

Small Business Credit Trends

Policy & Supervisory Studies

Editor's note: *Small Business Credit Trends* will be published on a quarterly basis.

Credit Demand and Supply

Only about 32 percent of small businesses identified by the National Federation of Independent Business borrowed at least once in the last three months, according to the NFIB [April 2012 survey](#). While that number is an improvement from the historical lows seen in 2010, it remains well below average prerecession levels.

The Federal Reserve's [Senior Lending Officer Surveys](#) conducted in the first quarter of 2012 show some increased loan demand from companies around the country with annual sales of less than \$50 million. The results were similar for the respondents in the Sixth District, which had a third of the banks reporting moderately stronger demand for commercial loans for all companies, not just small businesses. However, [Biz2Credit](#), a New York-based loan broker, reported a 5.4 percent decline in loan requests nationwide in April compared with the previous month, representing the first monthly decline in a year.

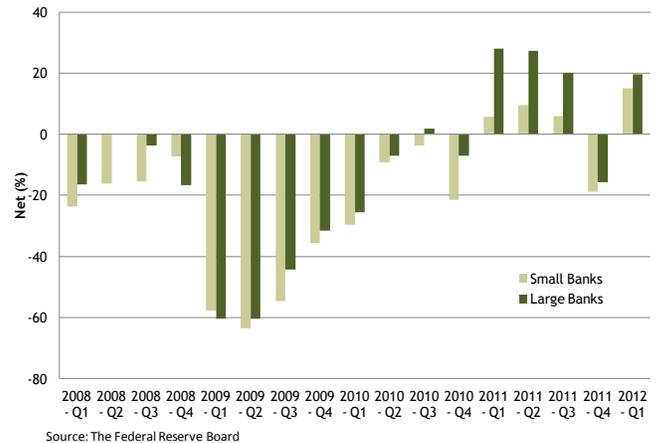
Small businesses say it's still difficult to obtain credit. A [Pepperdine University business school survey](#), conducted in the first quarter of 2012, shows that 75 percent of small businesses with revenues of less than \$5 million believe it is hard to obtain either equity financing or some type of loan. Still, business owners believe that credit terms are going to ease over the next six months.

Meanwhile, the Biz2Credit Small Business Lending Index showed that loan approvals by banks declined. The index is put together through an analysis of 1,000 loan applications filed on the company's site. Larger banks, with assets of \$10 billion or more, fell for the second consecutive month from 11.7 percent in February to slightly under 11 percent in March to 10.6 percent in April. Loan approvals at banks nationwide with under \$10 billion in assets also fell for the first time since August of last year.

Results from the Senior Lending Officer Opinion Survey (see chart 1) suggest that banks have

maintained credit standards for approving applications for commercial loans or credit lines across all business sizes, meaning there has not been any significant tightening or easing of credit standards from a bank's point of view. [Call Reports](#) show that credit quality improved. In the first quarter, noncurrent commercial loans declined from the prior quarter. As indicated in the Senior Lending Officer Opinion Survey, some commercial banks have lowered their loan spreads and reduced the use of interest rate floors as a result of aggressive competition. This suggests that businesses that have good credit are getting somewhat better terms on their loans than in the past.

Chart 1: Senior Loan Officer Survey: C&I Demand



Several banks in the Sixth District participated in the Small Business Lending Fund, or SBLF (see chart 2). Enacted as part of the Small Business Jobs Act in 2010, the fund provided government investments into banks in order to encourage greater lending to small businesses. In total, the fund provided roughly \$4 billion to 332 community banks.

Chart 2: SBLF Transactions Report as of March 31, 2012

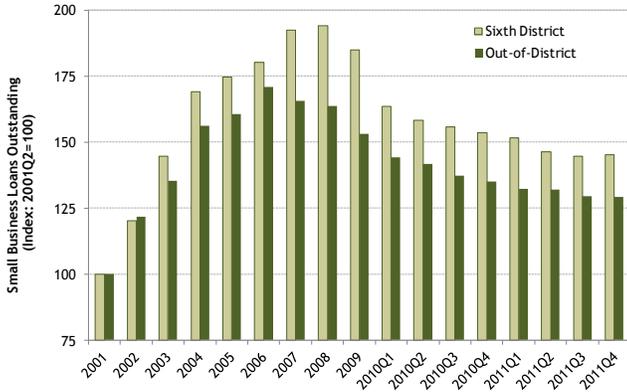
Institution		Amount Outstanding as of 3/31/12	Total Payments Received to Date (includes Capital Repayments)
Name	State		
BancIndependent, Incorporated	AL	30,000,000	271,586
First Partners Bank (SouthCity Bank)	AL	5,200,000	24,122
ServisFirst Bancshares, Inc.	AL	40,000,000	211,111
Southern National Corporation	AL	6,000,000	57,867
Bank of Central Florida	FL	7,000,000	26,250
Broward Financial Holdings, Inc.	FL	3,134,000	13,929
CBOS Bankshares, Inc.	FL	3,893,000	117,871
Community Southern Bank	FL	5,700,000	30,242
FineMark Holdings, Inc.	FL	5,665,000	15,736
First Federal Bancorp, Inc.	FL	20,000,000	355,556
First Green Bank	FL	4,727,000	13,262
Florida Business BancGroup, Inc.	FL	15,360,000	211,200
Florida Community Bankshares, Inc.	FL	17,000,000	250,278
Florida Shores Bancorp, Inc.	FL	12,750,000	78,979
Florida Traditions Bank	FL	8,800,000	41,311
Gulfstream Bancshares, Inc.	FL	7,500,000	138,542
HomeBancorp, Inc.	FL	7,398,000	129,465
Jefferson Bank of Florida	FL	3,367,000	15,275
Marquis Bank	FL	3,500,000	10,403
Ovation Holdings, Inc.	FL	5,000,000	73,611
Platinum Bank	FL	13,800,000	312,877
Lowndes Bancshares, Inc.	GA	6,000,000	39,998
Resurgens Bancorp	GA	2,967,000	13,970
The Peoples Bank of Talbotton	GA	890,000	2,794
Appalachian Community Enterprises, Inc.	GA	188,000	1,044
Community Trust Financial Corporation	LA	48,260,000	234,597
First Guaranty Bancshares, Inc.	LA	39,435,000	542,231
First NBC Bank Holding Company	LA	37,935,000	187,035
MidSouth Bancorp, Inc.	LA	32,000,000	560,000
Ouachita Bancshares Corp.	LA	17,930,000	408,162
Progressive Bancorp, Inc.	LA	12,000,000	252,135
BankFirst Capital Corporation	MS	20,000,000	313,889
Avenue Financial Holdings, Inc.	TN	18,950,000	59,833
CapitalMark Bank & Trust	TN	18,212,000	202,508
Carroll Financial Services, Inc.	TN	3,000,000	23,053
Community First Bancshares, Inc.	TN	30,852,000	569,905
Evolve Bancorp, Inc.	TN	4,699,000	18,535
Franklin Financial Network, Inc.	TN	10,000,000	130,556
Independent Holdings, Inc.	TN	34,900,000	654,375
InsCorp, Inc.	TN	3,000,000	9,167
Landmark Community Bank	TN	8,000,000	42,444
Magna Bank	TN	18,350,000	192,932
Merchants and Planters Bancshares, Inc.	TN	2,000,000	6,278
Moneytree Corporation	TN	9,992,000	147,104
Planters Financial Group, Inc.	TN	20,000,000	90,000
Sequatchie Valley Bancshares, Inc.	TN	5,000,000	115,500
SmartFinancial, Inc.	TN	12,000,000	49,000
Southern Heritage Bancshares, Inc.	TN	5,105,000	80,120

Source: Small Business Lending Fund, U.S. Department of the Treasury

According to the first quarter 2012 Call Report, roughly 50 percent of small business loans provided by banks with assets of less than \$10 billion used commercial real estate as a source of collateral. This compares with 61 percent of loans using commercial real estate collateral in 2008. Based on asset exposure, banks in the Sixth District rely heavily on nonresidential commercial real estate (see Chart 3).

For a more detailed analysis of Sixth District banking conditions, please see the Financial Update in the Federal Reserve Bank of Atlanta’s [ViewPoint](#).

Chart 3: Small Business Lending in the Sixth District



Note: 2001–09 data are for the second quarter.
Source: Bank call reports (includes commercial banks with assets of less than \$10 billion).

Other Topics

Cash Flow

According to a report from Experian, small businesses that provide services or goods to large businesses—those exceeding 1,000 employees—are having to wait an average of eight days beyond the contract date to be paid. That is a 27 percent increase over the prior year. This trend creates an additional hardship for many small businesses because of their reliance on cash flows to repay loans and pay operating costs. The NFIB reports that an average small business must wait 46 days to be paid. Nearly a quarter of small businesses owners cite late payments as their biggest operational risk.

The program was extended in September 2010, which also included waiving the guarantee fee (usually 1–3 percent of the loan amount). In March 2012, the 90 percent guarantee program expired and reverted back to 75 percent. Additionally, the guarantee fee was no longer waived, which increased the cost of taking out a loan.

SBA

In a recent [American Banker](#) article, representatives of Biz2Credit speculated that the reduction in the guarantee rate of Small Business Administration (SBA) loans in April may have contributed to a reduction in loan approvals by banks. The higher guarantee level was signed into law on February 17, 2009, as part of the Recovery Act. It authorized the SBA to guarantee loans up to 90 percent for a year.