# SMALL BUSINESS CUSTOMERS

by Steve Brown

The SBA has just released a 164 page report on small business lending in the U.S. for 2010 and 2011 on both a national and local scale. This study focused on changes in four performance measures including aggregate lending; numbers of loans; ratios of small business loans to total assets; and ratios of small business loans to total business loans. The report broke down business loans into two size categories of $100,000 or less (micro business loans) and $100,000 to $1mm (macro business loans). Unfortunately, the SBA found small business lending was lower in this period for all loan sizes and for all lender sizes. Here are some key findings from the analysis. There is certainly no doubt that businesses remain critical to the country and economic recovery. That is one reason we were pleased to see the analysis identify depository lending institutions as the key provider of credit to these customers. On the downside, however, the analysis also found that the number of business owners holding a business loan had declined to only 29%. Additionally, the overall value of small business loans outstanding that were originated by lending institutions totaled $606.9B as of June 2011 Ã¢Â€" a drop of $45.3B, or about 6.9% compared to the same period a year earlier. On the other hand, business loans in excess of $1mm increased by 5.8% over this period. Whether driven by uncertainty, weaker customer credit quality, the economy at large or other factors, clearly smaller businesses saw less funding and larger ones received more. The analysis found that borrowing by small businesses declined in all loan size categories and in both value and number. Further, both CRE and C&I loans declined, falling 5.4% and 8.7%, respectively. Breaking down the data by asset size, the SBA found banks between $1B and $9.9B in total assets were able to increase the number of small business loans they originated by 17.4% from 2010 to 2011, while every other asset sized institution fell in percentage terms. By category, institutions with assets below $100mm fell 9.9%; $100mm to $499.9mm fell 11.2%; $500mm to $999.9mm declined 13.3%; $10B to $49.9B fell 2.6% and the largest banks $50B or greater declined 4.9%. In dollar volume, the largest banks with assets $10B or more accounted for nearly 80% of the total reduction in lending to small businesses during this period of time. Another interesting part of this analysis took a look at the ratio of the value of small business loans outstanding to the value of the institution's assets. It found that while the percentage of small business loans outstanding to assets fell for all categories, it was the most pronounced among the very largest banks. By category, institutions with assets below $100mm fell 4.6%; $100mm to $499.9mm fell 4.7%; $500mm to $999.9mm declined 5.3%; $1B to $9.9B declined 1.6%; $10B to $49.9B fell 9.7% and the largest banks $50B or greater declined nearly 20%. Clearly, the data shows banks under $10B performed much better and saw much less reduction in small business loans as a percentage of assets during this period than the group of banks above that asset size. This is even more critically important when you consider that the analysis found the ratio of the value of small business loans outstanding to the value of total business loans outstanding was in the 50% to 86% range for institutions under $1B in assets vs. 21% to 36% for those above that level. As can be seen from the data, small business lending is a key component of community banking and an area that is strongly supported. As you begin the week ahead, know that the work you do as a community bank is critically important to our country. If you want to know how important, consider that while the 10 largest lenders in the U.S. now hold nearly 50% of all deposits, the share of total small business loans held by lenders with assets exceeding $10B has been declining since 2009 and reached 47.5% in

2011. If small businesses are the key to economic recovery, it will be the community banks that originate most of the loans in this area that will provide the food to feed it.

# BANK NEWS

**Closed (38 YTD)**

Regulators closed: Royal Palm Bank of Florida ($87mm, FL) and sold it to First National Bank of the Gulf Coast ($460mm, FL). FNB gets 3 branches, all deposits and essentially all of the assets. Georgia Trust Bank ($120mm, GA) and sold it to Community & Southern Bank ($2.2B, GA). Community gets 2 branches, all deposits (0.50% premium) and entered into a loss share on $66mm of assets. First Cherokee State Bank ($223mm, GA) and sold it to Community & Southern Bank ($2.2B, GA). Community gets 3 branches, all deposits (0.50% premium) and a loss share on $142mm of assets. Heartland Bank ($110mm, KS) and sold it to Metcalf Bank ($1.2B, MO). Metcalf gets 2 branches, all deposits and a loss share on $54mm of assets. Second Federal Savings & Loan ($199mm, IL) and sold it to Hinsdale B&T ($1.5B, IL). Hinsdale gets 3 branches, all deposits and $14.2mm in assets (loans were kept by the FDIC).

**M&A**

WesBanco ($5.6B, WV) will buy Fidelity Bancorp ($661mm, PA) for $70.8mm million in cash and stock, or about 1.62x tangible book.

**Branch Sale**

New York Private B&T Corp ($11.5B, NY), the parent company for Emigrant Savings Bank, has reached agreement to sell 30 branches and $3.2B in deposits to Apple Bank for Savings ($8.4B, NY) for an undisclosed sum. This is the largest branch transaction of 2012 and the largest in the New York City area in over 10Ys.

**Branch Closures**

KeyCorp said it will close 5% of its branches (about 50) in an effort to reduce expenses by $150mm to $200mm. Meanwhile, Bank of America continues to sell branches in smaller "noncore" markets with populations of less than 150k people or MSAs with less than 500k people, as it works to close 750 branches over the next few years.