

# FEDERAL RESERVE BANK OF CHICAGO

## Addressing the Financing Needs of Small Businesses

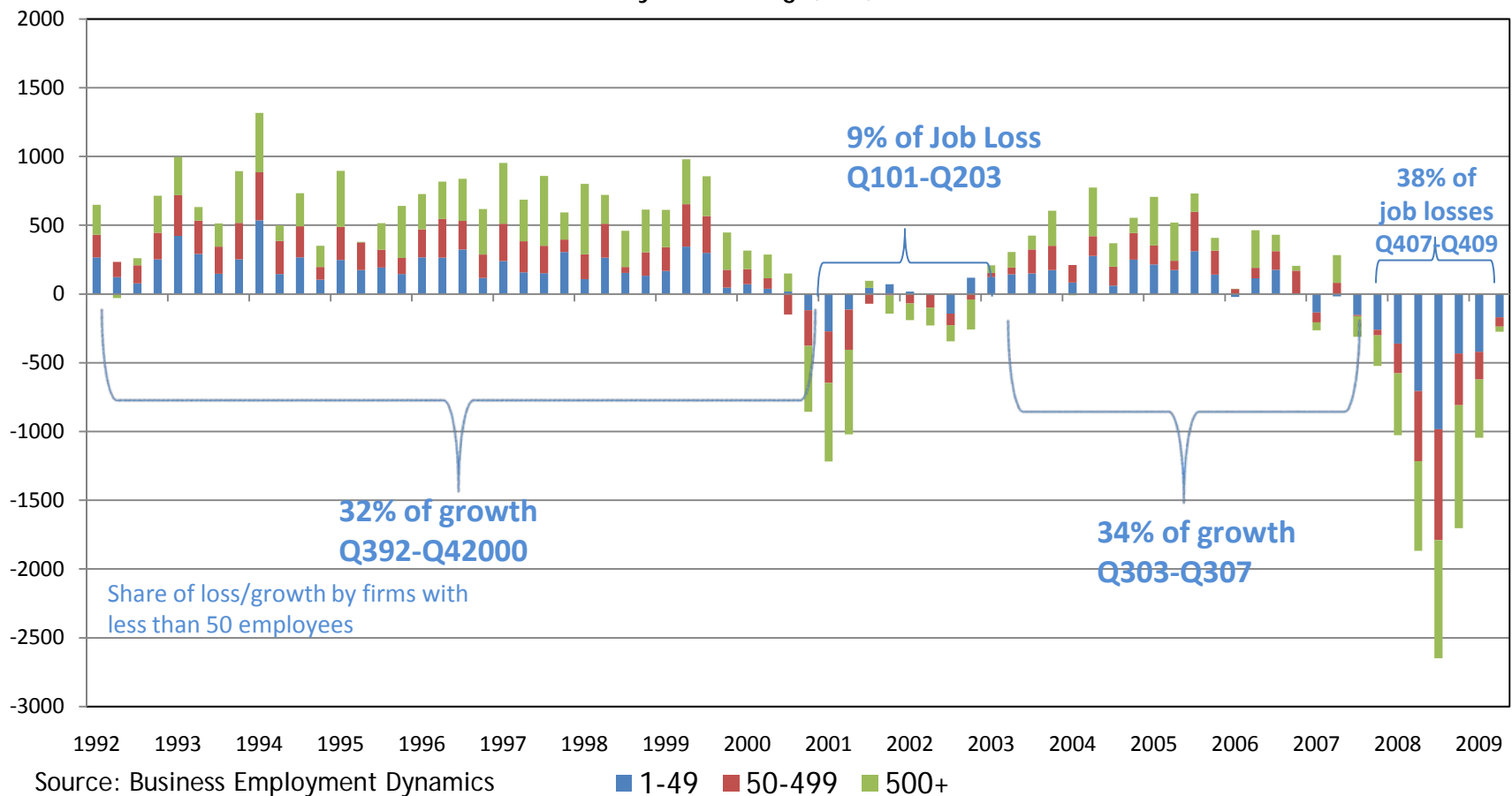
Small Business Finance Training for  
Banks and Community Development  
Financial Institutions (CDFIs)

February 9, 2011

# Role of Small Business in Job Gain/Loss

## Distribution of Net Gain in Employment by Firm Size

Quarterly Net Change, SA, Thous.



# Addressing the Financing Needs of Small Businesses

An initiative of the Federal Reserve System's Community Affairs Offices to gather information and perspectives to help the Federal Reserve and other stakeholders address the immediate and intermediate credit needs of small businesses.

- More than 40 meetings around the country.
- Conference at the Board of Governors in Washington on July 12, 2010

# The Seventh Federal Reserve District



## Addressing the Financing Needs of Small Businesses

“Outstanding loans to small businesses dropped from almost \$700 billion in the second quarter of 2008 to approximately \$660 billion in the first quarter of 2010.

An important but difficult-to-answer question is how much of this reduction has been driven by weaker demand for loans from small businesses and how much by restricted credit availability.”

Ben Bernanke, Chairman  
Federal Reserve Board of Governors



# Addressing the Financing Needs of Small Businesses

Each meeting explored:

- Supply of credit to small businesses
- Credit needs of entrepreneurs and small businesses (demand)
- How various stakeholders have responded to help facilitate greater access to credit, capital and opportunity for small businesses.

# What is the issue?

Question:  
Is it supply or demand?

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Is it supply or demand?

Answer:

Yes!

There are “pure supply effects” from bank failures and banks’ efforts to repair their balance sheets and raise capital in an adverse environment.

	# of Institutions				Average Total Assets				% Negative ROAA	
	12/31/2008	9/30/2010	Change	Stressed Institutions	12/31/2008	9/30/2010	Change	% Change	12/31/2009	9/30/2010
Iowa	361	348	-13	1 in 5.9	155,699	167,540	11,841	7%	13.07%	7.76%
<b>Illinois</b>	<b>570</b>	<b>529</b>	<b>-41</b>	<b>1 in 3.5</b>	<b>583,443</b>	<b>547,835</b>	<b>-35,609</b>	<b>-6%</b>	<b>28.75%</b>	<b>18.34%</b>
Indiana	111	102	-9	1 in 3.2	528,542	548,209	19,667	4%	22.12%	7.84%
Michigan	143	124	-19	1 in 2.4	755,587	411,388	-344,199	-46%	40.46%	33.06%
Wisconsin	250	245	-5	1 in 2.5	547,265	534,331	-12,934	-2%	23.17%	18.37%
Total	1,435	1,348	-87							

# Interagency Statement on Meeting the Credit Needs of Creditworthy Small Business Borrowers

[www.federalreserve.gov/newsevents/press/bcreg/20100205a.htm](http://www.federalreserve.gov/newsevents/press/bcreg/20100205a.htm)

“The communication that we have had with banks and our examiners is to try to eliminate artificial barriers. ***We want to see every borrower evaluated on their potential and on their ability to repay the loan.*** And, in particular, the decline in the value of ***collateral shouldn't be the decisive factor if they can generate the cash flow.***”

Ben Bernanke, Chairman

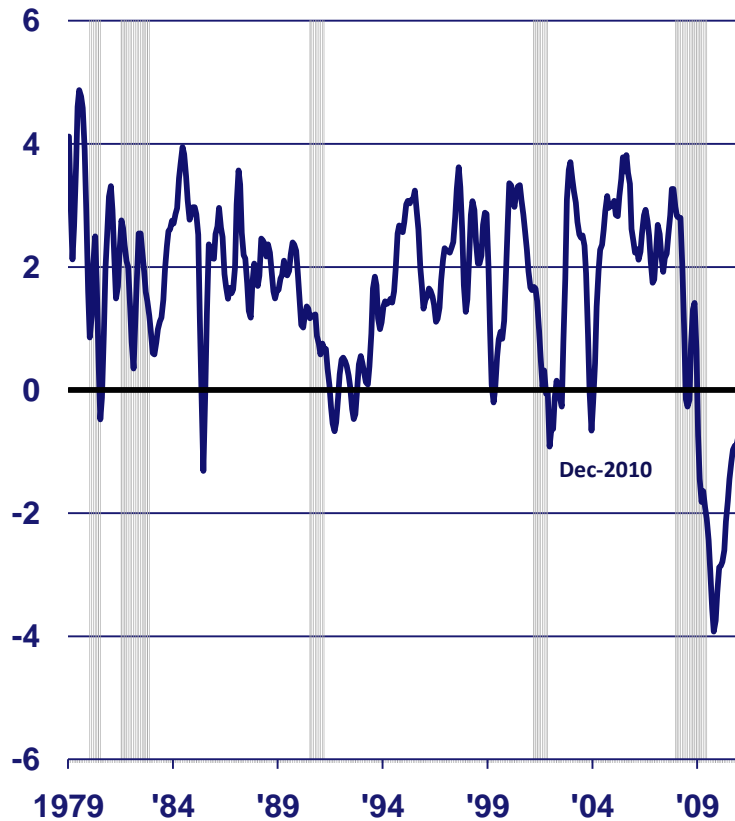
Federal Reserve Board of Governors

*Addressing the Financing Needs of Michigan Small Businesses*

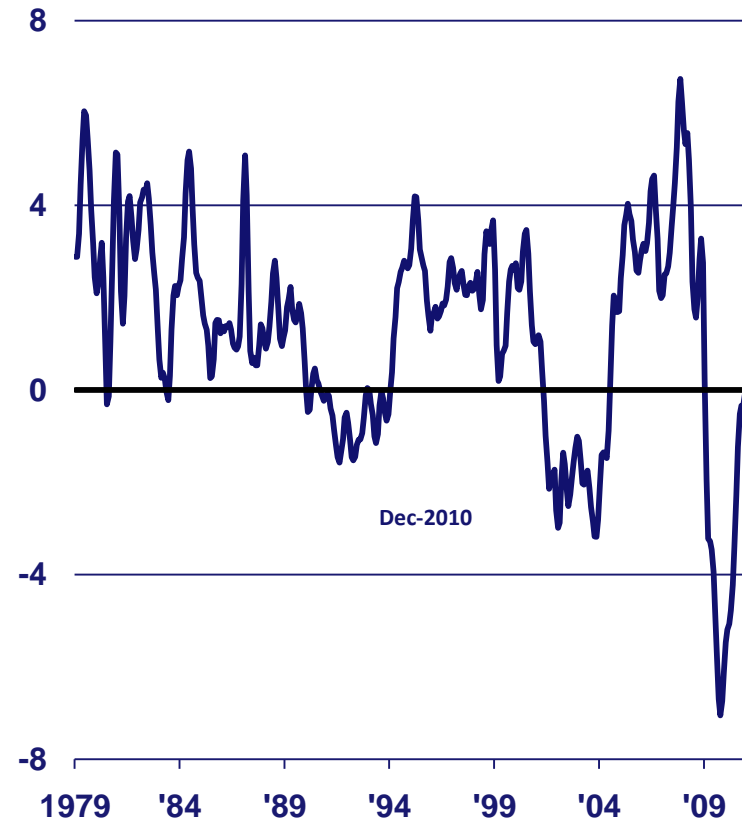
June 3, 2010

# Banking System

**Total Loans and Credit Outstanding**  
(3-month percent change in 3-month MA)



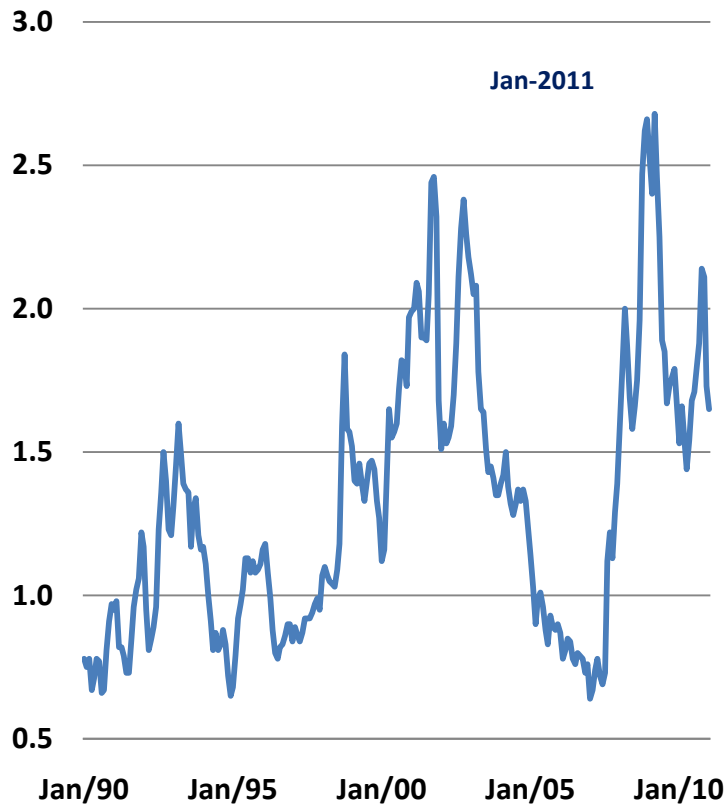
**C&I Loans Outstanding**  
(3-month percent change in 3-month MA)



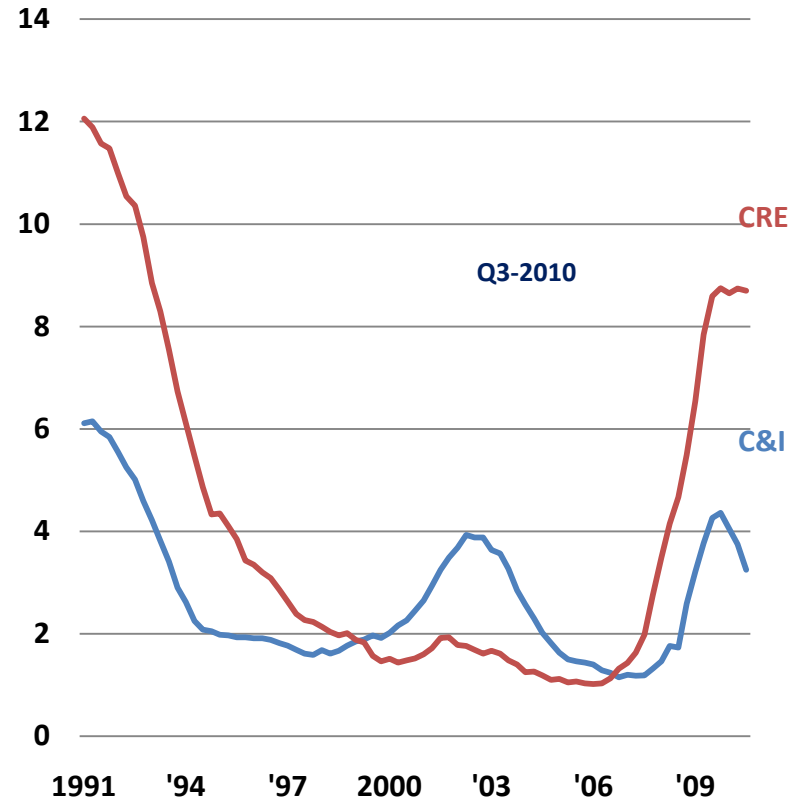
# And Lenders have pulled back in response to greater risk and delinquencies

(Credit spreads between Corporate Aaa securities and Treasury securities narrowed but are still high)

**Aaa Corporate Bond – 10yr Treasury Spread**  
(percent)



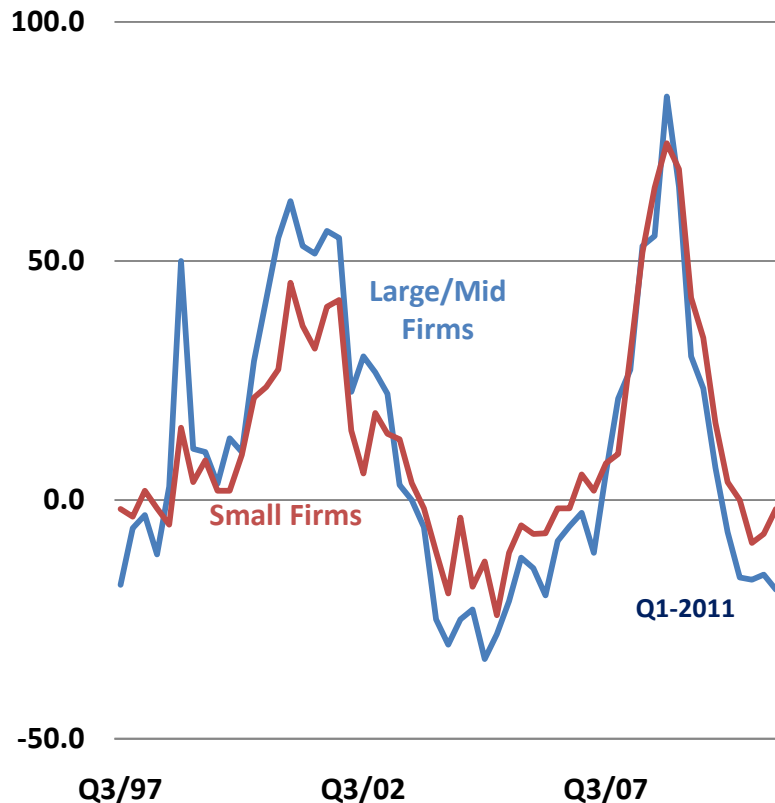
**Business Loan Delinquency Rate**  
(percent)



# Loan standards have tightened for both small and large firms

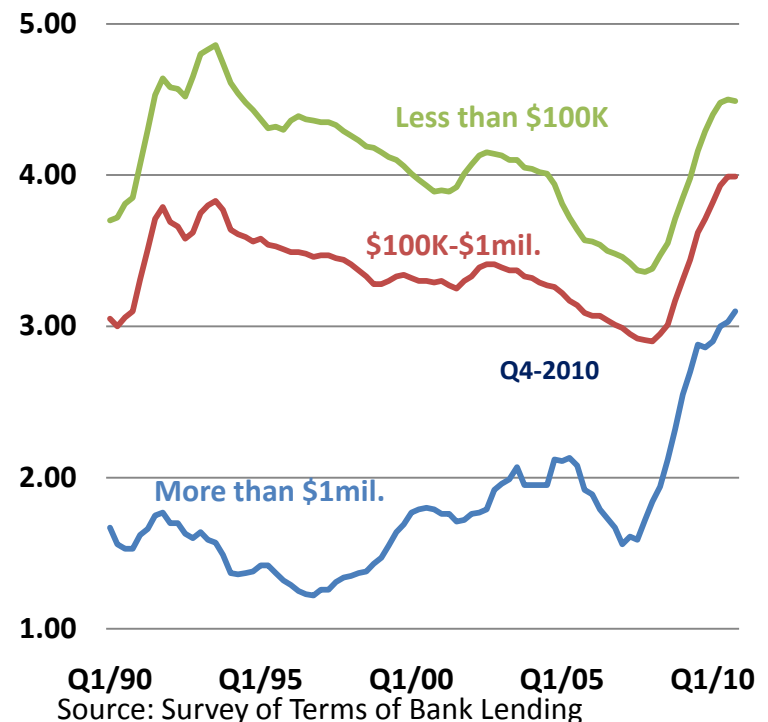
## Senior Loan Officer Opinion Survey

(percent of banks tightening C&I loans)



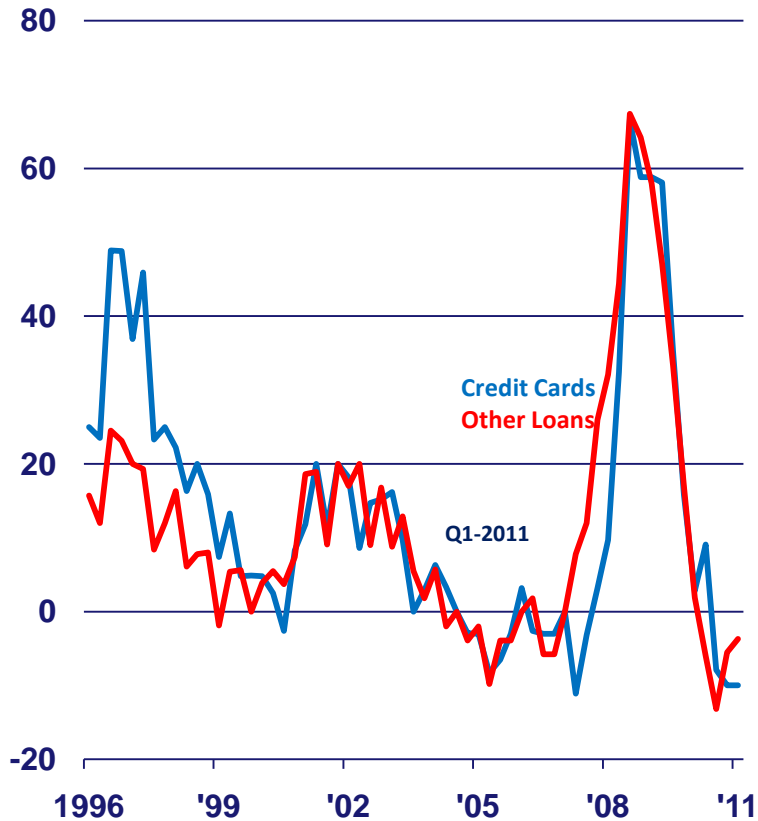
## C&I Loan Rate Spread Over Fed Funds Rate

(4-quarter moving average)

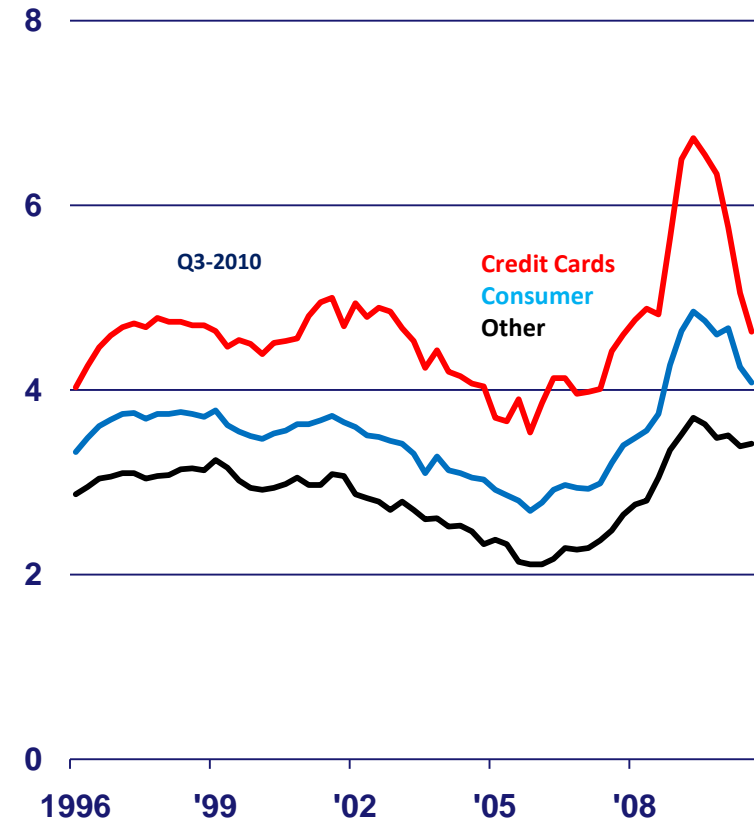


# Consumer Credit Conditions

**Senior Loan Officer Survey - Consumer**  
(percent of banks tightening standards)



**Consumer Loan Delinquency (percent)**

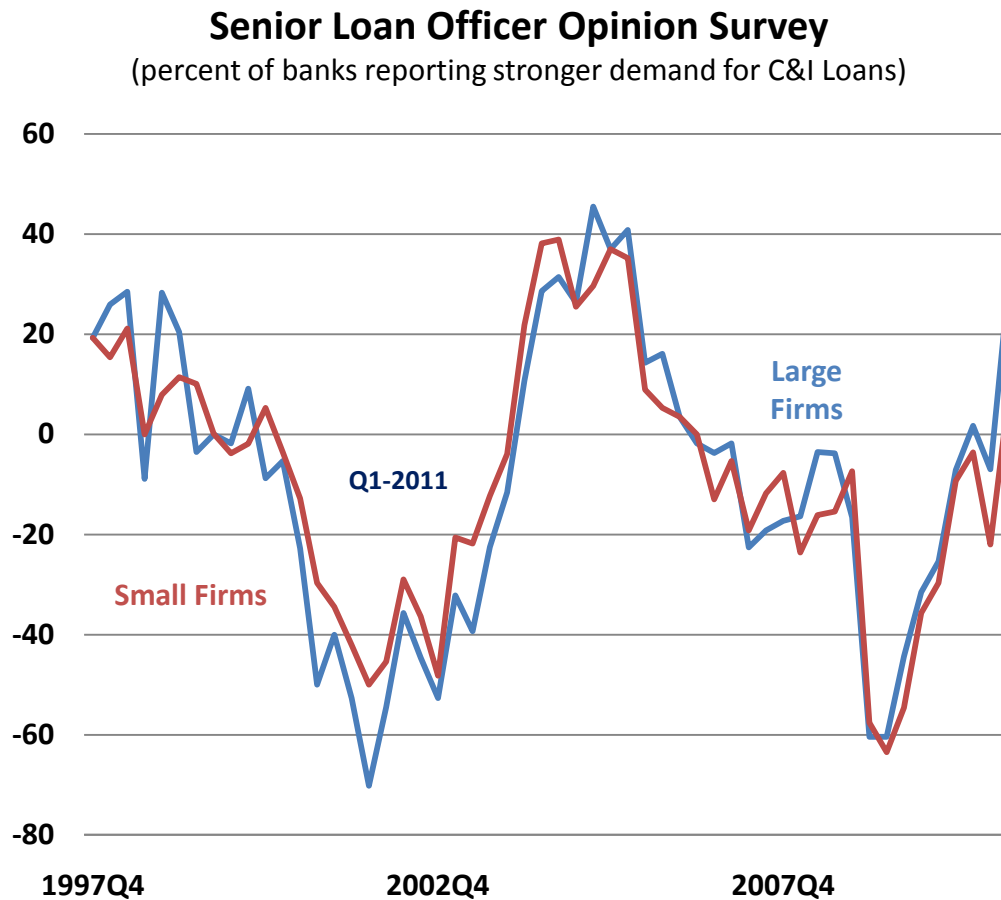


- Established businesses reporting lines of credit dramatically reduced or not renewed.
- Minority- and Women-owned businesses face continuing disparities in their access to capital and credit.
- Businesses engaged in initiatives like Chicago United's Five Forward and Chicago Urban League's Next One that can not obtain credit to seize demonstrable opportunities.
- Technology companies working with the Chicagoland Chamber of Commerce Entrepreneurship Center that need both capital and credit.
- Innovation Capital – “We want to make sure that there's innovation capital as well as working capital. We need to have a longer-term perspective as well as the more immediate perspective on the issue.”

## Anecdotal evidence that supply is not meeting demand for small business credit



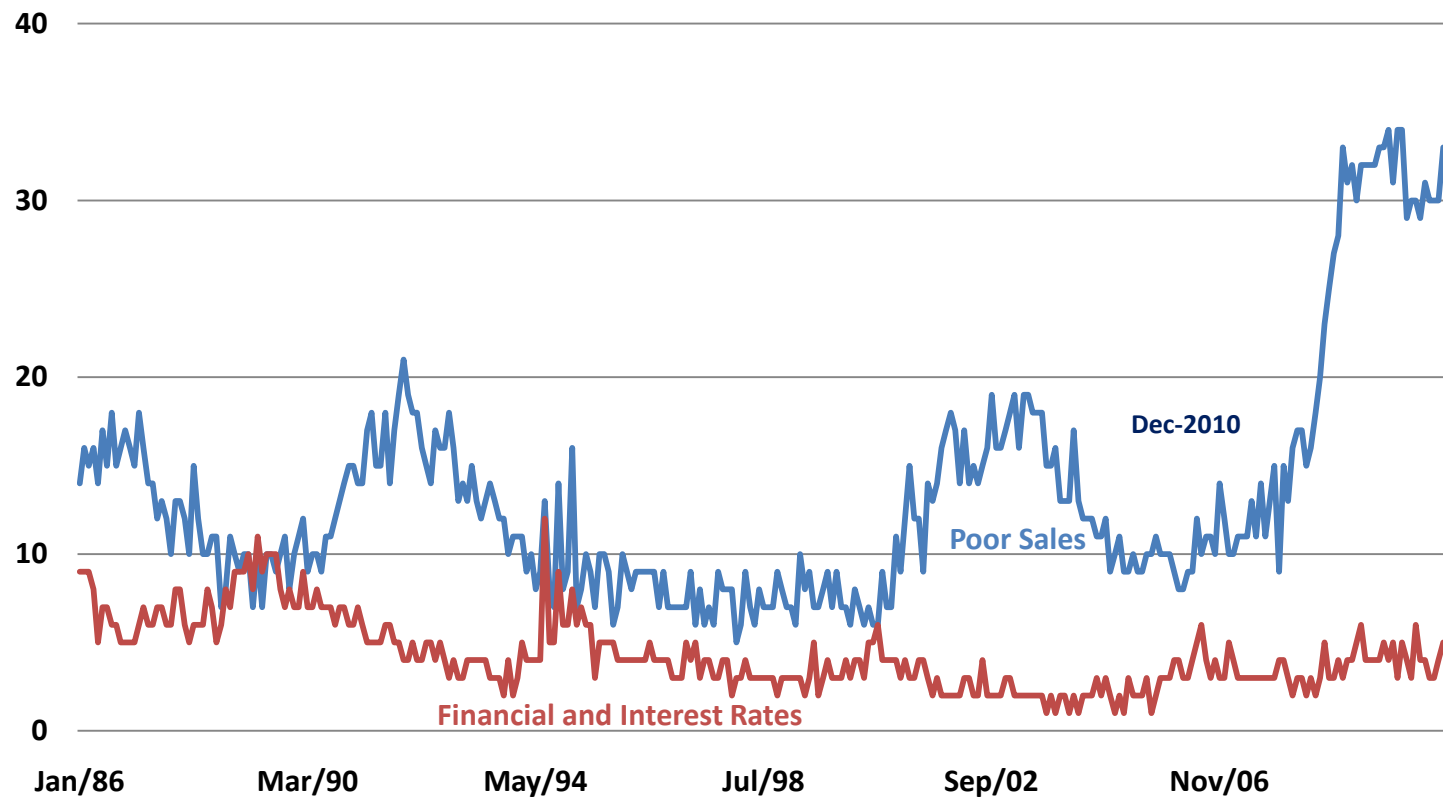
# Loan demand is reported weak from both large and small firms



**And the NFIB survey also reports that sales conditions,  
not credit conditions, are paramount (demand)**

### NFIB: Single Most Important Problem

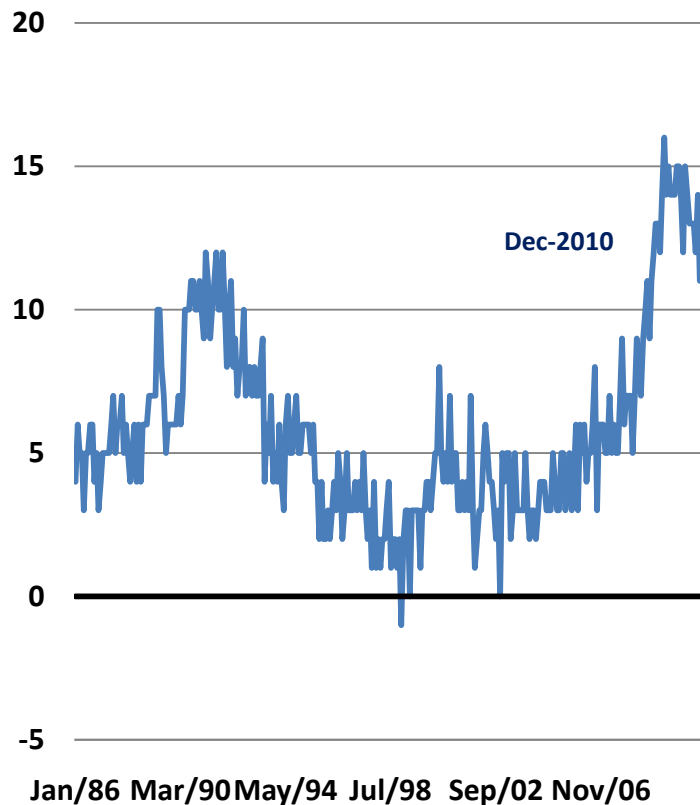
(net percent reporting, SA)



# Still, from the borrower's standpoint, small business reports that credit remains tight( NFIB)

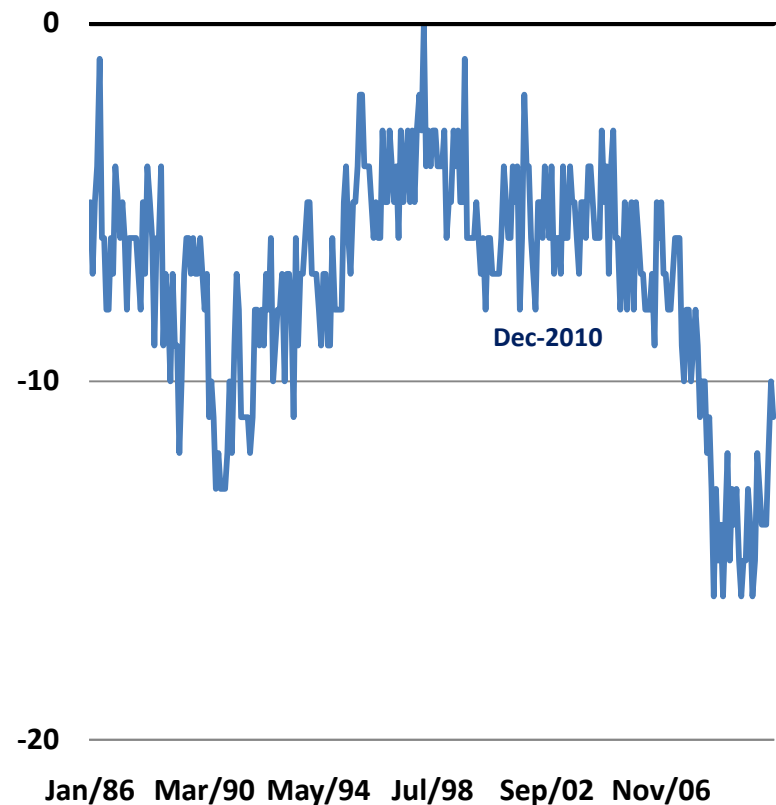
## Reporting that Credit Was Harder to Get Last Time

(Net percent reporting, SA)



## Expecting Credit Conditions to Ease

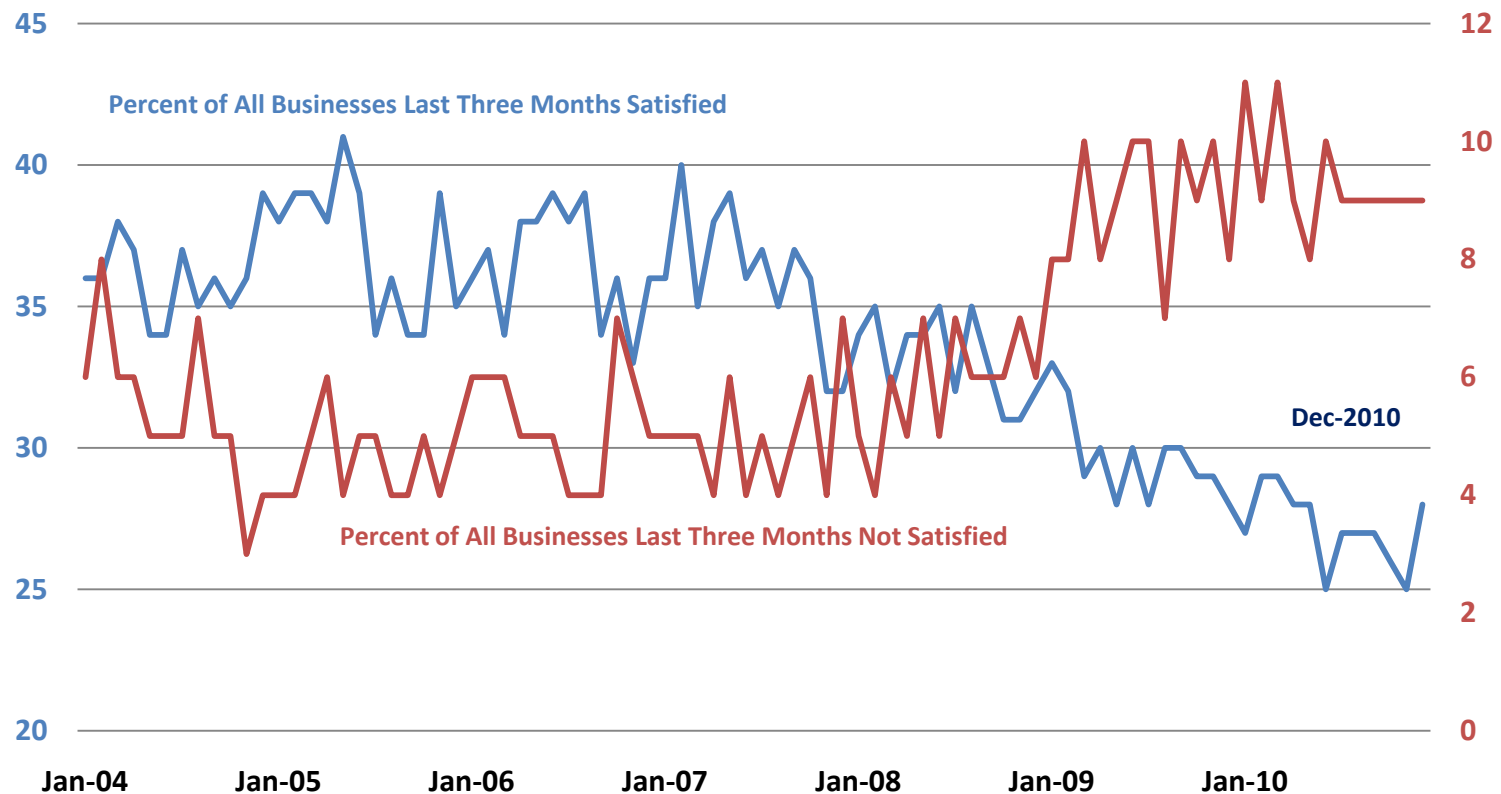
(Net percent reporting, SA)



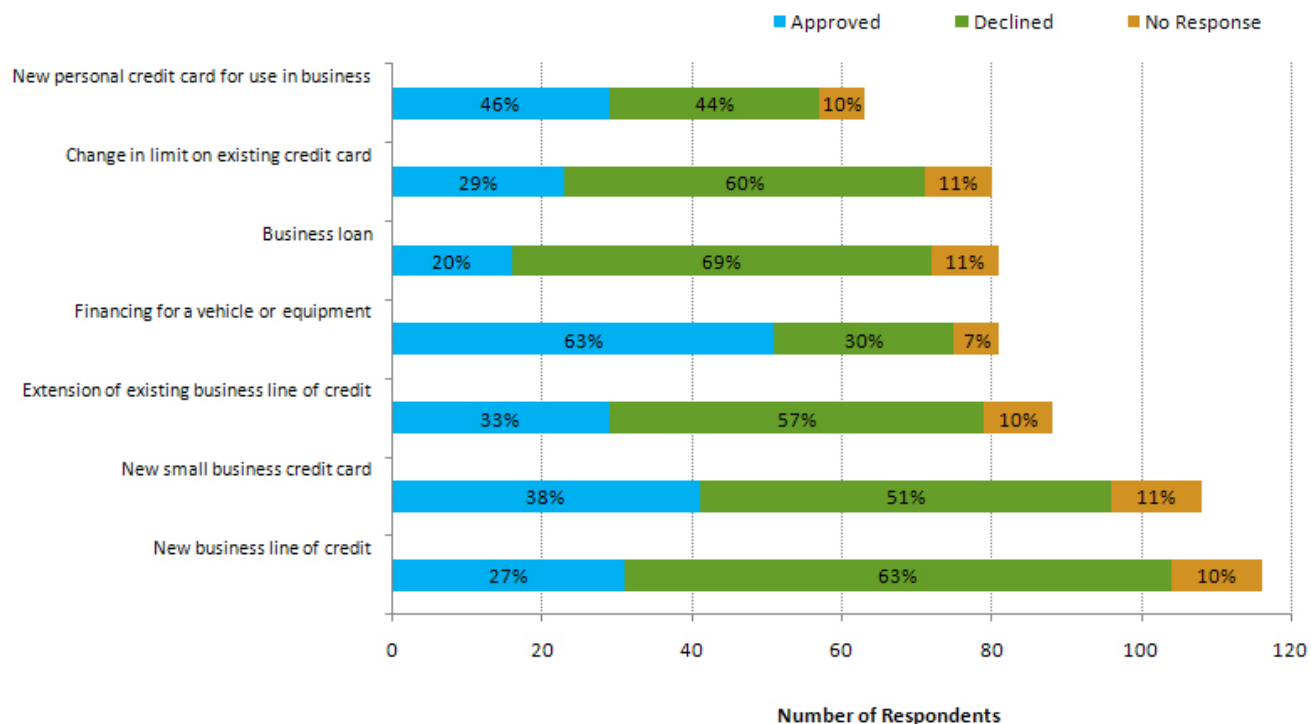
# And small businesses report that credit needs are not fully satisfied

## NFIB: Borrowing Needs Satisfied

(borrowers only)



“During the last six months, did you apply for the following types of credit and were you approved?”



Source: Federal Reserve Bank of New York *Access to Credit: Evidence from Small Businesses*

# Facilitating greater access to credit, capital and opportunity

## **SUPPLY**

- Large FIs & Community Banks
- CDFIs
- Micro-lenders
- Small Business Jobs Act
- Small Business Administration (SBA)
- Illinois Small Business Credit Initiative

## **DEMAND**

- Small Business Development Centers(SBDCs)
- Community Development Corporations (CDCs)
- CDFIs & Micro-Enterprise Organizations
- Entrepreneurship Centers
- New Equity Business (O-H Community Partners)

# The Challenge Ahead

“We need to think about how to mobilize to access that large pool of capital and about ways to create vehicles to bring that kind of resource to Chicago’s commercial corridors and industrial districts.”

# Contact

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