

kcFED *Small Business Lending* SURVEY

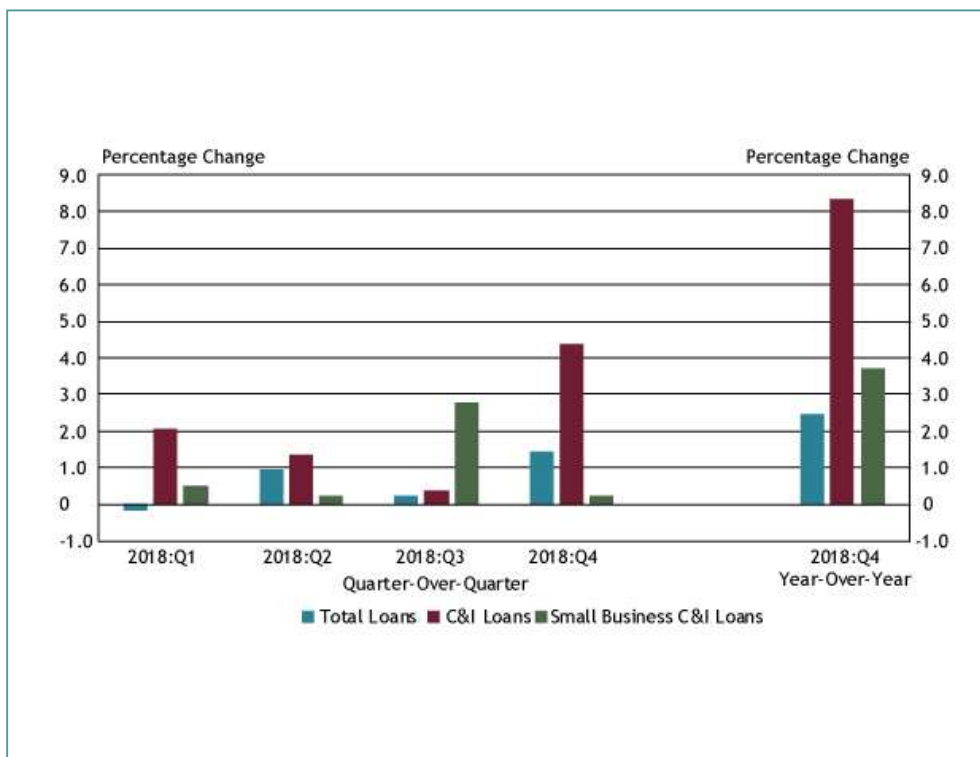
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SMALL BUSINESS LENDING REMAINS STABLE IN FOURTH QUARTER

U. S. small business commercial and industrial (C&I) lending increased on a year-over-year basis. The growth was driven by large banks. Most of the 121 respondents to the Federal Reserve's Small Business Lending Survey (FR 2028D) indicated that conditions for small business lending remained stable in the fourth quarter. Survey respondents reported that demand for small business loans and credit quality remained relatively unchanged. Additionally, respondents indicated some tightening of lending terms, although credit standards remained stable.

Chart 1: Third Quarter Growth Drives Increase in 2018 Small Business Loan Balances



Sources: Call Report, schedule RC-C, items 4 and 12; and FR 2028D, items 4.b and 5.c.

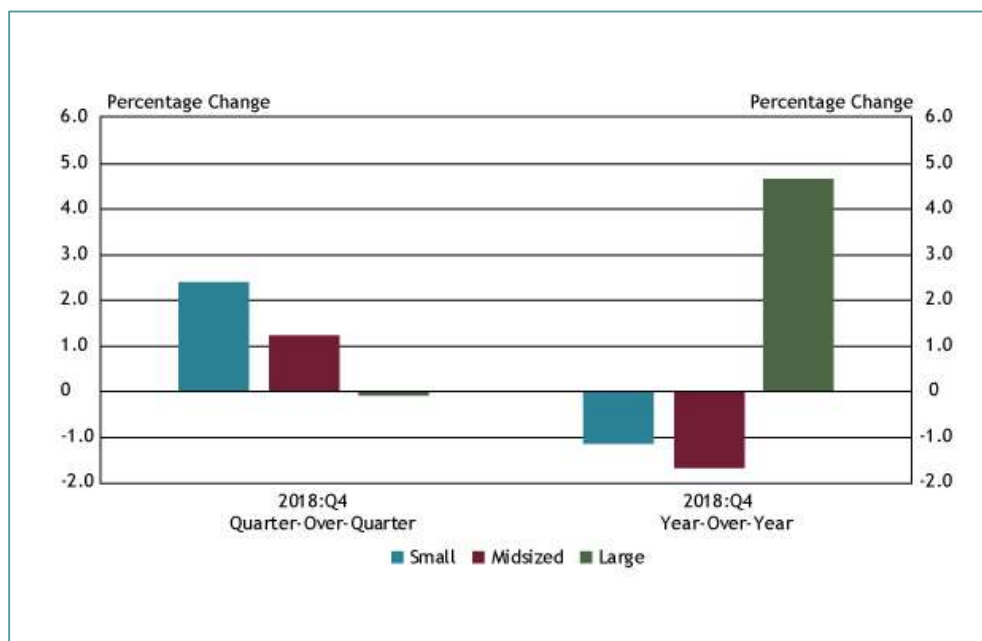
Note: Items are calculated using a subset of respondents that completed the FR 2028D for all five quarters surveyed.

Balances on C&I and small business C&I loans grew for the fourth consecutive quarter, with total loans increasing for the third straight quarter. Compared with the fourth quarter of 2017, small business C&I loans were up 3.7 percent, due

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primarily to growth of about 2.8 percent in third quarter. C&I loans and total loans increased by 8.4 percent and 2.5 percent, respectively, when compared to fourth quarter 2017.

Chart 2: Large Banks Drive Fourth Quarter Year-Over-Year Growth in Small Business C&I Loans



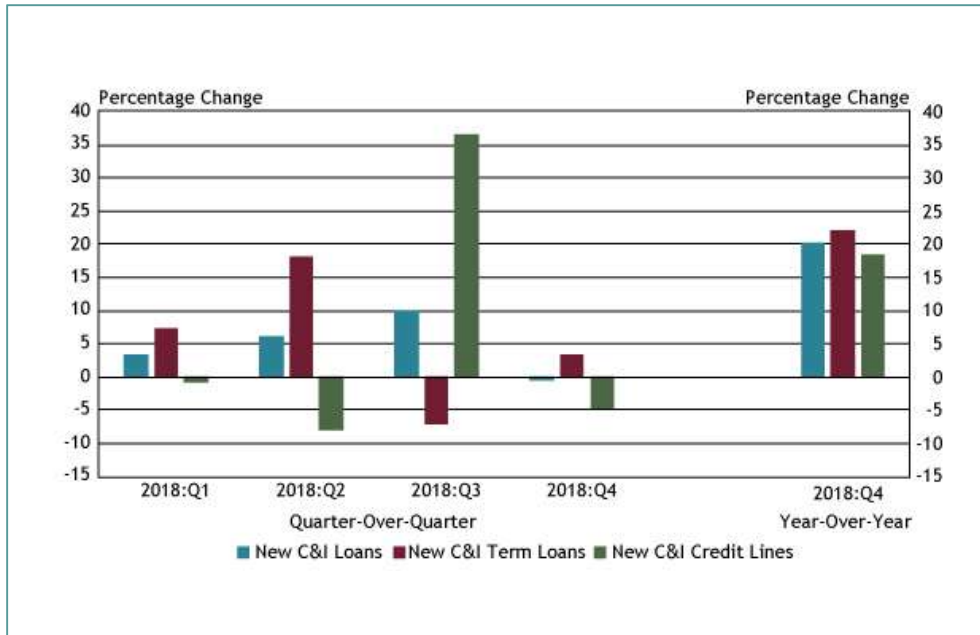
Source: FR 2028D, items 4.b and 5.c.

Note: Items are calculated using a subset of respondents that completed the FR 2028D for both comparable quarters. Small banks have total assets of \$1 billion or less, mid-sized banks have assets between \$1 billion and \$10 billion and large banks have assets greater than \$10 billion.

Outstanding balances on small business C&I loans at large banks grew 4.7 percent in the fourth quarter compared with the same period in 2017. Compared with the third quarter, growth in balances of small business C&I loans in the fourth quarter was driven by small and mid-sized banks, with large banks reporting a slight decrease.

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Chart 3: New Small Business C&I Loans Up From Fourth Quarter 2017



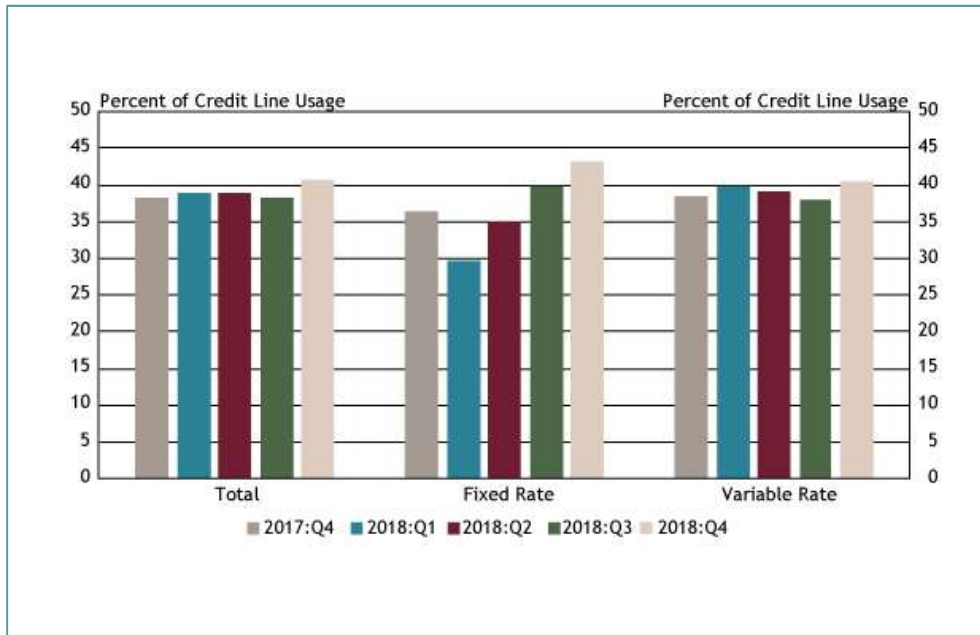
Source: FR 2028D, items 7.b and 10.c.

Note: Items are calculated using a subset of respondents that completed the FR 2028D for all five quarters surveyed. All loan types referenced in Chart 3 refer to small business lending.

The dollar volume of new small business C&I loans grew 20.3 percent in the fourth quarter compared with the previous year, with new small business C&I term loans increasing 22.0 percent and new small business C&I credit lines increasing 18.5 percent. The year-over-year increase in new small business C&I loans was due primarily to an 18.2 percent increase in new small business C&I term loans in the second quarter and a 36.5 percent increase in new small business C&I credit lines in the third quarter. The year-over-year increase in new small business C&I lending was consistent with the increase in small business C&I loan balances during the same period (Chart 1). A 4.6 percent decrease in new small business C&I credit lines was responsible for the fourth quarter decline in new small business C&I loans.

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Chart 4: Small Business C&I Fixed and Variable Rate Credit Line Usage Increases

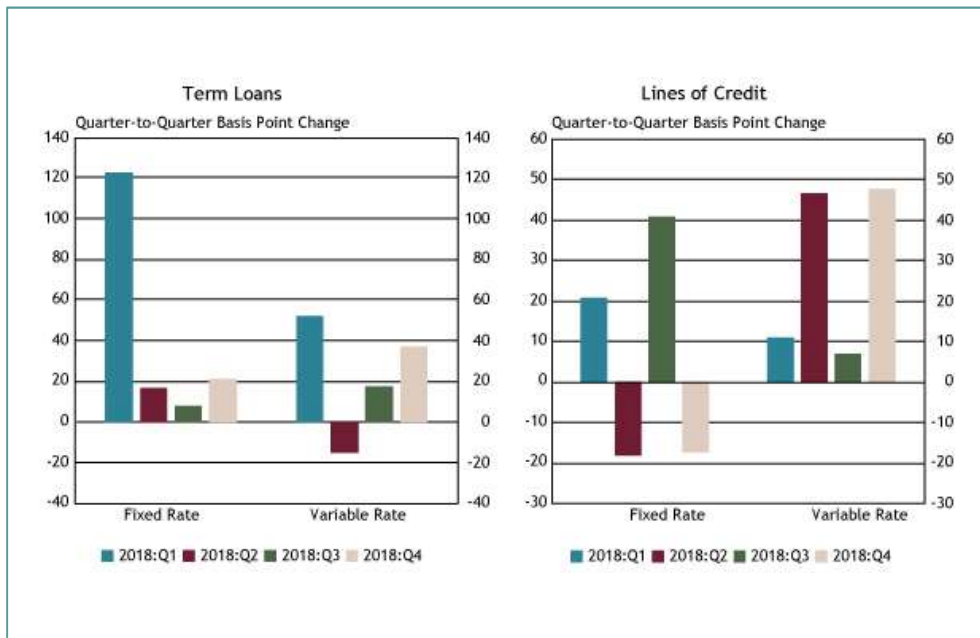


Source: FR 2028D, items 5.b and 5.c.

Total credit line usage grew in the fourth quarter 2018, increasing to 40.8 percent. Fixed rate credit line usage increased for the third consecutive quarter to 43.3 percent. After declining for two consecutive quarters, variable rate credit line usage increased to a five-quarter high of 40.5 percent.

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Chart 5: Interest Rates on Term Loans and Variable Rate Lines of Credit Increase



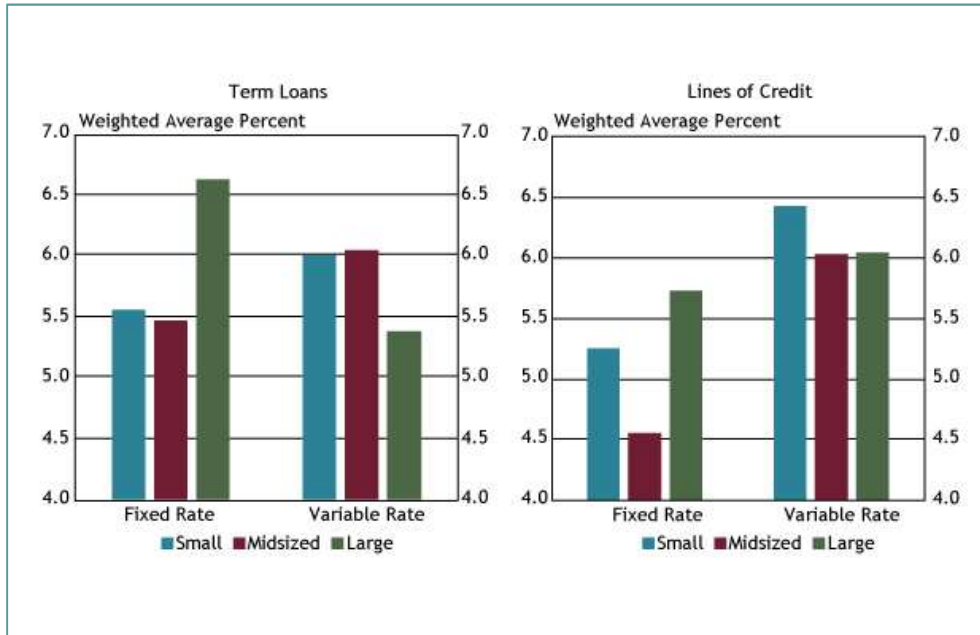
Source: FR 2028D, items 7.c and 10.d.

Note: Items are calculated using a subset of respondents that completed the FR 2028D for all five quarters surveyed.

In the fourth quarter, banks increased the weighted average fixed interest rates on term loans for the fourth consecutive quarter, while interest rates on variable rate term loans rose for the second consecutive quarter. Fixed rates and variable rates on term loans grew at a faster pace than the previous quarter, with increases of 21 basis points and 37 basis points, respectively. Fixed rates on lines of credit decreased 17 basis points in the fourth quarter, while variable rates on lines of credit grew for the fourth consecutive quarter, increasing 48 basis points.

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Chart 6: Fourth Quarter New Small Business C&I Loan Rates Vary by Bank Size



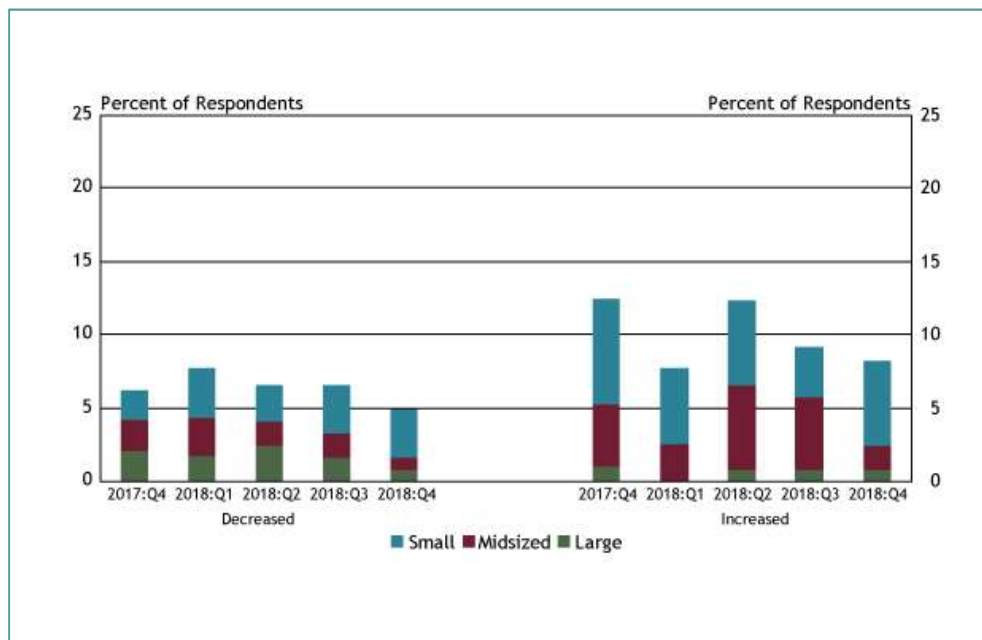
Source: FR 2028D, items 7.c and 10.d.

Note: Average interest rates are weighted by the dollar volume of new small business C&I loans. Small banks have total assets of \$1 billion or less, midsized banks have total assets between \$1 billion and \$10 billion and large banks have total assets greater than \$10 billion.

Fourth quarter weighted average interest rates varied on term loans and lines of credit across bank sizes, ranging from 4.55 percent to 6.62 percent. Large banks charged the highest rates on fixed rate term loans and lines of credit. Small banks charged the highest rates on variable rate lines of credit. Midsized banks offered the lowest rates on fixed rate lines of credit.

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Chart 7: Credit Line Usage Remains Stable Across All Bank Sizes



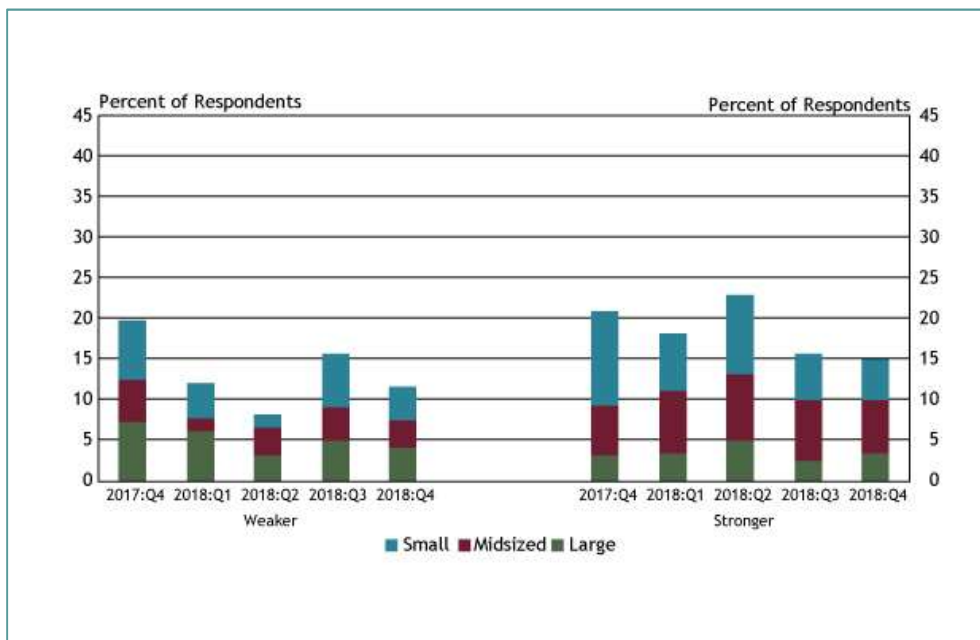
Source: FR 2028D, item 11.

Note: Small banks have total assets of \$1 billion or less, midsized banks have total assets between \$1 billion and \$10 billion and large banks have total assets greater than \$10 billion.

About 87 percent of respondents indicated that credit line usage remained unchanged in the fourth quarter. Small banks reporting a change in credit line usage represented 9 percent of all respondents. Similar to previous quarters, the most common reasons cited for a change, whether an increase or decrease, were related to borrowers' business revenue or other business-specific conditions and differences in local or national economic conditions.

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Chart 8: Overall Loan Demand Remains Stable



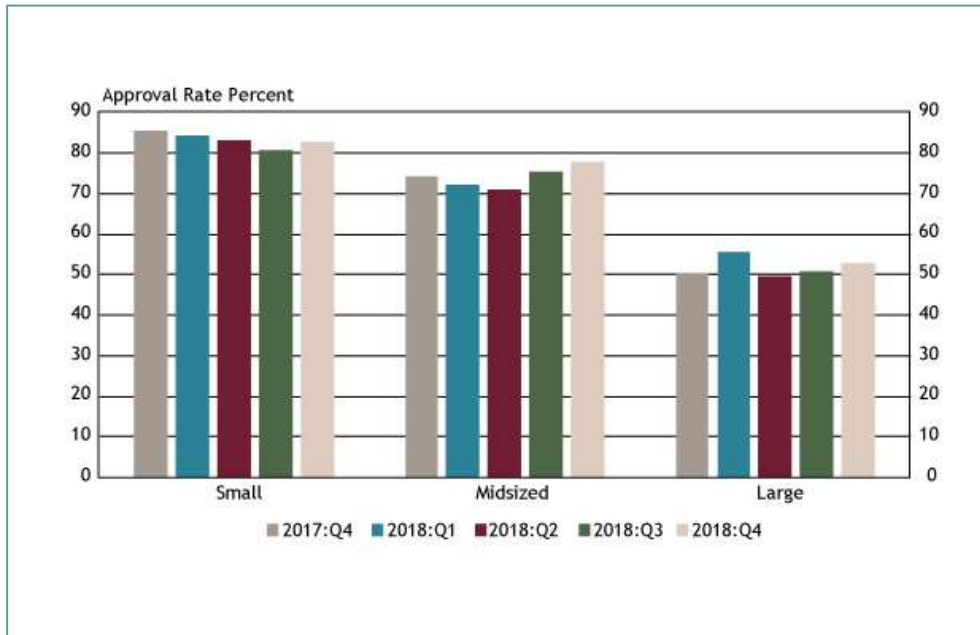
Source: FR 2028D, item 13.

Note: Small banks have total assets of \$1 billion or less, midsized banks have total assets between \$1 billion and \$10 billion and large banks have total assets greater than \$10 billion.

About 74 percent of respondents indicated that demand for small business C&I loans remained unchanged in the fourth quarter. About 15 percent of respondents reported stronger loan demand, with about 11 percent indicating weaker demand. Midsized banks reporting stronger demand represented about 7 percent of respondents.

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Chart 9: Small Business C&I Application Approval Rates Increase for All Bank Sizes



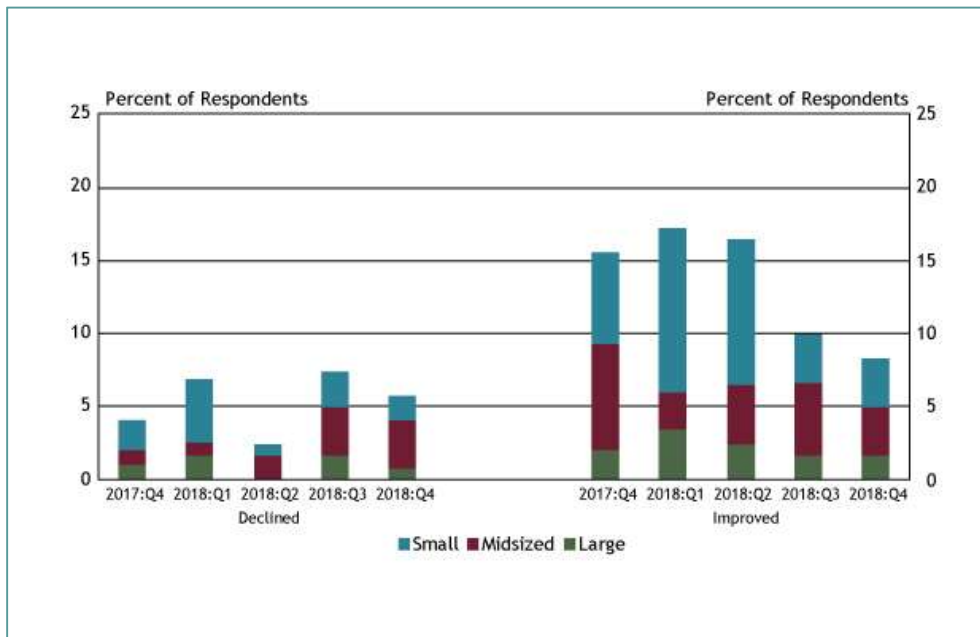
Source: FR 2028D, items 14.a and 17.

Note: Small banks have total assets of \$1 billion or less, midsized banks have total assets between \$1 billion and \$10 billion and large banks have total assets greater than \$10 billion.

Application approval rates varied from 83 percent at small institutions to 53 percent at large institutions during the fourth quarter. Compared with the third quarter, approval rates were higher across all bank sizes. Approval rates at midsized banks increased to 78 percent, a five-quarter high. The three most commonly cited reasons for denying a loan were borrower financials, collateral quality and credit history.

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Chart 10: Small Business Credit Quality Remains Stable



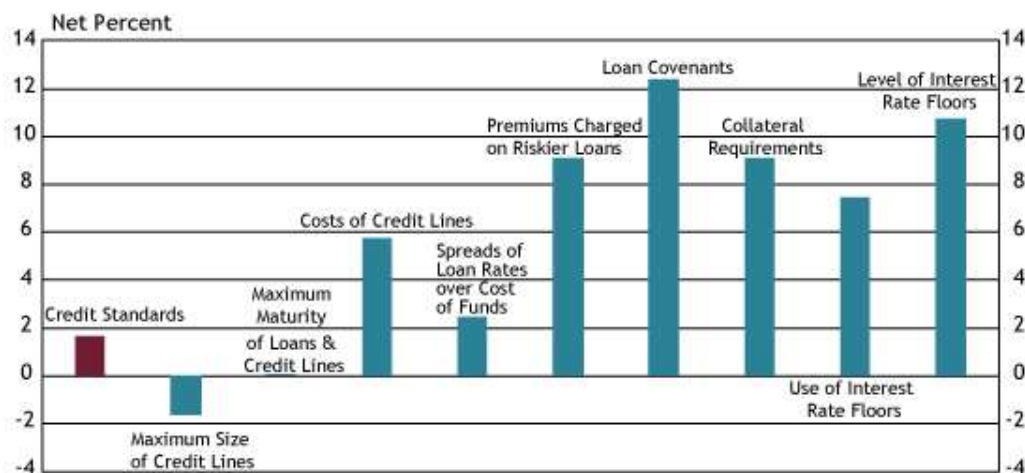
Source: FR 2028D, items 24 and 25.

Note: Small banks have total assets of \$1 billion or less, mid-sized banks have assets between \$1 billion and \$10 billion and large banks have assets greater than \$10 billion.

About 86 percent of respondents indicated credit quality remained unchanged in the fourth quarter compared with 83 percent of respondents who indicated no change in the third quarter. The percentage of respondents reporting improved credit quality declined for the third straight quarter, with 8 percent indicating improvement. About 6 percent of respondents indicated a decline in credit quality, citing recent business income growth, the debt-to-income level of business owners, and quality of business collateral as important reasons for the decline.

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Chart 11: Banks Tighten Credit Standards and Most Loan Terms



Source: FR 2028D, items 18 and 19.

Note: The net percent refers to the percent of banks that reported having tightened (“tightened considerably” or “tightened somewhat”) minus the percent of banks that reported having eased (“eased considerably” or “eased somewhat”).

Chart 11 shows diffusion indexes for credit standards (red bar) and various loan terms. The diffusion indexes show the difference between the percent of banks reporting tightening terms and those reporting easing terms. Similar to the third quarter, about 92 percent of respondents indicated no change in credit standards in the fourth quarter. Banks reporting a change in credit standards, on net, reported tightening.

On net, all loan terms tightened except for the maximum size of credit lines and the maximum maturity of loans and credit lines (net diffusion index of zero). Loan covenants, level of interest rate floors, collateral requirements and premiums charged on riskier loans showed the most tightening.

Of respondents who reported tightening during the fourth quarter, about 76 percent cited a less favorable or more uncertain economic outlook as a somewhat or very important reason. Additionally, about 71 percent identified both worsening of industry-specific problems and reduced risk tolerance as somewhat or very important reasons for tightening. Of respondents reporting easing, about 78 percent indicated more aggressive competition from other bank lenders as a somewhat or very important reason, and 14 percent indicated more aggressive competition from nonbank lenders as a somewhat or very important reason.

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*Other contributors to this report included Dan Harbour, Thomas Hobson, Alli Jakubek, Brody Smith, Brad Wampler and Jim Wilkinson.