

Survey Results:
Changes in the Short-Term
Credit Market

ASSOCIATION FOR FINANCIAL PROFESSIONALS
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INTRODUCTION

The Association for Financial Professionals (AFP) recently conducted a survey of its members to assess the changes in the short-term credit market over the past few years. This report summarizes the results of the AFP survey. The objectives of the survey were to:

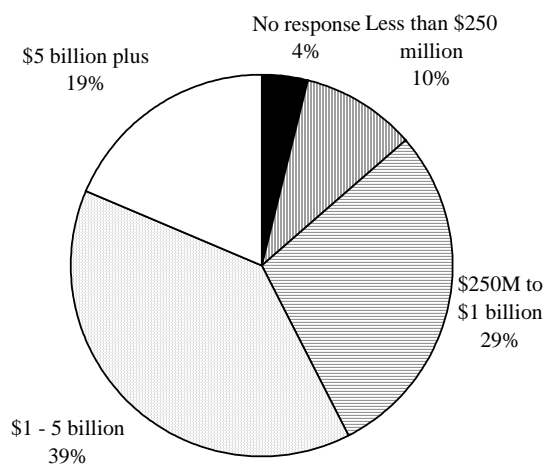
- Examine the types and sources of credit used;
- Assess the frequency of banks imposing penalties for drawing on backup lines for commercial paper;
- Determine the impact of Y2K on a company's access to credit; and,
- Assess the role of the Internet in accessing credit.

Backup lines of credit were of particular interest in developing the survey. Backup lines of credit, sometimes known as backstop or standby credit, are used by companies to enhance the credit quality of short-term financing. While not intended to be drawn, some companies drew on these vehicles during the fourth quarter of 1998, rather than paying the market determined rates. In response, some banks now impose penalties for drawing on these facilities at calendar, quarter, and year end.

The survey was administered during the week of December 9 through December, 16, 1999 to senior-level financial professionals (e.g., treasurers, vice presidents-finance) to companies with revenues of \$100 million or more. A total of 1,882 members were sent surveys via broadcast fax; 200 returned their survey forms, yielding a response rate of 11 percent. The survey form may be found at the end of this report. (See Appendix A.)

Survey respondents represent primarily mid-sized to large organizations. Thirty-six percent had total revenues of less than \$1 billion; 38 percent had \$1-5 billion in revenues. (See Figure 1.) About seven in ten respondents are employed at publicly held companies; 22 percent work at privately held companies and 9 percent work at non-profit or government agencies.

Figure 1
Respondents' Organization Size

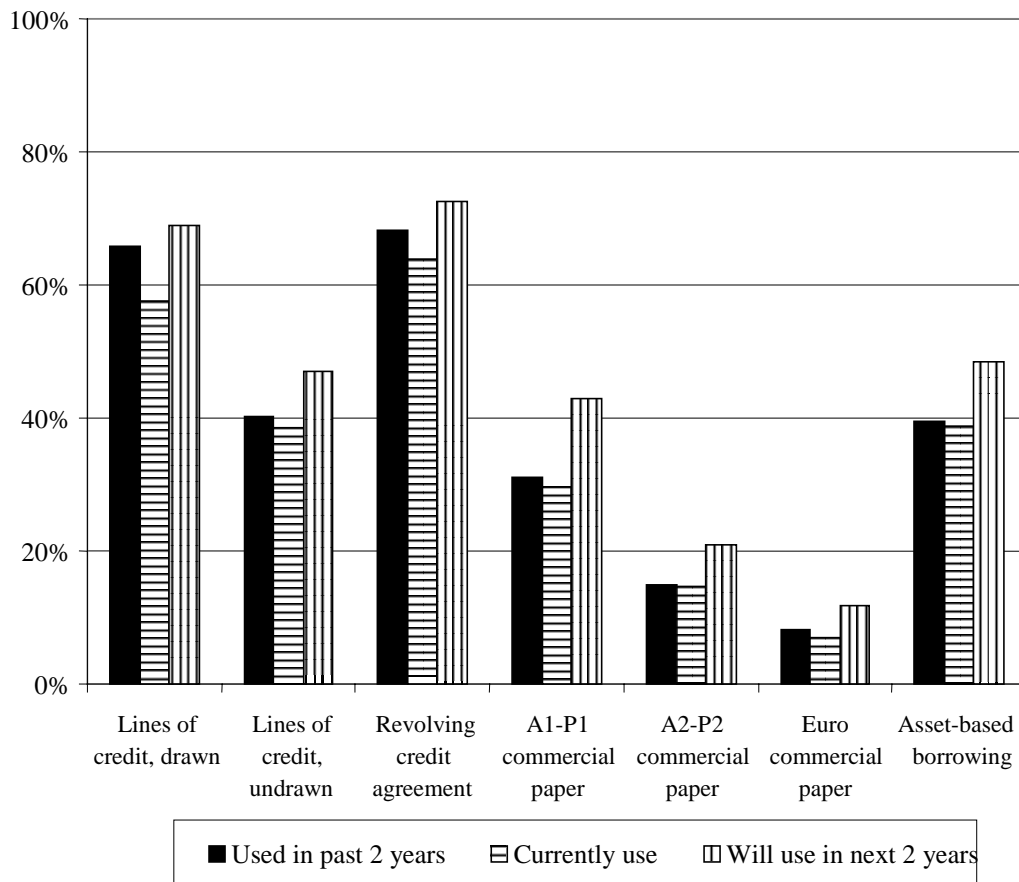


SUMMARY OF FINDINGS

TYPES OF CREDIT

Almost all respondents (98%) report using one or more types of credit. Currently, the most common type of credit used, reported by about two-thirds of respondents, is a revolving credit agreement. All types of credit usage are anticipated to increase within the next two years. (See Figure 2.) The most dramatic increase will be A1-P1 commercial paper, which will rise from 30 percent to over 40 percent.

Figure 2
Types of Credit

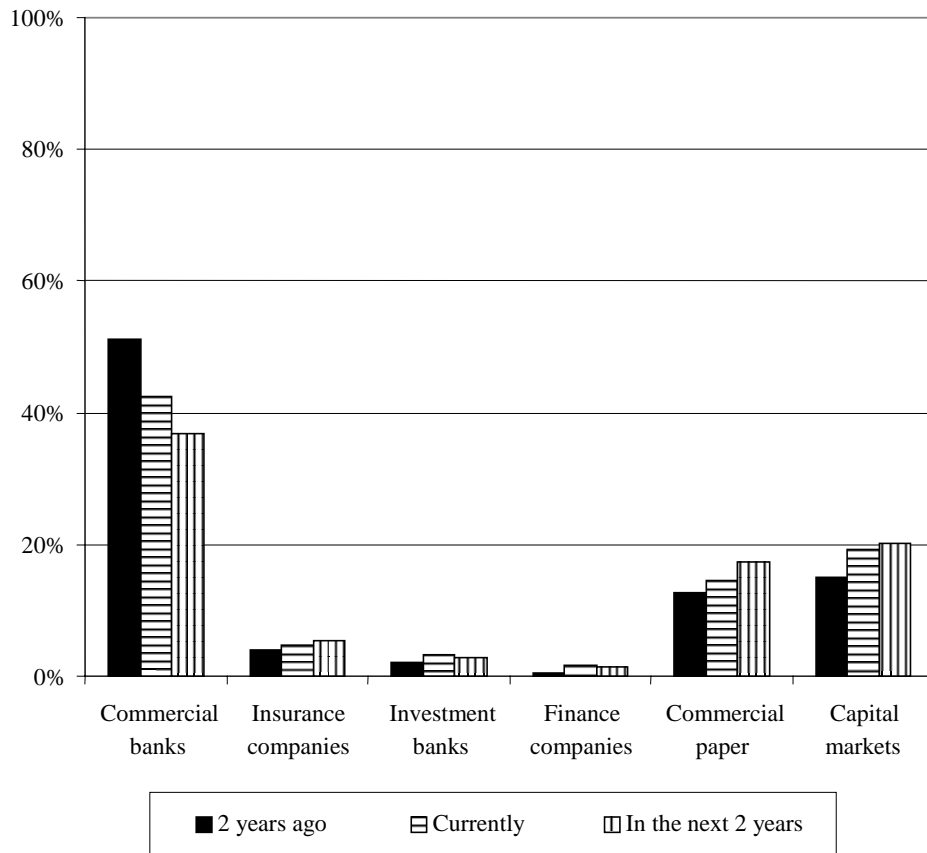


About one in four respondents has a line of credit or revolver that includes a foreign currency borrowing option. The most common currencies mentioned were the euro, Canadian dollar, and UK pound.

SOURCES OF CREDIT

Commercial banks continue to be the major source of credit for respondents. However, their market share has decreased from 51 percent two years ago to 43 percent currently, and is expected to decrease further. (See Figure 3.) Commercial paper, as a source of credit, is expected to increase to 18 percent of total borrowings within the next two years, up from 13 percent two years ago. Insurance companies, investment banks, and finance companies each provided less than 10 percent of total borrowings by respondents.

Figure 3
Sources of Credit



PROBLEMS OBTAINING SHORT-TERM CREDIT

Respondents were asked whether they anticipate any problems in obtaining sufficient short-term backup lines of credit due to either further bank consolidation or commercial paper market liquidity. About one in four respondents believes bank consolidation may cause a problem. Only 10 percent anticipate a problem due to commercial paper market liquidity.

PENALTIES

A majority of the 200 respondents to the survey issue commercial paper. Large companies (greater than \$1 billion in revenues) were more likely to issue commercial paper than smaller companies (59% to 43%). Only a small percentage of companies issuing commercial paper reported that their bank imposed penalties for accessing backup lines of credit. (See Table 1.) Currently, about 20 percent of respondents report that their banks impose penalty rates for drawing on amounts greater than a pre-designated percent of the total line, compared to about 10 percent two years ago. There has also been an increase in respondents reporting that their banks impose penalties for calendar year-end usage. A minimal number of respondents experienced “black-out” periods for backup lines of credit.

Table 1
Frequency of Penalty Rates Imposed

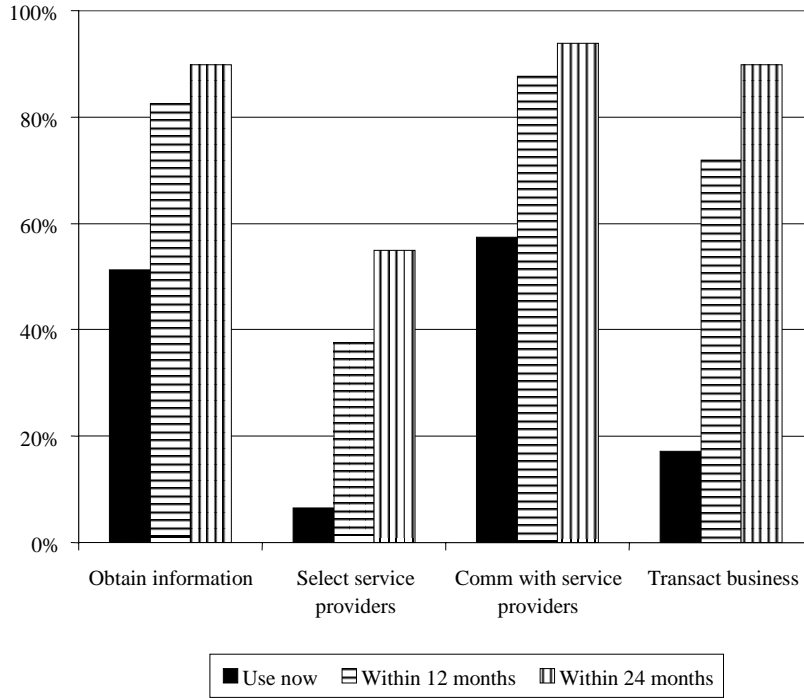
	Two years ago	Currently
Quarterly	4.8%	4.9%
Calendar year end usage	3.0%	11.2%
Greater than pre-designated number of days	3.0%	4.1%
Greater than pre-designated percent drawn	9.9%	21.0%

ROLE OF THE INTERNET

Survey respondents report a broad and growing use of the Internet for accessing credit. Currently, a majority (57%) use the Internet to communicate with service providers; about half do so to obtain information (51%). About one in five uses the Internet to transact business when accessing credit. (See Figure 4.)

Within two years, Internet usage is anticipated to increase dramatically. Four in five respondents report they are likely to use the Internet to obtain information, communicate with service providers, and transact business. Use of the Internet to select service providers is expected to increase from 8 percent to over 55 percent. Use of the Internet to transact business is also expected to rise, from 19 percent to over 89 percent.

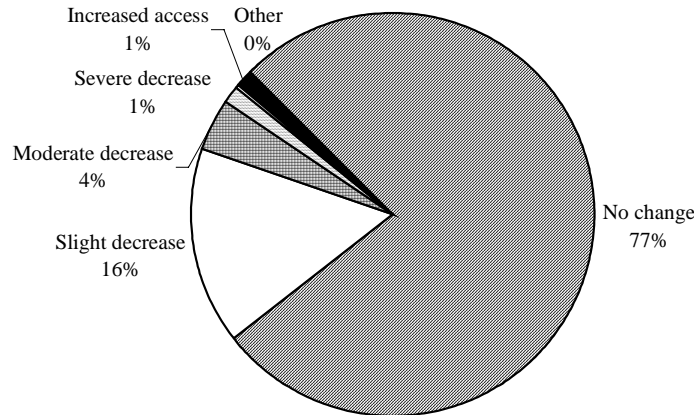
Figure 4
Role of Internet in Accessing Credit



IMPACT OF Y2K

Few businesses expressed concern about the possible disruption of their access to credit due to Y2K problems. The data suggest only a minimal impact on access to credit because of Y2K. Specifically, about three-quarters of respondents believe there will be no change in their company's access to credit, and about 16 percent anticipate a slight disruption; only 4 percent expect a moderate impact. (See Figure 5.) Larger companies expect a greater decrease in access to credit, compared to smaller companies (30% vs. 10%).

Figure 5
Impact of Y2K on Access to Credit



Summary of Findings

The Association for Financial Professionals (AFP) conducted a survey of senior-level professionals to examine the different types and sources of credit companies may be using and how these sources may have changed. We received over 200 responses from organizations ranging from under \$250 million to \$20 billion in total revenues, as well as responses from public and private companies, and non-profit/government agencies.

TYPES AND SOURCE OF CREDIT

Almost all respondents report using one or more types of credit. Currently, the most common type of credit used, reported by about two-thirds of respondents, is a revolving credit agreement. All types of credit usage are anticipated to increase within the next two years. The most dramatic increase is in A1-P1 commercial paper, which rose from 30 percent to over 40 percent.

Commercial banks continue to be the major source of credit for respondents. However, their usage is expected to decrease. Commercial paper, as a source of credit, is expected to increase to 18 percent of total borrowings within the next two years, up from 13 percent two years ago.

PENALTIES

A majority of respondents issue commercial paper. Large companies (greater than \$1 billion in revenues) were more likely to issue commercial paper than smaller companies (59% to 43%). Only a small percentage of companies issuing commercial paper reported that their bank imposed penalties for accessing backup lines of credit. Currently, about 20 percent of respondents report that their banks impose penalty rates for drawing on amounts greater than a pre-designated percent of the total line, compared to about 10 percent two years ago. There has also been an increase in respondents reporting that their banks impose penalties for calendar year-end usage. A minimal number of respondents experienced “black-out” periods for backup lines of credit.

ROLE OF THE INTERNET

Respondents report a broad and growing use of the Internet for accessing credit. Within two years, Internet usage is anticipated to increase dramatically. Over 80 percent of respondents report they are likely to use the Internet to obtain information, communicate with service providers, and transact business. Use of the Internet to select service providers is expected to increase from 8 percent today to over 55 percent; transacting business over the Internet is also expected to rise from 19 percent now to over 89 percent.

IMPACT OF Y2K

The data suggest only a minimal impact on access to credit because of Y2K. Three in four respondents believe there will be no change in their company’s access to credit, and about 16 percent anticipate a slight disruption; only 4 percent expect a moderate impact. Larger companies expect a greater decrease in access to credit, compared to smaller companies (30% vs. 10%).

APPENDIX A
SHORT TERM CREDIT ACCESS IN THE
FINANCIAL MARKETPLACE

1. Some banks have instituted penalty rates for backup lines of credit for commercial paper. Did your bank impose such penalties 2 years ago? Does your bank currently impose such penalties for backup lines of credit?

	2 years ago		Currently	
	<u>Yes</u>	<u>No</u>	<u>Yes</u>	<u>No</u>
Yes, quarterly (March, June, September, December)				
Yes, for calendar year end usage				
Yes, for usages greater than a pre-designated number of days				
Yes, for usages greater than a pre-designated percent drawn				
Other (please specify)				

2. Some banks have instituted “black-out” periods during which companies would be unable to draw on their backup lines of credit for commercial paper. Did your bank impose such “black-out” periods 2 years ago? Does your bank currently impose such “black-outs” for backup lines of credit?

	2 years ago		Currently	
	<u>Yes</u>	<u>No</u>	<u>Yes</u>	<u>No</u>
Yes, over calendar year end.....				
Yes, a longer period (please specify).....				

3. For each of the following types of credit...a) Which have you used in the past 2 years? b) Do you currently use? c) To the best of your knowledge, which do you plan to use in the next 2 years?

	a. Have used in past 2 years?		b. Currently use?		c. Will use in next 2 years?	
	<u>Yes</u>	<u>No</u>	<u>Yes</u>	<u>No</u>	<u>Yes</u>	<u>No</u>
a. Line of credit (drawn)						
b. Line of credit (backup for CP, undrawn)						
c. Revolving Lines of credit (over 1 yr)						
d. A1-P1 Commercial Paper						
e. A2-P2 Commercial paper.....						
f. Euro Commercial paper						
g. Asset-based borrowing.....						
h. Other (please specify)						

(continue on page 2)

4. If you have a line of credit or revolver, does it include a foreign currency borrowing option?

Yes

Which currencies? _____

What type of borrowing?

No, do not have a line of credit or revolver with foreign currency borrowing option

5. For each of the following sources of credit...a) What percent did you use 2 years ago? b) What percent do you currently use? c) To the best of knowledge, what percent will you be using in the next 2 years?

	<u>2 years ago?</u>	<u>Currently?</u>	<u>In the next 2 years?</u>
a. Commercial banks	_____	_____	_____
b. Insurance companies	_____	_____	_____
c. Investment banks	_____	_____	_____
d. Finance companies	_____	_____	_____
e. Commercial paper	_____	_____	_____
f. Capital markets.....	_____	_____	_____
g. Other (please specify)	_____	_____	_____
Total	100%	100%	100%

6. Do you anticipate any problems in obtaining sufficient short-term back-up lines of credit due to:

- | | <u>Yes</u> | <u>No</u> |
|------------------------------------|------------|-----------|
| a. Further bank consolidation..... | | |
| b. CP market liquidity..... | | |
| c. Other (please specify)
_____ | | |

7. What impact do you expect Y2K will have on your company's access to credit?

- Increased access
- No change
- Slight decrease in access
- Moderate decrease in access
- Severe decrease in access
- Other (please specify) _____

(continue on page 3)

8. What role does the Internet play in accessing credit? (check all that apply)

	Use now?		Within the next 12 months?			Within the next 24 months?		
	<u>Yes</u>	<u>No</u>	<u>Very likely</u>	<u>Somewhat likely</u>	<u>Not likely</u>	<u>Very likely</u>	<u>Somewhat likely</u>	<u>Not likely</u>
a. Obtain information								
b. Select service providers ..								
c. Communicate with service providers								
d. Transact business								

9. Is your company (at the parent level)...

Publicly held

Privately held

Other (e.g., non-profit, government)

10. What is the approximate size of your company's revenues?

Under \$100 million

\$100 – 249.9 million

\$250 – 499.9 million

\$500 – 999.9 million

\$1 - 4.9 billion

\$5 - 9.9 billion

\$10 - 20 billion

Over \$20 billion

To get the results of the survey, please provide us with your e-mail address.

E-mail address: _____

THANK YOU FOR YOUR INPUT!

PLEASE FAX RESULTS TO (301) 907-2864.