

Market Insight Snapshot



Small businesses continue to feel the squeeze as credit tightens

Study shows continued decline in lending to small businesses is likely impeding economic recovery overall

November 3, 2009

The American economy is built on the foundation of small businesses. Entrepreneurs and their businesses create millions of jobs and put billions of dollars into the economy each year. The recent economic turmoil has taken a significant toll on the ability of many businesses to remain viable, maintain employment levels and continue to provide the needed growth to the overall economy.

One of the biggest factors inhibiting the growth of small businesses is the continued lack of access to capital. Lending to small businesses has declined sharply. Small businesses seeking loans are fighting a number of opposing forces — the credit crunch, the economic crisis and the decline in home values.

Small businesses can play a significant role in the nation's economic recovery, but the lending market must regain the confidence to assume the risk associated with infusing capital into our small-business base.

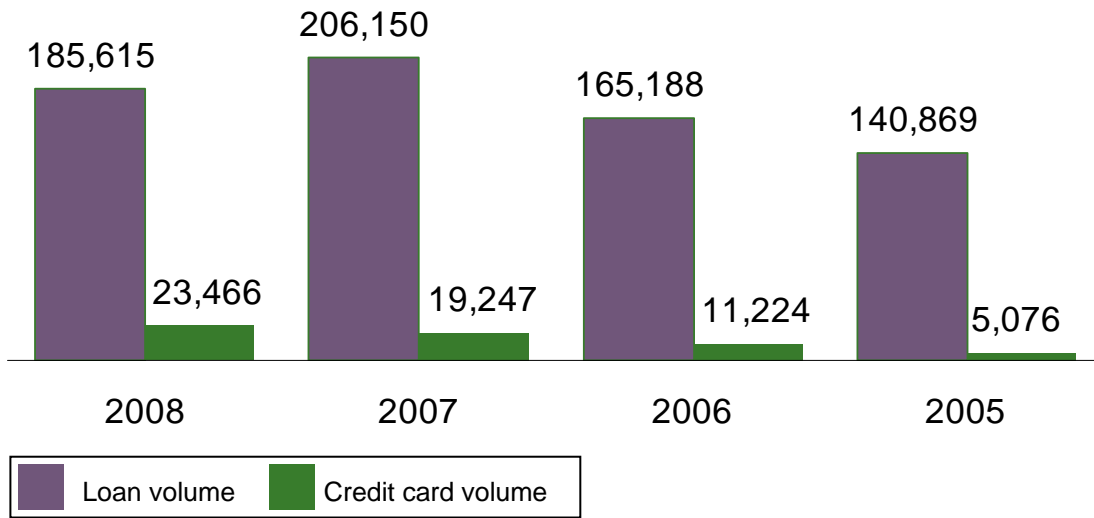
Experian Decision Analytics' annual Benchmark Report *Small-business lending edition* provides detailed data that supports small businesses' role in the nation's economic recovery. The information presented in this report is based on Experian's proprietary Bank2Business electronic database complemented by client survey results.

Credit in short supply for small businesses

In general, financial institutions are hesitant to lend heavily into the small-business market. Loan volume to small businesses decreased by 10 percent over the past year. Interestingly, while loan volume decreased, credit card volume increased by 22 percent. This is significant because it illustrates that small businesses maintain their need for capital, but their available resources have shifted. Because many small businesses could not obtain traditional financing, they utilized credit cards for cash flow and capital infusion requirements.

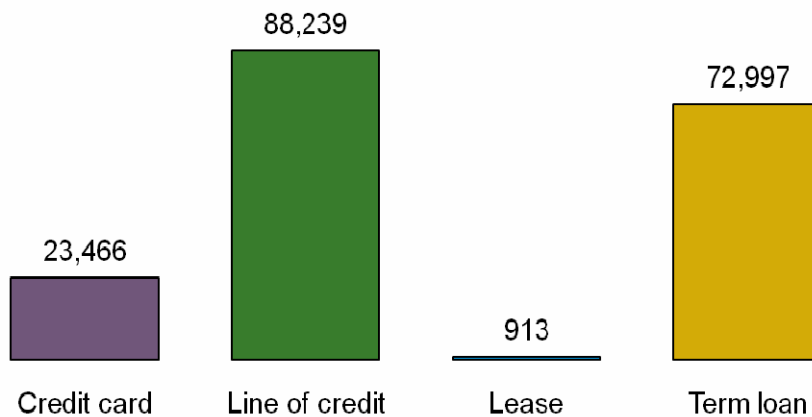
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Market Insight Snapshot — Small Business Loan Process: Adapting to a New Economy

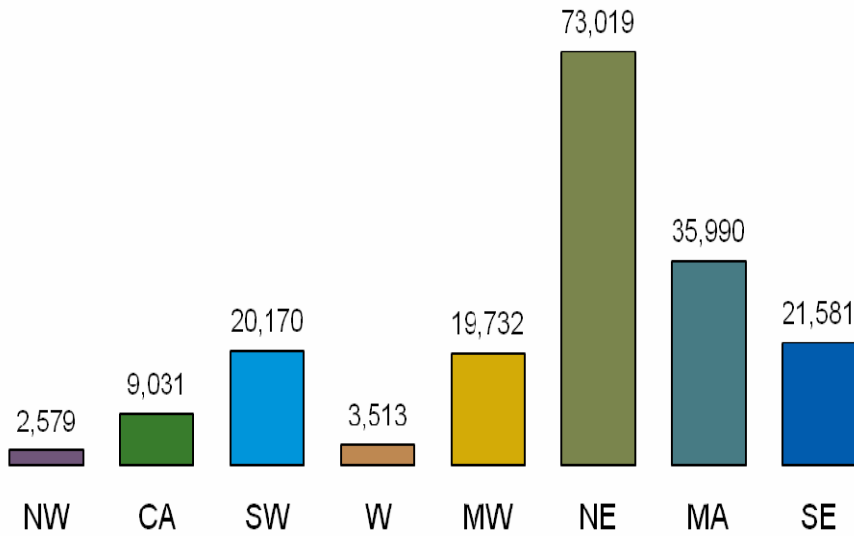


The data indicates that small businesses are in the market for capital and are actively seeking financing. Line of credit and term loan applications continue to be the requested source for capital for the majority of businesses. There is also a distinct regional perspective to small-business loan requests, with businesses in the Northeast seeking significantly more capital than other regions of the country.

Number of applications processed in 2008 by product

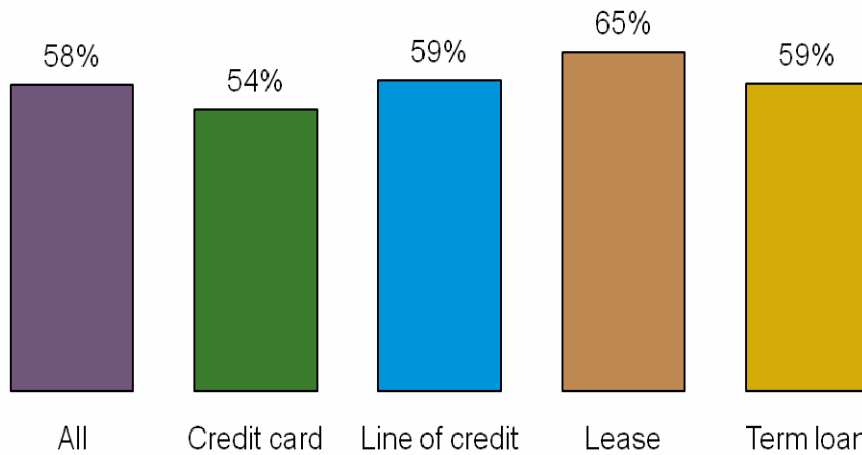


Number of applications processed in 2008 by region

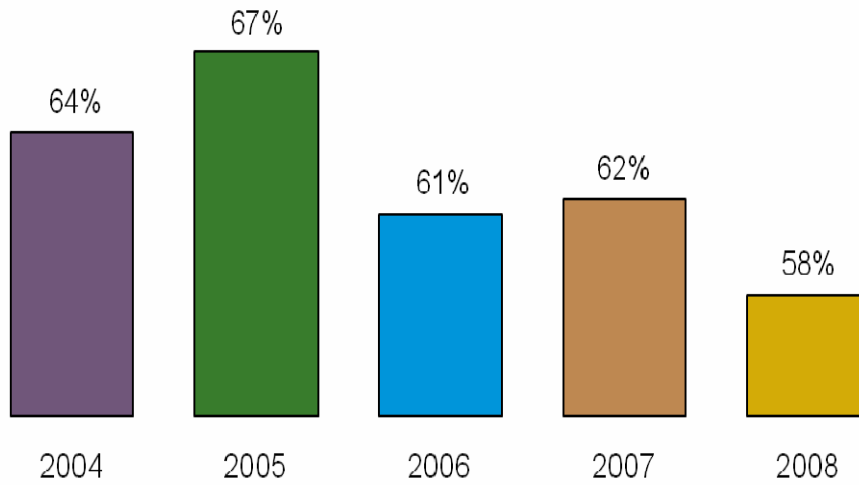


Of the small-business loan applications processed in 2008, 58 percent were approved — the lowest levels in the past five years and a 4 percent drop in the past year. This roughly translated to nearly 7,500 loan requests being denied. Those requests totaled more than \$700 million in disapproved requested credit. The reduced access to capital for this segment doesn't bode well for the state of the economy, as there is a correlation between jobs and economic growth.

Application approval rate by product



Application approval rate trend



Small-business loans have declined for numerous reasons, the most prevalent being an unfavorable credit report. However, in the small-business lending environment, unfavorable business or personal characteristics and other less-than-favorable financial ratios also account for a significant number of declinations.

Top reasons why loans are declined

Reason	Frequency
Unfavorable credit report	33.3%
Unfavorable business or personal characteristics	17.2%
Other unfavorable financial ratios	16.5%
Unfavorable debt-to-income ratio	13.7%
Derogatory credit	7.3%
Insufficient collateral	4.8%
Incomplete information	2.5%
Bankruptcy on record	2.0%
Ongoing collections action	1.6%
Other	1.1%

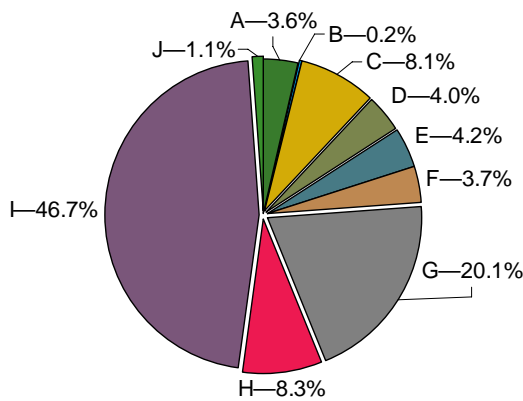
Unfavorable business or personal characteristics includes specifics such as number of trades 30 days or more past due, combined annual income of business principals, short time as business owner and too recent of a delinquency.

Hardest-hit sectors for small businesses

Small businesses in this country are involved in all aspects of our economy — from agriculture to construction, from retail to public administration. Each of these industries is suffering from the economic downturn, but some more than others.

The services sector makes up the largest contingent of small businesses operating in the United States today. The services industry continues to grow, with an increase in number of businesses up 3 percent from 2007 to 2008. The construction industry had the largest reduction of businesses at a decrease of 0.5 percent. Additionally, the majority of small businesses can be categorized as microbusinesses. Microbusinesses generally have between one and four employees and often are run out of the principal’s home.

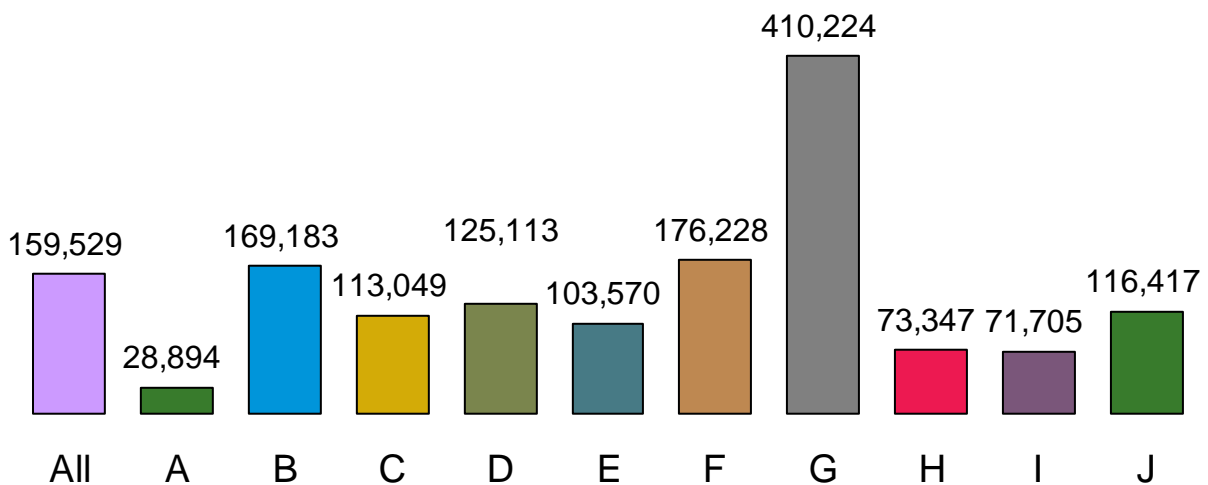
Industry (overall)



Industry			
Code	Description	Code	Description
A	Agriculture, Forestry, and Fishing	F	Wholesale Trade
B	Mining	G	Retail Trade
C	Construction	H	Finance, Insurance, and Real Estate
D	Manufacturing	I	Services
E	Transportation, Communications, Electric, Gas, and Sanitary Services	J	Public Administration

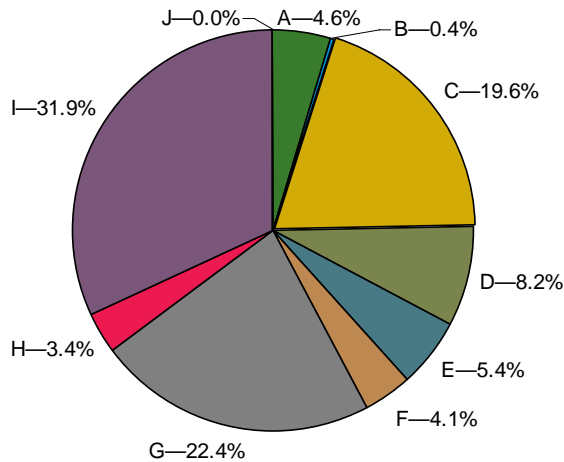
The largest percentage of credit is being extended to small businesses in the retail trade sector. This sector received more than twice the credit of the next-largest sector, wholesale trade.

Highest credit extended (by industry)



Bankruptcy rates continue to grow as well. The numbers bear out what many would consider intuitive: Retail trade and construction have the highest percentage of bankruptcies. This can in part be attributed to the reduction in new housing starts and the decline in consumer spending.

Percentage of businesses with bankruptcies (by industry)



Small-business owners continue to struggle against a number of forces, including the shrinking lending market, the decline in consumer spending and a stagnant housing market. Small businesses are uniquely positioned to take risks and create new growth and employment. Proper capitalization will foster these efforts, contributing to overall economic recovery.

Methodology

The data and analysis used for this snapshot are included in Experian Decision Analytics' annual Benchmark Report *Small-business lending edition*. It is based on a comprehensive review of Experian Decision Analytics' proprietary Bank2Business electronic database complemented by client survey results. The Bank2Business database for this analysis contained data from more than 185,500 small-business applications entered by more than 175 financial institutions. The analysis also includes data from Experian's Business Owner Link and National Business databases.

Experian analyses and studies

To review additional Experian information, including data analysis, research and related information, please visit the following resource: <http://www.experian.com/insight>.

For more information or to speak with a subject matter expert, please contact:

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