

Credit Supply and Demand Conditions

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The views expressed herein are solely that of the author and not of the Board of Governors of the Federal Reserve System.

Small Businesses – Drivers of the Economy

- Generate more than half of nonfarm business gross domestic product
- Employ more than half of private-sector workers
- Over the past decade have created well over half of net new jobs annually. Larger firms often begin as smaller firms that prosper and grow.

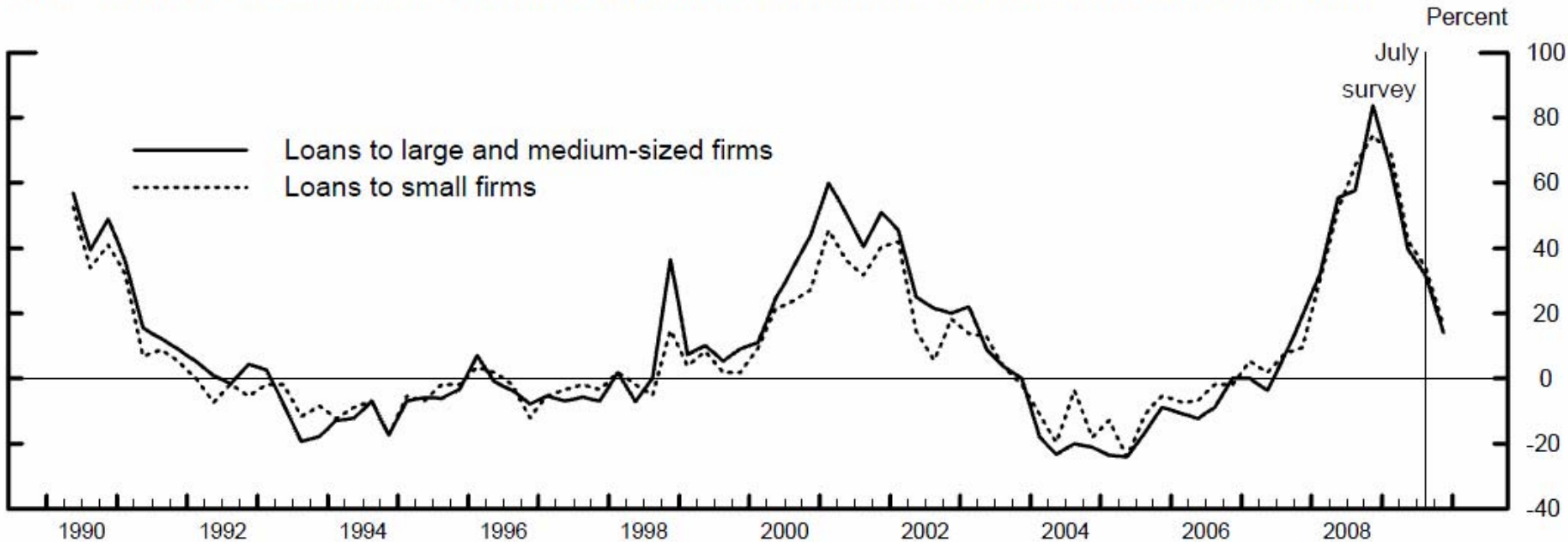
Small Business Use of Credit

| | Use of Some Type of Credit |
|-------------------------|----------------------------|
| All Firms | 60.4% |
| No. of Employees | |
| 0-1 | 42.1% |
| 2-4 | 53.9% |
| 5-9 | 72.7% |
| 10-19 | 77.4% |
| 20-49 | 82.7% |
| 50-99 | 87.4% |
| 100-499 | 93.8% |

Source: 2003 Survey of Small Business Finances, October 2006

Credit Supply Conditions

Net Percentage of Domestic Respondents Tightening Standards for Commercial and Industrial Loans



Source: Senior Loan Officer Opinion Survey on Bank Lending Practices, Federal Reserve Board October, 2009

Credit Supply Conditions

Terms for small firms (annual sales less than \$50mm)

| | Max LOC | | Cost of LOC | | Req'd Collateral | |
|-------------------------------------|----------|---------|-------------|---------|------------------|---------|
| | July '09 | Oct '09 | July '09 | Oct '09 | July '09 | Oct '09 |
| Tightened considerably | 1.9% | 1.8% | 7.6% | 3.6% | 0.0% | 1.9% |
| Tightened somewhat | 23.1% | 12.7% | 52.8% | 33.9% | 35.8% | 22.2% |
| Remained Basically Unchanged | 75.0% | 85.5% | 39.6% | 60.7% | 64.2% | 75.9% |
| Eased Somewhat | 0.0% | 0.0% | 0.0% | 1.8% | 0.0% | 0.0% |
| Eased Considerably | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| TOTAL | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: Senior Loan Officer Opinion Survey on Bank Lending Practices, Federal Reserve Board October, 2009 and July, 2009

Credit Supply Conditions

Possible reasons for tightening credit standards or loan terms

| | Current or Expected | | Less Favorable | | Decreased Activity | |
|---------------------------|---------------------|---------|------------------|---------|--------------------|---------|
| | Liquidity Position | | Economic Outlook | | Secondary Mkts | |
| | July '09 | Oct '09 | July '09 | Oct '09 | July '09 | Oct '09 |
| Not Important | 86.5% | 93.5% | 2.6% | 25.8% | 70.3% | 71.0% |
| Somewhat Important | 10.8% | 3.2% | 47.4% | 41.9% | 21.6% | 22.6% |
| Very Important | 2.7% | 3.2% | 50.0% | 32.3% | 8.1% | 6.5% |
| TOTAL | 100.0% | 99.9% | 100.0% | 100.0% | 100.0% | 100.1% |

Source: Senior Loan Officer Opinion Survey on Bank Lending Practices, Federal Reserve Board October, 2009 and July, 2009

Credit Supply Conditions

Possible reasons for easing credit standards or loan terms

| | Improved | | More Favorable | | Increased Bank | |
|---------------------------|------------------|---------|------------------|---------|----------------|---------|
| | Capital Position | | Economic Outlook | | Competition | |
| | July '09 | Oct '09 | July '09 | Oct '09 | July '09 | Oct '09 |
| Not Important | 50.0% | 66.7% | 50.0% | 16.7% | 0.0% | 0.0% |
| Somewhat Important | 50.0% | 33.3% | 50.0% | 50.0% | 100.0% | 66.7% |
| Very Important | 0.0% | 0.0% | 0.0% | 33.3% | 0.0% | 33.3% |
| TOTAL | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

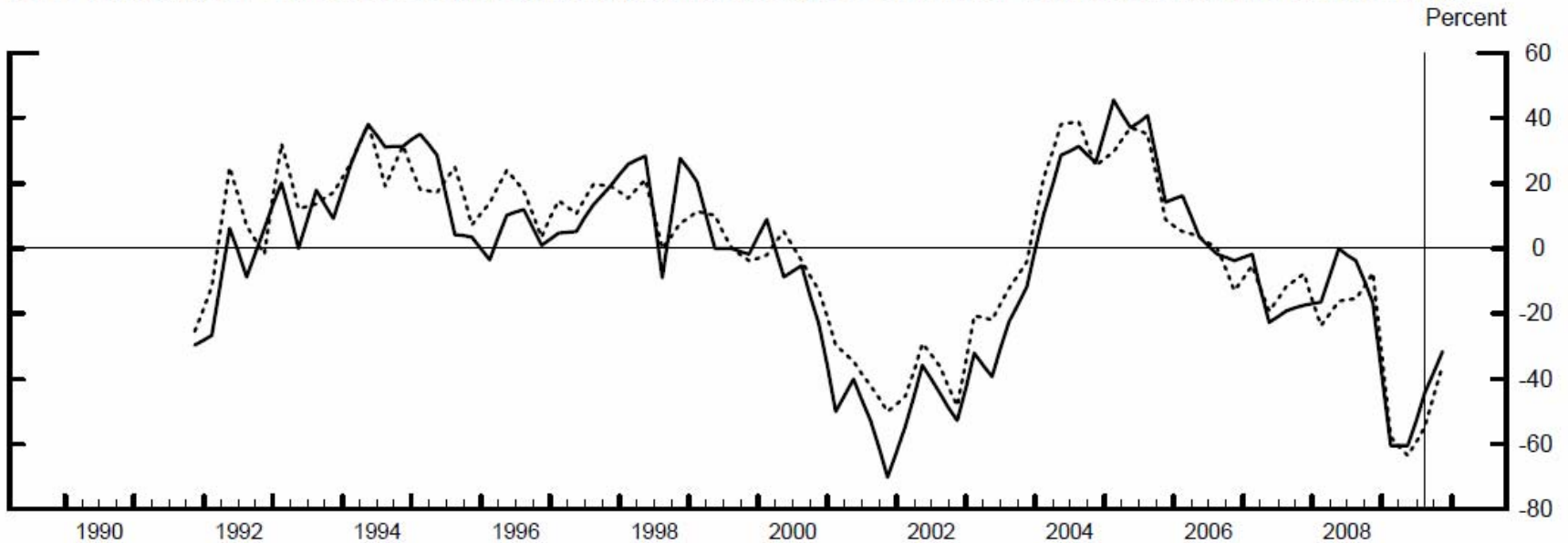
Source: Senior Loan Officer Opinion Survey on Bank Lending Practices, Federal Reserve Board October, 2009 and July, 2009

Efforts To Improve Credit Supply

- Extension of SBA program enhancements
- Term Asset Lending Facility – providing liquidity to SBA-guaranteed ABS
- Low federal funds rate – prime rate indexed to this rate
- Expansion of TARP funds for Community Development Financial Institutions for small business lending
- Credit card legislation and the effect on terms and pricing

Credit Demand Conditions

Net Percentage of Domestic Respondents Reporting Stronger Demand for Commercial and Industrial Loans



Source: Senior Loan Officer Opinion Survey on Bank Lending Practices, Federal Reserve Board October, 2009

Credit Demand Conditions

Demand for C&I loans from small firms (annual sales less than \$50mm)

| | July '09 | Oct '09 |
|------------------------|----------|---------|
| Substantially Stronger | 0.0% | 0.0% |
| Moderately Stronger | 5.7% | 8.9% |
| About the Same | 34.0% | 46.4% |
| Moderately Weaker | 52.8% | 44.6% |
| Substantially Weaker | 7.5% | 0.0% |

Source: Senior Loan Officer Opinion Survey on Bank Lending Practices, Federal Reserve Board October, 2009 and July, 2009

Credit Demand Conditions

Reasons for Stronger Loan Demand

| | Increased | | Investment | | Internal Funds | |
|---------------------------|-------------------|---------|-----------------|---------|----------------|---------|
| | Inventory Lending | | Eqpmt and Plant | | Decreased | |
| | July '09 | Oct '09 | July '09 | Oct '09 | July '09 | Oct '09 |
| Not Important | 71.4% | 71.4% | 85.7% | 85.7% | 28.6% | 28.6% |
| Somewhat Important | 14.3% | 28.6% | 14.3% | 14.3% | 57.1% | 71.4% |
| Very Important | 14.3% | 0.0% | 0.0% | 0.0% | 14.3% | 0.0% |
| TOTAL | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: Senior Loan Officer Opinion Survey on Bank Lending Practices, Federal Reserve Board October, 2009 and July, 2009

Efforts To Improve Credit Demand

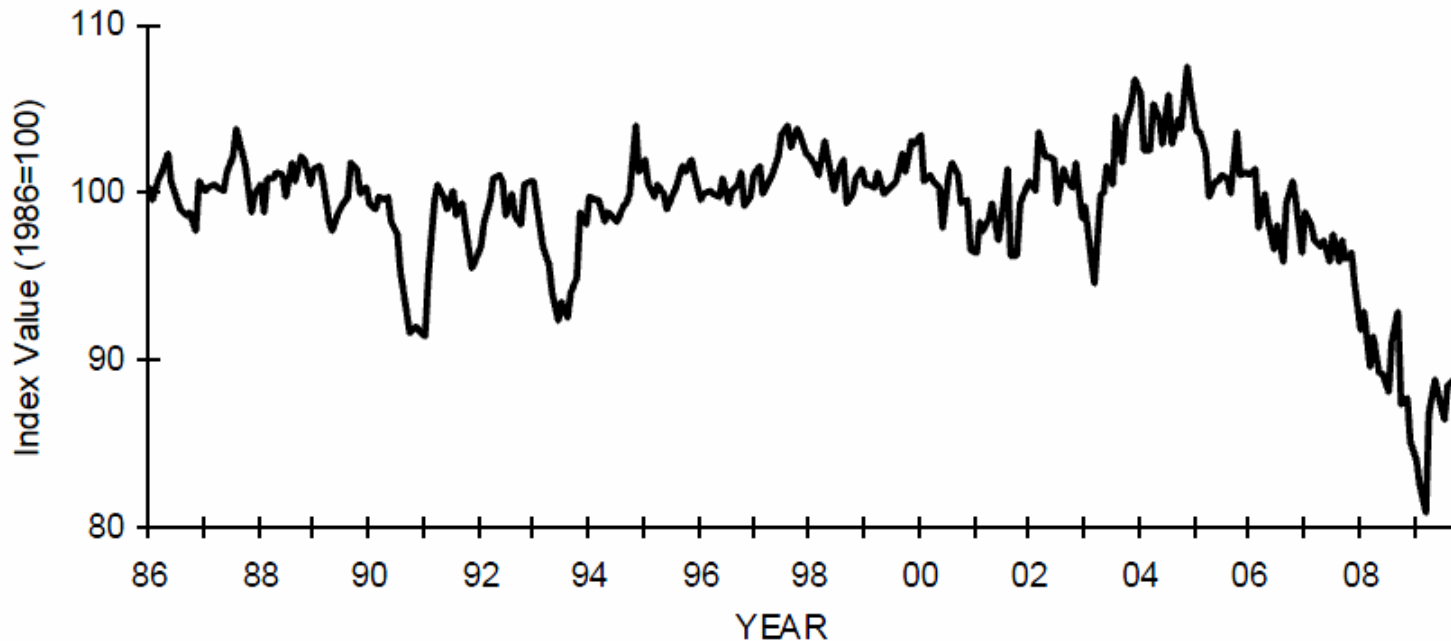
- Federal stimulus efforts
- Low federal funds rate – stronger economic activity resulting from lower interest rate should result in increased demand for products and services from small businesses

Small Business Outlook

OVERVIEW - SMALL BUSINESS OPTIMISM

OPTIMISM INDEX

Based on Ten Survey Indicators
(Seasonally Adjusted 1986=100)



Small Business Outlook

OUTLOOK FOR EXPANSION

Percent Next Three Months “Good Time to Expand”
(Seasonally Adjusted)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 2004 | 25 | 19 | 18 | 24 | 22 | 21 | 25 | 19 | 23 | 20 | 29 | 28 |
| 2005 | 23 | 24 | 19 | 18 | 18 | 22 | 20 | 21 | 19 | 22 | 20 | 21 |
| 2006 | 20 | 20 | 19 | 18 | 18 | 13 | 16 | 13 | 18 | 20 | 17 | 17 |
| 2007 | 17 | 18 | 12 | 12 | 12 | 13 | 16 | 12 | 14 | 14 | 13 | 14 |
| 2008 | 9 | 8 | 5 | 6 | 4 | 4 | 6 | 6 | 11 | 5 | 7 | 7 |
| 2009 | 6 | 3 | 1 | 4 | 5 | 4 | 5 | 5 | 9 | | | |

Small Business Outlook

SINGLE MOST IMPORTANT PROBLEM

September 2009

| Problem | Current | One Year Ago | Survey High | Survey Low |
|-----------------------------------|----------------|---------------------|--------------------|-------------------|
| Taxes | 24 | 17 | 32 | 8 |
| Inflation | 4 | 16 | 41 | 0 |
| Poor Sales | 32 | 20 | 33 | 2 |
| Fin. & Interest Rates | 4 | 3 | 37 | 1 |
| Cost of Labor | 4 | 4 | 9 | 2 |
| Govt. Reqs. & Red Tape | 11 | 8 | 27 | 4 |
| Comp. From Large Bus. | 6 | 6 | 14 | 4 |
| Quality of Labor | 3 | 9 | 24 | 3 |
| Cost/Avail. of Insurance | 8 | 10 | 29 | 4 |
| Other | 4 | 7 | 31 | 1 |

Source: NFIB Small Business Economic Trends, October