

Credit Supply and Demand Conditions

John Moon

Board of Governors of the
Federal Reserve System

November 16, 2008

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.

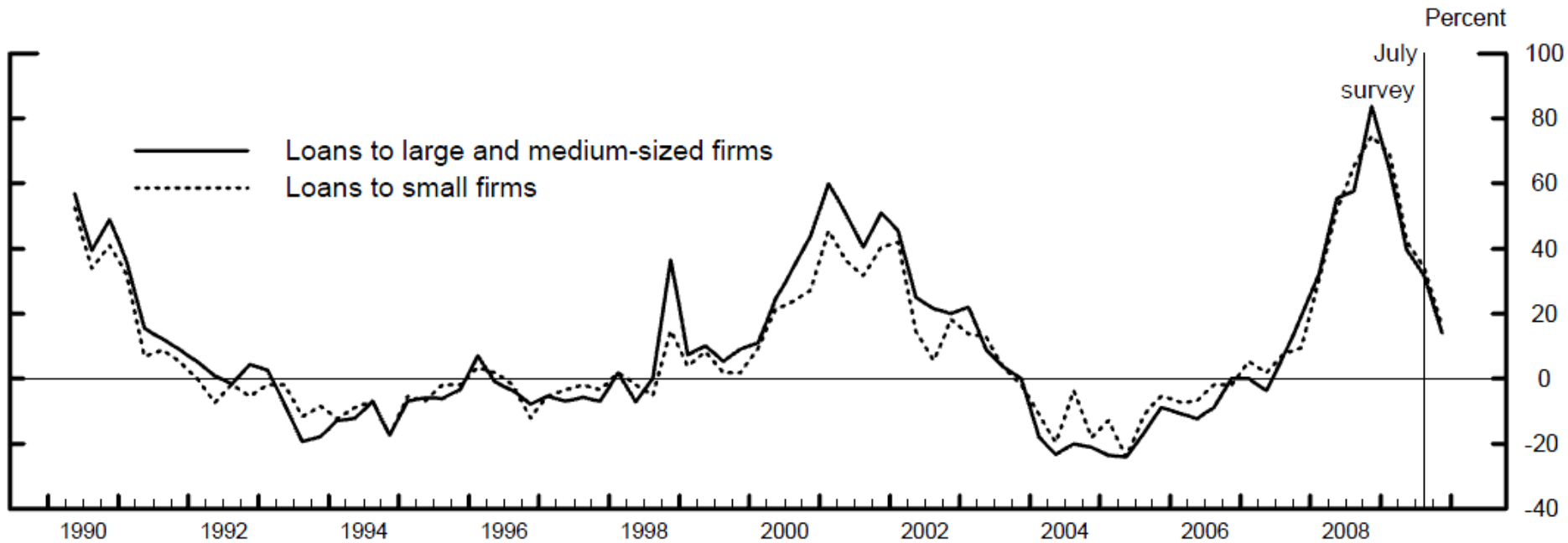
Small Business Use of Credit

	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%

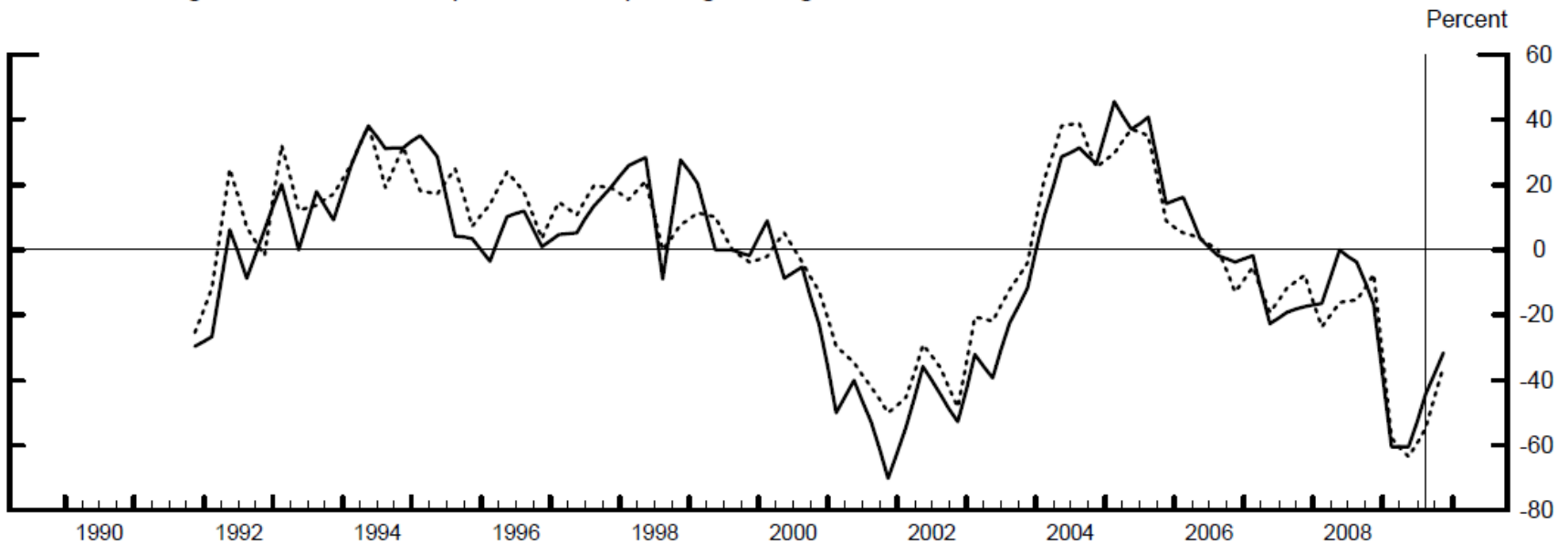
Source: Senior Loan Officer Opinion Survey on Bank Lending Practices, Federal Reserve Board October, 2009 and July, 2009

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

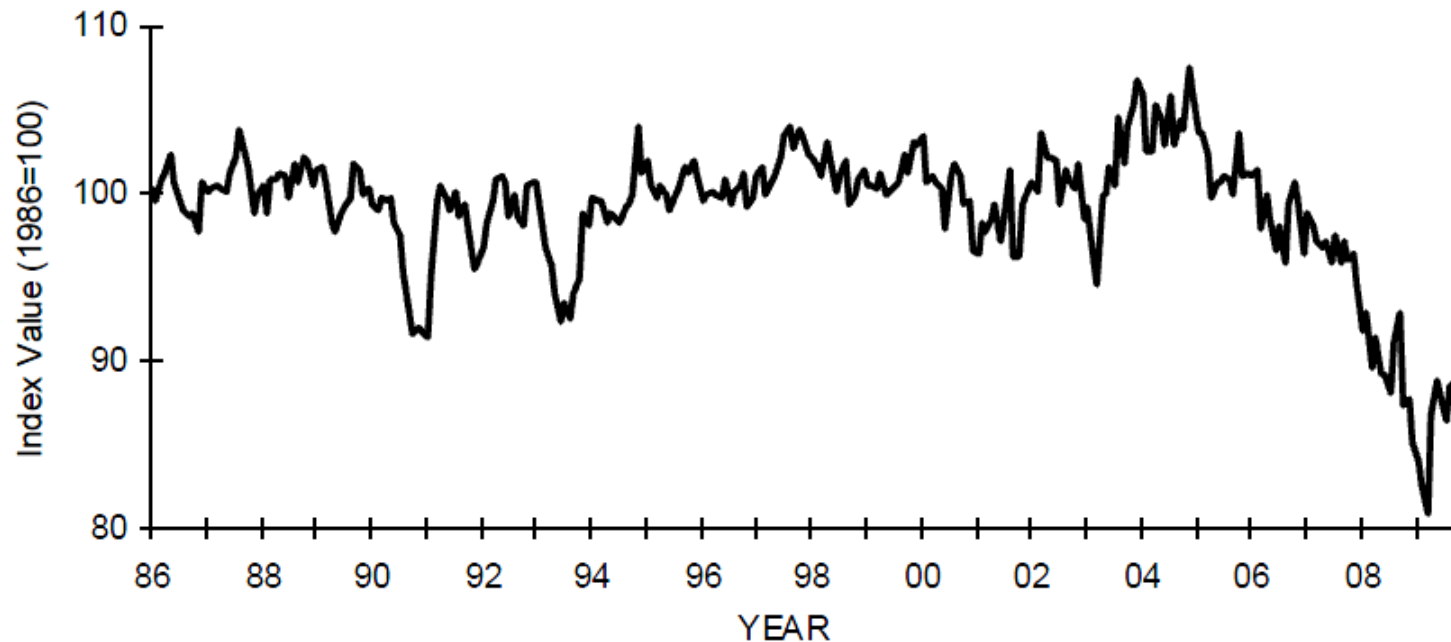
- Federal stimulus efforts
- Low federal funds rate – stronger economic activity resulting from lower interest rate should result in increased demand for products and services from small businesses

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