Understanding the Small Business Landscape: Results from the 2015 Small Business Credit Survey

July 7, 2016

Claire Kramer Mills, Federal Reserve Bank of New York
Tammy Halevy, Association for Enterprise Opportunity (AEO)
Lauren Stebbins, Opportunity Finance Network (OFN)
Karen Leone de Nie, Federal Reserve Bank of Atlanta

The Connecting Communities® audio conference series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The audio conference series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.
Welcome

Thank you for attending today’s session. How to join (remember, this session is being recorded)

• Call-in number: 888-625-5230
• Conference code: 2775 8408#
• Webinar link: https://www.webcaster4.com/Webcast/Page/584/15523

You have two options to ask questions today:
These questions may be part of the recorded archive for this session.

• Email us at: communities@stls.frb.org
• Type your question into the chat box of the webinar

An archived recording of this session will be available on the Connecting Communities® web site shortly after the session ends. Please visit 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. 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.
The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.
• Share background and overview of the Federal Reserve Bank’s Small Business Credit Survey (SBCS)
• Examine key findings of the 2015 survey
• Discuss how the survey is being used
• Discuss how you can join us
SBGS Overview
What’s the Value of SBCS?

• Focus of survey questions and analysis:
  – Annual data
  – Financing needs and gaps
  – Emerging issues (products and service models, including financial technology)
  – Data on segments of interest: micro, startup, women- and minority-owned, urban/rural firms, self-employed

• Sampling format and respondent profiles

• Question types
For more information:
http://www.newyorkfed.org/smallbusiness
Key 2015 Findings: Employer Firms
Performance Improved in 2015

EMPLOYER FIRM PERFORMANCE INDEX, 2014 Survey and 2015 Survey (% of employer firms)
Limited to states surveyed in both years

Profitability
- 2014: 15% (N=1379)
- 2015: 27% (N=2078)

Revenue growth
- 2014: 21% (N=1379)
- 2015: 26% (N=2078)

Employment growth
- 2014: 14% (N=1379)
- 2015: 15% (N=2078)

Source: 2015 FRS Small Business Credit Survey
Financing Success Improved in 2015

TOTAL FINANCING APPROVED, 2015 Survey versus 2014 Survey (% of applicants)
Limited to states surveyed in both years

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>45%</td>
<td>38%</td>
</tr>
<tr>
<td>Most (&gt;=50%)</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>Some (&lt;50%)</td>
<td>19%</td>
<td>14%</td>
</tr>
<tr>
<td>None</td>
<td>20%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Source: 2015 FRS Small Business Credit Survey
Still, 50 percent of Applicants had a Financing Shortfall; Smallest Firms had Biggest Gaps

<table>
<thead>
<tr>
<th>Size of Firm</th>
<th>Financing shortfall</th>
<th>Fully funded</th>
</tr>
</thead>
<tbody>
<tr>
<td>All firms N=1580</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>&gt;$10M N=191</td>
<td>27%</td>
<td>73%</td>
</tr>
<tr>
<td>$1M–$10M N=601</td>
<td>37%</td>
<td>63%</td>
</tr>
<tr>
<td>$100K–$1M N=595</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>Micro (&lt;$100K) N=137</td>
<td>63%</td>
<td>37%</td>
</tr>
</tbody>
</table>

Source: 2015 FRS Small Business Credit Survey
Reasons For Borrowing Differ

DEMAND FOR FINANCING BY TYPE OF FIRM

Application rate (% of employer firms)  Expand business/new opportunity (% of applicants)  Operating expenses (% of applicants)

All firms
- Application rate: 47%
- Reason(s) applying: 61%
- N=3454

Growing
- Application rate: 55%
- Reason(s) applying: 70%
- N=949

Startup (0–2 years)
- Application rate: 53%
- Reason(s) applying: 63%
- N=326

Micro (<$100K)
- Application rate: 40%
- Reason(s) applying: 62%
- N=391

Source: 2015 FRS Small Business Credit Survey
Product Needs Differ

APPLICATIONS FOR LOANS AND LINES OF CREDIT BY TYPE OF FIRM (% of loan/line of credit applicants)

<table>
<thead>
<tr>
<th>Type of Firm</th>
<th>Line of credit</th>
<th>Business Loan</th>
<th>SBA Loan/Line of Credit</th>
<th>Commercial Mortgage</th>
<th>Merchant Cash Advance</th>
</tr>
</thead>
<tbody>
<tr>
<td>All firms N=1497</td>
<td>57%</td>
<td>52%</td>
<td>21%</td>
<td>10%</td>
<td>7%</td>
</tr>
<tr>
<td>Growing N=490</td>
<td>60%</td>
<td>49%</td>
<td>27%</td>
<td>11%</td>
<td>6%</td>
</tr>
<tr>
<td>Startup (0–2 years) N=145</td>
<td>53%</td>
<td>58%</td>
<td>37%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Micro (&lt;$100K) N=127</td>
<td>47%</td>
<td>63%</td>
<td>36%</td>
<td>6%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: 2015 FRS Small Business Credit Survey
Credit Sources Differ

CREDIT SOURCES APPLIED TO BY REVENUE SIZE OF FIRM (% of loan/line of credit applicants)

<table>
<thead>
<tr>
<th>Category</th>
<th>Small Bank</th>
<th>Large Bank</th>
<th>Online Lender</th>
<th>Credit Union</th>
</tr>
</thead>
<tbody>
<tr>
<td>All firms (N=1487)</td>
<td>9%</td>
<td>42%</td>
<td>20%</td>
<td>52%</td>
</tr>
<tr>
<td>&gt;$10M (N=181)</td>
<td>6%</td>
<td>53%</td>
<td>58%</td>
<td>1%</td>
</tr>
<tr>
<td>$1M-$10M (N=554)</td>
<td>4%</td>
<td>45%</td>
<td>11%</td>
<td>59%</td>
</tr>
<tr>
<td>$100K-$1M (N=554)</td>
<td>9%</td>
<td>39%</td>
<td>22%</td>
<td>52%</td>
</tr>
<tr>
<td>Micro (&lt;$100K) (N=126)</td>
<td>14%</td>
<td>41%</td>
<td>30%</td>
<td>44%</td>
</tr>
</tbody>
</table>

Source: 2015 FRS Small Business Credit Survey
## Smallest Firms Driven by Expediency

### Top Two Factors Influencing Where Firms Apply

<table>
<thead>
<tr>
<th></th>
<th>Micro (&lt;$100K) N=148</th>
<th>$100K–$1M N=635</th>
<th>$1M–$10M N=629</th>
<th>&gt;$10M N=195</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>🤑</td>
<td>$</td>
<td>👣</td>
<td>👣</td>
</tr>
<tr>
<td>2</td>
<td>$</td>
<td>👣</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

- 🤑: Price
- 👣: Existing relationship with lender
- $: Perceived chance of being funded

Source: [2015 FRS Small Business Credit Survey](#)
## Notable Approval Rate Differences

N=48-869

### APPROVAL RATE BY SELECT SOURCE AND TYPE OF LOAN/LINE OF CREDIT

(% applicants receiving at least some credit)

<table>
<thead>
<tr>
<th>Source</th>
<th>All Firms</th>
<th>Micro (&lt;$100K)</th>
<th>$100K–$1M</th>
<th>$1M–$10M</th>
<th>&gt;$10M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large bank</td>
<td>58%</td>
<td>33%</td>
<td>49%</td>
<td>72%</td>
<td>88%</td>
</tr>
<tr>
<td>Small bank</td>
<td>76%</td>
<td>60%</td>
<td>69%</td>
<td>88%</td>
<td>96%</td>
</tr>
<tr>
<td>Type</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business loan</td>
<td>69%</td>
<td>54%</td>
<td>65%</td>
<td>81%</td>
<td>92%</td>
</tr>
<tr>
<td>Line of credit</td>
<td>71%</td>
<td>55%</td>
<td>65%</td>
<td>82%</td>
<td>91%</td>
</tr>
</tbody>
</table>

**Source:** [2015 FRS Small Business Credit Survey](https://www.federalreserve.gov)
# Business and Financing Challenges

<table>
<thead>
<tr>
<th></th>
<th>MICRO</th>
<th>SMALL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable (%)</td>
<td>26%</td>
<td>55%</td>
</tr>
<tr>
<td>Prior debt (%)</td>
<td>50%</td>
<td>66%</td>
</tr>
<tr>
<td>Top business challenge</td>
<td>Cash flow</td>
<td>Cash flow</td>
</tr>
</tbody>
</table>

Source: [2015 FRS Small Business Credit Survey](https://www.federalreserve.gov)
## Reasons for Denial

### Top Two Reasons for Denial and Top Two Effects of Denial

<table>
<thead>
<tr>
<th>Category</th>
<th>Top Reasons for Credit Denial</th>
<th>Reported Impact on Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>All firms (N=445)</td>
<td>1. Insufficient collateral</td>
<td>Unable to meet expenses</td>
</tr>
<tr>
<td></td>
<td>2. Weak business performance</td>
<td>Delayed expansion</td>
</tr>
<tr>
<td>Growing (N=141)</td>
<td>1. Insufficient credit history</td>
<td>Delayed expansion</td>
</tr>
<tr>
<td></td>
<td>2. Insufficient collateral</td>
<td>Used personal funds</td>
</tr>
<tr>
<td>Startup (0–2 years) (N=62)</td>
<td>1. Insufficient credit history</td>
<td>Used personal funds</td>
</tr>
<tr>
<td></td>
<td>2. Other</td>
<td>Unable to meet expenses</td>
</tr>
<tr>
<td>Micro (&lt;$100K) (N=48)</td>
<td>1. Insufficient credit history</td>
<td>Unable to meet expenses</td>
</tr>
<tr>
<td></td>
<td>2. Insufficient collateral</td>
<td>Delayed expansion</td>
</tr>
</tbody>
</table>

**Source:** [2015 FRS Small Business Credit Survey](#)
How Survey Is Being Used
Impact

• Market needs assessments: used by state and local governments, community development financial institutions (CDFIs), and nonbank lenders
• Input for women and minority business accelerator programs
• Input for evaluating financial technology impact on credit access
• Small business loan fund design and post-disaster recovery programs
AEO: Who We Are

- National trade association for U.S. microfinance and microbusiness
- >400 nonprofit community lenders and business service providers across the country
- Celebrating 25\textsuperscript{th} anniversary in 2016
- Based in Washington, D.C.
- 25-member board of directors
- Mission: Create economic opportunity for underserved entrepreneurs
AEO: Our Strategy

• Solve the twin problems of **access** and **availability** by:
  – Innovating products, services, and delivery models
  – Enabling better decision-making and resource allocation
  – Mobilizing funds to invest in capacity and growth
  – Rationalizing the policy framework
Federal Reserve Survey
Enabled Market Sizing

• ~2.2 million small businesses in low-wealth communities active in credit search annually
• Access the report at [www.aeoworks.org](http://www.aeoworks.org)
• Opportunity Finance Network (OFN) – a national network of more than 240 community development financial institutions (CDFIs), many of which specialize in providing microenterprise and small business loans for low- and moderate-income entrepreneurs.

• The rapid rise of unregulated, online alternative lenders provides an unprecedented but confusing variety of financing options, many of which have high interest rates and unclear terms that can harm a borrower’s bottom line.

• In response, OFN launched Venturize, a campaign designed to equip small business owners with the information they need to make the best borrowing choice for their business.
No one knows your business like you do, so we want to help you discover the best loan product for your business. Review the options that cater to you and your business needs, learn about different loan types, what rates you can expect, and what to look for when comparing ALL your loan options.
Key Website Features

• Loan Calculator Tool
• Borrowing 101
• Borrowing Prep Questions
• Loan Application Checklist
Join Us!
Covering More of the Country in 2016: 11 Reserve Banks Are Distributing Participating Reserve Banks
You Also Get a Benchmark Report

Full Employer Firm Sample

- Outstanding debt, at time of survey
  - Does not have debt: 38%
  - Less than $10k: 6%
  - $10k - $25k: 9%
  - $25k - $50k: 9%
  - More than $50k: 39%

- Demand for financing, past 12 months
  - Applied: 47%
  - Didn't Apply: 53%

- Reason for not applying, percent of non-applicants
  - Sufficient financing: 48%
  - Debt averse: 25%
  - Discouraged: 16%
  - Other: 5%
  - Search too difficult: 3%
  - Credit cost high: 2%

- Reason for applying, percent of applicants
  - Expand business or new operation: 61%
  - Meet operating expenses: 37%
  - Refinance or pay down debt: 24%
  - Other: 15%

- Financing success, percent of applicants
  - Approved for at least some financing: 82%

Partner Sample (unweighted)

- Outstanding debt, at time of survey
  - Does not have debt: 20%
  - Less than $10k: 2%
  - $10k - $25k: 7%
  - $25k - $50k: 2%
  - More than $50k: 60%

- Demand for financing, past 12 months
  - Applied: 35%
  - Didn't Apply: 61%

- Reason for not applying, percent of non-applicants
  - Sufficient financing: 69%
  - Debt averse: 26%
  - Other: 6%

- Reason for applying, percent of applicants
  - Expand business or new operation: 61%
  - Meet operating expenses: 34%
  - Refinance or pay down debt: 24%
  - Other: 14%

- Financing success, percent of applicants
  - Approved for at least some financing: 86%

Source: 2015 Small Business Credit Survey; Federal Reserve Banks of Atlanta, New York, Boston, Cleveland, Philadelphia, Richmond, and St. Louis
The Federal Reserve's Small Business Credit Survey turns business owners' credit experiences into hard data to spotlight their issues. Please partner with us.

2016 Survey Timeline

Partner Responsibilities

2016 TIMELINE

1. SEP | SURVEY LAUNCHES
   Email survey link to your members; promote on your website. We provide all information.

2. EARLY-OCT | FIRST REMINDER
   Email first reminder to members.

3. MID-OCT | SECOND REMINDER
   Email second reminder to members.

4. NOV | SURVEY CLOSES

5. MAR 2017 | SURVEY REPORT RELEASED
   Share results through social media and at your events.
For More Information

• To get all the survey reports, methodology, and the summary data tables go to http://www.newyorkfed.org/smallbusiness

• To learn more about how to get involved, contact Emily Mitchell: Emily.mitchell@atl.frb.org
Questions?
You have two options to ask questions today:

1. Email us at: communities@stls.frb.org.
2. Type your question into the chat box of the webinar.
Thank you to today’s presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our website 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.

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.