

Amid Lingering Trust Issues Between Businesses and Banks, Hopeful Signs

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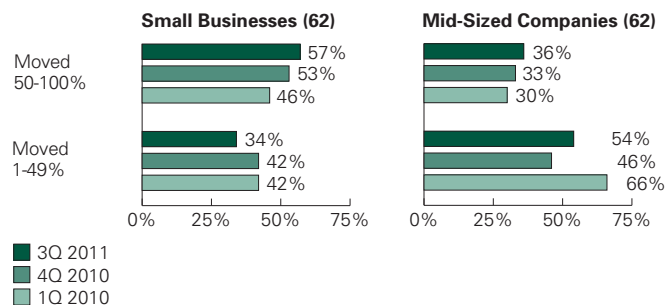
New research from Greenwich Associates suggests the steady deterioration of trust in relationships between U.S. businesses and their banks that started during the credit crisis might have reached a bottom.

The results of an October Greenwich Market Pulse of 464 small and mid-sized businesses reveal hopeful signs that an inflection point could be near for some relationships between U.S. companies and their banks. Simply put: The rate of decline in trust is leveling off. Approximately 20% of small businesses say their level of trust in their banks has actually increased over the past six months — up from 17% reporting improved levels of trust over the same period in Q4 2010. Among mid-sized companies, the share reporting diminishing levels of trust has been decreasing steadily since the first quarter of 2010.

“After a difficult period beginning with the onset of the global credit crisis, we now see fewer companies reporting declines in trust levels, a growing share of companies reporting stable levels of trust and an encouraging number of companies reporting improvement,” says Greenwich Associates consultant Duncan Banfield.

Any positive signs in these metrics will come as welcome news for banks, which are still experiencing business turnover as a result of past trust issues. Approximately 30% of small businesses and a quarter of mid-sized companies surveyed in the Greenwich Market Pulse say they changed the amount of business done with a particular bank because of trust issues. Companies opting to pull business from a bank because of trust issues are

Percentage of Business Moved to New Bank Due to Trust Issues with Current Bank



Note: Numbers in parentheses represent number of respondents.
Source: Greenwich Market Pulse v42

Study Participants

The Greenwich Market Pulse is an ongoing research series that addresses the most important and timely issues facing small (\$1 million–\$10 million) and mid-sized (\$10 million–\$500 million) U.S. company executives and their banking relationships. The current study was conducted during October 2011 and included participation from 464 companies, including 205 small businesses and 259 mid-sized companies.

acting decisively: 57% of small businesses that changed the amount of business done with a bank due to trust issues last quarter pulled at least half of their business from that bank, and nearly a quarter of the companies pulled 100%. Among mid-sized companies reacting to trust issues, 36% pulled at least half of their business from the bank in question and nearly one in five moved 100%.

All those numbers are consistent with the behavior of small and mid-sized companies seen in 2010. “What we’re seeing is continued fallout from the credit crisis,” says Greenwich Associates consultant Don Raftery. “There is no doubt that banks’ reputations took a hit due to credit disruptions during the crisis. Banks still have the opportunity to repair some of that damage and restore trust levels by making a concerted effort to improve the service they deliver to small businesses and mid-sized companies.”

Service Improvements Help Restore Trust

Between 60% and 70% of small businesses and mid-sized companies reporting increased trust in their banks attribute this improvement to bank customer service. “Even if their hands are tied in terms of credit policies, banks are moving to preserve their relationships through enhancements to customer service,” explains Greenwich Associates consultant Marc Harrison.

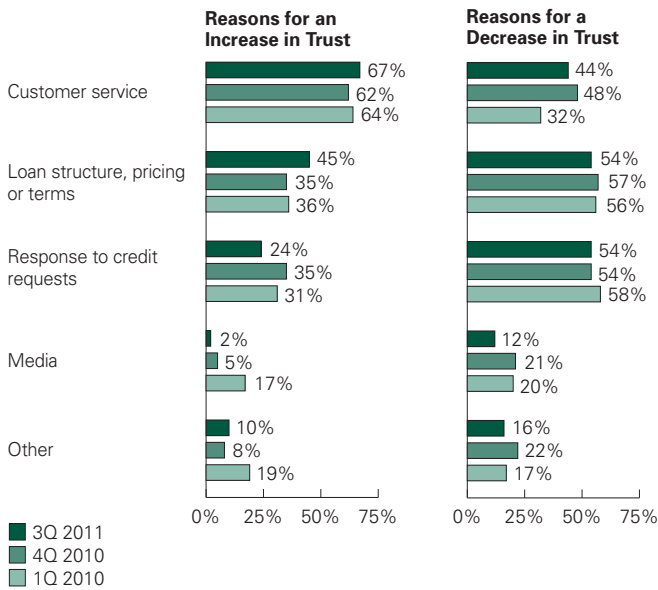
Although banks seem to be having a positive impact on client perceptions with customer service improvements, one thing has not changed from 2010 and proceeding

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Reasons for Increases/Decreases in Trust

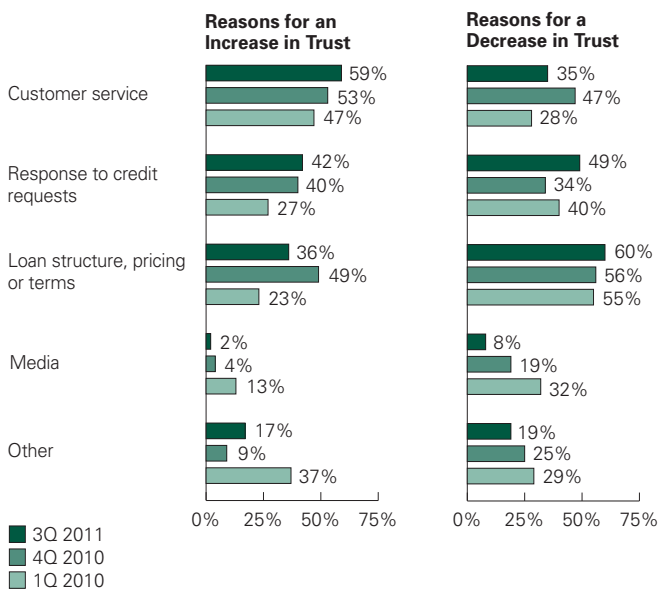
Small Businesses



Note: Based on 99 responses from small businesses in 2011.
Source: Greenwich Market Pulse v42

Reasons for Increases/Decreases in Trust

Mid-Sized Companies



Note: Based on 96 responses from mid-sized companies in 2011.
Source: Greenwich Market Pulse v42

years: When companies lose trust in their banks, credit — or rather, the lack thereof — is usually the reason. “Response to credit requests” or “loan structure, pricing or terms” are each cited as a driving factor by 54% of small businesses reporting deterioration in trust levels. Among mid-sized companies reporting reduced trust, 60% cite “loan structure, pricing or terms” as a cause and 49% cite “response to credit requests.”

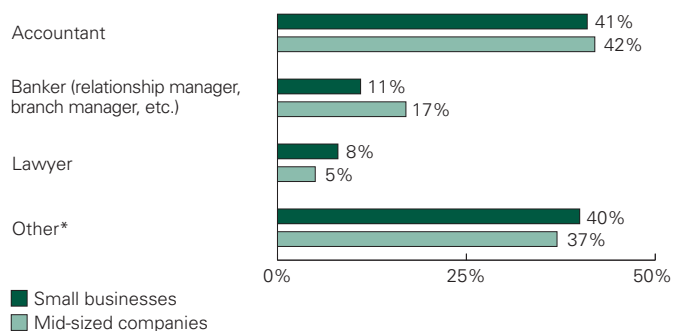
Banks as Trusted Advisors: Unrealized Potential

However, there is one area in which banks could do much more to build service capabilities and deepen their relationships with commercial banking clients: providing advice. At a time of historically challenging business conditions, banks have an opportunity to strengthen client relationships by encouraging and empowering relationship managers to help business owners and executives solve problems.

The Greenwich Market Pulse results suggest that, to date at least, most banks have fallen short in this effort. When asked to name the individuals to whom they turn for help and advice when confronted with business challenges, approximately 40% of study participants name their accountants and between 35% and 40% cite other contacts including relatives, peers, consultants, vendors and suppliers. Only 11% of small businesses and 17% of mid-sized companies name their bank relationship manager. “Those numbers help quantify the scope of the opportunity for banks,” says Duncan Banfield. “With the resources that banks can bring to bear on a valued client relationship, there is no reason why companies should not view their relationship managers as a much more important source of advice on how to deal with the many challenges they face in the current business environment.”

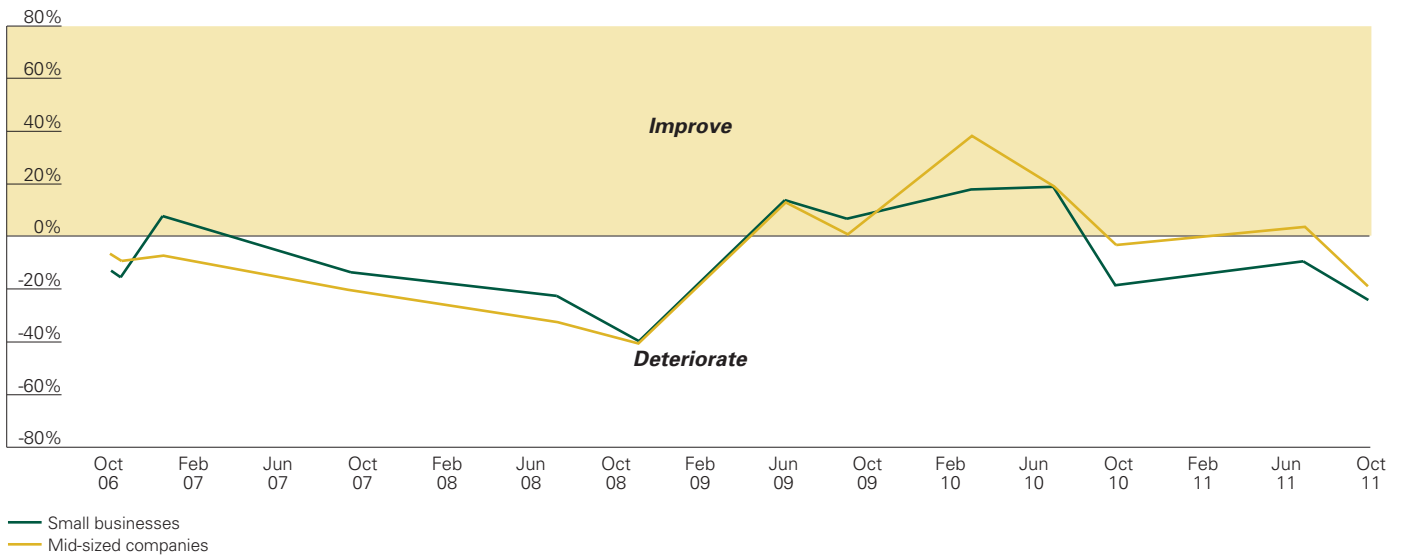
Currently, fewer than 15% of small businesses and mid-sized companies say their banks have initiated conversations to discuss the impact of new financial regulations on companies and their banks. “Between 70% and 80% of these companies believe these new regulations will have some impact on their financial plans and product usage or don’t know whether or not the rules will affect them,” says Don Raftery. “This represents a large number of companies that would presumably be open to hearing from experts about how exactly the new bank rules will play out and how exactly they will affect the financing and operations of U.S. businesses. Relationship managers should be regularly seeking out and capitalizing on such opportunities to initiate value-adding conversations.”

Contact Turned to When Confronting Business Challenges



Note: Based on responses from 199 small businesses and 257 mid-sized companies in 2011. *Other resources can include friends/peers, customers/suppliers, trade associations and consultants. Source: Greenwich Market Pulse v42

Greenwich Optimism Index



Note: The Greenwich Optimism Index is the net score of companies who feel that the economy will improve vs. deteriorate. The most recent data reflects responses from 199 small businesses and 257 mid-sized companies in 2011. Source: Greenwich Market Pulse v42

Downturn in Economic Outlook

After months of steady improvement, economic sentiment took a downward turn over the past quarter among the rotating panel of small businesses and mid-sized companies participating in the Greenwich Market Pulse study.

The Greenwich Optimism Index for small businesses has been in negative territory since the middle of 2010, meaning that, on net, small businesses expect economic conditions in the United States to deteriorate in coming months. However, the Index score had been moving in the direction of positive territory for the past three quarters. Over the past three months that trend reversed, and the Index score for small businesses dropped even further into the negative range.

A similar reversal among mid-sized companies brought the Greenwich Optimism Index for this segment back into negative territory. After a slow climb lasting three quarters, the Index for mid-sized companies finally broke through into the positive range in June 2011, meaning that the number of companies expecting economic improvement exceeded the number predicting economic decline. The reversal in Q3 2011 erased that improvement, pushing the Optimism Index down to negative levels last seen in 2009. “These results reflect a host of uncertainties ranging from the ongoing battle over the U.S. debt ceiling and the European sovereign debt crisis to market volatility and persistently high levels of unemployment,” says Duncan Banfield.

Consultants Duncan Banfield, Larry Bailey, Pete Garrison, David Fox, Don Raftery, and Marc Harrison advise on banking in the United States.

Methodology

The Greenwich Market Pulse is an ongoing research series that addresses the most important and timely issues facing small (\$1 million–\$10 million) and mid-sized (\$10 million–\$500 million) U.S. company executives and their banking relationships. The current study was conducted during October 2011 and included participation from 464 companies, including 205 small businesses and 259 mid-sized companies.

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