

SMALL BUSINESS IN THE CURRENT ECONOMY

WHAT IS SBA SEEING NOW?

1. **Credit Situation.** The credit crunch is more severe than anticipated and is having a negative impact on Main Street small businesses.
 - Economic uncertainty has led to **diminished loan demand** by small business owners and those looking to start a small business. Borrowers are on average **less creditworthy** than previous years. Lenders have also **tightened credit standards for borrowers**.
 - In a recent survey by the National Small Business Association, nearly 70% of small businesses report that the credit crunch has impacted their businesses in some way.
 - According to the July 2008 Senior Loan Officer Opinion Survey released by the Federal Reserve Board, nearly 70% of lenders say they have tightened their credit standards for approving applications for commercial and industrial loans to small businesses. This is a 20% increase since April 2008, and a 40% increase since January 2008.
 - Several lenders have stopped approving loans to start ups. Start up financing is crucial in difficult economic times as many people start businesses as a result of a corporate downsizing.
 - Because of other current economic conditions, like increasing costs of funds and liquidity issues, some lenders are having trouble financing new loans to small businesses.
 - The SBA is considering options to address these problems that will help small businesses get the access to financing they need in the current situation. The most pressing concerns are strategies to help get lending markets open and moving again so that capital continues to flow to small businesses.

2. **Loan Volume.** The credit situation has contributed to SBA's recent loan volume decline. Let the numbers tell the story:
 - SBA loan volume in its primary loan program declined by 30% overall in FY '08. The total dollar volume was \$12.7 billion, down 11 percent from last year.
 - The number of 504 loans, which finance real estate and other fixed assets, dropped nearly 17 percent to 8,900 in 2008 and the dollar amount fell 16 percent to \$5.3 billion.
 - Overall SBA loan volume for both the SBA's 7(a) and 504 loan programs saw a 50% decline in number of loans and a 22% drop in dollar value of loans in September '08 vs. September '07. This shows that SBA loan production is decreasing at an increasing rate and is down significantly from the same period one year ago.

3. **Environment.** Businesses that depend on customers financing purchases with credit have been hit especially hard. They are also being impacted by the elevated costs of energy, food, health care and other commodities.
 - For example: there are two furniture stores in Louisiana that have been in business for over 100 years that are closing because their customers cannot find financing to purchase furniture. There are many similar stories throughout the country.
4. **Community Banks.** Community banks appear to be less impacted by the current credit crunch because of their strong focus on relationship management and traditional funding from deposits rather than securities. Community banks often offer “one-stop shopping” including cash management, payroll services, trust departments to assist small businesses with investment decisions, 401K portfolios, and pension plans.

HOW DOES THE FINANCIAL RESCUE PLAN AFFECT SMALL BUSINESSES?

1. **The Financial Rescue Plan is essential to helping America’s economy recover from the financial crisis.**
 - Federal regulators have intervened in the financial markets. These interventions have a short-term and a long-term component. In the short term, regulators have increased short-term lending to the financial sector. The long-term component of this intervention is to bring a portion of currently distressed assets within the domain of the federal government, to be later resold to the private sector in an orderly fashion.
 - It is not always easy to see how problems on Wall Street have an effect on Main Street, but it is important to understand that our financial markets are linked together by confidence and trust. If confidence and trust are broken, it will lead to a further deterioration of the nation’s economy rippling across its markets.
 - A smoother flow of credit will make it easier for businesses to pay their suppliers, employees and create jobs.
 - Small and medium-sized businesses rely on the domestic banking system to make payrolls, so addressing these issues provides businesses, as well as American families, with greater protection.
2. **The government will use up to \$250 billion of the \$700 billion financial rescue plan for a voluntary program to inject capital into banks by purchasing equity shares using authority granted in the rescue plan.**
 - This new capital will help healthy banks continue making loans to businesses and consumers and help struggling banks recover so they can resume lending and help spur job creation.

- This is an essential short-term measure to ensure the viability of America's banking system. While the overwhelming majority of U.S. banks are strong and well-capitalized, these actions will bolster public confidence and get credit flowing again.
 - The program is carefully designed to encourage banks to buy these shares back from the government when the markets stabilize and they can raise capital from private investors.
 - Treasury will purchase senior preferred shares – which means dividends will be paid on these shares before other shareholders receive their payouts.
 - These preferred shares will be non-voting, which means the government will not interfere with business decisions. However, participating banks and other financial institutions must adopt standards for executive compensation and corporate governance, for as long as Treasury holds equity. Golden parachutes are prohibited.
- 3. The FDIC will immediately and temporarily expand government insurance to cover all non-interest bearing transaction accounts.**
- These accounts are used primarily by small businesses to cover day-to-day operations.
 - By insuring every dollar in these accounts, we will give small business owners peace of mind and bring greater stability to the banking system.

WHAT IS SBA DOING?

- 1. The small business community remains SBA's top priority during this time. We are working with lenders and small businesses to understand the current situation.**
- SBA has held meetings around the country with hundreds of lenders in recent months to review their strategies and portfolio quality, as well as to encourage their use of SBA products. These sessions have given SBA the opportunity to emphasize the value of our guarantee to lenders and address their concerns. We are also continuously soliciting feedback on how the SBA can be a better partner with the lending community.
- 2. SBA is here to help business owners during this economic downturn.**
- SBA's guaranteed loan programs help credit-worthy small business owners get the financing they need when they are outside of lenders' conventional credit standards. SBA's financial programs provide billions of dollars annually to small business owners across the nation.
 - SBA's guaranteed programs help lenders to provide capital to a small business with less risk than conventional loans. Therefore, our programs can be a critical tool for them in this economy. SBA is prepared to handle increased demand if lenders decide to rely more heavily on our products.
 - Working in close to 100 offices nationwide and with more than 1,500 resource partners, SBA is helping people determine whether or not to start or expand their existing small

businesses. SBA's counseling and technical assistance programs are here to help business owners keep their small business in a positive financial situation throughout the ebbs and flows of the current economy.

- In addition, with the help of federal agencies, small businesses secured over \$80 billion in prime federal contracts in fiscal year 2007. SBA helps small business owners get the information they need to position their businesses for contracting opportunities throughout the federal government.
- We encourage entrepreneurs to use SBA resources, which can be found on www.sba.gov.

3. SBA is strongly encouraging its participating 7(a) lenders and Certified Development companies to work with business borrowers to provide them with the flexibility they need to keep their businesses running during these difficult economic times.

- The SBA is reminding participating lenders they have the authority on a case-by-case basis to extend temporary payment relief for qualifying borrowers with 7(a) and 504 loans who are struggling to make their payments.
- The SBA is asking its lenders not to broadly call borrower loans due to changing financial variables, such as fluctuations in personal credit scores, declining collateral values, and reduced home equity, which are currently affected by the disruption in the financial markets.

4. SBA is Increasing Outreach to Small Businesses in Underserved Areas

- SBA launched Small/Rural Lender Advantage (RLA) ahead of target to ensure that access to capital is available in areas that need it most. RLA is part of the agency's 7(a) loan program and helps smaller and/or rural lenders (lenders making 20 or fewer SBA loans a year) participate in SBA's lending programs by streamlining the processes for them.
- SBA also recently launched an intensive job and growth initiative, the Emerging 200, which targets 200 inner city small, poised-for-growth businesses. Through the initiative, these businesses work with local networks of business resources already in place in the host cities include community, state or local government, technical assistance and capital provider partners. Emerging 200 businesses work with SBA and these partners on a comprehensive curriculum for developing winning, local strategies and attracting capital to fuel growth will help transform communities, grow wealth and increase the tax base in a meaningful way.