

kcFED *Small Business Lending* SURVEY

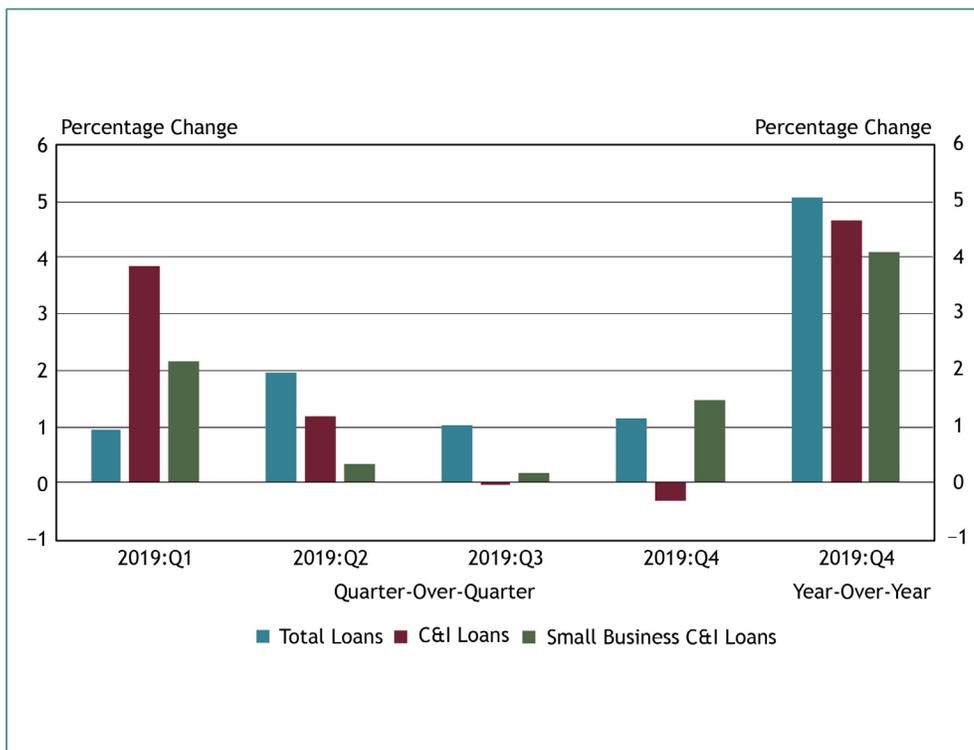
Survey Results for Fourth Quarter of 2019 Show Outstanding Small Business Commercial & Industrial Loan Balances Increase Year-Over-Year

Data collected in the fourth quarter of 2019, prior to the onset of the coronavirus pandemic, indicated that small business commercial and industrial (C&I) loan balances increased year-over-year for the second consecutive quarter, but lagged the growth of total loans and C&I loans for the same period. Midsized banks reported the largest increases in outstanding small business C&I loan balances compared with the fourth quarter of 2018 and the third quarter of 2019. New small business C&I loans declined compared with the fourth quarter of 2018, but increased compared with the previous quarter. Weighted average interest rates on new small business C&I term loans and lines of credit continued to decrease while credit line usage remained stable. Respondents reported some tightening of credit standards and most loan terms and indicated moderate growth in the use of interest rate floors for variable rate loans.

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Chart 1: Small Business C&I Loan Balances Increase Year-Over-Year for the Second Consecutive Quarter



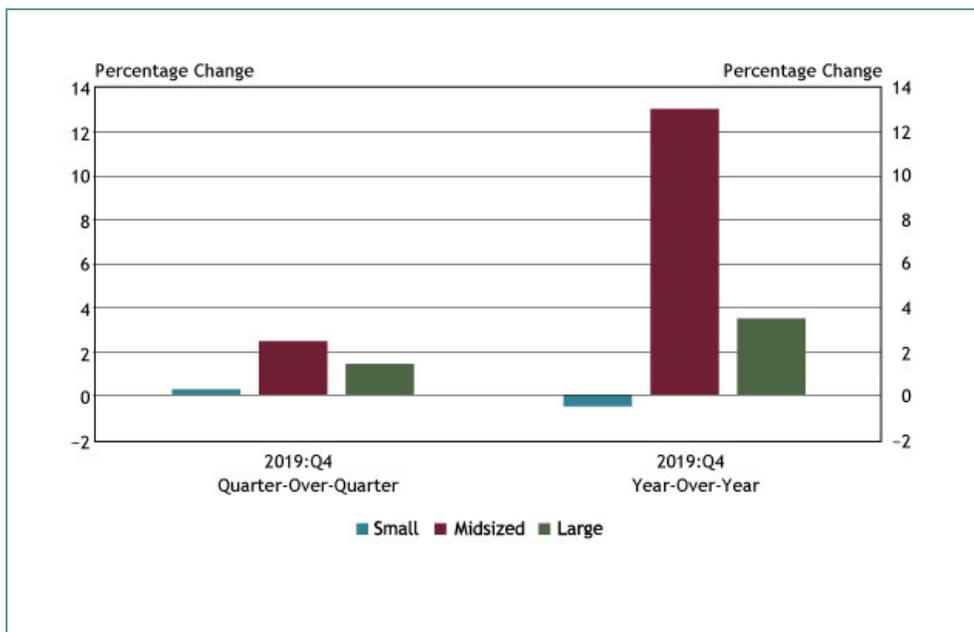
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Note: Items are calculated using a subset of respondents that completed the FR 2028D for the last five quarters surveyed.

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

Outstanding small business C&I loan balances increased year-over-year for the second consecutive quarter, growing 4.1 percent compared with the fourth quarter of 2018. Year-over-year small business C&I loan balances continued to lag the growth of total loan and C&I loan balances, which grew by 5.1 and 4.6 percent, respectively. Compared with the prior quarter, small business C&I loan balances grew 1.5 percent despite a slight decrease of 0.3 percent in total C&I balances.

Chart 2: Outstanding Small Business C&I Loan Balances Increase Year-Over-Year for Midsized and Large Banks



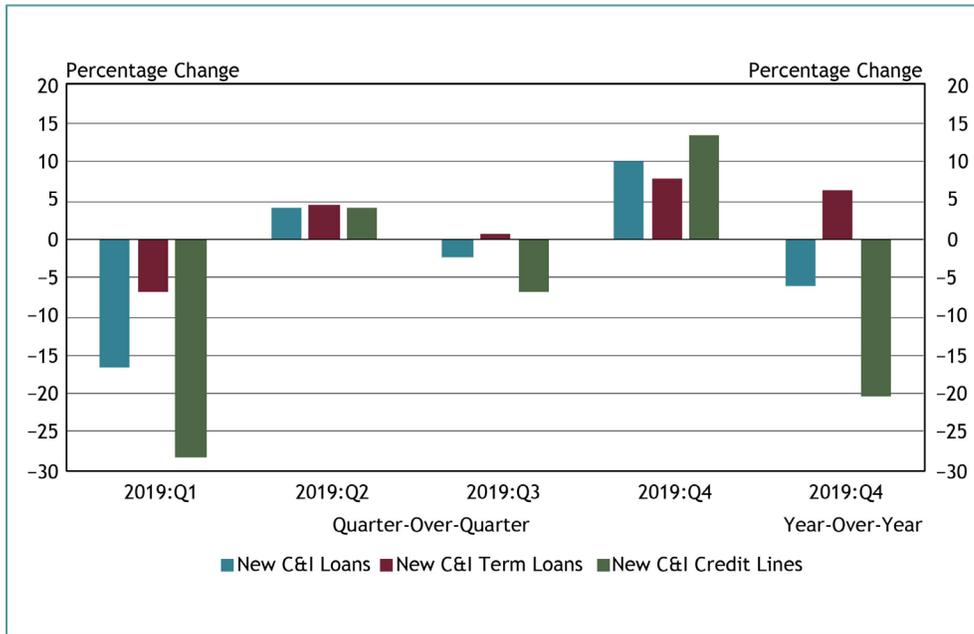
Note: Items are calculated using a subset of respondents that completed the FR 2028D for the last five quarters surveyed. Small banks have total assets of \$1 billion or less, midsized banks have assets between \$1 billion and \$10 billion and large banks have assets greater than \$10 billion.

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

Outstanding small business C&I loan balances increased for midsized and large banks compared with the fourth quarter of 2018, with all bank sizes reporting slight to modest growth in loan balances compared with the third quarter of 2019. Midsized banks reported the largest year-over-year and quarterly increases of 13.0 percent and 2.5 percent, respectively. Small business C&I loan balances at small banks decreased 0.5 percent compared with the fourth quarter of 2018.

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Chart 3: New Small Business C&I Loans Decline Year-Over-Year



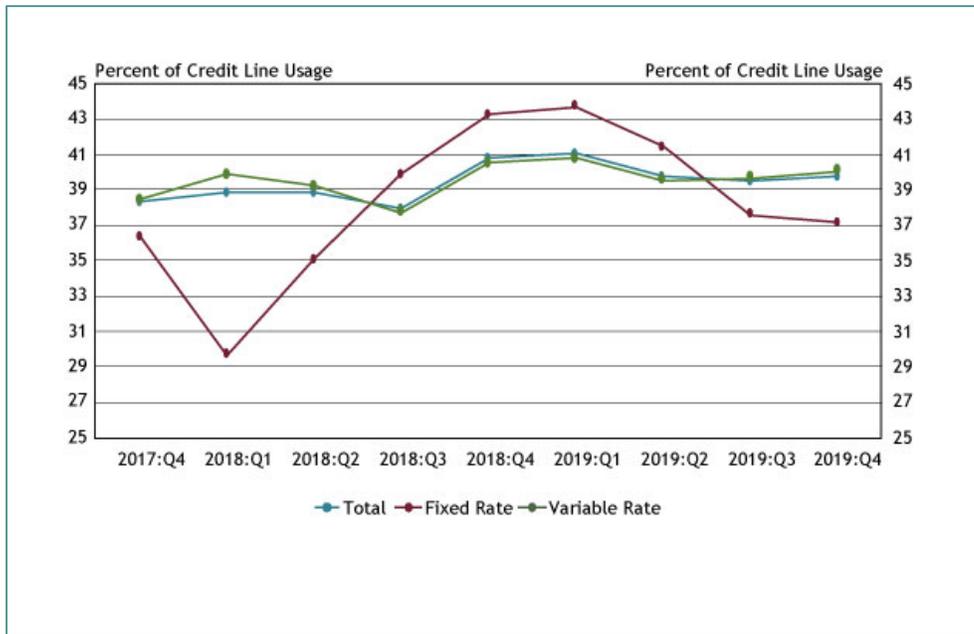
Note: Items are calculated using a subset of respondents that completed the FR 2028D for the last five quarters surveyed. All loan types referenced in Chart 3 refer to small business lending.

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

New small business C&I loans decreased year-over-year, due primarily to a 20.3 percent decrease in new small business C&I credit line balances. The decline was the fourth consecutive quarter of year-over-year decreases in new small business C&I loans, despite fourth quarter increases in new term loans and credit lines. New small business C&I loans increased by 10.1 percent compared with the third quarter of 2019, buoyed by growth in new term loans and credit lines of 7.9 percent and 13.6 percent, respectively.

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Chart 4: Total Credit Line Usage Remains Stable

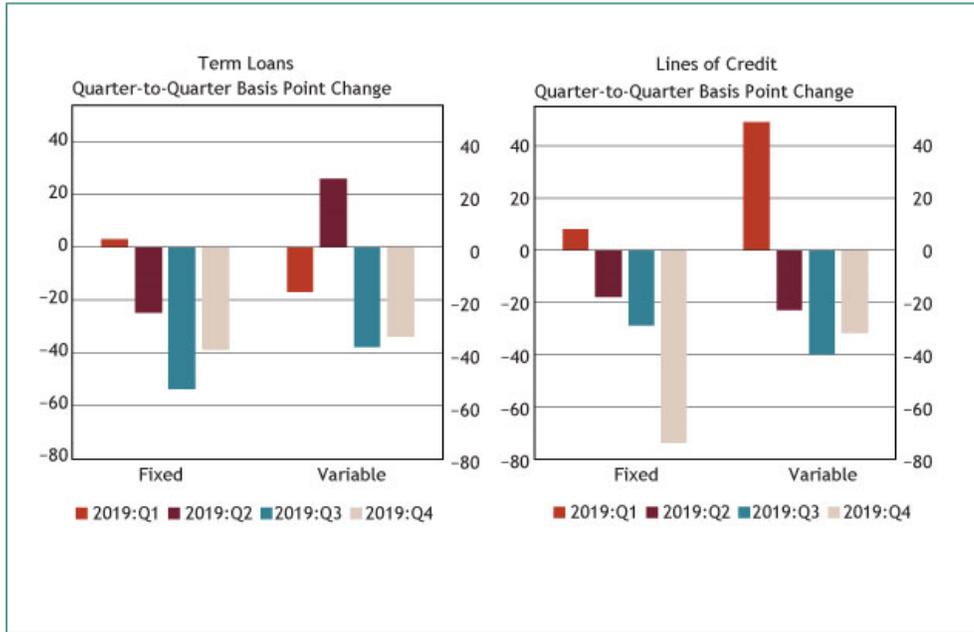


Source: FR 2028D, items 5.b and 5.c.

Total small business C&I credit line usage remained stable at 39.7 percent despite a slight decline in fixed rate credit line usage from 37.6 percent in the third quarter to 37.2 percent in the fourth quarter. Variable rate credit line usage increased slightly, from 39.7 percent in the third quarter to 40.0 percent in the fourth quarter. Compared with the fourth quarter of 2018, total credit line usage declined from 40.8 percent to 39.7 percent, due primarily to a decrease in fixed rate usage of 43.4 percent to 37.2 percent.

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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.

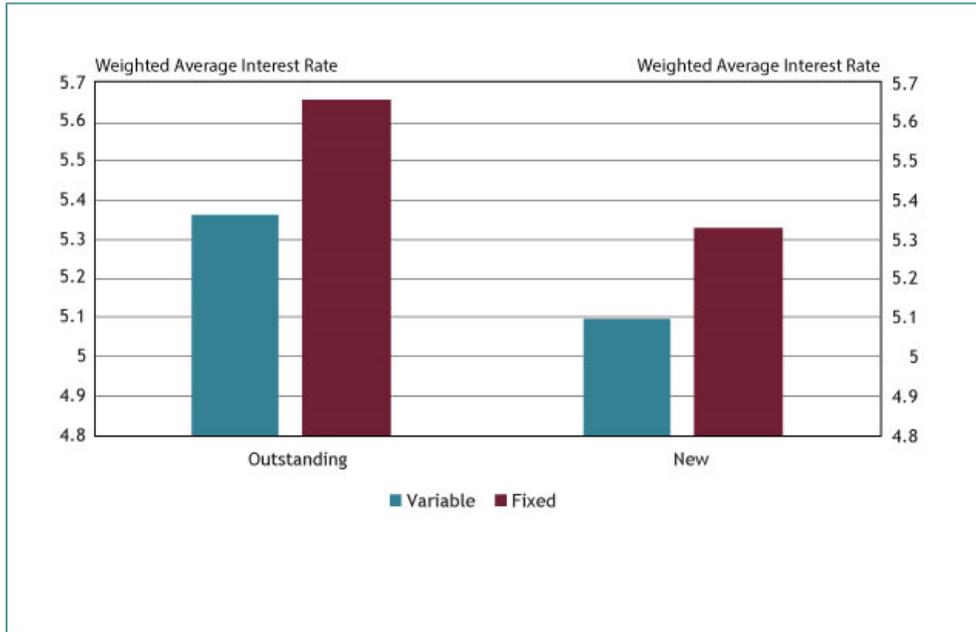
Source: FR 2028D, items 7.c and 10.d.

Weighted average rates on new small business C&I fixed and variable rate term loans and lines of credit decreased in the fourth quarter. Weighted average rates on fixed and variable rate term loans declined 39 and 34 basis points, respectively. Fixed rate lines of credit declined 75 basis points, and variable rate lines of credit declined 32 basis points.*

*Basis point changes for fixed and variable rate lines of credit are not consistent with the changes in the previous releases due to changes in the subset of institutions that completed the FR 2028D for the last five quarters surveyed.

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Chart 6: Interest Rates on New Small Business C&I Loans Lower than Interest Rates on Outstanding Loans



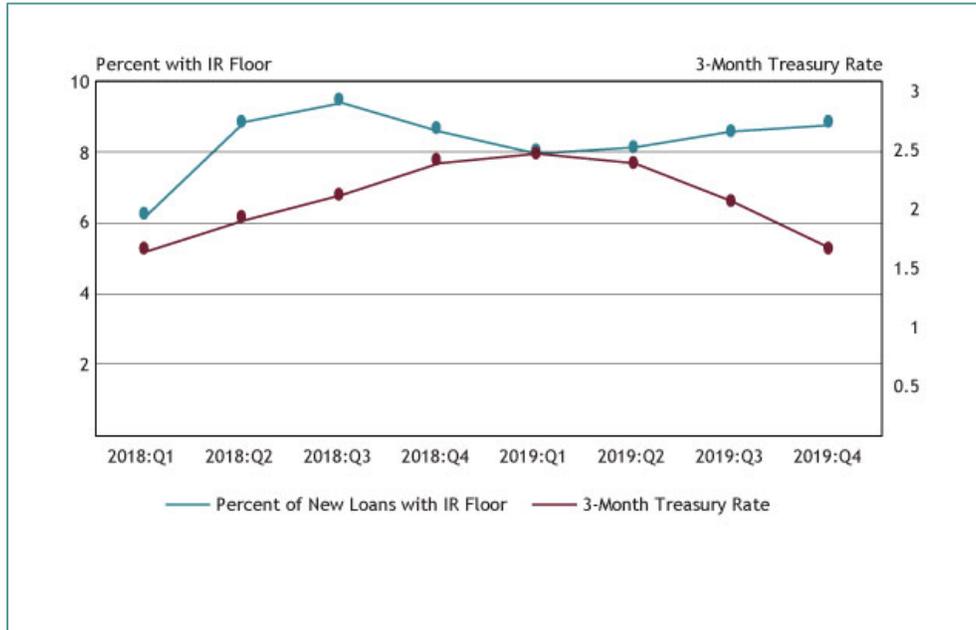
Note: Average interest rates are weighted by the dollar volume of new small business C&I loans.

Source: FR 2028D, items 4.c, 5.d, 7.c and 10.d.

Weighted average interest rates on variable and fixed rate new and outstanding small business C&I loans ranged from 5.10 percent to 5.66 percent. The weighted average rate for new small business C&I loans was consistently lower than the rate for outstanding small business C&I loans. The weighted average rate for outstanding variable rate loans was 5.36 percent, while the weighted average rate for new variable rate loans was 5.10 percent. The weighted average rate for outstanding fixed rate loans was 5.66 percent, while the weighted average rate for new fixed rate loans was 5.33 percent.

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Chart 7: Percentage of Small Business C&I Variable Rate Loans with Interest Rate Floors Increases

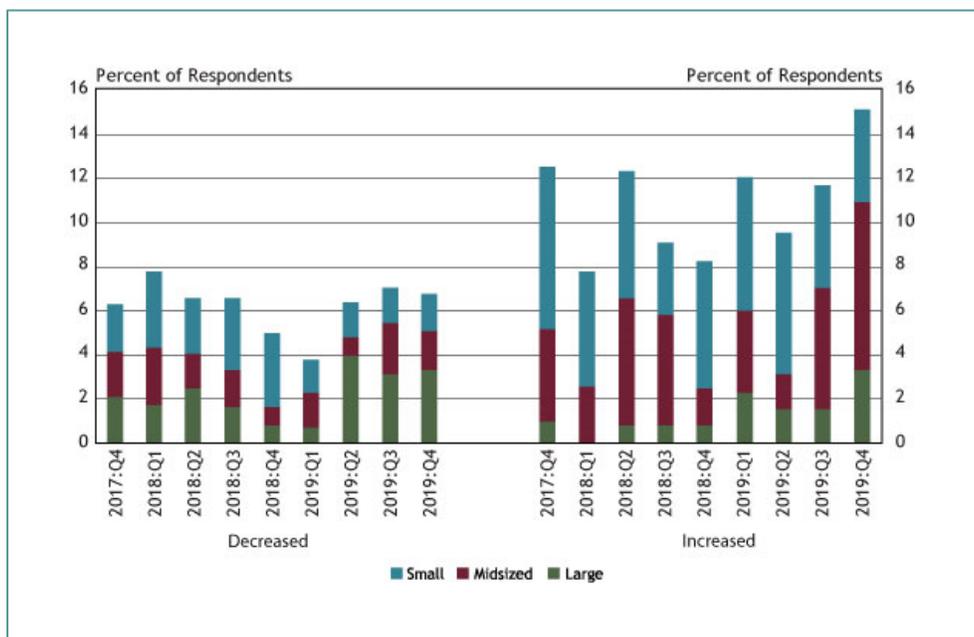


Source: FR 2028D, items 7.m and 10.l.

The aggregate percentage of new small business C&I loans with an interest rate floor has increased at a modest rate since the first quarter of 2019. This increase in the utilization of interest rate floors, when juxtaposed with the 3-Month Treasury Rate, shows an inverse relationship beginning in the second quarter of 2019, as an increasing percentage of new small business C&I loans with an interest rate floor coincides with a decline in the 3-Month Treasury rate.

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Chart 8: Respondents Report Increased Credit Line Usage



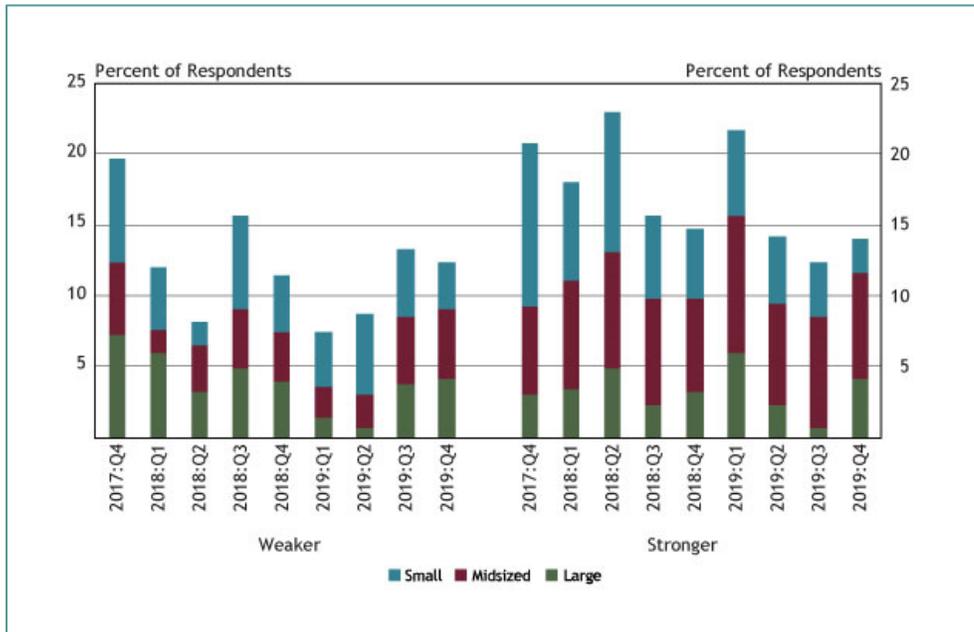
Note: Small banks have total assets of \$1 billion or less, midsize banks have total assets between \$1 billion and \$10 billion and large banks have total assets greater than \$10 billion.

Source: FR 2028D, item 11.

About 15 percent of respondents indicated that credit line usage increased in the fourth quarter, the highest level since the inception of the survey, with midsize banks representing the largest group reporting an increase. The percentage of respondents reporting a decline in credit line usage decreased slightly, with large banks representing the largest group reporting a decrease. The percentage of respondents indicating no change in credit line usage decreased from 81 percent in the third quarter to 78 percent in the fourth 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.

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Chart 9: Respondents Report Stable Loan Demand



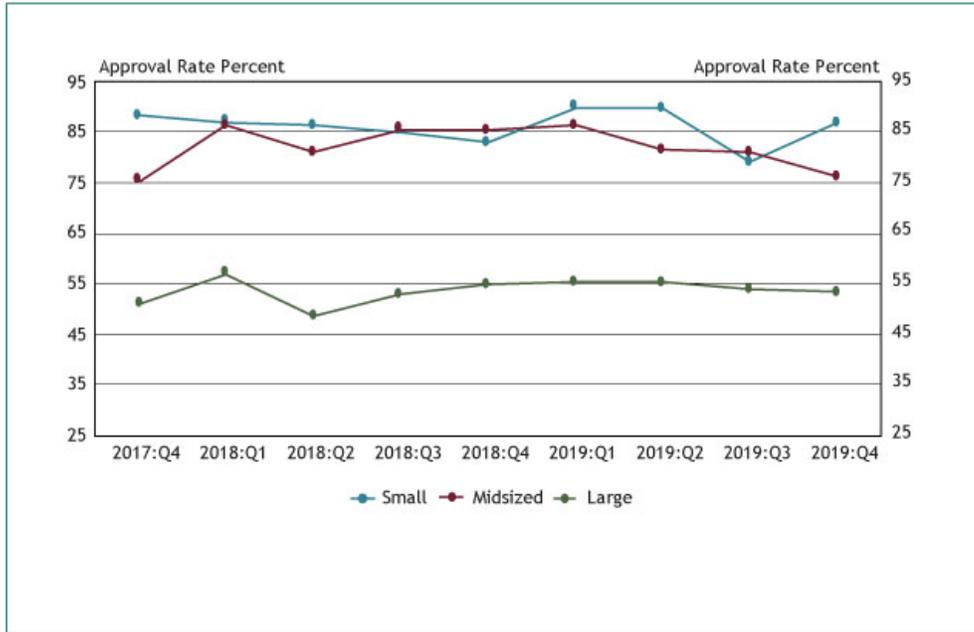
Note: Small banks have total assets of \$1 billion or less, mid-sized banks have total assets between \$1 billion and \$10 billion and large banks have total assets greater than \$10 billion.

Source: FR 2028D, item 13.

The number of respondents reporting no change in loan demand remained relatively stable, decreasing slightly from 74 percent in the third quarter to 73 percent in the fourth quarter. Respondents reporting weaker loan demand decreased for the first time in three quarters, while respondents reporting stronger loan demand increased. The percentage of large banks reporting stronger loan demand increased from 1 percent in the third quarter to 4 percent in the fourth quarter.

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Chart 10: Application Approval Rates for Small Banks Increase



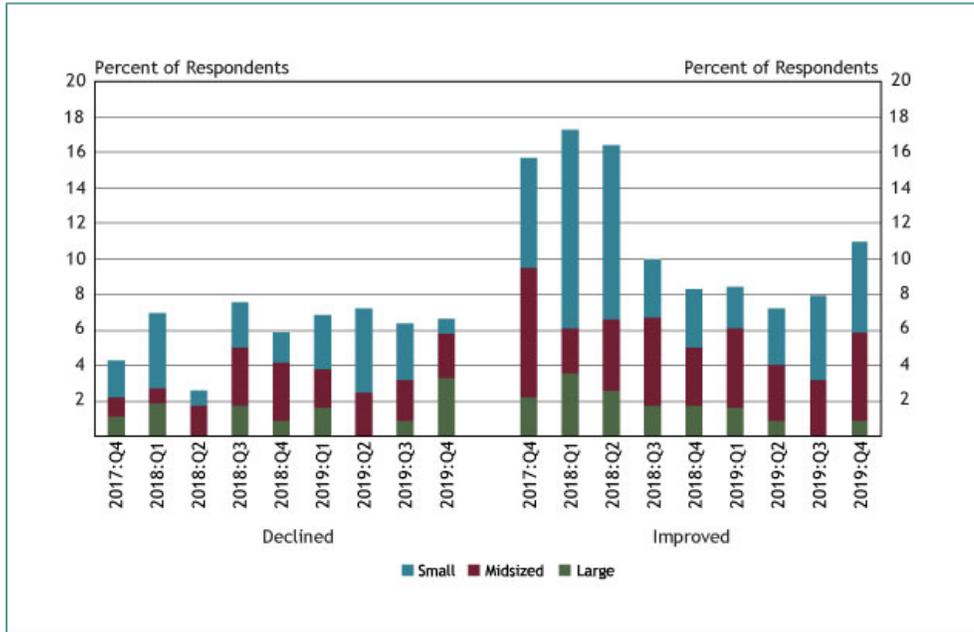
Note: Small banks have total assets of \$1 billion or less, midsized banks have total assets between \$1 billion and \$10 billion and large banks have total assets greater than \$10 billion.

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

Application approval rates for small banks increased from a low of 79 percent in the third quarter of 2019 to 87 percent in the fourth quarter. In the same quarter, approval rates for midsized banks declined from 81 percent in the previous quarter to 76 percent, while approval rates at large banks were unchanged. The three most commonly cited reasons for denying a loan were borrower financials, collateral, and credit history.

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Chart 11: Credit Quality Increases Slightly



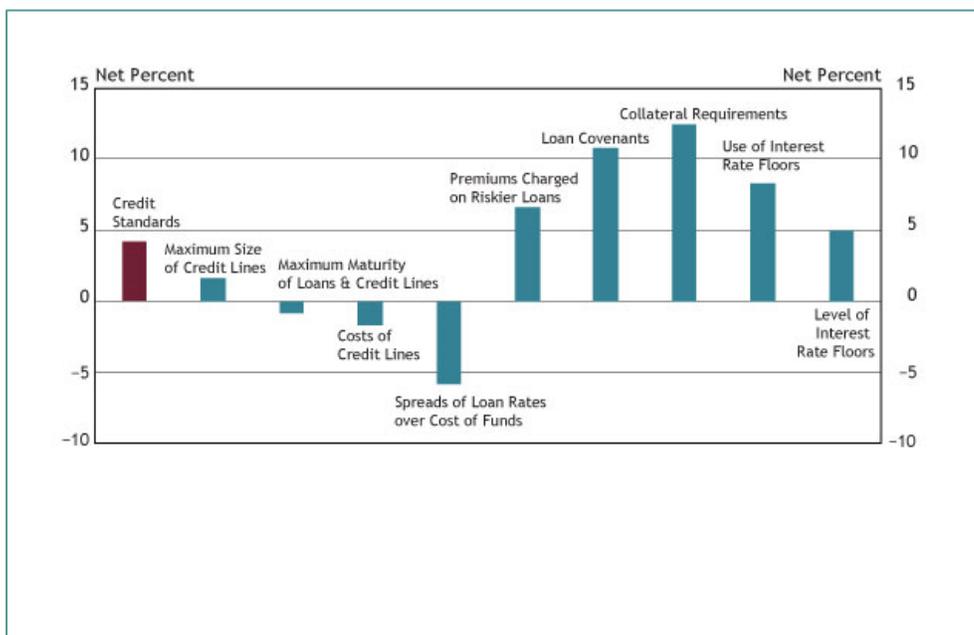
Note: Small banks have total assets of \$1 billion or less, mid-sized banks have assets between \$1 billion and \$10 billion and large banks have assets greater than \$10 billion.

Source: FR 2028D, items 24 and 25.

About 17 percent of respondents indicated a change in the credit quality of applicants in the fourth quarter. Respondents reporting an increase in credit quality grew from 8 percent in the third quarter of 2019 to 11 percent in fourth quarter, while the percentage of respondents reporting a decrease in credit quality was little changed. The most commonly cited reasons for a change were the debt-to-income level of business owners, the liquidity position of business owners, and recent growth in business income.

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Chart 12: Banks Tighten Credit Standards and Most Loan Terms



Note: Chart 12 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 91 percent of respondents reported no change in credit standards in the fourth quarter, up about 4 percent from the third quarter. Of banks indicating a change in credit standards, 4 percent on net, reported tightening their credit standards, a decrease 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 spreads of loan rates over cost of funds continued to ease, while costs of credit lines eased after tightening in the previous quarter. Respondents reporting tightening credit standards or loan terms in fourth quarter cited a less favorable or more uncertain economic outlook, worsening of industry-specific problems and reduced tolerance for risk.

Other contributors to this release included Rosine Boni, Thomas Hobson, Alli Jakubek, Tony Walker, and Jim Wilkinson.