Small Business Lending Survey

New Small Business Commercial and Industrial Loan Balances Decline Year-over-Year and Quarter-over-Quarter

December 20, 2019

New small business commercial and industrial (C&I;) lending declined 14.0percent in the third quarter of 2019 compared with the third quarter of 2018, a third consecutive quarter of year-over-year declines. The decline in new lending was driven by a 33.8 percent decrease in new small business C&I; credit line balances.

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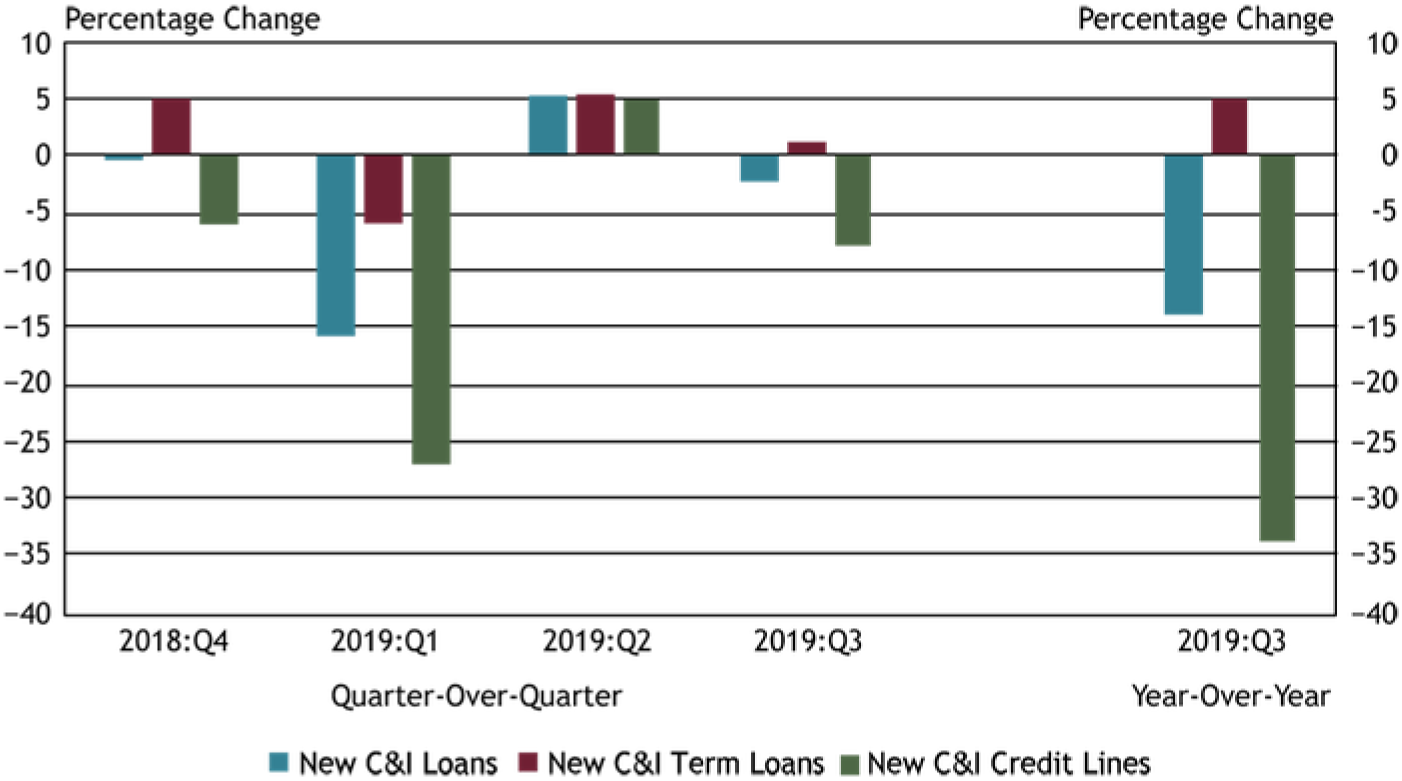
New small business commercial and industrial (C&I) lending declined 14.0 percent in the third quarter of 2019 compared with the third quarter of 2018, a third consecutive quarter of year-over-year declines. The decline in new lending was driven by a 33.8 percent decrease in new small business C&I credit line balances. Despite the decline in new lending, outstanding small business (C&I) balances grew 2.1 percent in the third quarter compared with the same period of 2018. Most of the 128 respondents to the Federal Reserve's Small Business Lending Survey (FR 2028D) reported that credit quality remained stable in the third quarter while approval rates for applications decreased. For the second consecutive quarter, more respondents reported weaker loan demand and tightening credit standards.

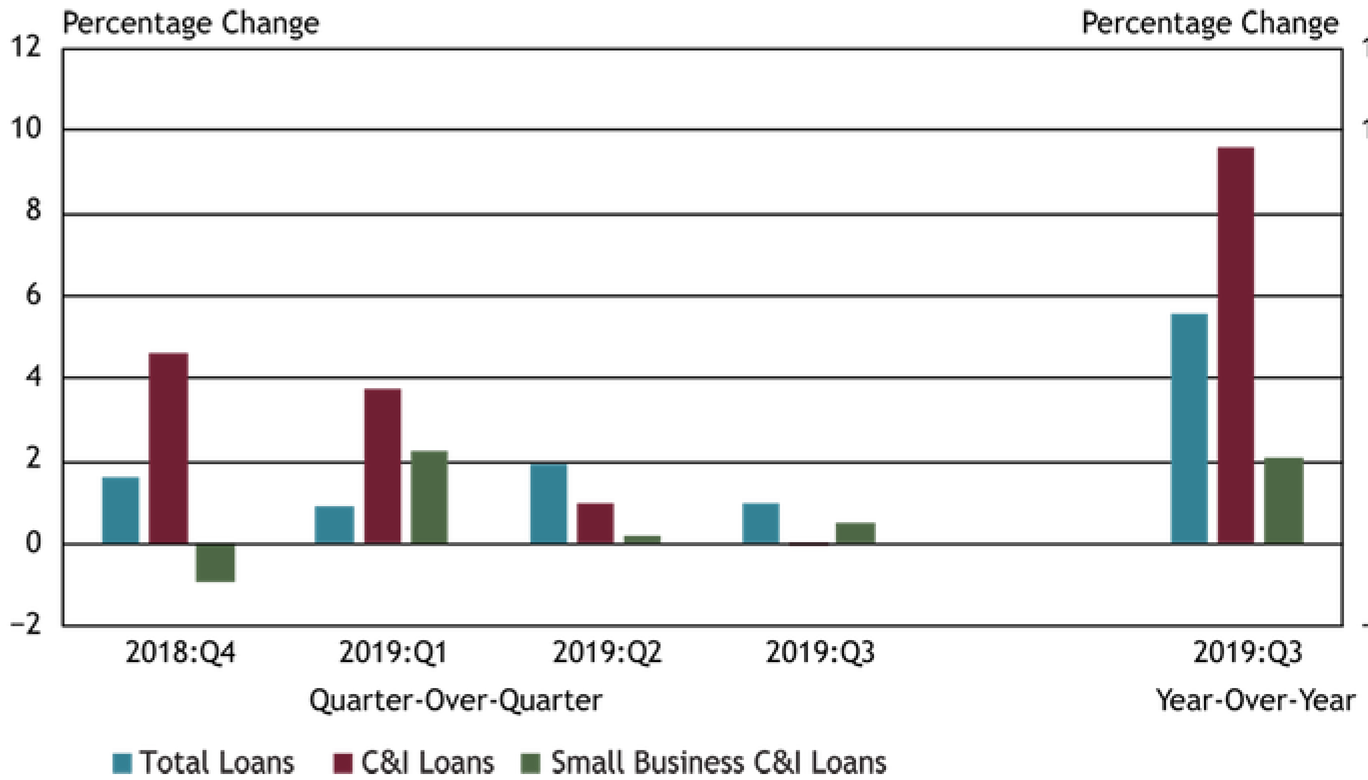
Chart 1: New Small Business C&I Loan Balances Decline Year-over-Year and Quarter-over-Quarter



Note: Items are calculated using a subset of respondents that completed the FR 2028D for the last five quarters surveyed. All loan types referenced in Chart 1 refer to small business lending.Source: FR 2028D, items 7.b and 10.c.

New small business C&I loan balances declined 14.0 percent compared with the third quarter 2018, driven by a 33.8 percent decrease in new small business C&I credit line balances. The decline was the third consecutive quarter of year-over-year decreases in new small business C&I loans, due primarily to a large decrease in the first quarter of 2019. New small business C&I term loans increased 4.9 percent compared with the third quarter of 2018 and 1.2 percent from the previous quarter.

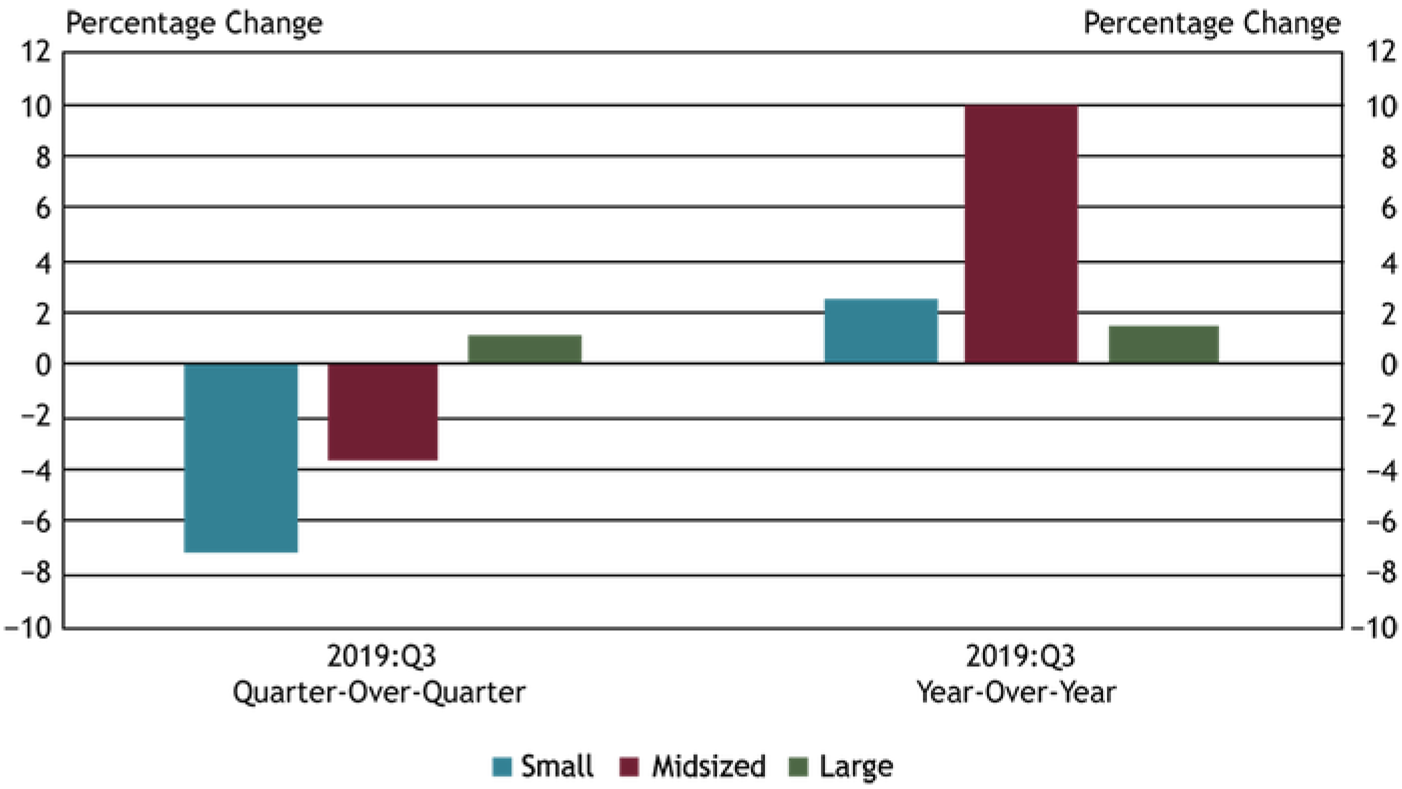
Chart 2: Outstanding Small Business C&I Loan Balances Increase Year-Over-Year



Note: Items are calculated using a subset of respondents that completed the FR 2028D for the last five quarters surveyed.Sources: Call Report, schedule RC-C, items 4 and 12; and FR 2028D, items 4.b and 5.c.

Small business C&I loan balances increased 2.1 percent compared with the third quarter of 2018, lagging the growth of total loan and C&I loan balances, which grew 5.6 percent and 9.6 percent, respectively. Compared with the prior quarter, each loan category demonstrated flat to modest growth.

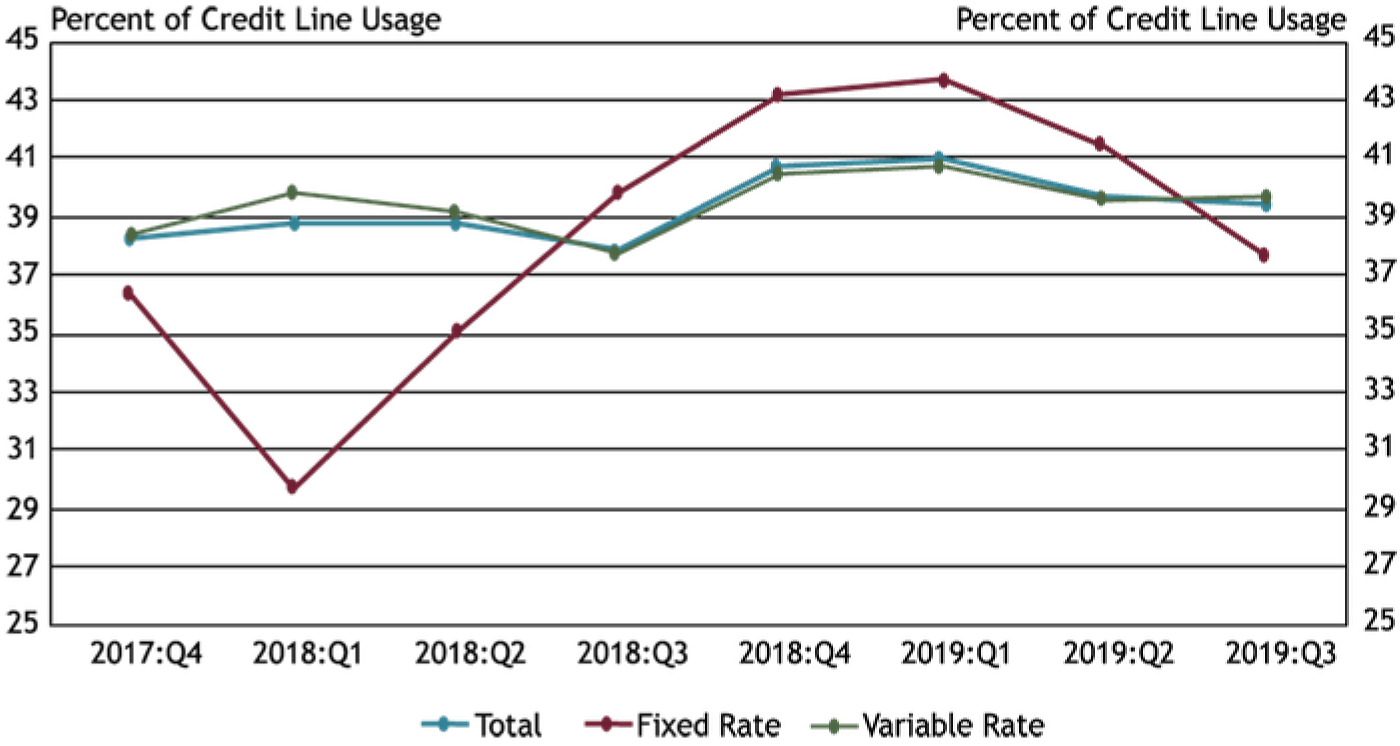
Chart 3: Year-Over-Year Balances on Small Business C&I Loans Increase for All Bank Sizes



Note: Items are calculated using a subset of respondents that completed the FR 2028D for the last five quarters surveyed. Small banks have total assets of $1 billion or less, midsized banks have assets between $1 billion and $10 billion and large banks have assets greater than $10 billion.Source: FR 2028D, items 4.b and 5.c.

Small business C&I loan balances increased for all bank sizes compared with the third quarter of 2018. Midsized banks reported the largest year-over-year increase of 9.9 percent, but reported a decline of 3.7 percent compared with the second quarter of 2019. Small business C&I loans at small banks increased 2.4 percent year-over-year, but declined 7.4 percent compared with the previous quarter. Large banks reported year-over-year and quarterly increases of 1.4 percent and 1.1 percent, respectively.

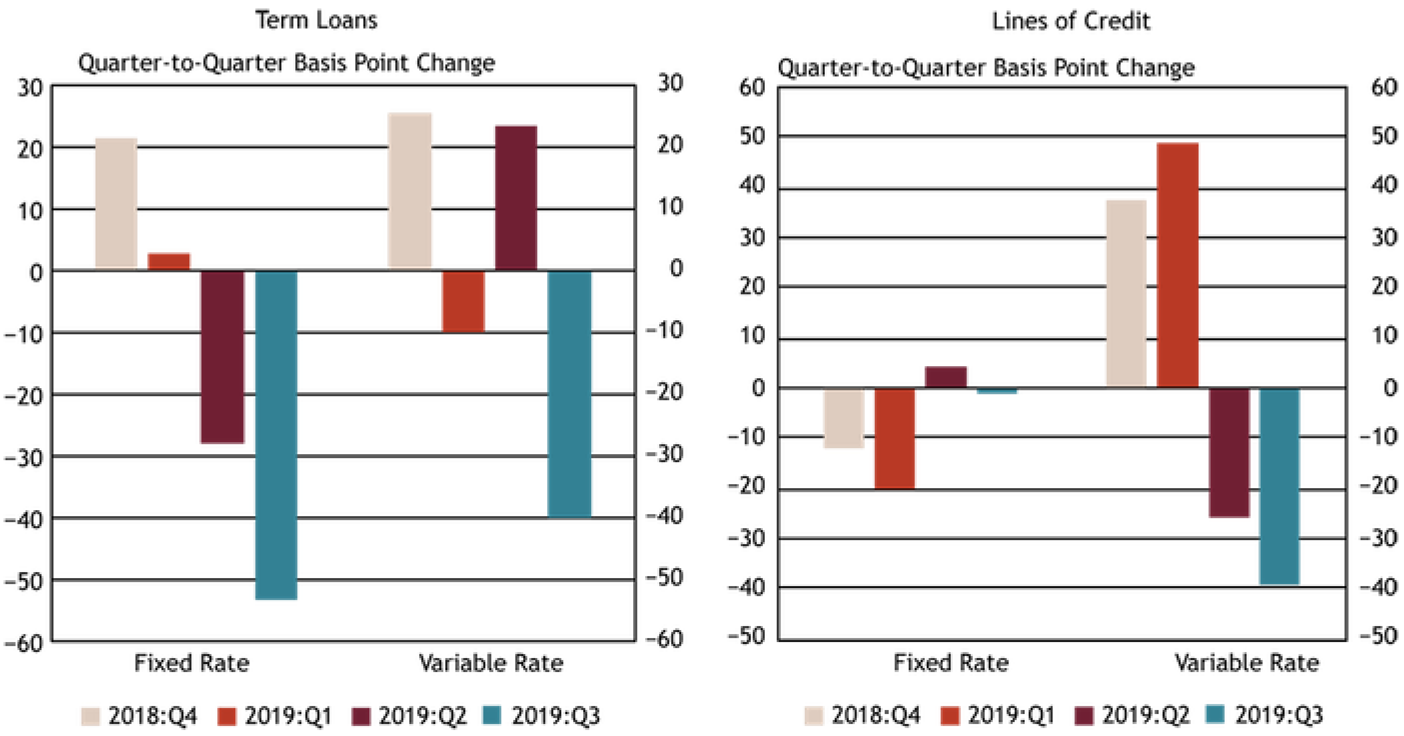
Chart 4: Percentage of Total Credit Line Usage Remains Stable



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

Total small business C&I credit line usage remained stable despite a decline in fixed rate credit line usage from 41.4 percent in the second quarter to 37.6 percent in the third quarter. Variable rate credit line usage increased slightly, from 39.5 percent in the second quarter to 39.7 percent in the third quarter.

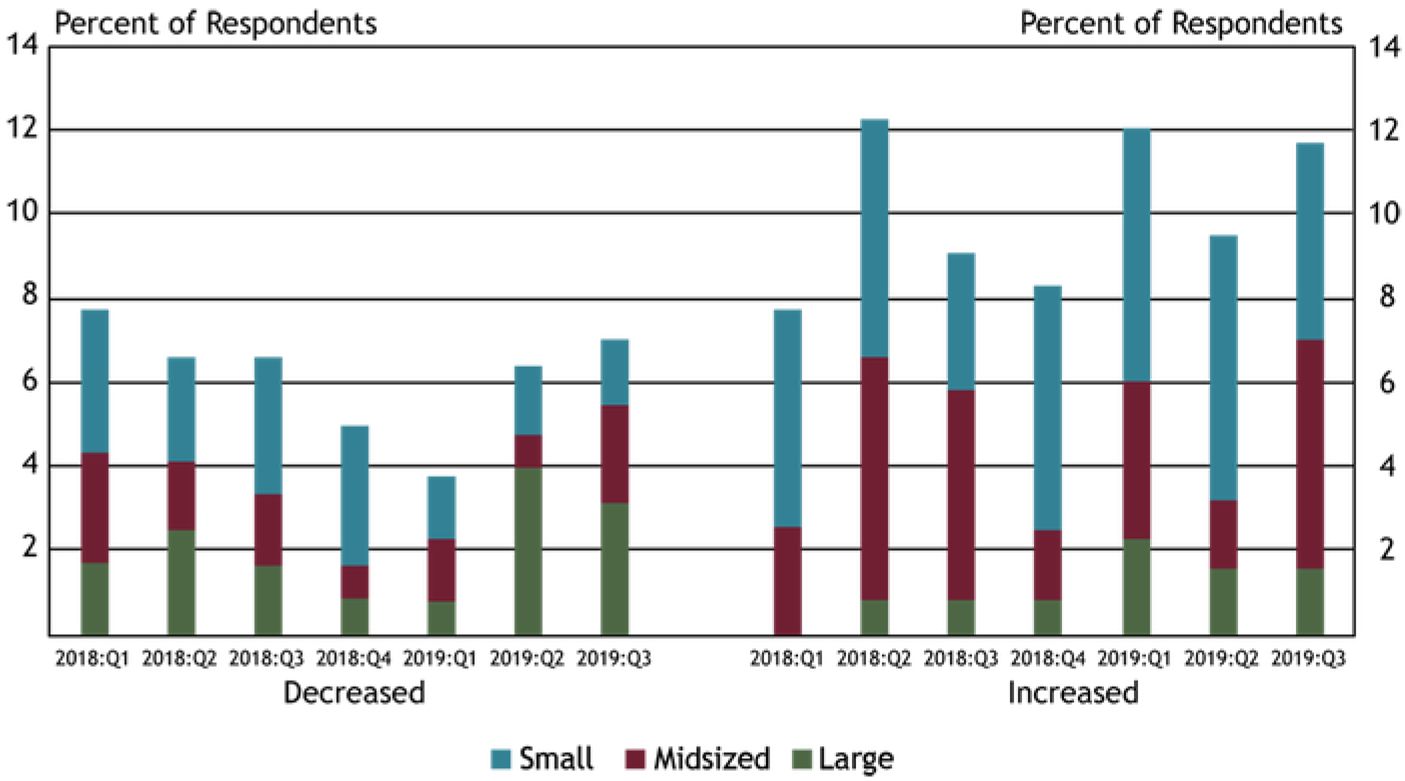
Chart 5: Interest Rates on New Small Business Term Loans and Lines of Credit Decrease



Note: Items are calculated using a subset of respondents that completed the FR 2028D for the last five quarters surveyed.Source: FR 2028D, items 7.c and 10.d.

Weighted average rates on new C&I fixed and variable rate term loans declined in the third quarter, decreasing 53 and 40 basis points, respectively. Weighted average rates on fixed and variable rate lines of credit also decreased by 1 and 39 basis points, respectively.

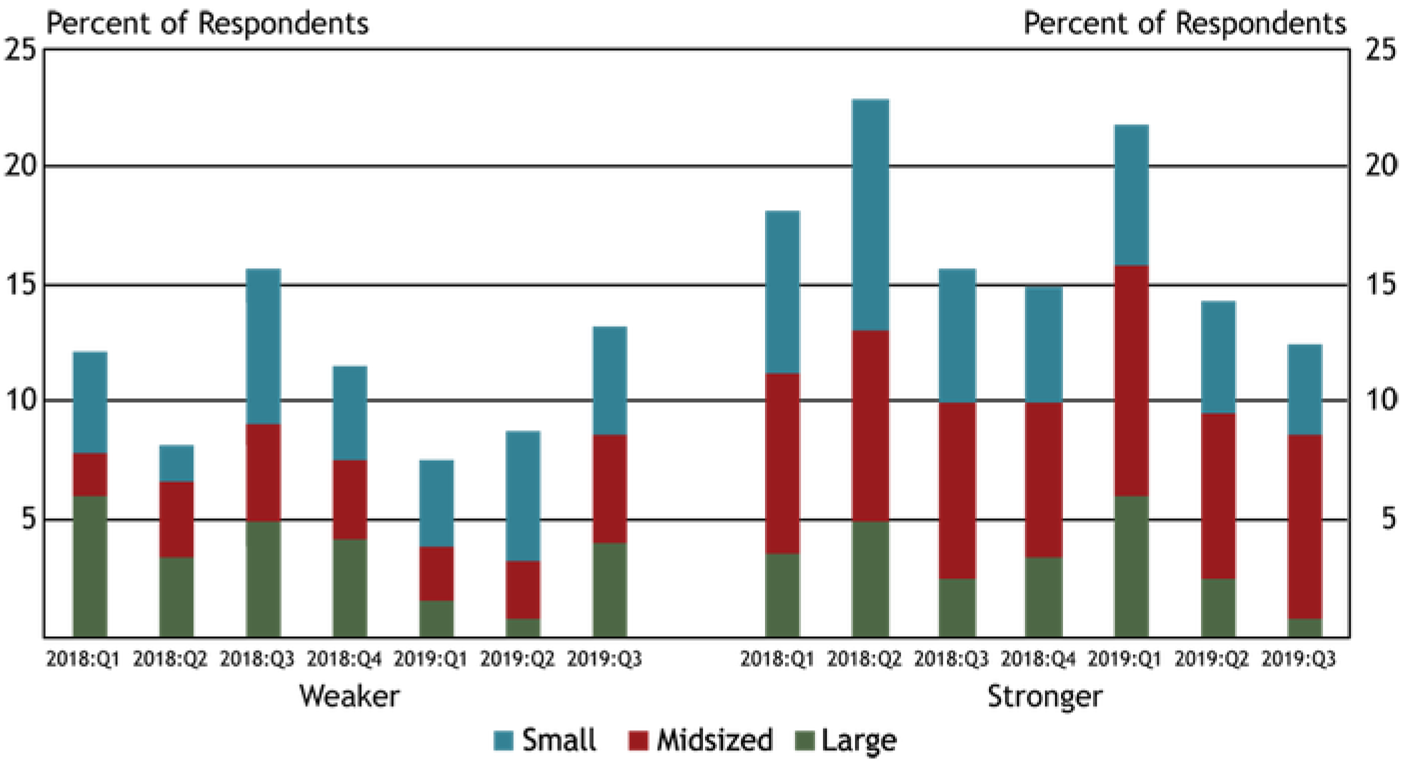
Chart 6: Respondents Report Increasing Credit Line Usage



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.Source: FR 2028D, item 11.

About 12 percent of respondents indicated that credit line usage increased in the third quarter, up from about 10 percent in the second quarter, with midsized banks representing the largest group reporting an increase. The percentage of respondents reporting a decline in credit line usage increased for a second consecutive quarter to about 7 percent in the third quarter, with large banks representing the largest group reporting a decrease. The percentage of respondents indicating no change in credit line usage declined from 84 percent in the second quarter to 81 percent in the third quarter. The most commonly cited reasons for a change, whether an increase or decrease, were related to borrowers' business revenue or other business-specific conditions, and changes in local or national economic conditions.

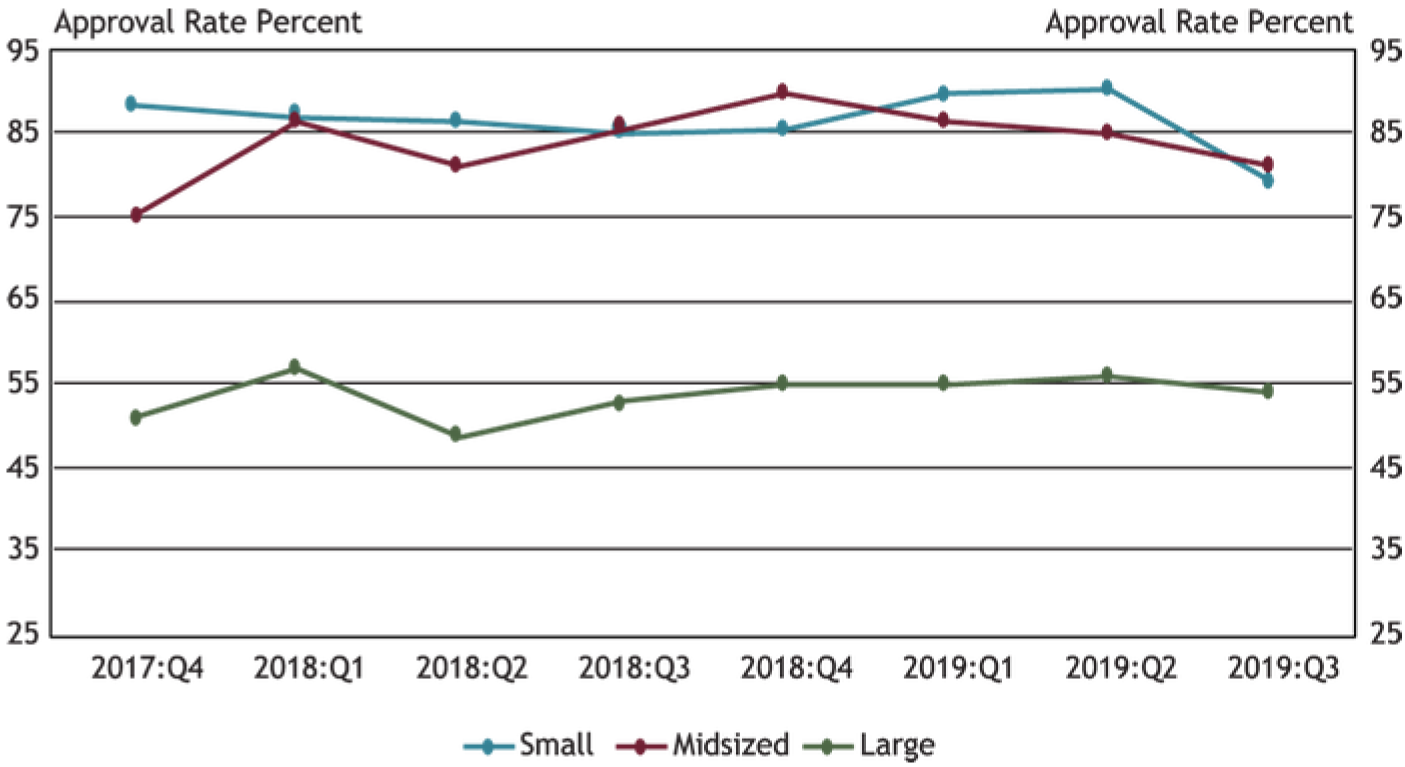
Chart 7: More Respondents Report Weaker Loan Demand



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.Source: FR 2028D, item 13.

The number of respondents reporting weaker loan demand increased for a second consecutive quarter, from about 9 percent in the second quarter to 13 percent in the third quarter. Respondents reporting stronger loan demand decreased to about 13 percent, the lowest rate reported since the start of the survey. About 74 percent of respondents reported loan demand remained unchanged.

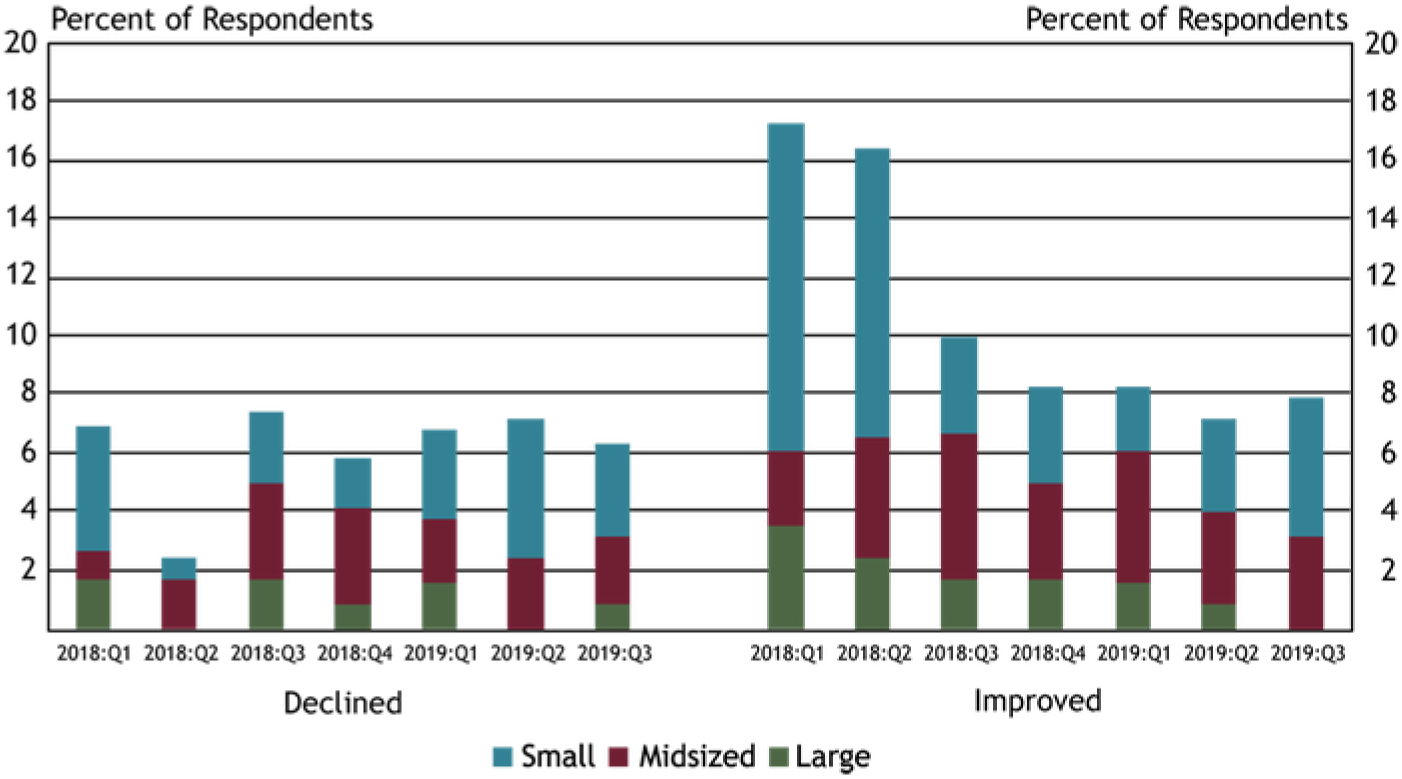
Chart 8: Small Business C&I Application Approval Rates Decrease across All Bank Sizes



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

Application approval rates decreased across all bank sizes with small banks declining from 90 percent in the second quarter to 79 percent in the third quarter, the lowest small bank approval rate since the start of the survey. Midsized banks reported the highest application approval rate at 81 percent while large banks reported the lowest at 54 percent. The three most commonly cited reasons for denying a loan were borrower financials, collateral quality, and credit history.

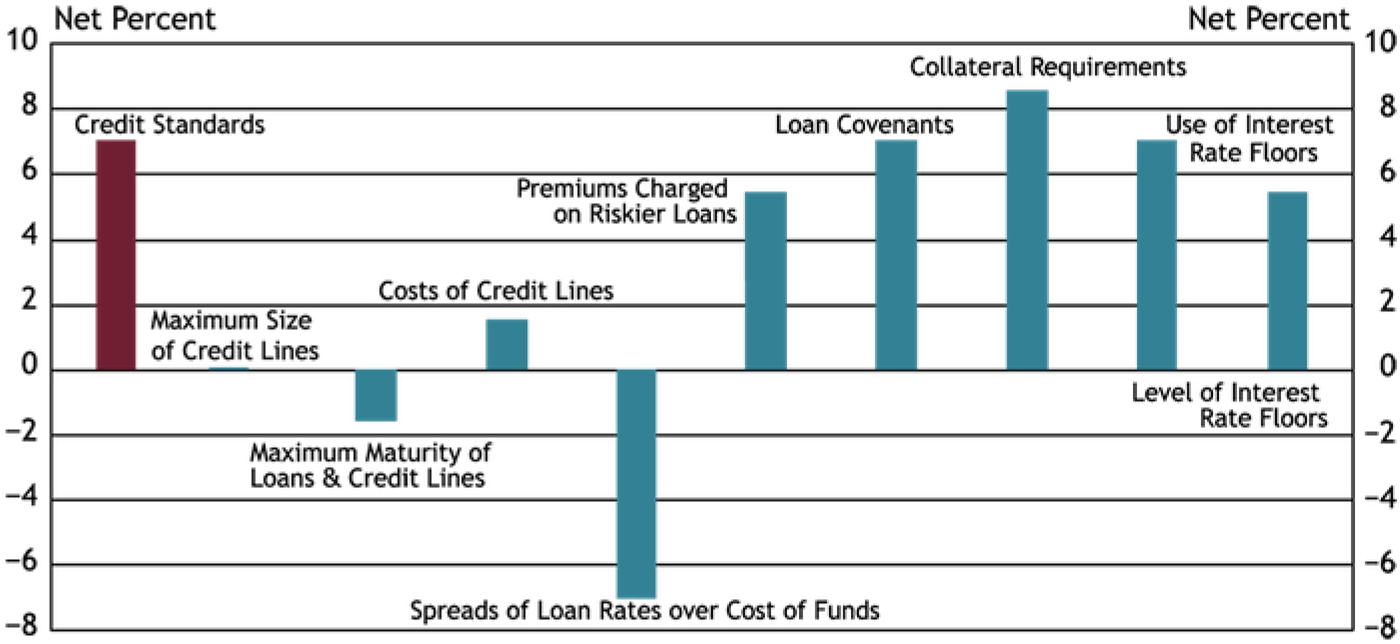
Chart 9: Credit Quality Remains Stable



Note: Small banks have total assets of $1 billion or less, midsized banks have assets between $1 billion and $10 billion and large banks have assets greater than $10 billion.Source: FR 2028D, items 24 and 25.

Despite the decrease in small business C&I application approval rates, most respondents indicated that credit quality remained stable. Similar to the prior three quarters, about 86 percent of respondents indicated applicant credit quality remained unchanged in the third quarter, with about 8 percent indicating improvement and about 6 percent reporting declining credit quality. For those reporting a change in applicant credit quality, credit scores, quality of personal collateral, and prospect for growth or enterprise values were noted as the top three reasons for a change.

Chart 10: Banks Tighten Credit Standards and Most Loan Terms



Note: Chart 10 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. 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").Source: FR 2028D, items 18, 19, 20 and 22.

About 87 percent of respondents reported no change in credit standards in the third quarter, similar to the previous two quarters. Of banks indicating a change in credit standards, 7 percent, on net, reported tightening their credit standards, an increase of 3 percent from the previous quarter.

On net, respondents indicated that most loan terms tightened with collateral requirements, loan covenants and the use of interest rate floors tightening the most. Respondents reported that maximum maturity of loans and credit lines continued to ease, while spreads of loan rates over cost of funds eased after tightening in the previous quarter.

The 33 respondents that reported tightening credit standards or loan terms in third quarter cited a less favorable or more uncertain economic outlook, worsening of industry-specific problems and reduced tolerance for risk. More aggressive competition from other banks and nonbank lenders were cited as the two most important reasons for the 28 respondents that reported loosening standards or terms.

*Other contributors to this report included Rosine Boni, Dan Harbour, Allison Jakubek, Thomas Hobson, Tony Walker, Brad Wampler and Jim Wilkinson.

Contact Us

For questions or comments about this survey, contact us at **KC SRM FR2028D Survey**.

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https://www.kansascityfed.org/surveys/small-business-lending-survey/2019q3-new-small-business-commercial-and-industrial-loan-balances-decline-year-over-year/