



2008 AFP Short-Term Credit Access Survey

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Regardless of a company's industry or financial condition, access to short-term credit is critical to normal operations. For some companies, short-term credit serves as a source of liquidity that allows them to manage through periods of cash flow shortfalls resulting from seasonal or cyclical business slowdowns or payment imbalances.

For instance, each year many retailers have large cash outflows in the early Fall in order to build their inventory for the holiday shopping season. The sale of that inventory often occurs months later, long after payment is due to retailers' suppliers. Lines of credit are often used to manage these cash flow imbalances that would otherwise threaten the liquidity of many companies.

In other cases, short-term credit provides a safety net that gives companies the confidence to use cash on hand to build new plants, invest in productivity-enhancing equipment, pursue strategic acquisitions, or expand their workforce. Without confidence in their ability to draw on credit lines and other sources of short-term credit, companies would be less willing to deploy their cash in longer-term investments that are beneficial to the company, its stakeholders, and the economy as a whole.

In the past 12 months, a number of events have increasingly shaken the stability of and confidence in financial markets. In 2007, growing concern about defaults on subprime mortgages and declining home prices rattled capital markets. Many lenders and other financial entities that invested in the structured products related to subprime mortgages took significant write-downs, impairing their capital positions and raising fears about their ability to extend credit.

More recently, the government takeover of Fannie Mae and Freddie Mac, the bankruptcy of Lehman Brothers, and the government rescue of AIG, have exacerbated the difficulties in the credit markets. Banks have significantly reduced the number of new credit facilities they are originating, and some are attempting to pull out of or reduce their participation in existing commitments.

On September 4, 2008, prior to the aforementioned bailouts and takeovers, the Association for Financial Professionals (AFP) launched a 30-question survey asking participants about the availability of short-term credit in the face of the credit crunch and economic slowdown impacting the U.S. and global economy. AFP sent surveys to 4,000 corporate practitioner members and received 322 responses by September 16th. After adjusting for misdelivered email, the response rate was nine percent. An additional 48 responses were received from corporate practitioners who are not AFP members, resulting in a combined 366 responses. Unless otherwise noted, the data from these respondents are the basis for the analysis presented in this report.

Recognizing that U.S. capital markets have gone through an unprecedented period of change since the initial survey was launched in early September, AFP launched a supplemental survey to capture the impact of these historic events on short-term access to credit. On September 26, 2008, AFP sent a six-question survey to 4,000 corporate practitioner members and received 270 responses by September 29th. After adjusting for misdelivered email, the response rate was eight percent. An additional 49 responses were received from corporate practitioners who are not AFP members, resulting in a combined 326 responses. Data from *these* respondents are the basis of the analysis presented in the section of the report entitled "Events of September 2008" (starting on page 6) and include a footnote stating that the data was based on the supplemental survey conducted between September 26th- 29th.

Both survey questionnaires and the final report were produced by the Research Department of the Association for Financial Professionals, which is solely responsible for the content.

Key Findings

Key findings of the *2008 AFP Short-Term Credit Access Survey* include:

- Forty-eight percent of survey respondents report that until early September 2008, their organizations' current access to short-term credit was about the same as it was two years earlier despite the credit crunch and economic slowdown.
 - Thirty-five percent of organizations with non-investment grade credit ratings have less access to short-term credit relative to two years ago versus 27 percent of organizations with investment grade credit ratings.
 - The form of credit that has most likely dried up over the past two years has been lines of credit.
 - Twenty-four percent of respondents report that their organizations' access to unsecured lines of credit has declined over the past two years; 17 percent of respondents report decreased access to secured lines of credit.
- The dramatic events impacting Wall Street during September 2008 have had a dramatic impact on organizations' access to short-term credit. Based on the supplemental survey conducted between September 26th - 29th:
 - Forty percent of financial professionals indicate that their organizations have less access to credit than they had at the beginning of September.
 - Fifty-three percent of financial professionals from organizations with annual revenues greater than \$1 billion indicate that their organizations have less access to short-term credit compared to “just” 29 percent of respondents from smaller organizations.
 - Sixty-two percent of survey respondents indicate that their organizations have taken at least one action as a direct result of the decline in short-term credit access during the month of September.
 - Forty-one percent of organizations that have taken some action as a result of the difficult credit conditions have moved all or most of their short-term investments to bank deposits.
 - Thirty-seven percent of financial professionals indicate that their organizations have reduced capital spending as a result of the difficult short-term credit environment.
 - A quarter of survey respondents indicate that their organizations have frozen and/or reduced hiring while 22 percent report that their organizations are considering staff reductions.
 - Seventy-two percent of financial professionals expect that their organizations will be taking specific actions to protect their organization's well-being should short-term credit conditions not improve in the next three to six months.
 - Sixty-one percent of financial professionals indicate that they expect their organizations will reduce capital spending should short-term credit access not improve by early 2009.
 - Forty-two percent of survey respondents expect that their organizations will freeze or reduce hiring should credit conditions not improve while 26 percent believe their organizations will consider staff reductions.
- For a number of organizations that use lines of credit, the terms have tightened over the past two years.
 - Just over a quarter of organizations that use lines of credit as a part of their short-term credit strategy have been subject to more financial covenants.
 - Twenty-nine percent of financial professionals indicate that the financial covenants have become more stringent over the past two years.
 - Nearly a third of organizations are subject to more complicated documentation requirements relative to those of two years ago.

- Thirty-nine percent of organizations are subject to higher non-interest fees related to their lines of credit compared to two years ago.
- Financial professionals indicate that their organizations' financial institutions are less likely to offer unsecured loans relative to two years ago.
- For just over half of organizations (51 percent), the cost of borrowing on their lines of credit has increased in terms of the spread that they pay.
 - Twenty percent of organizations are paying between one and 25 additional basis points on the spread on their lines of credit.
 - 15 percent are paying between 26 and 50 additional basis points.
 - Spreads have grown by at least 51 basis points for 16 percent of organizations.
- Organizations may decide to award business for ancillary services based on a financial institution's willingness to grant the organization short-term credit.
 - Forty-nine percent of financial professionals indicate that a financial institution willingness to grant short-term credit to their organizations is "very important" in the decision to award cash management business to the same financial institution.
 - Another 32 percent of survey respondents indicate that those financial institutions that provide short-term credit are "preferred" when organizations award cash management business.
- Nearly two-thirds of financial professionals indicate that their organizations' banks are willing to extend short-term credit on a stand-alone basis.

Key Results

Lines of credit, both secured and unsecured, are important forms of credit for most organizations' short-term financing strategies. Sixty percent of organizations indicate that secured lines of credit are either "important" or "very important" forms of credit, while unsecured lines of credit play an important role for 59 percent of organizations. A quarter of organizations report that commercial paper (26 percent) and asset securitization (25 percent) are important to their short-term financing strategy, while around ten percent rely on banker's acceptance, reverse repurchasing agreements and factoring.

Smaller organizations and those with non-investment grade credit ratings are more likely than large organizations and those with investment grade ratings to have to rely on collateral to secure short-term financing needs. Sixty-three percent of respondents from organizations with annual revenues below \$1 billion consider secured lines of credit to be either "important" or "very important" forms of credit for their organizations' short-term financing strategy compared to 55 percent of respondents from large organizations. Secured lines of credit are important forms of credit for more than three-quarters of organizations with non-investment grade credit ratings compared to just 53 percent of organizations *with* investment grade ratings. Similarly, organizations with non-investment grade credit ratings are more likely to use asset securitization than are those with investment grade ratings (31 percent versus 22 percent).

Relative to other organizations, large organizations and those with investment grade credit ratings are more likely than smaller organizations and those with non-investment grade ratings to use commercial paper. Commercial paper plays an important role in short-term investing for a third of large organizations and those with investment grade credit ratings compared to 14 percent of smaller organizations and just 12 percent of organizations with non-investment grade ratings.

Important Forms of Credit for Short-Term Financing Strategy
(Percent Distribution of Organizations Rating Forms of Credit as either "Important" or "Very Important")

	All	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Investment Grade	Non-Investment Grade
Secured line of credit	60%	63%	55%	53%	76%
Unsecured line of credit	59	56	62	60	61
Commercial paper	26	14	33	32	12
Asset Securitization	25	25	22	22	31
Banker's acceptance	11	7	6	11	11
Reverse repurchase agreement	10	12	6	11	6
Factoring	8	8	4	6	7

At least up until early September 2008, nearly half of financial professionals (48 percent) report that their organizations' current access to short-term credit is about the same as it was two years earlier despite the credit crunch and economic slowdown. Twenty-eight percent report that credit is less

plentiful than it was two years ago versus 24 percent that indicate that credit access has improved since 2006. Since the credit crunch has led financial institutions to raise credit standards, organizations that do not have investment grade credit ratings are more likely to have experienced more difficulty acquiring credit compared to those with better credit ratings. Thirty-five percent of organizations with non-investment grade credit ratings have less access to short-term credit relative to two years ago versus 27 percent of organizations with investment grade credit ratings. Interestingly, the change in access to short-term credit does not appear to have been affected by the size of the organization.

Organization's Current Access to Short-Term Credit Relative to Two Years Ago
(Percent Distribution)

	All	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Investment Grade	Non-Investment Grade
Significantly greater access	6%	7%	6%	7%	6%
Somewhat greater access	18	16	19	20	17
No significant change in access	48	48	45	47	42
Somewhat less access	19	18	20	20	18
Significantly less access	9	11	9	7	17

Even though nearly half of all organizations have not seen their access to short-term credit change significantly over the past two years, the form of credit that has most likely dried up over the past two years has been lines of credit (particularly unsecured lines of credit). Twenty-four percent of respondents report that their organizations' access to unsecured lines of credit has declined over the past two years while 17 percent of respondents report decreased access to secured lines of credit. Organizations with non-investment grade credit ratings are most likely to have been detrimentally impacted by a decline in the availability of lines of credit. Access to unsecured lines of credit has declined for 32 percent of organizations with non-investment grade credit ratings while access to secured lines of credit has declined in 31 percent of similar organizations. Among organizations with investment grade credit ratings, 23 percent of respondents report decreased access to unsecured lines of credit while 15 percent report less access to secured lines of credit.

Among other forms of credit used for short-term financing needs, organizations report declining access to:

- Commercial paper (12 percent)
- Asset securitization (nine percent)
- Reverse repurchase agreements (six percent)
- Banker's acceptance (four percent)
- Factoring (three percent).

Change in Organizations Access to Forms of Credit Over Past Two Years
(Percent of Organizations Reporting Either “Moderate Decrease” or “Sharp Decrease” in Access to Form of Credit)

	All	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Investment Grade	Non-Investment Grade
Unsecured line of credit	24%	24%	27%	23%	32%
Secured line of credit	17	24	15	15	31
Commercial paper	12	8	16	14	10
Asset Securitization	9	7	12	8	14
Reverse repurchase agreement	6	6	7	8	6
Banker's acceptance	4	5	4	3	7
Factoring	3	4	4	3	19

Given that nearly half of financial professionals indicate that their organizations’ access to short-term credit has not changed significantly over the past two years despite the credit crunch, it should not be particularly surprising that most survey respondents report no significant impact of the change in credit on their organizations’ growth opportunities. Seventy-one percent of organizations have not had their growth opportunities significantly impacted by the changes in the short-term credit market. Thirteen percent of respondents report that their organizations’ growth opportunities have slowed (or have contracted) as a result of credit market conditions while 16 percent of financial professionals indicate that their organizations’ growth opportunities have actually increased as a result of changes to their organizations’ access to credit.

Impact that Change in Access to Credit Has Had on Organizations’ Growth Opportunities
(Percent Distribution)

	All	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Investment Grade	Non-Investment Grade
Facilitated growth	16%	19%	13%	15%	18%
No significant Impact	71	64	75	75	56
Slowed Growth	11	14	11	9	20
Caused business contraction	2	4	1	1	6

Events of September 2008

To say the least, the month of September in 2008 has been a very eventful one for the financial and credit markets. The month saw the government takeover of Fannie Mae and Freddie Mac, the bankruptcy of Lehman Brothers, and the government rescue of AIG. Each of these actions has exacerbated, on an increasing basis, the difficulties in the credit markets. Banks have significantly reduced the number of new credit facilities they are originating, and some are attempting to pull out of or reduce their participation in existing commitments. Compared to the impact of the credit

crunch on organizations' access to short-term credit prior to September 2008, the events during the month have had a dramatic impact on organizations' access to short-term credit.

Forty percent of financial professionals indicate that their organizations have less access to credit than it had at the beginning of September. Twenty-four percent of respondents report that their organizations' access to credit is "somewhat less" while 16 percent report that their organizations have "significantly less" access to credit (or even no access to short-term credit) relative to the beginning of September. Large organizations have been hit particularly hard by the drying up of short-term credit. Fifty-three percent of financial professionals from organizations with annual revenues greater than \$1 billion indicate that their organizations have less access to short-term credit compared to "just" 29 percent of respondents from smaller organizations.

Change in Access to Short-Term Credit Over the Past Month
(Percentage Distribution*)

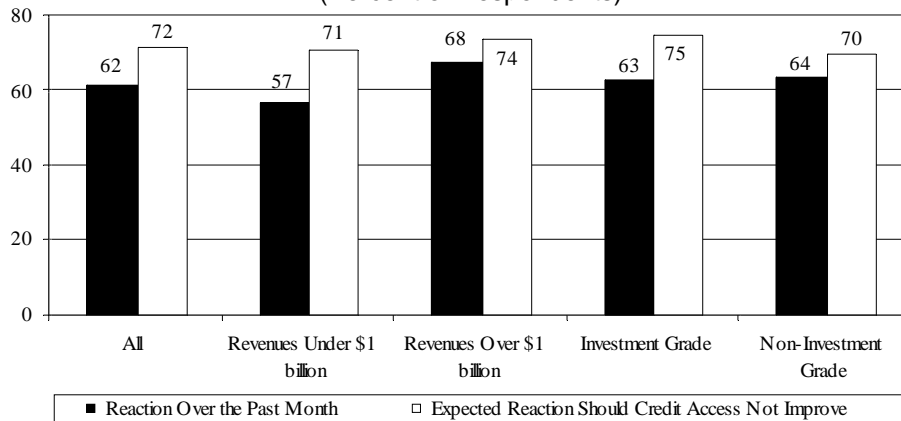
	All	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Investment Grade	Non-Investment Grade
Significantly greater access	1%	*	1%	1%	1%
Somewhat greater access	2	4	*	1	3
No significant change in access	57	68	46	56	54
Somewhat less access	24	15	34	25	26
Significantly less access	15	13	18	16	15
Organization no longer has access to short-term credit	1	1	1	1	1

* - based on survey conducted between September 26th- 29th.

Sixty-two percent of survey respondents indicate that their organizations have taken at least one action as a direct result of the decline in short-term credit access during the month of September. Large organizations are more likely to have taken actions as a result of the credit crisis compared to their smaller counterparts. Sixty-eight percent of organizations with annual revenues greater than \$1 billion have taken actions as a result of the lessened access to short-term credit compared to 57 percent of smaller organizations.

If short-term credit access does not improve by late 2008 or early 2009, a larger percentage of organizations are likely to take actions to protect their well-being. Seventy-two percent of financial professionals expect that their organizations will be taking specific actions to protect their organizations' well-being should short-term credit conditions not improve in the next three to six months.

**Organizations' Reactions (and Expected Reactions)
to Change in Short-Term Credit Access
(Percent of Respondents)***



* - based on survey conducted between September 26th- 29th.

The actions that organizations have taken (or could take) as a result of the difficult credit conditions include changing their short-term cash strategies. Forty-one percent of organizations that have taken any action as a result of the difficult credit conditions have moved all or most of their short-term investments to bank deposits and U.S. Treasuries while 29 percent have shortened the duration of their short-term investment portfolios. Further, a quarter of financial professionals indicate that their organizations have drawn on credit facilities that are still available to build cash while ten percent are delaying payments to vendors.

Other organizations already have made moves to reduce cash expenses. Thirty-seven percent of financial professionals indicate that their organizations have reduced capital spending as a result of the difficult short-term credit environment. A quarter of survey respondents report that their organizations have frozen and/or reduced hiring while 22 percent report that their organizations are considering staff reductions.

While a number of organizations have not taken actions thus far as a result of the short-term credit crisis, a larger percentage of financial professionals expect their organizations to take definitive actions should short-term credit conditions not improve. Sixty-one percent of financial professionals expect their organizations will reduce capital spending should short-term credit access not improve by early 2009. Similarly, 42 percent of survey respondents expect that their organizations will freeze or reduce hiring should credit conditions not improve while 26 percent believe their organizations will consider staff reductions.

**Actions That Organizations Have Taken (or Expect to Take)
as a Result of Reduced Access to Short-Term Credit**
(Percentage of Organizations Reporting Have Taken or Expect to Take Action)*

	Actions Taken Over the Past Month	Expected Actions Should Credit Access Not Improve Over Next 3-6 Months
Move all or most of short-term investments to bank deposits and U.S. Treasuries	41%	26%
Reduce capital spending	37	61
Shorten the duration of short-term investment portfolio	29	25
Freezing or reducing hiring	26	42
Drawing on credit facilities that are still available to build cash	26	33
Considering staff reductions/layoffs	22	26
Tighten credit standards for trading partners	21	27
Reduce current or planned inventory levels	10	23
Delay payments to vendors	10	18
Consider closing locations (e.g., stores, factories, offices)	7	10
Delay/discontinue share repurchases	5	13
File for bankruptcy protection	*	1

* - based on survey conducted between September 26th- 29th.

Lines of Credit

As indicated above, lines of credit are an important form of credit for most organizations' short-term financing strategy and are the forms of credit most likely to have been affected by the credit crunch. This section of the report looks how terms and conditions of acquiring and maintaining lines of credit may have changed over the two past years.

Just over a quarter of organizations that use lines of credit as a part of their short-term credit strategy have been subject to more financial covenants. Two-thirds of organizations that use lines of credit remain subject to the same number of covenants as they were two years earlier, while eight percent of financial professionals indicate that their organizations are subject to fewer financial covenants. Smaller organizations and those with non-investment grade credit ratings are more likely to be subject to a greater number of financial covenants than are larger ones and those with investment grade ratings. Thirty-three percent of organizations with annual revenues below \$1 billion and organizations with non-investment grade credit ratings are subject to a greater number of financial covenants for their lines of credit relative to two years ago. Twenty-two percent of large organizations and 25 percent of those with investment grade credit ratings are subject to more financial covenants compared to two years ago.

**Change in the Number of Financial Covenants
for Lines of Credit Relative to Two Years Ago**

(Percent Distribution of Organizations that Use Lines of Credit as a Part of Their Short-Term Financing Strategy)

	All	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Investment Grade	Non-Investment Grade
More covenants	27%	33%	22%	25%	33%
About the same	65	57	72	68	59
Fewer Covenants	8	10	6	7	8

At least until early September 2008, the stringency of the financial covenants related to lines of credit has, for most organizations, remained about the same as they were two years ago. Two-thirds of financial professionals report that the financial covenants are as stringent as they were two years ago. Twenty-nine percent of financial professionals indicate that the financial covenants have become more stringent over the past two years, while just four percent indicate that the covenants are less stringent.

Smaller organizations and those with non-investment grade credit ratings are more likely than large organizations and those with investment grade ratings to be subject to more stringent financial covenants. A third of smaller organizations (33 percent) and 31 percent of those with non-investment grade credit ratings are now subject to more stringent financial covenants than they were two years.

Change in the Level of Stringency of Financial Covenants Relative to Two Years Ago

(Percent Distribution of Organizations that Use Lines of Credit as a Part of Their Short-Term Financing Strategy)

	All	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Investment Grade	Non-Investment Grade
More stringent	29%	33%	27%	28%	33%
About the same	67	61	69	68	61
Less stringent	4	6	4	4	6

Most financial professionals (65 percent) indicate that the documentation requirements to which their organizations are subject in order to acquire and maintain their lines of credit are about the same relative to two years ago. Still, nearly a third of organizations are subject to more complicated documentation requirements relative to that of two years ago, with both smaller organizations and those with non-investment grade credit more likely to feel the impact. Thirty-nine percent of financial professionals from organizations with annual revenues below \$1 billion report that the documentation requirements associated with their organizations' lines of credit have become more complicated relative to two years ago—the percentage for larger organizations is 26 percent. Similarly, 40 percent of organizations with non-investment grade ratings are subject to more complicated documentation requirements compared to 28 percent of investment grade organizations.

**Degree of Complication in Documentation Requirements Associated with Lines of Credit
Relative to Two Years Ago**

(Percent Distribution of Organizations that Use Lines of Credit as a Part of Their Short-Term
Financing Strategy)

	All	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Investment Grade	Non-Investment Grade
More complicated	32%	39%	26%	28%	40%
About the same	65	58	71	69	58
Less Complicated	3	3	3	3	2

For just over half of all organizations – 56 percent – non-interest fees related to lines of credit have not changed over the past two years. But if they have changed, the non-interest fees have likely increased. Two out of five organizations are now subject to greater non-interest fees related to their lines of credit compared to two years ago.

Change in Non-Interest Fees Related to Lines of Credit Relative to Two Years Ago

(Percent Distribution of Organizations that Use Lines of Credit as a Part of Their Short-Term
Financing Strategy)

	All	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Investment Grade	Non-Investment Grade
Non-interest fees have increased	39%	39%	40%	38%	42
Non-interest fees remained the same	56	57	57	60	52
Non-interest fees have decreased	5	4	3	2	6

Despite the credit crunch, most organizations have not experienced a change in the length of the maximum terms for their lines of credit relative to two years ago. Seventy percent of financial professionals indicate that the maximum terms for their organizations' lines of credit have remained the same. Eleven percent of organizations are subject to shorter maximum terms for their lines of credit while 19 percent have benefited from longer maximum terms.

Change in Average Maximum Terms for Lines of Credit

(Percent Distribution of Organizations that Use Lines of Credit as a Part of Their Short-Term
Financing Strategy)

	All	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Investment Grade	Non-Investment Grade
Terms have increased	19%	21%	18%	18%	23%
Terms have remained the same	70	72	67	72	63
Terms have Decreased	11	7	15	10	13

Even if the credit crunch has not affected their organizations directly, most financial professionals report that financial institutions are less likely to offer unsecured loans (e.g., lines of credit) than they were two years ago. Thirty-seven percent of financial professionals report that the willingness of their organizations' financial institutions to offer unsecured lines of credit has diminished somewhat over the past two years while 19 percent indicate that the willingness has diminished significantly. Thirty-three percent of respondents feel that there has been no change in their organizations' financial institutions' willingness to offer unsecured credit while 12 percent report that the willingness has increased over the past two years.

The perceived willingness of financial institutions to offer secured credit has not declined as much as it has for unsecured credit. Forty percent of financial professionals believe that their organizations' financial institutions are less likely to offer secured credit relative to two years ago compared to 23 percent who believe the willingness to provide secured credit has increased.

**Change in Willingness of Financial Institutions
to Offer Secured and Unsecured Credit**

(Percent Distribution of Organizations that Use Lines of Credit as a Part of Their Short-Term Financing Strategy)

	Willingness to Offer Has Grown Significantly	Willingness to Offer Has Grown Somewhat	No Significant	Willingness to Offer Has Diminished Somewhat	Willingness to Offer Has Diminished Significantly
Secured loans	5%	18%	37%	33%	7%
Unsecured loans	2	10	32	37	19

For just over half of organizations (51 percent), the cost of borrowing against their lines of credit has increased in terms of the spread that they pay. Twenty percent of organizations are paying between one and 25 additional basis points on the spread on their lines of credit while 15 percent are paying between 26 and 50 additional basis points. Spreads have grown by at least 51 basis points for 16 percent of organizations. On the other end of the spectrum, 40 percent of respondents indicate that the spread on their organizations' lines of credits have not changed while nine percent report that the spread has actually declined.

Change in Spreads of Organizations' Lines of Credit

(Percent Distribution of Organizations that Use Lines of Credit as a Part of Their Short-Term Financing Strategy)

	All	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Investment Grade	Non-Investment Grade
Narrowed	9%	8%	10%	7%	12%
Remained unchanged	40	42	39	38	42
Grown by 1-25 basis points	20	19	22	26	12
Grown by 26-50 basis points	15	15	13	15	11
Grown by 51-100 basis points	10	10	11	12	8
Spreads have grown more than 100 basis points	6	6	5	1	15

The typical organization that uses lines of credit as a part of its short-term financing strategy relies on five financial institutions that provide the lines of credit or at least participate in a syndicated line. Naturally, large organizations have more financial institutions providing/participating in their lines of credit relative to smaller organizations (ten versus two financial institutions). Similarly, organizations with investment grade credit ratings have more financial institutions participating in their lines of credit compared to those with non-investment grade credit ratings (six versus three financial institutions).

Financial professionals from just over half of organizations indicate that the average dollar commitment of the financial institutions that has remained the same over the past two years. Thirty percent of organizations have seen the average dollar commitment of the financial institutions increase over the past two years while 18 percent report that the financial commitment has decreased. Large organizations and those with non-investment grade credit ratings are more likely to have seen the average dollar commitment of their financial institutions decline over the past two years (22 percent for each).

Median Number of Financial Institutions that Provide/Participate in Lines of Credit and the Change in Average Dollar Commitment of Financial Institutions to the Lines of Credit
(Percent Distribution of Organizations that Use Lines of Credit as a Part of Their Short-Term Financing Strategy)

	All	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Investment Grade	Non-Investment Grade
Median # of financial institutions that provide/participate in line of credit	5	2	10	6	3
Average Dollar Commitment Has Grown	30%	31%	26%	30%	26%
Average Dollar Commitment Has Remained the same	52	55	52	53	52
Average dollar commitment has declined	18	14	22	17	22

The vast majority of the financial institutions providing short-term credit to the organizations represented by the survey respondents are based in the United States. On average, 57.2 percent of short-term credit is provided by large “money center” U.S. banks while 26.3 percent of short-term credit is provided by U.S. regional banks. European banks are the source for nearly ten percent of short-term credit while Asian banks provide just over four percent of organizations’ short-term credit.

Large organizations and those with investment grade credit ratings (60.2 and 65.0 percent, respectively) rely more heavily on large money center banks than do smaller organizations and those with non-investment grade ratings (56.2 and 41.4 percent, respectively). Financial professionals report that U.S.-based financial institutions are most likely to have a reduced appetite to offer short-term credit. Thirty-two percent of survey respondents indicate that large “money center” banks have less of an appetite to offer short-term credit as compared to two years ago. Thirty-one percent of survey respondents answer similarly in terms of U.S. regional banks’ appetite to offer short-term credit.

Geographic Distribution of Financial Institutions Providing Short-Term Credit
(Mean Percentage Distribution)

	All	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Investment Grade	Non-Investment Grade
U.S.-Large money centers	57.2%	56.2%	60.2%	65.0%	41.4%
U.S.-Regional	26.3	29.3	11.9	19.3	37.6
Europe	9.5	8.7	14.2	9.3	11.5
Asia	4.3	4.0	6.7	4.4	5.1
Canada	2.7	1.8	7.0	2.1	4.5

Change in Banks' Appetite to Extend Short-Term Credit by Geographic Location of Financial Institution
(Percent Distribution)

	Banks' Appetite Has Grown	Banks' Appetite Has Remained the Same	Banks' Appetite has Declined
U.S.-Large money centers	24%	45%	32%
Europe	22	55	23
U.S.-Regional	23	45	31
Asia	25	62	13
Canada	9	71	20

Short-Term Credit and Ancillary Services

Organizations rely on financial institutions to provide additional services beyond the provision of short-term credit. Such services include cash management, bond and equity underwriting, and strategic advisory services (merger & acquisition). In some cases, organizations may decide to award business for these other services based on a financial institution's willingness to grant the organization short-term credit.

Most organizations will award cash management services business to financial institutions that have granted them short-term credit. Forty-nine percent of financial professionals indicate that a financial institution granting their organizations short-term credit is "very important" before those organizations award cash management business to the same financial institution. Another 32 percent of survey respondents indicate that financial institutions that provide short-term credit are preferred when organizations award cash management business.

Forty percent of financial professionals from organizations that use bond underwriting services believe that it is "very important" that the potential bond underwriter is also a provider of credit. Similarly, 31 percent of organizations that use equity underwriting and 28 percent that use strategic advisory services consider it important that potential providers of these services be a credit provider before awarding the ancillary business.

Importance of Financial Institution Extending Short-Term Credit Before Granting Ancillary Business

(Percent Distribution of Organizations that Use Specific Ancillary Service)

	Providing credit is very important	Providing credit is preferred	Providing credit is not a consideration
Cash management	49%	32%	19%
Bond underwriting	40	25	26
Equity underwriting	31	38	32
Strategic advisory/M&A business	28	38	35

Nearly two-thirds of financial professionals indicate that their organizations' banks are willing to extend short-term credit on a stand-alone basis, with little difference regardless of the size of the organization for which the survey respondent works. Financial professionals who work for organizations with non-investment grade credit ratings are less likely to believe that banks are willing to extend short-term credit on a stand-alone basis. Fifty-eight percent of respondents from organizations with non-investment grade credit ratings feel that banks are willing to extend credit on a stand-alone basis, compared to 68 percent of financial professionals representing investment grade organizations.

Banks Willingness to Extend Credit on Stand-Alone Basis

(Percent Distribution)

	All	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Investment Grade	Non-Investment Grade
Yes, bank is willing to extend credit	66%	66%	65%	68%	58%
No, bank is not willing to extend credit	34	34	35	32	42

Perhaps as a result of the credit crunch and the economic slowdown, many survey respondents perceive less willingness on the part of financial institutions to offer short-term credit as a stand-alone product. Two out of five financial professionals believe financial institutions are less willing to provide short-term credit as a stand-alone compared to two years ago. Fifty-one percent of survey respondents believe financial institutions' willingness to provide short-term credit has remained the same over the past two years while eight percent see the willingness to provide short-term credit as a stand-alone product has grown.

Change in Financial Institutions' Willingness to Provide Short-Term Credit as a Stand-Alone Product

(Percent Distribution)

	All	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Investment Grade	Non-Investment Grade
Grown	8%	8%	9%	8%	9%
Remained the same	51	53	48	50	50
Declined	41	39	42	42	41

Conclusions

Despite the lengthy unraveling of the subprime lending market and banks writing down many securities related to or derived from subprime loans, the 2008 AFP Short-Term Credit Survey found that companies' access to short-term credit had not tightened appreciably until September 2008. Nearly half of the organizations responding to the survey reported no change in their access to credit compared to two years ago. Roughly equal percentages of companies report a tightening (28 percent) or easing (24 percent) of credit access. The two most important forms of credit for organizations' short-term financing strategies—secured and unsecured lines of credit—were also the most likely to have tightened. Nearly three of four companies reported that changes in credit market conditions have had no impact on their opportunities for growth.

Not surprisingly, significant percentages of companies did report that lending terms and conditions had tightened somewhat in the past two years. Companies reported more covenants (27 percent), more stringent covenants (29 percent), and more complicated documentation requirements (32 percent). Companies also reported that their financial institutions' willingness to offer secured and unsecured lines of credit had diminished (40 percent and 56 percent respectively).

Then, historic events swept across financial markets and changed credit markets overnight. As shown through data from a supplemental survey conducted during the final days of September 2008, two out of five organizations have less access to short-term credit than they had just a month earlier. The reaction to the tightening credit has been swift. Sixty-two percent of organizations have taken a variety of actions—from moving short-term investments into ultra safe Treasury securities to reducing cash expenses (including reducing capital spending and staff reductions).

About the Survey

On September 4, 2008, prior to the aforementioned bailouts and takeovers, the Association for Financial Professionals (AFP) launched a 30-question survey asking participants about the availability of short-term credit in the face of the credit crunch and economic slowdown impacting the U.S. and global economy. AFP sent surveys to 4,000 corporate practitioner members and received 322 responses by September 16th. After adjusting for undelivered email, the response rate was nine percent. An additional 48 responses were received from corporate practitioners who are not AFP members, resulting in a combined 366 responses. Unless otherwise noted, the data from these respondents are the basis for the analysis presented in this report.

Recognizing that U.S. capital markets have gone through an unprecedented period of change since the initial survey was launched in early September, AFP launched a supplemental survey to capture the impact of these historic events on access to short-term credit. On September 26, 2008, AFP sent a six-question survey to 4,000 corporate practitioner members and received 270 responses by September 29th. After adjusting for undelivered email, the response rate was eight percent. An additional 49 responses were received from corporate practitioners who are not AFP members, resulting in a combined 326 responses. Data from these respondents are the basis of the analysis presented in the section of this report entitled “Events of September 2008” and include a footnote stating that the data was based on this supplemental survey conducted between September 26th- 29th.

Both survey questionnaires and the final report were produced by the Research Department of the Association for Financial Professionals, which is solely responsible for the content.

The demographic profile of the survey respondents mirrors that of AFP’s membership. The following table summarizes the characteristics of the survey respondents.

Annual Revenues (Percentage Distribution)

	September 4 th Survey	September 26 th Survey
Under \$100 million	16%	15%
\$100-249.9 million	9	11
\$250-499.9 million	10	10
\$500-999.9 million	12	11
\$1-4.9 billion	32	31
\$5-9.9 billion	11	12
\$10-19.9 billion	5	5
\$20 billion or more	5	5

Credit Rating of Organizations (Percent Distribution)

	September 4 th Survey	September 26 th Survey
Investment Grade	68%	64%
Non-Investment Grade	32	36

AFP Research

AFP Research provides financial professionals with proprietary and timely research that drives business performance. The AFP Research team is led by Director of Research and Data Standards, Kevin A. Roth, PhD, who is joined by four research analysts. AFP Research also draws on the knowledge of the Association's members and its subject matter experts in areas that include bank relationship management, risk management, payments, and financial accounting and reporting. Study reports on a variety of topics, including AFP's annual compensation survey, are available online at www.AFPonline.org/research.



About the Association for Financial Professionals

The Association for Financial Professionals (AFP) headquartered in Bethesda, Maryland, supports more than 16,000 individual members from a wide range of industries throughout all stages of their careers in various aspects of treasury and financial management. AFP is the preferred resource for financial professionals for continuing education, financial tools and publications, career development, certifications, research, representation to legislators and regulators, and the development of industry standards.

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