

## Large U.S. Companies Emerge from Credit Crisis with Banking Relationships Intact, But Recovery Brings New Tests

Relationships between the largest U.S. companies and their banks remained relatively harmonious throughout the global credit crisis — at least when compared to the levels of acrimony that emerged between banks and cash-strapped small and mid-sized businesses. But the state of these relationships for the rest of 2010 will be determined in large part by the answer to a single question: As the economic recovery takes hold and big companies begin making long-delayed investments in their businesses, will their banks have the capacity and appetite to meet their increased demands for funding?

Research from Greenwich Associates reveals that turnover rates and customer dissatisfaction levels in banking relationships were much lower among the largest U.S. companies than they were among mid-size companies and small businesses during worst moments of the credit crisis. The surprising stability of large corporate banking relationships throughout the crisis can be attributed to three primary factors:

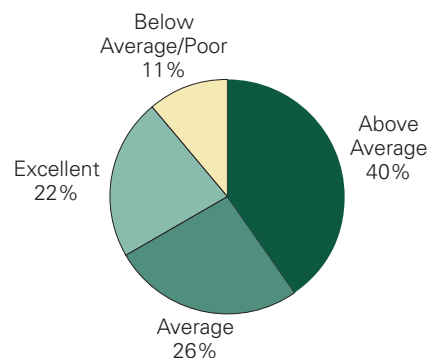
- 1) Demand for funding among large companies declined sharply with the onset of the Great Recession and a slowdown in business.
- 2) Even ailing banks made every effort to maintain good relationships with their largest corporate clients, which provide significant levels of fee-generating business from cash management to capital markets.
- 3) Large companies that were dissatisfied with the lending policies or other services of their banks had few alternatives. Switching costs are often prohibitively high in these relationships — which frequently include highly integrated services like cash management — and even in the best of times, only a small number of universal banks have the broad capabilities and lending capacity required to meet the needs of these large companies. With many big banks under serious financial pressure themselves over the past 18 months, the list of replacement options for companies unhappy with their current banks was further reduced.

“In general, the largest companies in the United States did not experience the same degree of disruptions in bank relationships and credit availability that plagued smaller companies during the crisis,” says Greenwich Associates consultant John Colon. “In fact, large U.S. companies last year, on average, rated over 60% of their banking relationships as excellent or above average on

their willingness to extend sufficient amounts of credit at acceptable terms, with about 30% of relationships rated as average and only slightly more than 10% describing their bank relationships as below average/poor in these terms.”

### Large Companies Give Banks Strong Ratings for Credit Policies in Crisis

Willingness to Extend Sufficient Credit at Acceptable Terms



Note: Based on responses from 255 companies. May not total 100% due to rounding. Source: 2009 Large Corporate Banking Study

### Preserving Access to Credit: A Top Priority for All Companies

That is not to imply that large companies were unaffected by the credit crisis. To the contrary, newspapers in 2008 and early 2009 were filled with headlines about large companies whose very existences were threatened by a sudden lack of access to funding. However, most of these situations involved financial service businesses or other companies that had taken on specific financial exposures that proved dangerous as conditions deteriorated. Also hit hard were large companies with below investment-grade credit ratings. These companies often had little margin of error as the economic downturn set in and were more likely than their stronger-rated peers to experience reductions in credit lines as banks tightened lending policies.

However, even big companies with relatively strong credit ratings were working hard last year to ensure their continued access to credit. Many of the 255 Fortune 500

### Latest Greenwich Findings on the Web

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companies participating in Greenwich Associates' Large Corporate Banking Study last year said the dramatic deterioration in credit conditions had prompted them to take some or all of the following steps:

- Raising funds before they were needed to guard against a future shutdown of access to bank credit or capital markets.
- Making more efficient use of working capital.
- Avoiding potential crises by shifting cash balances away from banks seen as financially troubled.
- Paying down existing debt to create capacity.
- Exploring alternative sources of financing.
- Talking regularly to bankers to monitor changes in conditions and to identify opportunities to raise funds.
- Communicating regularly with credit rating agencies to monitor ratings developments and head off any surprises.
- Positioning the company to seize on opportunities to raise funds by preparing offering documents and taking other preliminary steps in advance.

The willingness or unwillingness of banks to help in these efforts undoubtedly had a lasting effect on companies' relationships with their important providers. Approximately 85% of large companies rank credit as a primary factor used in selecting "core" bank relationships. Among companies that said last year they were planning to increase the amount of business they were doing with their current banks, approximately 55% of these instances were attributed to the banks' willingness to extend credit in sufficient amounts. Among companies planning to decrease the amount of business done with their current banks, approximately 40% cited a bank's unwillingness to provide sufficient amounts of credit as the reason.

### Credit Supply and Funding Demand

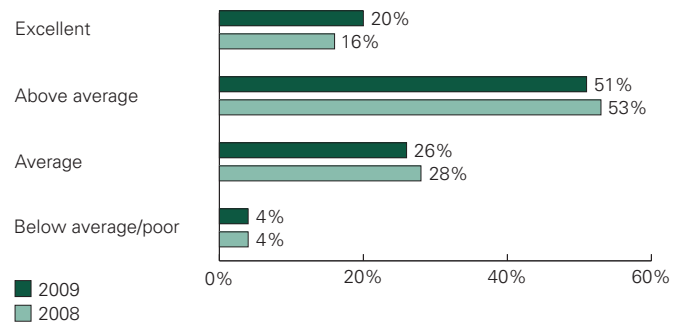
However, another finding from the same data set helps put the role of credit availability into better context for this group of extremely large companies. Banks' unwillingness to lend was not the most common reason cited by companies planning to cut back on the amount of business done with current banks. Instead, one-third of companies planning decreases cited "other" reasons, many of which related not to any specific shortcomings of the banks, but rather to a reduction in the companies' own demand for banking services as a result of the economic slowdown.

Although credit conditions deteriorated badly for all companies, large companies entered into the downturn with large cash holdings and significant credit capacity. While companies forced to renew credit lines were forced to accept higher costs and stricter terms, banks in general

did not directly step in and reduce credit lines to their biggest corporate clients in the manner experienced by many small companies.

"Even in early 2009, at what was close to the bottom of the credit market, the largest companies in the United States had drawn down only an average of 28% of their available bank credit lines," says Greenwich Associates consultant Don Raftery. "Of course, that share was up from 24% in 2008 and it reached upwards of 40% in hard-pressed industries such as autos and auto-parts, media, oil & gas and transportation. But the overall number suggests there might have even been some amount of excess capacity available to some big and strongly rated companies in a time of economic recession and slowing corporate demand for credit."

### Customer Ratings of Overall Satisfaction



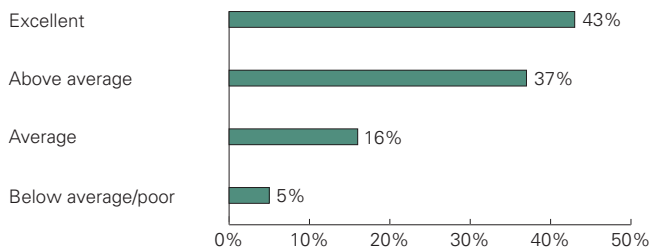
Note: Based on responses from 255 companies.  
Source: 2009 Large Corporate Banking Study

### Crisis Tests Long-Term Relationships

Although these findings seem to fly in the face of conventional wisdom about effects of the credit crisis on U.S. business, they are borne out by quality ratings that large companies gave to their banks last year. A look back to data from the first half of 2009 reveals that — even at the height of the crisis — large U.S. companies gave relatively strong ratings to their strength of their relationships with their important banks. Among large clients of the top 10 corporate banks in the United States, ratings of overall relationship quality actually improved from 2008 to 2009. Large companies rated their overall satisfaction level as below average or poor for less than 5% of their important banking relationships, while their level of satisfaction is excellent or above average with more than two-thirds of their banking relationships.

But the most telling statistic might be the fact that large companies rated more than three-quarters of their bank relationships as excellent or above average on their commitment to a long-term, sustainable relationship. "Credit is the foundation of long-term relationships in corporate banking and our research shows that large companies were generally satisfied with their banks' credit policies throughout the financial crisis," explains consultant John Colon. "But those views could change dramatically in

## Commitment to Long-Term Sustainable Relationship



Note: Based on responses from 255 companies.  
Source: 2009 Large Corporate Banking Study

coming months as an expected pick-up in demand for funding among these companies in a strengthening economy puts the recovering U.S. banking industry to a new test.”

### Greenwich Quality Leaders

Every year, Greenwich Associates interviews senior financial executives at the largest U.S. companies about their banking relationships. These executives are asked to name the banks they use in overall corporate banking, cash management and capital markets advisory services, to quantify the share of their business allocated to each bank and to rate these banks according to a series of important criteria. Banks receiving quality ratings that exceed those awarded to competitors by a statistically significant margin are named Greenwich Quality Leaders.

### Greenwich Quality Leaders

Large Corporate Finance — U.S.



#### U.S. Large Corporate Banking Coverage Quality

Bank of America/Merrill Lynch  
J.P. Morgan

#### U.S. Large Corporate Cash Management Quality

J.P. Morgan  
Wells Fargo/Wachovia

#### U.S. Equity Capital Markets Coverage Quality

Goldman Sachs  
J.P. Morgan  
Morgan Stanley

#### U.S. Debt Capital Markets Coverage Quality

J.P. Morgan

Note: Based on responses from 255 companies. Top bank cited including ties listed in alphabetical order. Source: 2009 Large Corporate Banking Study

The bank that demonstrated the most momentum last year was Wells Fargo, which has used the integration of the Wachovia platform to expand its capital base, capital markets presence and cash management capabilities. “The bank achieved big gains in both market penetration and quality last year in both cash management and overall corporate banking,” explains Greenwich Associates consultant David Fox. “By taking advantage of opportunities while other banks were inwardly focused, Wachovia has quickly propelled itself into the top ranks of national corporate banks.”

*Greenwich Associates consultants John Colon, Don Raftery and David Fox advise on banking in North America and Europe.*

### Methodology

Greenwich Associates conducted in-person interviews with chief financial officers, treasurers, and assistant treasurers at U.S.-based companies, typically with \$2 billion or more in annual revenue, including Fortune 500 corporations. Interviews were conducted between May and July, 2009, with 255 Fortune 500 corporate executives on their corporate banking practices and 266 Fortune 500 executives in cash management. Interview topics included market trends, compensation and service provider assessments.

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