Key Findings from the Federal Reserve’s 2014 Joint Small Business Credit Survey: Intelligence from Business Owners

April 30, 2015

Organized by the Federal Reserve Bank of New York

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• Conference code: 32840453
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• Type your question into the chat box of the webinar.

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In connection with this session, you can find a variety of additional resources on this topic, available at www.fedcommunities.org. We encourage you to browse through this site and to contact your regional office if you would like additional information on any of these items.
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Community Development

The Community Development (CD) function within the Federal Reserve System – consisting of individual departments at each of the twelve Federal Reserve Banks as well as at the Board of Governors – promotes economic growth and financial stability for low- and moderate-income (LMI) communities and individuals through a range of activities, including:

- **Convening stakeholders**, including practitioners, financial institutions, nonprofits, governmental agencies, and the philanthropic and private sectors,

- **Conducting and sharing research** to examine economic challenges facing low- and moderate-income communities and attendant policy implications; and,

- **Identifying emerging issues**.
Today’s Agenda

• Provide background and overview information about the 2014 Joint Small Business Credit Survey
• Describe the Current Credit Landscape Facing Small Business Owners
• Discuss the Credit Needs of Micro and Small Firms
• Examine the Credit Search Findings of the Survey
• Report the Challenges and Opportunities Facing Micro and Small Firms
• Discuss the Survey’s Impact
Today’s Presenters

Claire Kramer Mills
Assistant Vice President and Community Affairs Officer
Outreach and Education
The Federal Reserve Bank of New York

Theresa Singleton
Vice President and Community Affairs Officer
Community Development Studies and Education,
The Federal Reserve Bank of Philadelphia
Survey Overview
Intro to the Survey

• Small business information gaps
• Findings inform policymakers and service providers, including Community Development outreach activities
Survey Methodology

• Focus of survey questions
• Sampling format
• Participating banks
# Survey Coverage Area

<table>
<thead>
<tr>
<th>State</th>
<th>Respondents</th>
<th>Small business population*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Connecticut</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Florida</td>
<td>7%</td>
<td>22%</td>
</tr>
<tr>
<td>Georgia</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>Louisiana</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>New Jersey</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>New York</td>
<td>33%</td>
<td>21%</td>
</tr>
<tr>
<td>Ohio</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>19%</td>
<td>11%</td>
</tr>
<tr>
<td>Tennessee</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Respondent Characteristics

**INDUSTRY**

- Agriculture
- Construction
- Manufacturing
- Retail
- Wholesale/Transportation
- Information/Media/Telecommunications
- Finance/Insurance/Real Estate
- Professional and Business Services
- Personal Services
- Education/Healthcare and Social Assistance
- Leisure and Hospitality
- Other

**EMPLOYEES**

- Self-Employed
- 1–9
- 10–49
- 50–499

N=2014

Credit Landscape:
Applications and Outcomes
## Big Differences in Credit Application Rates

<table>
<thead>
<tr>
<th></th>
<th>Microbusinesses (&lt;$250K)</th>
<th>Small ($250K-$1M)</th>
<th>Mid-size ($1M-$10M)</th>
<th>Commercial (&gt;=$10M)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rate</strong></td>
<td>18%</td>
<td>32%</td>
<td>31%</td>
<td>58%</td>
</tr>
</tbody>
</table>
Tough Market for Small and Microbusinesses

Success Rates

- Commercial ($>10M): 70%
- Mid-size ($1-$10M): 60%
- Small ($250K-$1M): 36%
- Microbusiness (<$250K): 25%
Small Firms Have Pent Up Demand

<table>
<thead>
<tr>
<th>Microbusinesses are discouraged</th>
<th>Small firms</th>
<th>Mid-size firms</th>
<th>Commercial firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>23%</td>
<td>13%</td>
<td>13%</td>
<td>1%</td>
</tr>
</tbody>
</table>
Micro and Small Firm: Credit Needs
## Small Firms Have Small Credit Needs

<table>
<thead>
<tr>
<th>Type</th>
<th>&lt;$100K</th>
<th>$100K-$250K</th>
<th>&gt;$250K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microbusiness</td>
<td>80%</td>
<td>6%</td>
<td>13%</td>
</tr>
<tr>
<td>Small</td>
<td>47%</td>
<td>25%</td>
<td>27%</td>
</tr>
</tbody>
</table>

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### Reasons for Borrowing Differ

<table>
<thead>
<tr>
<th>TOP REASONS</th>
<th>MICROBUSINESSES</th>
<th>SMALL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.</strong></td>
<td>Expand business</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Refinance or pay down debt</td>
</tr>
<tr>
<td><strong>2.</strong></td>
<td>Fund day-to-day operations</td>
<td>Replace capital assets</td>
</tr>
<tr>
<td><strong>3.</strong></td>
<td>Refinance or pay down debt</td>
<td>Expand business</td>
</tr>
</tbody>
</table>
Product Needs Differ

**MICROBUSINESSES**

- Line of credit: 46%
- Credit card: 37%
- Loan: 31%
- SBA loan: 26%

**SMALL**

- Loan: 42%
- Commercial mortgage: 42%
- Debt consolidation loan: 28%
- SBA loan: 28%
Credit Search
Time Spent Applying  

24 HOURS
Where They Are Going

**MICROBUSINESSES**

- Large regional: 37%
- Large national: 33%
- Small regional/community: 30%
- Online lender: 18%

**SMALL**

- Large regional: 60%
- Large national: 53%
- Small regional/community: 36%
- Online lender: 19%

(% of Applicants)
What’s Motivating Application Behavior?

<table>
<thead>
<tr>
<th>MICROBUSINESSES</th>
<th>SMALL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fast credit decisions</strong>&lt;br&gt;(All)</td>
<td><strong>Existing relationship</strong>&lt;br&gt;(All except Online)</td>
</tr>
<tr>
<td><strong>Only financial institution that would fund business</strong>&lt;br&gt;(All)</td>
<td><strong>Only financial institution that would fund business</strong>&lt;br&gt;(Small/community and Online)</td>
</tr>
<tr>
<td><strong>Existing relationship</strong>&lt;br&gt;(Small/community bank only)</td>
<td><strong>Fast credit decisions</strong>&lt;br&gt;(Online only)</td>
</tr>
</tbody>
</table>
Challenges and Opportunities
### “Bankability” Challenges

<table>
<thead>
<tr>
<th></th>
<th>MICRO</th>
<th>SMALL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent Profitable</td>
<td>26%</td>
<td>61%</td>
</tr>
<tr>
<td>Percent with prior debt</td>
<td>39%</td>
<td>60%</td>
</tr>
<tr>
<td>Top Reason for Denial</td>
<td>Low credit score</td>
<td></td>
</tr>
<tr>
<td>Top Business Challenge</td>
<td>Attracting customers</td>
<td>Attracting customers/uneven cash flow</td>
</tr>
</tbody>
</table>
### Up for Grabs: Actions Taken When Declined

<table>
<thead>
<tr>
<th>MICROBUSINESS</th>
<th>SMALL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contacted new/more financial institutions</td>
<td>53%</td>
</tr>
<tr>
<td>Paid down debt</td>
<td>40%</td>
</tr>
<tr>
<td>Consulted business advisor</td>
<td>37%</td>
</tr>
<tr>
<td>Explored online financing</td>
<td>35%</td>
</tr>
<tr>
<td>Contacted new/more financial institutions</td>
<td>76%</td>
</tr>
<tr>
<td>Paid down debt</td>
<td>44%</td>
</tr>
<tr>
<td>Explored online financing sources</td>
<td>20%</td>
</tr>
<tr>
<td>Consulted business advisor</td>
<td>18%</td>
</tr>
</tbody>
</table>

**Notes:**
- Explored online financing sources: Microbusiness 35%, Small 20%
- Consulted business advisor: Microbusiness 37%, Small 18%
Survey Impact
Impact

• Access to Credit Workshops
• Input for women and minority business accelerator programs
• Small business loan fund design
• Market needs assessment—used by state and local governments, CDFIs, and nonbank lenders
• Post-disaster recovery programs
Questions?
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2. Type your question into the chat box of the webinar.
Additional Information

• The 2014 Joint Small Business Credit Survey Full Report:

• For more information on the small business activity of the Federal Reserve Bank of New York:
  http://www.newyorkfed.org/smallbusiness/
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Thank you to today’s presenters and to all participants for joining this session.

Next steps:

• All session materials are available on our web site and in the next few days we will be posting an audio file of today’s session.
• If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at communities@stls.frb.org
• Information about future sessions will be posted on our website along with archived materials from past sessions: www.stlouisfed.org/connectingcommunities/
In connection with this session, you can find a variety of additional resources on this topic, available at [www.fedcommunities.org](http://www.fedcommunities.org).

It provides an array of practical resources to help you in your role as a community development professional, whether you work involves supporting people, places, the practice of community development, or small business development.