

Small Business Trends

Policy & Supervisory Studies

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Sources

Automatic Data Processing Inc. (ADP): www.adpemploymentreport.com/pdf/FINAL_Report_September_11.pdf
Intuit: index.intuit.com/
National Federation of Independent Business (NFIB): www.nfib.com/Portals/0/PDF/sbet/sbet201110.pdf
U.S. Department of the Treasury: [SBLF Program Reports](http://www.treasury.gov/sblf)

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Small Business Optimism

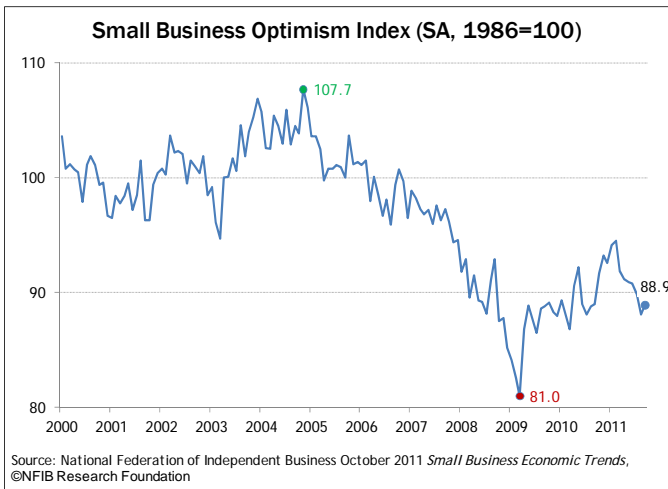
After falling for six consecutive months, the National Federation of Independent Business (NFIB) Small Business Optimism Index posted a modest gain of 0.8 point in September. Though it does not indicate a positive performance, the NFIB stated, “about the only good thing to say about it is that the index didn’t go down.” The current reading is 5.6 points below the most recent peak observed last February. At 88.9 for September, the index is below the average index reading for the last two-year-plus “recovery period.” The index value is back to where it was in August/September of last year, when it was trending upward. It is unclear in which direction the index will move in the coming months, as consumer confidence has yet to rebound.

As in August’s index, expectations for improving economic conditions and for higher real sales growth were the main contributors to the index’s gain; these indicators simply became less negative month over month. In fact, there was very little among the 10 index components that could be considered “positive.”

The latest results show a more complete reaction to the nation’s protracted debt ceiling negotiations and credit downgrade. Small business owners and consumers remain pessimistic about the economy in general. According to NFIB chief economist Bill Dunkelberg:

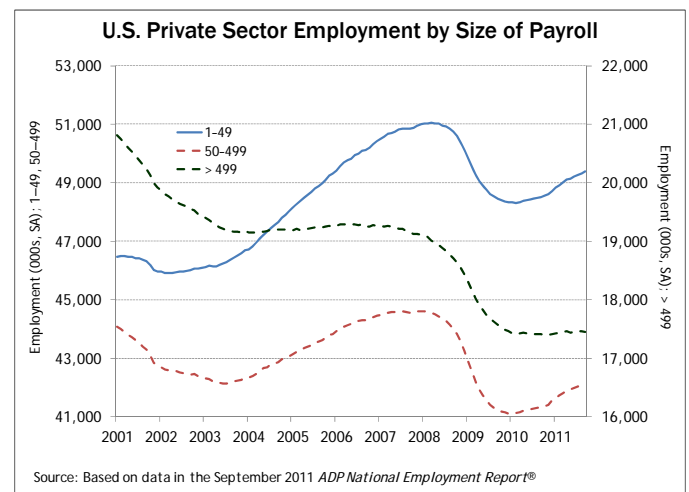
An increase in consumer spending would be the best imaginable stimulus right now, not . . . Washington policies. . . The key to economic recovery is restoring the confidence of consumers; only then will small businesses begin to see the sales they need to expand.

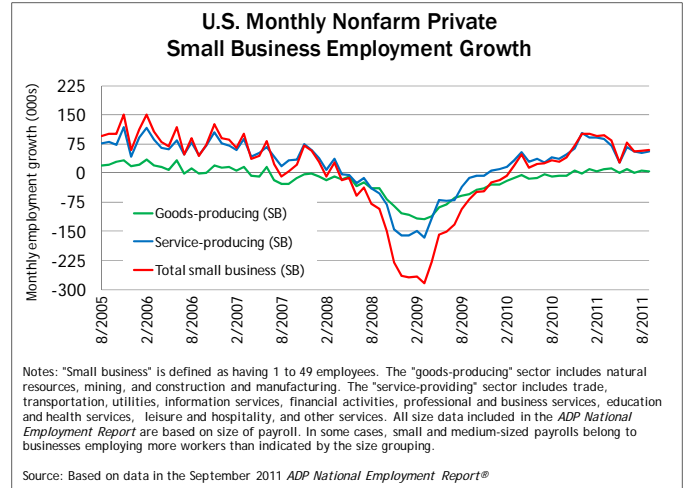
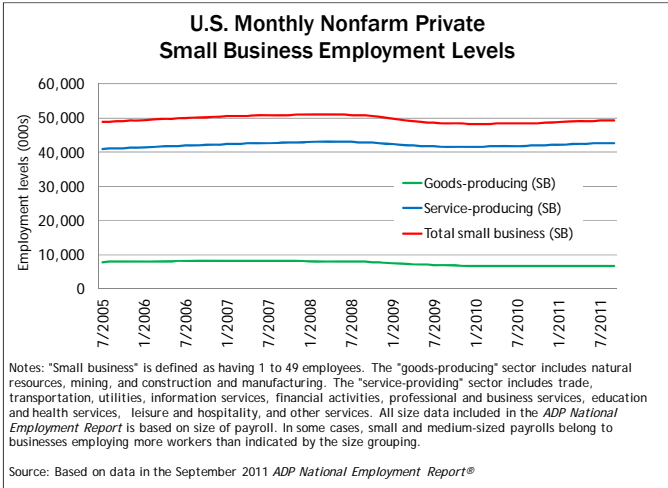
Continuing to demonstrate modest job creation month over month, September private-sector employment growth was in line with the results in August. Employment in both the service-producing sector and goods-producing sector increased. Small businesses continued to add the most jobs (66 percent of the total).



September 2011 Employment Trends					
		Level	Share of	Growth	
		(000s, SA)	sector	M-t-M	Y-o-Y
Goods-producing		17,835	100%	0.01%	1.0%
	Firm size				
	1-49	6,657	37%	0.08%	0.9%
	50-499	7,773	44%	0.05%	2.0%
> 499	3,405	19%	-0.23%	-0.8%	
Service-producing		91,101	100%	0.10%	1.7%
	Firm size				
	1-49	42,725	47%	0.13%	1.9%
	50-499	34,326	38%	0.09%	1.8%
> 499	14,050	15%	0.02%	0.5%	

Source: Based on data in the September 2011 *ADP National Employment Report*®

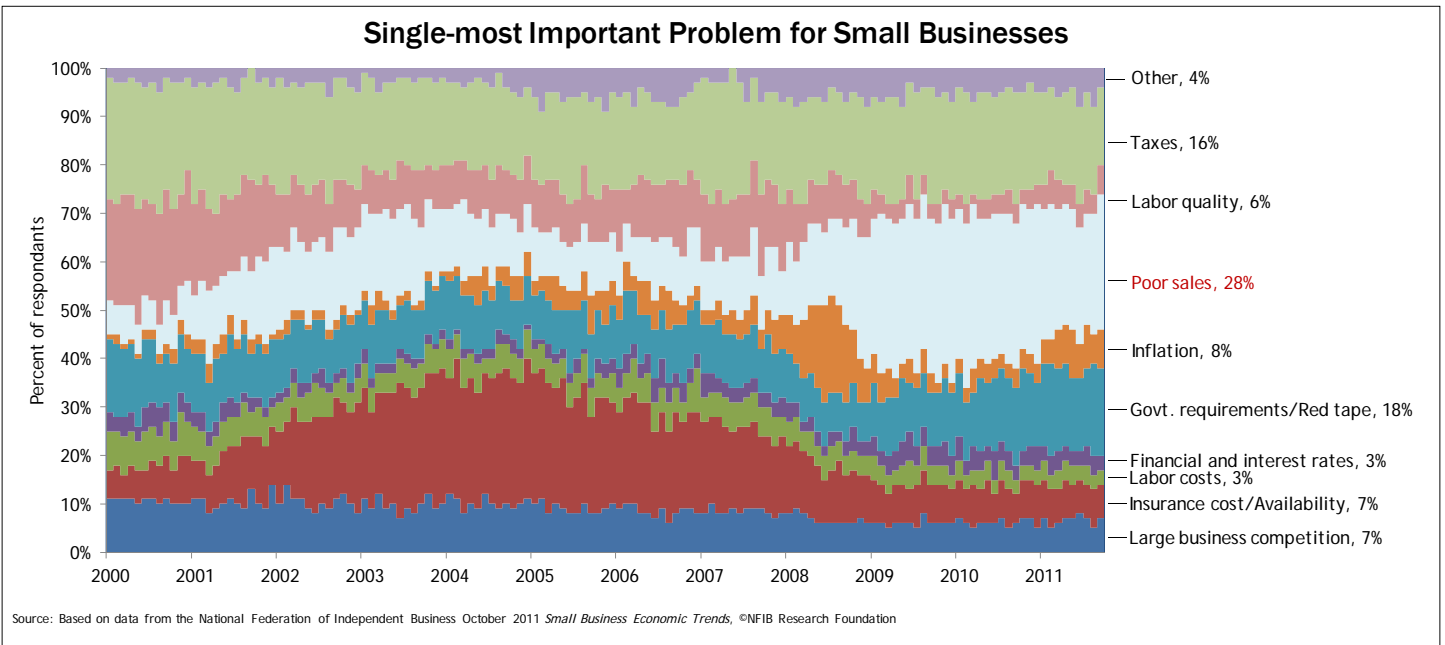




The number of small business owners who cited poor sales as their top business problem rose an additional 3 percentage points since August (28 percent). That was only 2 percentage points lower than the number citing poor sales one year ago. For approximately three years, poor sales has been the top cited business problem by those surveyed.

It is not surprising that poor sales continue to plague small businesses. Small business owners, like other

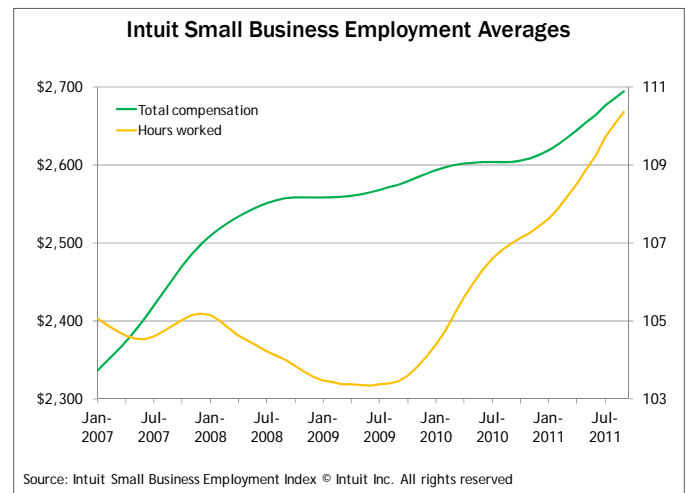
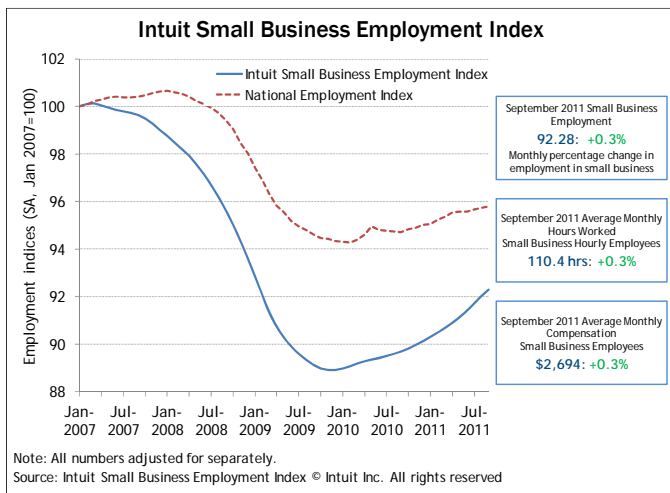
business owners, rely heavily on consumers. Consumer confidence as measured by the Reuters/University of Michigan Surveys of Consumers has barely budged from the August reading, which was at its lowest level since 1980. Government requirements/red tape fell 1 percentage point from August to 18 percent of respondents but still took second place. Taxes also lost 2 percentage points month over month and finished third at 16 percent.



Small Business Trends at Firms with Fewer than 20 Employees

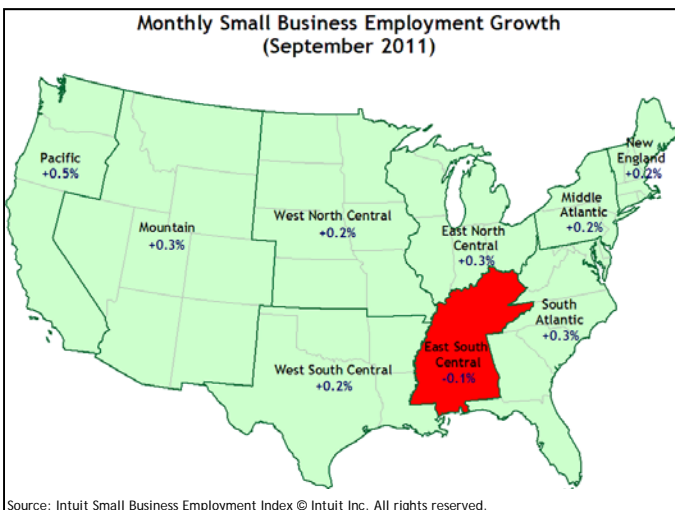
Small businesses continued to hire during September, almost doubling the pace that was posted in August. The Intuit Small Business Employment Index indicated that small business employment grew by 0.3 percent for the month, which means it had a 3.3 percent growth rate for the year. Hours worked and total compensation also both increased by 0.3 percent for the month. According to Susan Woodward, the economist who worked with Intuit to create the index:

September's small business employment figures are a big relief. . . Unlike in August, there is no softness in September's numbers: employment is up, hours worked are up and compensation is up.



The breakdown by geography indicated that things turned a bit more positive during September. Even though the decline was technically statistically insignificant, the East South Central Census Division was the only one of nine tracked Census Divisions to

post no employment growth month over month. After none of the Census Divisions posted any gains in growth during August, the Pacific (0.2 percent), Mountain (0.3 percent), West South Central (0.1 percent), and East North Central (0.3 percent) posted gains in growth for September. The three Census Divisions on the East Coast maintained their growth rates month over month, while the West North Central Census Division had a 0.1 percent loss in growth since August.



At the state level, most of the states Intuit tracks either remained flat or posted employment growth month over month; only New York (-0.01 percent) and Oregon (-0.2 percent) posted a loss for the month, both of which Intuit deemed statistically insignificant. At 1.1 percent, Washington again recorded the highest level of growth for the month; California, Florida, and Maryland tied for a distant second at 0.5 percent.

Small Business Credit Conditions and Trends

Small business sentiment toward credit did not change much in September compared to previous months. Small business owners remain cautious and it will take a lot more than historically low interest rates and more readily available expensing incentives to spur them to borrow.

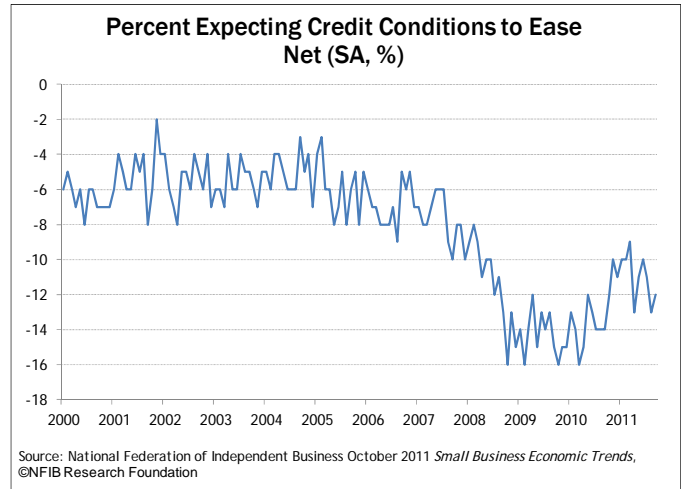
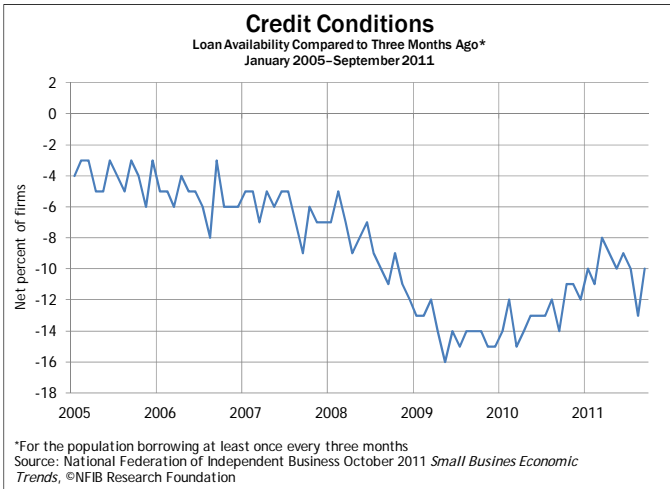
Only 3 percent of small business owners are citing financing and interest rates as their top problem, down 1 percentage point from August. Some 92 percent of all small businesses surveyed felt that either their credit needs were met or they simply were not interested in borrowing; only 8 percent felt that their credit needs were not satisfied. Just over half, or 51 percent, of all respondents stated that they did not even want a loan at this time; the NFIB reported that another 12 percent of those surveyed “did not answer the question” and might also be presumably “uninterested in borrowing” as well.

Down 1 percentage point since August and now only 3 percentage points above the record low, 31 percent of all small business owners claimed that they borrowed on a regular basis. A net negative 10 percent of regular borrowers stated that loans were harder to obtain now compared to the last time they tried to borrow, a 3 percentage point drop month over month. Furthermore, those who were expecting credit conditions to ease in the coming months were a net negative 12 percent for September. With credit seemingly available to most small businesses, credit supply is not the problem; small business owners simply do not see any reason to assume further debt until their outlook begins to turn more positive and they see marked improvements in the economy.

“Poor sales” continue to be the top problem facing small business owners, who predict sales will remain quite weak. In fact, more and more small businesses continue to see their sales levels fall rather than rise. As a result, at least in some cases, they have been unable to raise prices after slashing them the past couple of years to liquidate excess inventory. The seasonally adjusted net percentage of all small business owners reporting higher nominal sales over the past three months was a net negative 10 percent, a 1 percentage point drop. However, according to the NFIB, that is actually one of the best readings observed in more than 40 months.

Down 2 percentage points from August, one-quarter of small business owners reported higher sales, while 29 percent reported lower sales, up 1 percentage point month over month. Reports of positive earnings trends continued to falter month over month, declining another percentage point to a net negative 27 percent of small business owners surveyed. Expectations with regards to future sales are still relatively negative; 22 percent of respondents felt they would see some improvement in their sales within the next three months (up 1 percentage point since August), while 36 percent are expecting to see declines (up 2 percentage points since August). Small business owners have simply lost confidence in the economy and are not convinced the government can assist in the recovery.

Not surprisingly, fewer small business owners are deciding to invest in their businesses because of continually weak sales and a discouraging economic outlook. When sales begin to pick up, owners are more likely to invest in new equipment and expand. Until then, only the most promising and profitable investments make sense. As a result, falling 2 percentage points since August, 50 percent of small businesses reported making capital outlays over the past six months, a figure that has stalled for several years now. This figure is only 5 percentage points above the record low observed in July 2010. Now just 20 percent, or one-fifth, of small business owners plan to make capital outlays in the next three to six months, a 1 percentage point decline since August. Only 6 percent of those surveyed view this as a good time to expand, up 1 percentage point since August but 2 percentage points lower than in January. Of the close to three-quarters of respondents who did not feel this was a good time to expand, over half again cited current economic conditions while another 13 percent cited the political climate, up 3 percentage points since August. A net negative 22 percent were expecting better business conditions in the next six months, which is up 4 percentage points from August but 32 percentage points below January’s level.



Tidbits

In total, 332 banks received over \$4 billion from the Small Business Lending Fund. The final wave of capital released was by far the largest, distributing some 40 percent of the total funds to approximately 43 percent of the total banks. It was a last-ditch effort by the Treasury to disburse the money before the program officially ended on September 27, 2011. Western Alliance Bancorporation, in Phoenix, received \$141 million in funds during the final release, the largest amount received by a single participant.

In a press release, Deputy Treasury Secretary Neal S. Wolin said:

Billions of dollars in SBLF funds are now being put to use in communities across the nation, spurring small business growth and job creation.

In the end, only a little over 13 percent of the allocated funds were distributed. However, Treasury officials were not expecting to distribute anywhere near the \$30 billion allocated by Congress, as only 933 banks had applied for \$11.8 billion in funds. Still, Treasury Secretary Timothy Geithner faced sharp criticism from the Senate Small Business Committee. In defense, he argued:

What Congress authorized was a \$30 billion program. . . Now, banks applied for only one-third of the capital in the program. We can't force banks to come. We made a major effort, alongside many of you, to make sure banks were aware of it.

The Treasury issued a revised white paper stating that it had preliminarily issued approximately 400 approvals to community banks, 68 of which decided not to participate. Furthermore, the Treasury rejected

close to two-thirds of the applicants, 40 percent of which failed to meet the minimum statutory requirements, including approval from their primary regulator and their overall ability to pay dividends. Both the Independent Community Bankers of America (ICBA) and the American Bankers Association (ABA) have asked the Treasury to release further details about why certain applicants were rejected. Senate Small Business Committee chairman Mary Landrieu said that she intends to use Geithner's testimony, along with input from banks and small businesses, to develop a new version of the Small Business Lending Fund.

On a separate note, according to data released by the U.S. Small Business Administration (SBA), \$30.5 billion of SBA loans were made to small businesses during the fiscal year ending September 30, making it the highest volume in the agency's history. Over \$12 billion in SBA loans were made in the first quarter alone, which is the most ever recorded for a single quarter and more than double the dollar volume in any quarter over the past four years. Furthermore, total loan volume increased by 35 percent year over year and was 70 percent higher compared with fiscal year 2009.

The SBA attributed this surge in volume largely to the passage of the Small Business Jobs Act last year. The act included several provisions, including widening the pool of eligible borrowers and increasing the maximum size of the SBA's 7(a) and 504 loan programs, aimed at stimulating SBA lending. The SBA made 61,689 loans this last fiscal year, which included roughly \$5.8 billion of loans to more than 16,000 start-ups, the highest number since fiscal year 2008.

Sixth District SBLF Investments

Transaction Date	Issuer				Transaction			Capital Ratios ²		
	Institution	City	State	Member	Amount	Financial Instrument	CPP / CDCI ¹	Tier 1 Risk-Based Capital	Total Risk-Based Capital	Tier 1 Leverage
6/21/2011	ServisFirst Bancshares, Inc.	Birmingham	AL	Yes	40,000,000	Preferred Shares	No	10.0%	11.5%	8.0%
7/6/2011	Community Trust Financial Corporation	Ruston	LA	No	48,260,000	Preferred Shares	Yes	9.6%	10.8%	8.3%
7/12/2011	Florida Traditions Bank	Dade City	FL	No	8,800,000	Preferred Shares	No	11.9%	13.2%	10.9%
7/14/2011	SouthCity Bank	Vestavia Hills	AL	No	5,200,000	Preferred Shares	No	11.6%	12.9%	9.5%
7/14/2011	BancIndependent, Incorporated	Sheffield	AL	Yes/SMB	30,000,000	Preferred Shares	Yes	11.9%	13.9%	9.6%
7/21/2011	Broward Financial Holdings, Inc.	Fort Lauderdale	FL	No	3,134,000	Preferred Shares	No	16.5%	17.8%	11.3%
7/26/2011	Progressive Bancorp, Inc.	Monroe	LA	No	12,000,000	Preferred Shares	No	12.4%	13.6%	9.3%
8/4/2011	First NBC Bank Holding Company	New Orleans	LA	Yes	37,935,000	Preferred Shares	Yes	11.1%	12.1%	9.4%
8/4/2011	Jefferson Bank of Florida	Oldsmar	FL	No	3,367,000	Preferred Shares	No	20.4%	21.7%	12.9%
8/4/2011	SmartFinancial, Inc.	Pigeon Forge	TN	Yes/SMB	12,000,000	Preferred Shares	No	13.5%	14.7%	10.8%
8/9/2011	Evolve Bancorp, Inc.	Cordova	TN	No	4,699,000	Preferred Shares	No	11.9%	13.0%	8.4%
8/16/2011	Carroll Financial Services, Inc.	Huntingdon	TN	No	3,000,000	Preferred Shares	No	13.4%	14.1%	8.6%
8/16/2011	Bank of Central Florida	Lakeland	FL	No	7,000,000	Preferred Shares	No	13.4%	14.6%	10.3%
8/16/2011	Independent Holdings, Inc.	Memphis	TN	No	34,900,000	Preferred Shares	No	9.3%	10.4%	5.6%
8/18/2011	Gulfstream Bancshares, Inc.	Stuart	FL	No	7,500,000	Preferred Shares	Yes	14.2%	15.5%	10.7%
8/18/2011	Florida Shores Bancorp, Inc.	Pompano Beach	FL	No	12,750,000	Preferred Shares	No	11.2%	12.5%	9.1%
8/18/2011	Magna Bank	Memphis	TN	No	18,350,000	Preferred Shares	Yes	15.2%	16.5%	12.9%
8/18/2011	Community First Bancshares, Inc.	Union City	TN	No	30,852,000	Preferred Shares	Yes	13.9%	15.1%	9.5%
8/23/2011	First Federal Bancorp, Inc.	Lake City	FL	No	20,000,000	Preferred Shares	No	22.3%	23.6%	10.1%
8/23/2011	CBOS Bankshares, Inc.	Merritt Island	FL	No	3,893,000	Preferred Shares	No	13.8%	15.1%	9.1%
8/25/2011	MidSouth Bancorp, Inc.	LaFayette	LA	No	32,000,000	Preferred Shares	Yes	21.1%	22.2%	13.9%
8/25/2011	HomeBancorp, Inc.	Tampa	FL	No	7,398,000	Preferred Shares	No	20.3%	21.1%	8.6%
8/25/2011	Lowndes Bancshares, Inc.	Valdosta	GA	No	6,000,000	Preferred Shares	No	13.6%	14.8%	8.6%
9/8/2011	Merchants and Planters Bancshares, Inc.	Bolivar	TN	No	2,000,000	Preferred Shares	Yes	14.2%	15.5%	9.9%
9/8/2011	Southern Heritage Bancshares, Inc.	Cleveland	TN	No	5,105,000	Preferred Shares	Yes	16.4%	17.6%	12.1%
9/8/2011	BankFirst Capital Corporation	Macon	MS	No	20,000,000	Preferred Shares	Yes	12.5%	14.9%	9.0%
9/8/2011	Ouachita Bancshares Corp.	Monroe	LA	No	17,930,000	Subordinated Debt	No	11.3%	12.2%	8.2%
9/8/2011	The Peoples Bank of Talbotton	Talbotton	GA	No	890,000	Preferred Shares	No	16.3%	17.6%	10.1%
9/8/2011	Resurgens Bancorp	Atlanta	GA	No	2,967,000	Subordinated Debt	No	17.1%	18.3%	12.7%
9/13/2011	CapitalMark Bank & Trust	Chattanooga	TN	Yes	18,212,000	Preferred Shares	No	13.0%	14.3%	10.1%
9/13/2011	Planters Financial Group, Inc.	Clarksville	TN	No	21,955,000	Subordinated Debt	No	9.3%	10.5%	6.9%
9/13/2011	Sequatchie Valley Bancshares, Inc.	Dunlap	TN	No	5,000,000	Subordinated Debt	No	14.3%	15.5%	9.7%
9/14/2011	Marquis Bank	North Miami Beach	FL	No	3,500,000	Preferred Shares	No	25.6%	26.9%	20.0%
9/15/2011	Avenue Financial Holdings, Inc.	Nashville	TN	No	18,950,000	Preferred Shares	Yes	12.6%	13.9%	9.5%
9/15/2011	Florida Community Bankshares, Inc.	Ocala	FL	No	17,000,000	Preferred Shares	No	11.2%	12.4%	6.9%
9/15/2011	Ovation Holdings, Inc.	Naples	FL	No	5,000,000	Preferred Shares	No	16.8%	18.0%	8.4%
9/15/2011	Moneytree Corporation	Lenoir City	TN	No	9,992,000	Preferred Shares	Yes	14.8%	16.0%	9.6%
9/15/2011	Platinum Bank	Brandon	FL	No	13,800,000	Subordinated Debt	No	11.3%	12.6%	8.4%
9/20/2011	Community Southern Bank	Lakeland	FL	No	5,700,000	Preferred Shares	No	13.1%	14.2%	9.7%
9/20/2011	Landmark Community Bank	Collierville	TN	No	8,000,000	Preferred Shares	No	10.3%	11.5%	7.3%
9/20/2011	First Green Bank	Eustis	FL	No	4,727,000	Preferred Shares	No	13.9%	15.0%	11.7%
9/20/2011	Southern National Corporation	Andalusia	AL	No	6,000,000	Subordinated Debt	No	10.7%	11.9%	8.8%
9/21/2011	FineMark Holdings, Inc.	Fort Myers	FL	No	5,665,000	Preferred Shares	No	14.9%	16.2%	7.9%
9/21/2011	Appalachian Community Enterprises, Inc.	Cleveland	GA	No	188,000	Equity Equivalent	No	N/A	N/A	N/A
9/22/2011	Florida Business BancGroup, Inc.	Tampa	FL	No	15,360,000	Preferred Shares	Yes	16.2%	17.5%	9.5%
9/22/2011	First Guaranty Bancshares, Inc.	Hammond	LA	Yes	39,435,000	Preferred Shares	Yes	12.1%	13.1%	8.3%
9/22/2011	Southern States Bancshares, Inc.	Anniston	AL	No	7,492,000	Preferred Shares	No	17.3%	18.6%	15.1%
9/26/2011	Sumner Bank & Trust	Gallatin	TN	No	4,264,000	Preferred Shares	No	11.9%	13.2%	7.7%
9/27/2011	InsCorp, Inc.	Nashville	TN	Yes/SMB	3,000,000	Preferred Shares	No	12.2%	13.5%	9.8%
9/27/2011	Franklin Financial Network, Inc.	Franklin	TN	Yes/SMB	10,000,000	Preferred Shares	No	15.1%	16.3%	8.8%

¹Denotes issuers that participated in the Community Development Capital Initiative ("CDCI") or the Capital Purchase Program ("CPP") and applied to redeem the CDCI or CPP investment after December 6, 2010.

²Capital ratios reported as of March 31, 2011. Tier 1 risk-based capital as defined by FFIEC RC-R, line 32.

Source: Small Business Lending Fund, U.S. Department of the Treasury