

## Small and Mid-Sized U.S. Businesses: With Credit Not Flowing, Trust in Banks Continues to Erode

February 2010

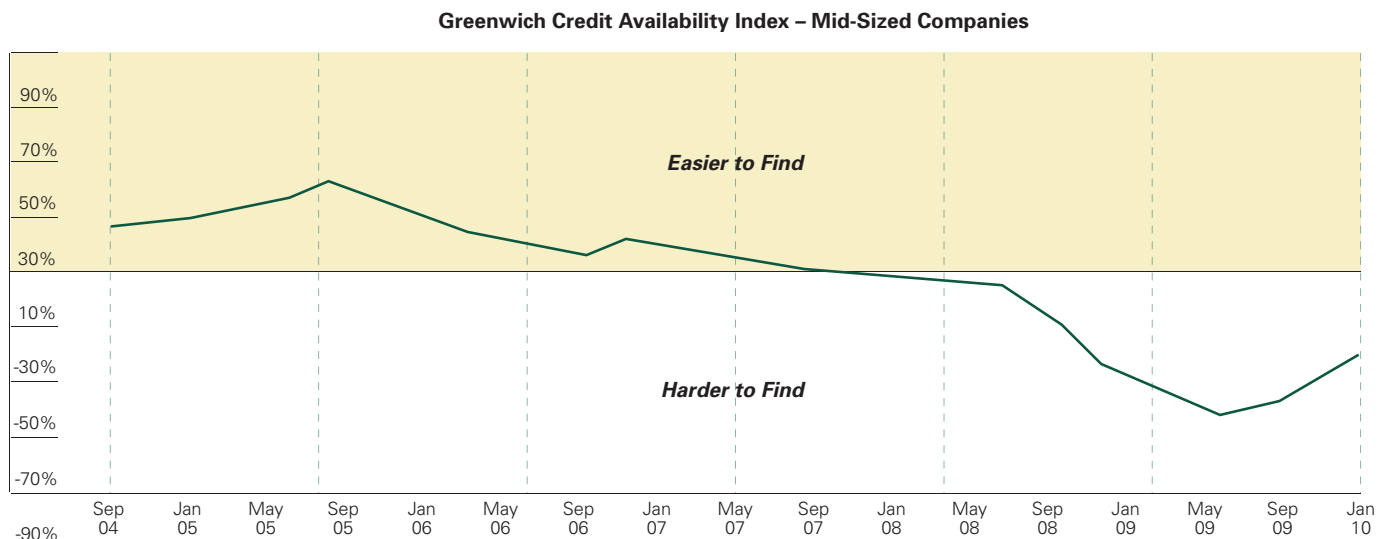
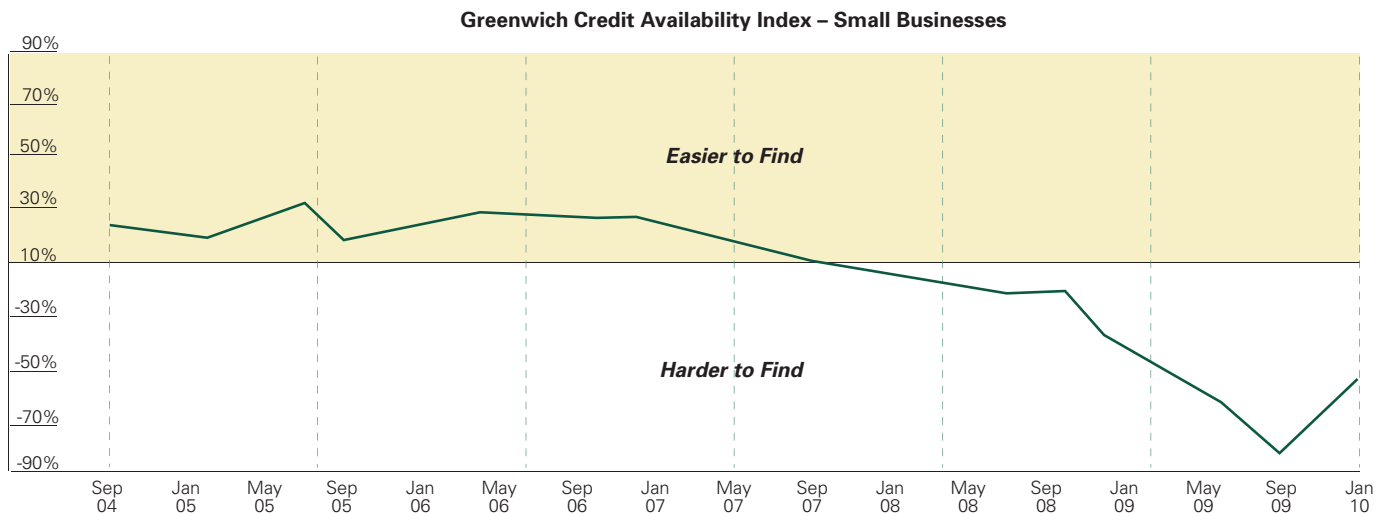
Legislators working to overhaul regulations of the nation's banking industry should keep one important fact in mind as they weigh the potential costs and benefits of various reform proposals: Credit conditions are not improving for small and mid-sized U.S. companies — they are getting worse.

The results of a new Greenwich Market Pulse from Greenwich Associates show that 58% of small businesses and mid-sized companies that negotiated a new loan or refinanced an existing loan in the past three months say

it was harder to borrow money during that period than it was a year ago. A striking 36% of that group say it has become “much harder” to borrow. Twenty-seven percent say credit conditions have not changed over the past 12 months and 15% say it has become easier to borrow.

Forty-nine percent of the 560 small and mid-sized companies participating in the study say banks' continued unwillingness to lend has had a negative impact on their own business or that of similar companies over the past year. “Twenty-six percent of these businesses say banks' reluctance

### U.S. Businesses Say It Was Harder to Borrow at End of 2009 Than in Prior Year



Note: The Greenwich Credit Availability Index is the net score of companies who feel that credit is easier versus harder to find.  
Source: Greenwich Market Pulse v35

to lend has had a ‘significantly negative’ impact,” says Greenwich Associates consultant Chris McDonnell.

In addition, more than a third of the companies report their businesses were negatively affected by each of the following: unfavorable pricing on loans, stricter terms/covenants and longer response times on loan requests.

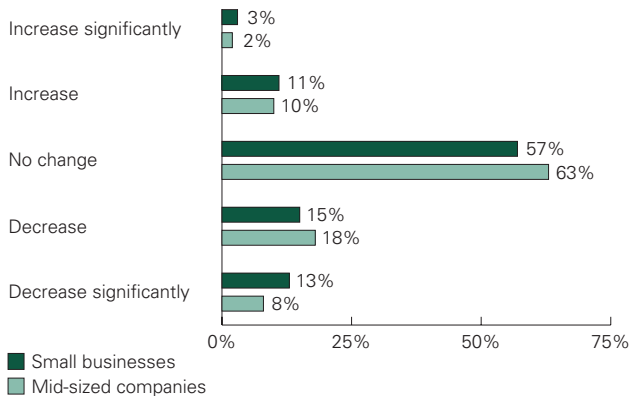
“The market is stuck in a destructive cycle,” says Greenwich Associates consultant Jesse Neumyer. “Banks cite an eagerness to lend to creditworthy companies. At the same time, the recession has taken a terrible toll on U.S. companies, degrading their businesses and making them weaker candidates for bank loans.”

### Eroding Trust

The official end of the economic recession in the United States and a year of strong recovery in global financial markets have failed to restore levels of trust between companies and their banks. Less than 15% of small and mid-sized U.S. businesses say their trust in their banks has been enhanced over the past six months. Approximately 60% of companies say trust levels have remained unchanged over that period, and about a quarter say their trust in their banks continued to deteriorate over the last half of 2009.

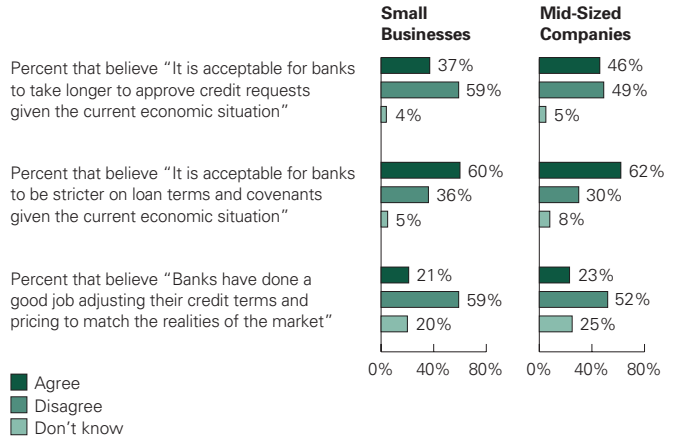
The results of the Greenwich Market Pulse show that companies’ difficulty securing credit is the main driver of this continued erosion of trust. Business executives are not blind to the realities of the banks’ current situation: 61% of survey respondents say it is acceptable for

### Changes in Customer Trust Over the Past Six Months



Source: Greenwich Market Pulse v35

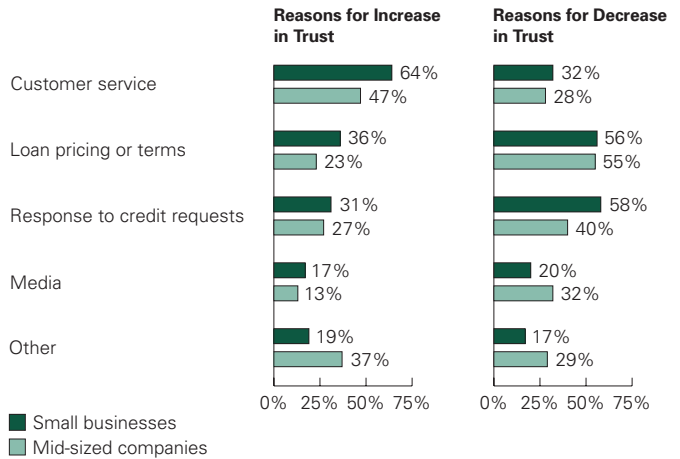
### Businesses Cite Wide Dissatisfaction With Bank Credit Policies



Source: Greenwich Market Pulse v35

their banks to impose stricter loan terms and covenants given the current economic situation. However, almost 55% of the companies say their banks have done a poor job in adjusting credit terms and pricing to match the conditions of the current environment, and a comparable share think it is unacceptable that their banks are taking longer to process and respond to loan requests. (Forty-six percent of small and mid-sized businesses expect replies to credit requests within two to three days; 28% expect a response in four to seven days.)

### Credit Woes Strain Relationships, Good Customer Service Can Help



Source: Greenwich Market Pulse v35

## Turnover Ahead

Despite this widespread dissatisfaction, approximately three-quarters of small and mid-sized businesses say they have not changed the amount of business they do with any bank due to trust issues. The reason: fear of moving away from their known provider during a delicate time as well as many companies do not see competing banks as being better options. Expect that to change later in 2010, however, as companies' business begins to pick up and individual banks start to increase loan volumes at varying rates.

Banks looking to preserve existing relationships and increase their appeal to prospects in search of new options should keep in mind that, while credit is the primary issue in the minds of most small and mid-sized businesses today, strong customer service can have a significant impact on their relationships with business clients. "Among the roughly 15% of small and mid-sized businesses who say their level of trust in their banks has increased over the past six months, almost 56% attribute this improvement to customer service — nearly double the proportion attributing the enhanced levels of trust to changes in bank credit policies," says Greenwich Associates consultant Don Raftery.

---

*Greenwich Associates consultants Chris McDonnell, Jesse Neumyer and Don Raftery advise on banking in the United States.*

## Methodology

*The Greenwich Market Pulse is a panel of approximately 30,000 financial decision-makers at small (\$1 million–\$10 million) and mid-sized (\$10 million–\$500 million) companies in the United States. The current survey was conducted in December 2009 and included participation from 560 companies.*

---

© 2010 Greenwich Associates, LLC. All rights reserved. No portion of these materials may be copied, reproduced, distributed or transmitted, electronically or otherwise, to external parties or publicly without the permission of Greenwich Associates, LLC. Greenwich Associates®, Competitive Challenges®, Greenwich Quality Index®, and Greenwich Reports® are registered marks of Greenwich Associates, LLC. Greenwich Associates may also have rights in certain other marks used in these materials.

GREENWICH REPORT — CONFIDENTIAL



6 High Ridge Park Stamford CT 06905 USA

Tel: 203 625 5038/800 704 1027

Fax: 203 625 5126

email: [ContactUs@greenwich.com](mailto:ContactUs@greenwich.com)

[www.greenwich.com](http://www.greenwich.com)