

2013 Policy Summit  
On Housing, Human Capital, and Inequality  
Friday, September 20, 2013

**SMALL BUSINESS FINANCING TRENDS**  
**The Past, Present and Future**

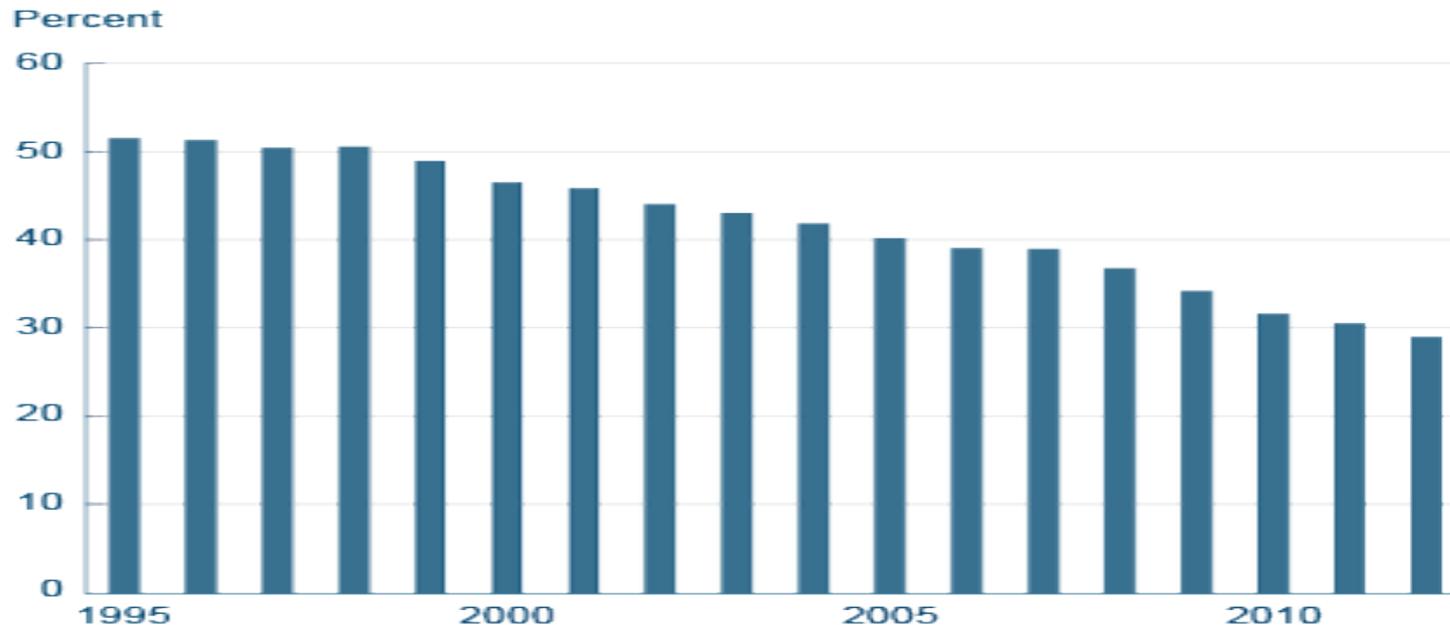
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# The Decline of Small Business Lending

- When did this decline start?

**Figure 2. Small Loan Share of All Nonfarm, Nonresidential Loans**



Source: Federal Deposit Insurance Corporation; authors' calculations.

From blog – [www.clevelandfed.org](http://www.clevelandfed.org) Economic Commentary, August, 2013

# Pre-Great Recession

- What was going on?
  - Decline in the number of small/community banks; between 1985 and 2005, the number of small/community banks was cut in half (From approximately 14,500 to under 7,500 – according to FDIC).
  - 75% of the decline was a result of mergers and acquisitions; the remainder was a result of banks “growing” out of this group and of course, there were failures as well.

# The Great Recession

## (December, 2007 – July, 2009)

- Lending to Small Businesses
  - Small businesses (historically) depend almost exclusively on bank financing.
  - In response to the recession and regulatory changes, banks increased collateral requirements.
  - As a result of the recession, fewer small businesses exhibited strong cash flow.
  - Banks faced the challenge of sorting through problem credits, handling OREO properties, dealing with increased delinquencies, etc. The number of troubled customers seemed to increase exponentially without warning

# Happy Days Are Here Again?



**SBA**  
Office of Advocacy  
[www.sba.gov/advocacy](http://www.sba.gov/advocacy)

## Quarterly Lending Bulletin

*Advocacy: the voice of small business in government*

Small Business Lending: Fourth Quarter 2012

*Small Business Lending Up for the First Time in Ten Quarters*

*“Less restrictive standards for commercial and industrial loans led to the increase in lending to small businesses.”*

## What might the other reasons be?

- Signs of improving economy have motivated more small businesses to expand (buying new equipment, expanding, etc).
- Record low interest rates have encouraged small business owners to “bank shop”; the stronger businesses have benefited the most from the rate environment.
- Small Business Administration (SBA) has aggressively marketed low doc (streamlined) programs to participating lenders.
- A few words on the Secondary Market...

## OK... Where are we heading from here?

- The trend of reduced small business lending along with the long term effects of the Great Recession, make it unlikely that small business lending will increase at a dramatic rate in the near future.
- It is likely that the SBA will have to continue to adopt programs that will encourage banks (of all sizes) to lend to small businesses.
- Interest Rate Risk makes the water even murkier...
- Will policy makers be able to find middle ground moving forward that will assist in continued economic recovery?

# Questions???

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