FEDERAL RESERVE BANKS’ SMALL BUSINESS CREDIT SURVEY, 2018
Key Findings

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Agenda

- Overview of Small Business Credit Survey

- Key takeaways
  - Small business optimism is near a 15-year high.
  - Demand is strong for small dollar (under $1M) financing, yet small dollar loans have grown sluggishly.
  - Key small business segments have difficulty securing bank financing and are turning to online sources of credit.

- Partnerships and future work
Small Business Credit Survey overview

Responses from 50 states
National network of 300 partners
Survey length 10-12 mins
The respondents
6,000 employer firms
6,000 nonemployer firms
Includes information about:
– Minority-owned businesses
– Women-owned businesses
– Veteran-owned businesses
– 50+ entrepreneurs
– Micro businesses
Small business optimism has rebounded

Source: Wells Fargo/Gallup Small Business Index, National Federation of Independent Businesses

Note: Wells Fargo data are quarterly; not seasonally adjusted. NFIB data are not seasonally adjusted.
Small dollar lending has remained flat

Outstanding balances on loans to businesses

Source: FFIEC Quarterly Banking Profile; Does not include institutions exempt from CRA reporting
KEY FINDING: Half of small businesses met their funding needs, but this varies across segments

Proportion of small business owners with funding needs met (% of employer firms)

- Non-Hispanic white-owned: 51%
- Men-owned: 50%
- All firms: 48%
- Women-owned: 43%
- Hispanic-owned: 31%
- Non-Hispanic Black or African American-owned: 28%

Source: 2018 Small Business Credit Survey
**KEY FINDING:** Credit is the most common form of financing regularly used by small firms. In contrast, 7% use equity investments.

### Type of financing regularly used (% of employer firms)

- **Loan or line of credit:** 55%
- **Credit card:** 52%
- **Trade:** 13%
- **Leasing:** 9%
- **Equity:** 7%
- **Cash advance:** 6%
- **Factoring:** 3%
- **Does not use external financing:** 20%

*Source: 2018 Small Business Credit Survey*
KEY FINDING: Small firms have small dollar needs.
71% sought $100K or less in funding

Total amount of financing sought by revenue size of firm
(% of applicants)

Source: 2018 Small Business Credit Survey
KEY FINDING: Firms seeking $100K or less applied to online providers at equal rates to banks

Credit sources applied to by amount of credit sought
(% of loan/line of credit and cash advance applicants)

Source: 2018 Small Business Credit Survey
KEY FINDING: Medium- and high-risk borrowers applied to online lenders at higher rates than to banks

Credit sources applied to by credit risk of firm
(% of loan/line of credit and cash advance applicants)

Large bank
- Low credit risk: 51%
- Medium/high credit risk: 50%

Small bank
- Low credit risk: 48%
- Medium/high credit risk: 41%

Online lender
- Low credit risk: 19%
- Medium/high credit risk: 54%

CDFI
- Low credit risk: 4%
- Medium/high credit risk: 6%

Credit union
- Low credit risk: 9%
- Medium/high credit risk: 12%

Source: 2018 Small Business Credit Survey
KEY FINDING: The chance of being funded is a larger factor than cost in where firms apply for financing

Source: 2018 Small Business Credit Survey
KEY FINDING: Segments of small business borrowers differ notably in where they apply for financing

Credit sources applied to by type of firm
(% of loan/line of credit and cash advance applicants)

Source: 2018 Small Business Credit Survey
Intelligence on key segments of small business

www.fedsmallbusiness.org
Appendix

- Methodology
- Statistics on economic importance of small business
- Additional findings from Small Business Credit Survey
Methodology

- Convenience sample, conducted online
  - Distributed through 300+ community and business organizations
  - Collaboration with NORC at the University of Chicago
  - Control for representativeness by weighting the sample data with U.S. Census data

- Weighting characteristics: firm age, number of employees, geography, industry, race, ethnicity, and gender.
Why small business?

Generate 2 of 3 net new jobs in the U.S.

Large community impact in low income areas

- 43% of U.S. small businesses located in lower-income zip codes
- 57% of U.S. small businesses located in middle- or upper-income zip codes

$1.87 trillion in annual revenues

Association for Enterprise Opportunity, The Big Picture: A Larger View of the Small Business Market
Credit Challenges

Credit challenges by type of firm
(% of applicants not approved for at least some of the financing sought)

- Low credit score
  - All Firms: 36%
  - Black or African-American: 44%
  - Women-owned: 39%
  - Hispanic: 33%

- Insufficient credit history
  - All Firms: 33%
  - Black or African-American: 32%
  - Women-owned: 31%
  - Hispanic: 37%

- Insufficient collateral
  - All Firms: 35%
  - Black or African-American: 34%
  - Women-owned: 32%
  - Hispanic: 40%

- Too much debt already
  - All Firms: 35%
  - Black or African-American: 34%
  - Women-owned: 37%
  - Hispanic: 11%

- Weak business performance
  - All Firms: 23%
  - Black or African-American: 25%
  - Women-owned: 22%
  - Hispanic: 23%

Source: 2018 Small Business Credit Survey
Credit Application Sources

Credit Sources Applied To
% of applicants

Source: 2018 Small Business Credit Survey
Lender Approval Rates

Approval Rate By Lender
(% of applicants approved for partial or full credit)

Source: 2018 Small Business Credit Survey
Success rates of Borrower Segments by Lender

Success Rate
(% of applicants being partly or fully funded)

<table>
<thead>
<tr>
<th>Lender</th>
<th>Women</th>
<th>Non-Hispanic White</th>
<th>Non-Hispanic Black or African American</th>
<th>Hispanic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large bank</td>
<td>58%</td>
<td>60%</td>
<td>29%</td>
<td>50%</td>
</tr>
<tr>
<td>Small bank</td>
<td>64%</td>
<td>73%</td>
<td>40%</td>
<td>42%</td>
</tr>
<tr>
<td>Online lender</td>
<td>85%</td>
<td>84%</td>
<td>70%</td>
<td>65%</td>
</tr>
</tbody>
</table>

Source: 2018 Small Business Credit Survey