Barlow’s Small Business Banking
Voice of the Customer Agenda

1. Business Definitions and Economic Index
2. Borrowing Trends
3. Use of Lending Products
4. Applications for Additional Credit
Business Definitions and Economic Index

- Not a homogenous market; segment to understand differences.
- Owner optimism has not returned to pre-recession levels.
Creating Value Through Barlow’s Business Segmentation

**Small Business**

$100K-<$10MM

- **Micro Business**
  - $100K-<$500K
  - “Simple & Free”

- **Small Enterprise**
  - $500K-<$2.5MM
  - “Expanding Needs”

- **Business Banking**
  - $2.5MM-<$10MM
  - “Coordinate”

**Middle Market**

$10MM-<$500MM

- **Commercial**
  - $10MM-<$50MM
  - “Expanding to a Loyal Relationship”

- **Corporate**
  - $50MM-<$500MM
  - “Managing as a Team”

**SOHO**

$1K-<$100K

- **Small Office/Home Office (SOHO)**
  - $1K-<$100K
  - “Who Are These Guys?”

**Micro Business**

- $100K-<$500K
  - “Simple & Free”
When Reconstructing Acquisitions over Time, Medium Banks Have Gained Primary Bank Market Share

Note: Bank trending data is representative of bank organization in 2Q2013.

Small Business Trailing 4 Quarter Data
The Barlow Research Small Business Economic Index consists of small businesses’ ($100K-$10MM in sales) ratings on their expectations of their company’s financial and industry’s economic condition for the next 12 months. Data for the index has been collected quarterly since the 2nd quarter of 2000. A score of 100 on the Barlow Research Small Business Index represents an average growth quarter since 2000 (real GDP growth = 2.3%). To achieve this reading, Barlow Research set the index score from the third quarter of 2002 (real GDP growth = 2.4%) to 100.

- Indicates a United States recession as defined by NBER.
Borrowing Trends

- Fewer small businesses had a traditional credit product today.
- Small bank customers were more likely to have a credit product.
Compared to the 2012, Companies with Sales of $100K-<$500K Saw an Increase in Those with Credit Products (Not Including Credit Cards)

Small Business Trailing 4 Quarter Data
Large and Medium Bank Customers Increased in Borrowing Since 2012

Note: Bank trending data is representative of bank organization in 2Q2013.

Small Business Trailing 4 Quarter Data

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Large Banks Had a Greater Percentage of Non-Borrowers

$100K-$10MM

Use Any Credit Product

Large Banks (Assets >$50B)

- Do Not Use: 52%
- Use at Another Bank: 12%
- Use at Both Primary and Another Bank: 11%
- Use at Primary Bank: 24%

Medium Banks (Assets $1B-$50B)

- Do Not Use: 49%
- Use at Another Bank: 12%
- Use at Both Primary and Another Bank: 31%
- Use at Primary Bank: 37%

Small Banks (Assets <$1B)

- Do Not Use: 40%
- Use at Another Bank: 9%
- Use at Both Primary and Another Bank: 13%
- Use at Primary Bank: 37%

Small Business Rolling 4 Quarter Data
3Q2012-2Q2013
Use of Lending Products

- Not all credit products were used at the primary bank.
- Use of top credit products has declined over time.
Secured Credit Lines Were the Most Common Credit Product Among Small Businesses

Q: Please indicate which of the following products and services your company currently uses at your primary bank and which are used at another bank.

Use Product at Any Financial Institution
Use Product at Primary Financial Institution

Small Business Rolling 4 Quarter Data 3Q2012-2Q2013
Larger Companies Were Heavier Users of Secured Credit Lines, Unsecured Short-Term Loans and Term Loans

Q: Please indicate which of the following products and services your company currently uses at any financial institution.

- **Secured Credit Lines**
  - $100K-<$500K: 26%
  - $500K-<$2.5MM: 40%
  - $2.5MM-<$10MM: 50%

- **Unsecured Short-Term Loans**
  - $100K-<$500K: 25%
  - $500K-<$2.5MM: 33%
  - $2.5MM-<$10MM: 37%

- **Term Loans**
  - $100K-<$500K: 16%
  - $500K-<$2.5MM: 25%
  - $2.5MM-<$10MM: 31%

- **Commercial Real Estate Mortgage (company occupied building)**
  - $100K-<$500K: 17%
  - $500K-<$2.5MM: 28%
  - $2.5MM-<$10MM: 29%

- **Commercial Real Estate Mortgage (investment property)**
  - $100K-<$500K: 15%
  - $500K-<$2.5MM: 18%
  - $2.5MM-<$10MM: 16%

- **SBA Loans**
  - $100K-<$500K: 6%
  - $500K-<$2.5MM: 10%
  - $2.5MM-<$10MM: 10%

*Small Business Rolling 4 Quarter Data 3Q2012-2Q2013*
Use of Major Loan Products Have Declined Since 2006

$100K-$10MM

Q: Please indicate which of the following products and services your company currently uses at any financial institution.

- Secured Credit Lines
- Unsecured Short-Term Loans
- Commercial Real Estate Mortgage (Company Occupied Building)
- Term Loans

Small Business Trailing 4 Quarter Data

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Applications for Additional Credit

- Larger companies were more likely to apply for additional credit.
- Fewer large bank customers applied for additional credit during last four quarters.
Regardless of Sales Size, Additional Credit or Loan Applications in Small Business Were Below 30%

Q: During the last 12 months, has your company applied for additional credit or loans from a financial institution?
Large Bank Customer Applications Were Down in Small Business as Medium Bank Customer Approvals Increased

Q: During the last 12 months, has your company applied for additional credit or loans from a financial institution?

$100K-$10MM

Economic Pulse Trailing 4 Quarter Data

Large Banks (Assets >$50B)

- 2011: 14% Denied, 9% Full/Partial Approval
- 2012: 21% Denied, 14% Full/Partial Approval
- 4Q12-3Q13: 17% Denied, 12% Full/Partial Approval

Medium Banks (Assets $1B-$50B)

- 2011: 23% Denied, 21% Full/Partial Approval
- 2012: 20% Denied, 4% Full/Partial Approval
- 4Q12-3Q13: 21% Denied, 17% Full/Partial Approval

Small Banks (Assets <$1B)

- 2011: 22% Denied, 3% Full/Partial Approval
- 2012: 21% Denied, 3% Full/Partial Approval
- 4Q12-3Q13: 25% Denied, 24% Full/Partial Approval
**Business Scoreboard: Which Companies Applied for Additional Credit?**

*Q: During the last 12 months, has your company applied for additional credit or loans from a financial institution?*

<table>
<thead>
<tr>
<th>Top Industry:</th>
<th>Small Business ($100K-&lt;$10MM)</th>
<th>Middle Market ($10MM-&lt;$500MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Region:</td>
<td>Midwest (22%)</td>
<td>West (41%)</td>
</tr>
<tr>
<td>Sales Size</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small Business</td>
<td>Wholesale (41%)</td>
<td>Trans., Comm. &amp; Utilities (60%)</td>
</tr>
<tr>
<td>$100K-&lt;$10MM</td>
<td>Construction (44%)</td>
<td></td>
</tr>
<tr>
<td>Middle Market</td>
<td>Trans., Comm. &amp; Utilities (65%*)</td>
<td>Construction (69%)</td>
</tr>
<tr>
<td>$10MM-&lt;$500MM</td>
<td></td>
<td>Trans., Comm. &amp; Utilities (52%*)</td>
</tr>
</tbody>
</table>

*Low base (<30 respondents)
Industries with less than 10 respondents were not compared.*

Economic Pulse Rolling 4 Data (2Q2012-1Q2013)
Conclusions

• Beware of general statements on lending. Small business borrowing patterns differed based on sales, geographic regions, industry and size of primary bank.

• Although optimism and borrowing activities have not returned to their pre-recession levels, signs of improvement began to surface during the last four quarters.
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