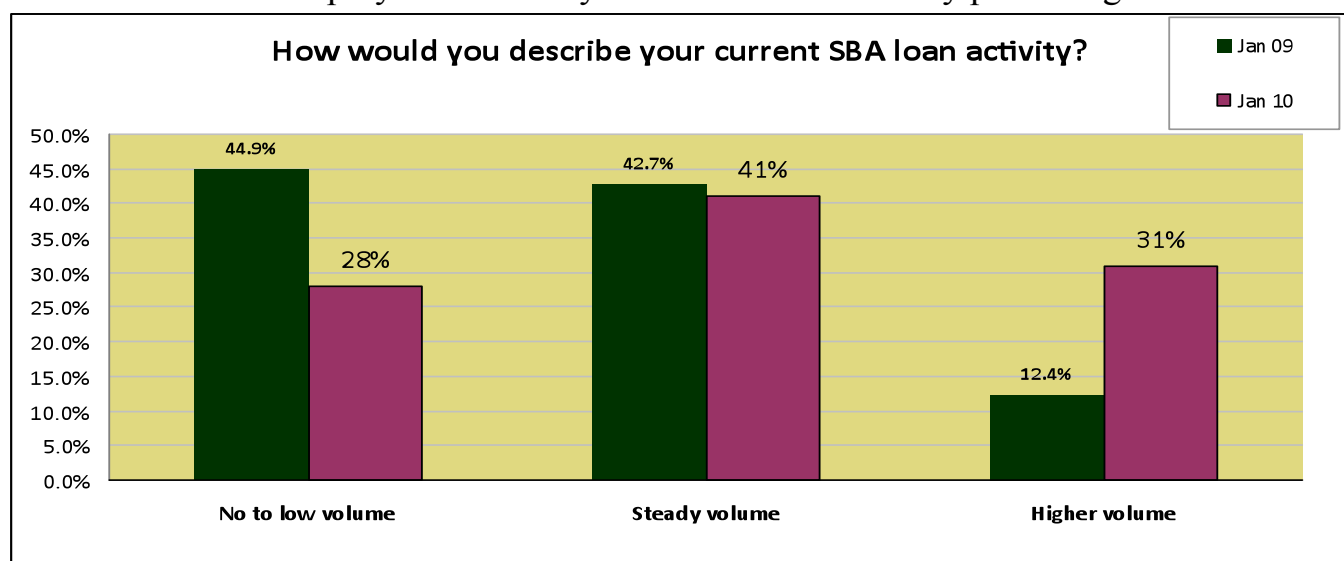
January 2010

In this issue:

Will Congress act on extending SBA stimulus policies and increase the 7a loan size?

What will happen to SBA lending if no Congressional action is taken?

SBA lender employment: 90 day outlook. Could be very promising!



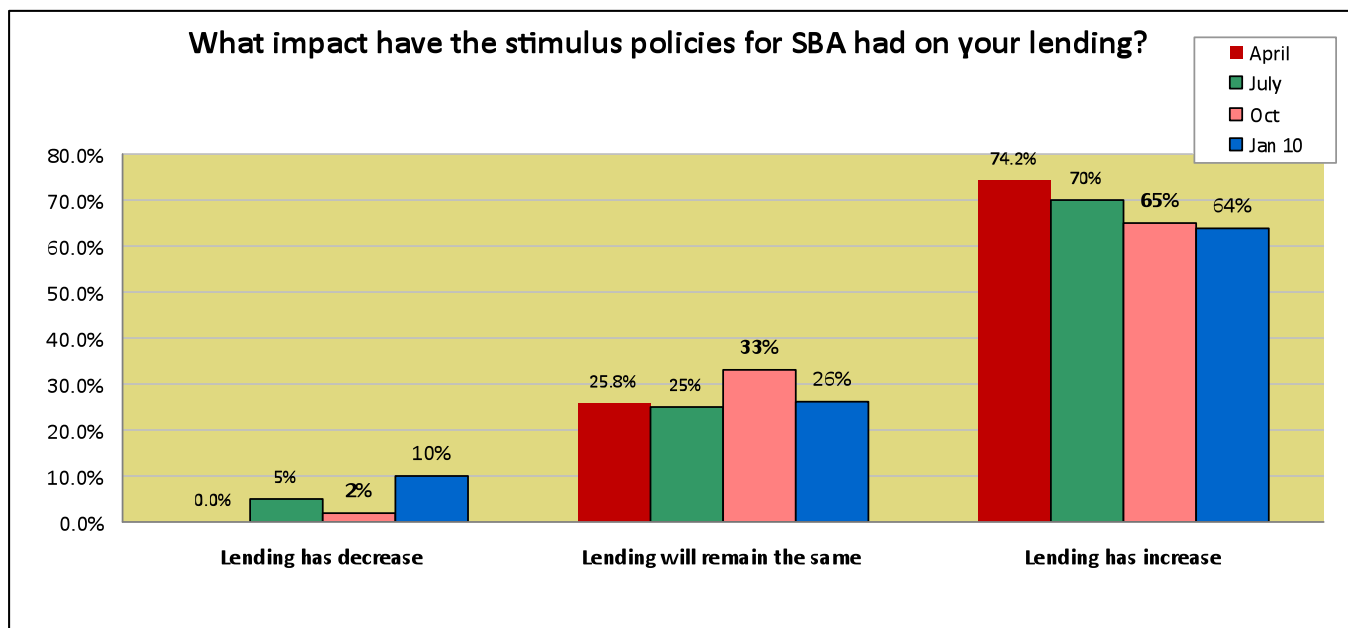
This month marks a year of presenting insights gained from over 550 SBA lending decision makers through out the country. It also gives us a chance to look back and begin to see how much may have changed (or not changed) from a year ago. I believe we are all excited to put 2009 behind us. This report reveals that there is a lot of cautious optimism about 2010.

There are three main issues that will affect the outcome of lending this year. First, will the economy continue a modest amount of improvement or will we have another set back? With credit expected to be very tight again this year, it will be difficult for even companies that are positioned to grow and add employees to actually do so. Credit managers will continue looking for reasons to make a loan. However, with weak company performance over the past two years and the continued economic uncertainty of 2010, there will not be many who qualify.

The second issue is the need for continued SBA stimulus. Many have said that **the SBA Stimulus Plan has been more successful in creating and retaining jobs than any other stimulus program of the past year**. The sad reality is that the Obama Administration gave the SBA less than 1% of the overall stimulus program. Then late last year, it seems that the Administration realized how successful the SBA Stimulus was working and began to promote SBA lending. Continuing stimulus policies through February was terrific, but without continuing them through fiscal 2010, there is little doubt that the successes of SBA lending will begin to dry up.

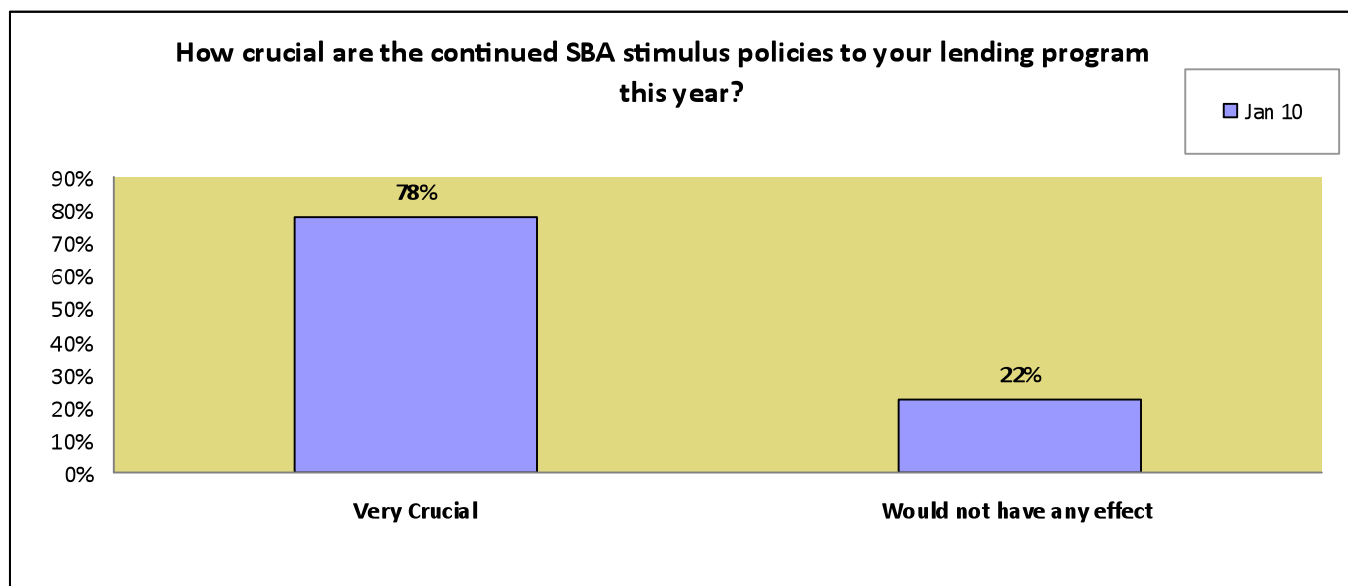
The third issue focuses on bank balance sheets. The FDIC took over 140 banks in 2009. This may well be the number in the first 6 months of this year. The FDIC head, Sheila Bair reports that there are 522 banks on the watch list. Many of those are operating under a C&D. Unfortunately, many are also SBA lenders. Fixing the balance sheet comes down to two methods: raising capital and getting rid of bad loans. Neither strategy happens over night. Adding to the dilemma, is the estimated \$325 billion in commercial loans that are scheduled to reset this year. The lack of an adequate appraisal may make it impossible to renew these loans. So, loan loss reserves may eat up available capital, as well as any new raised capital. This month's report compares current lending practices with the same period a year ago. All three of the above issues are reflected in the findings. While we see a significant improvement in current lending activity on the first chart, it is still staggering to see 28% reporting No to Low Volume.

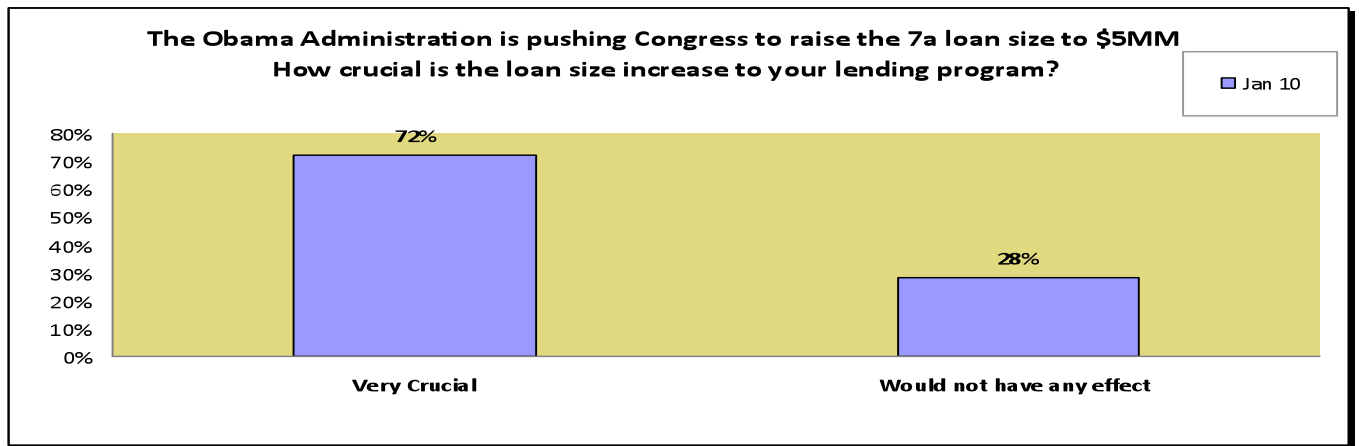
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In the chart below, lenders report that the time period between the original stimulus dollars running out and the renewal of these policies had a detrimental effect on their lending. Now everyone is waiting to see if Congress will extend these policies through this fiscal year. Expect a jump in increased lending if and when they do.

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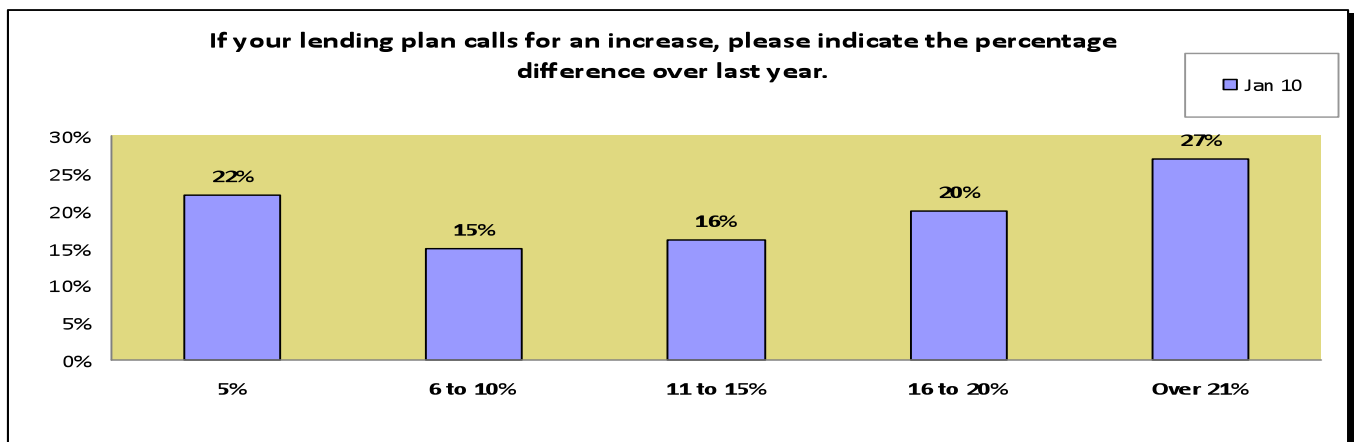
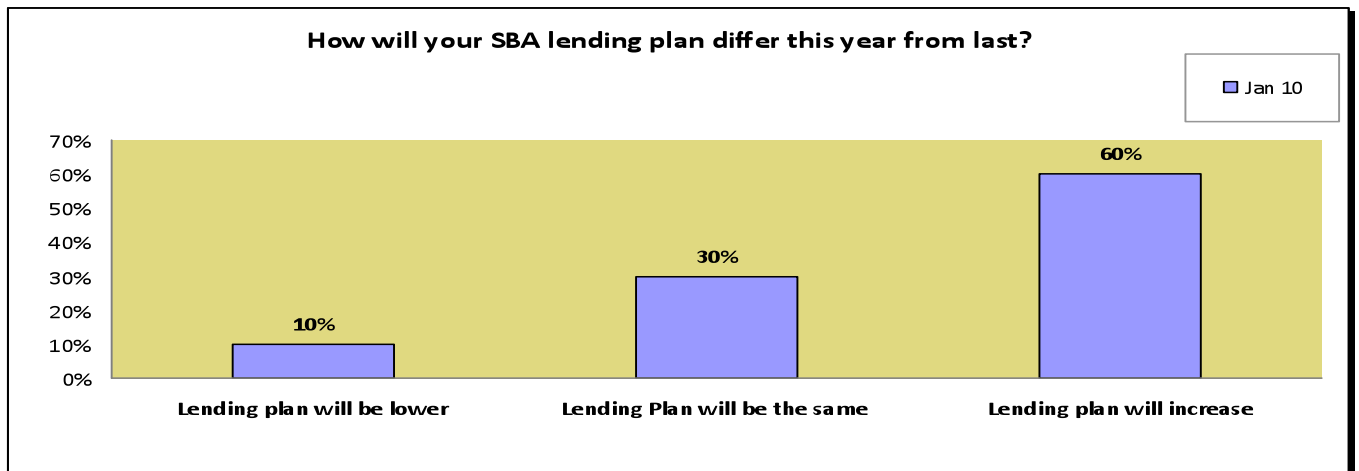




We received a lot of comments on this question. The consensus is that availability of a larger SBA 7a loan is long past due. Many seem to believe that the \$5 million size is nice, but that \$3.5 million is more likely to be the right size for this coming year. Conventional wisdom suggests that most companies that would require a \$5 million loan might fall into the middle market and size standards may play a critical part in even qualifying.

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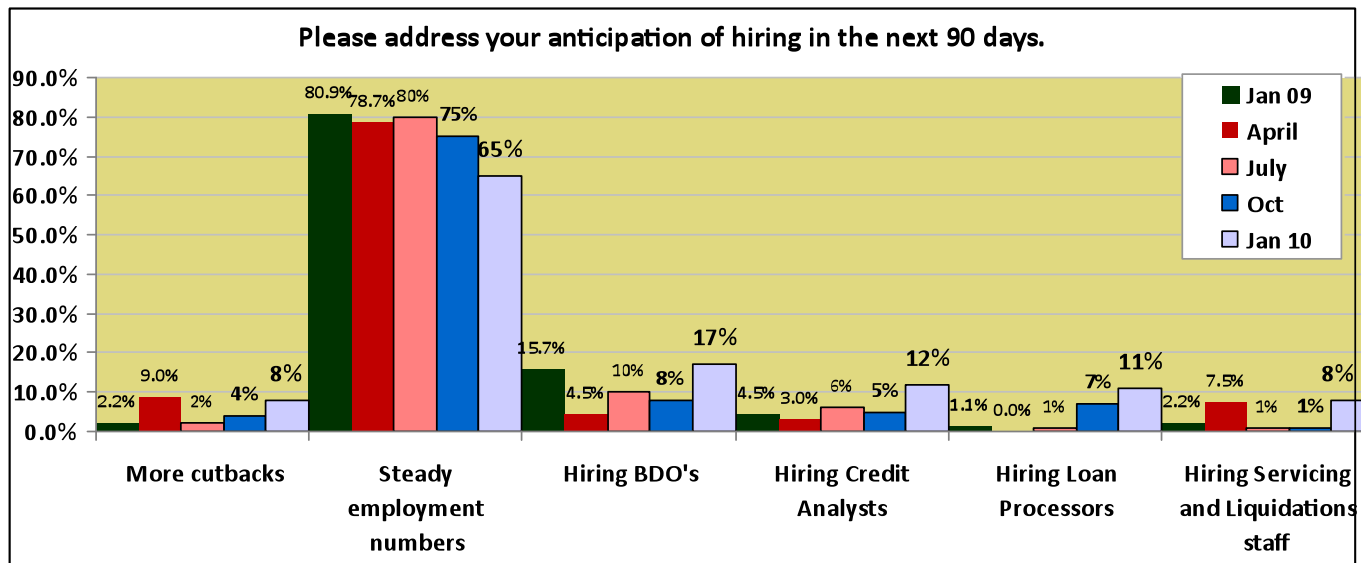
The chart below shows how important SBA lending is this year. A full 60% of respondents indicate that planned SBA lending will increase this year. What appears to be driving this is two fold: 1) continued SBA stimulus and 2) a very strong secondary market. These were the ingredients missing this time last year, which confirms the importance of these two factors playing a substantial role throughout this year. Let's say a prayer that they do. And if so, what kind of increase are lenders planning?



While any increase is a positive, an increase over last year may not be saying that much. In a normal year, anything upwards to a 20% increase would be outstanding, but this type of increase in 2010 could

represent as few as 3 or 4 large loans. This represents 73% of the respondents that said they plan an increase. Only 27% of respondents are planning sizeable gains in SBA lending. However, when you plan for loan growth, does it mean the need for additional staff?

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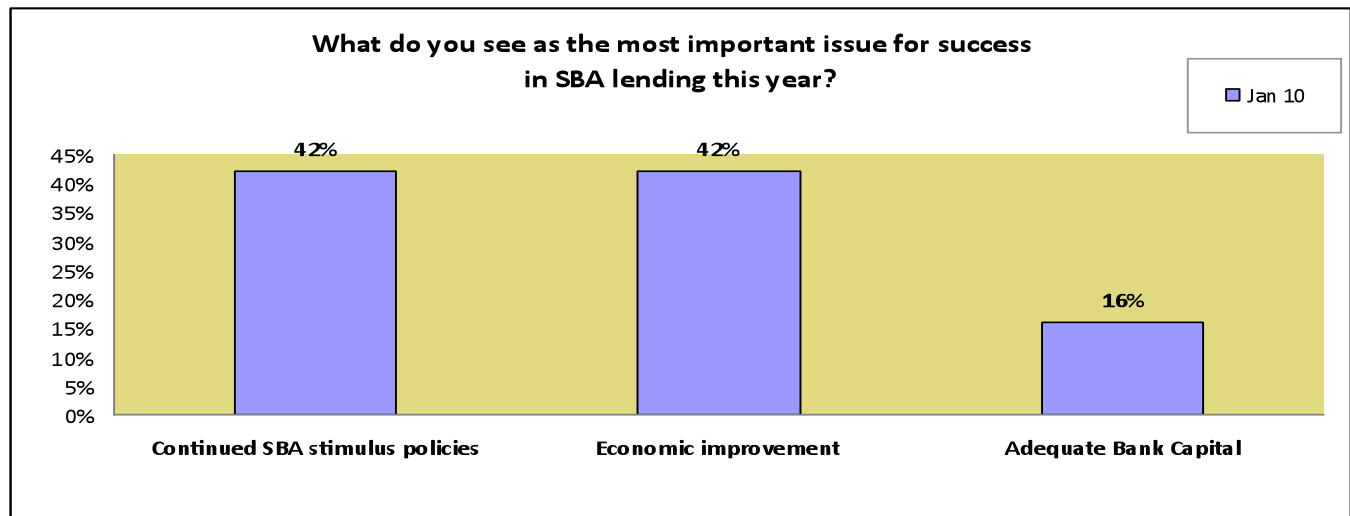


From October 09 to Jan 2010, there is more change in the anticipation of hiring than we have seen in the past year. A drop in steady employment is actually a great thing. Our search firm has received more requests in the last 60 days than we did all of last year. However, much of this new potential hiring is tied to the anticipation that the SBA stimulus policies will continue through fiscal 2010. But, how easy will it be to find new staff? Our experience is that people will stay unemployed only as long as they have to. In fact, many of the hundreds of former SBA staff have found other employment and most have exited the banking field. From personal experience, we are finding that many do not want to come back into the banking arena until there is more stability in the general economy and in the banking industry, specifically.

For the past year, those who have been hired have accepted wages at the 1995 level. This, too, is not likely to last as demand meets a shrinking supply.

Did you notice the surge in cutbacks? This seems to be tied to those lenders who are not sure about the future of their lending institution or the institution's continued commitment to the SBA program. However you look at the above chart, it does appear to be good news.

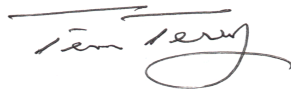
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The above chart shows the importance of both a continued improvement in the economy and the continued need for the SBA stimulus policies. In fact, most of the comments received on this question emphatically declared these two factors to be decidedly “most important”. Sadly, maintaining adequate capital will plague many lenders this year.

### Summary

- The importance of the successful SBA stimulus policies is clearly evident by the industry and the Administration. Hopefully, Congress can get past health reform and begin focusing on policies such as the SBA stimulus that will create new private – sector and wealth – creating jobs. This certainly needs to happen before the end of February.
- The improvement in the economy is crucial for the industry to get solidly back on track. BDO’s will have no lack of loan requests. The challenge will be finding “quality loan requests.” The simple fact is that historical financial performance, coupled with the uncertainties of a slowly recovering economy, will make it difficult to find “quality loans.”
- Bank liquidity will continue to affect the availability of credit throughout 2010. Commercial mortgage defaults are expected to grow with as much as \$325 billion scheduled to renew this year. Loan defaults have required banks to set aside more capital into loan loss reserve. Banks, particularly in the southeast are showing an average of 8% of their loan portfolio is in trouble.
- 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 quarterly 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.