NFIB Research Foundation
The Voice of Small Business.

Financing Small Businesses
Small Business and Credit Access

January 2011

The **NFIB Research Foundation** is a small business-oriented research and information organization affiliated with the **National Federation of Independent Business**, the nation's largest small and independent business advocacy organization. Located in Washington, DC, the Foundation's primary purpose is to explore the policy-related problems small business owners encounter. Its periodic reports include *Small Business Economic Trends*, *Small Business Problems and Priorities*, and now the *National Small Business Poll*. The Foundation also publishes ad hoc reports on issues of concern to small business owners.

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Executive Summary

- Poor sales and uncertainty continue to be greater problems for significantly more small business owners than access to credit. Still, a majority of owners able to judge think credit is more difficult to obtain today than one year ago.

- Small business owners receive better treatment satisfying their credit needs from small banks than banks with $100 billion or more in assets. However, the market share of small banks for small business customers appears to have declined over the last year.

- Since at least 1980, competition for small business's banking business has been rapidly increasing. That trend halted in 2010, the first assessment since 2006.

- Eighty-six (86) percent of small employers use some type of credit from a financial institution with those employing 10 or more people almost universally using one or more types. Seventy-six (76) percent possess a credit card, 47 percent a credit line, and 31 percent a business loan.

- Small business owners found the terms and/or conditions of their credit arrangements with financial institutions involuntarily changed often in the last year, 25 percent in the case of lines, 8 percent loans and 20 percent credit cards. Most of these changes were more irritating and/or had no effect rather than harmful.

- Almost one-quarter (24%) of small employers currently use credit cards and no other bank credit source. The overwhelming majority of this group does not appear interested in obtaining more credit.

- The percentage of small employers applying for credit fell from 55 percent in 2009 to 48 percent in 2010. The percentage approved for credit rose somewhat, leaving about the same number accessing credit in 2010 as accessed it in 2009.

- Forty-one (41) percent of small employers who formally attempted to obtain credit got all they wanted. Nineteen (19) percent got "most", 18 percent got "some", and 16 percent were shut-out. When weaker prospective borrowers reenter the market as economic conditions improve, it is possible, if not likely, that credit access for the overall population will deteriorate before it gets better.

- The inability to obtain credit was associated with low credit scores, a greater number of mortgages outstanding, fewer unencumbered assets and a greater number of purposes for which the money was to be used. Location in states hit hardest by the housing bubble, a primary financial institution with $100 billion or more in assets, and negative employment growth over the last three years were also associated with poorer credit outcomes.

- If an application for a line or a loan is rejected, it pays small business owners to try at a second or third institution. While the success rate declines with each successive institution approached, approvals appear high enough at fall-back institutions to warrant the effort. Beyond attempts at three institutions, success appears rare. Cards are different. Ninety-five (95) percent of applicants got one on the first attempt or did not get one at all.

- Fifty-two (52) percent did not attempt to borrow in 2010. Over four of five non-borrowers assumed that status because they did not want (more) credit. Fifteen (15) percent were discouraged borrowers, that is, small employers who wanted to borrow, but did not bother to apply because they did not think they could obtain credit. Twenty-four (24) percent who did apply pared their request for fear of being rejected.

- Purposeful non-borrowers, that is, those who do not want additional credit, appear to be in better financial condition on average than borrowers, and much more so than discouraged borrowers.

- The purpose(s) for borrowing is related to credit access both in terms of the purpose per se and the aggregate number of purposes. The most common purpose for which credit was sought, cash flow, was also the one, alone or in combination, that was most likely to be rejected. The more purposes for which credit was sought, the less likely the applicant obtained credit.

- Receivables were stretched considerably during the year. Of the 65 percent who offer their customers trade credit, just 26 percent have no receivables outstanding 60 days or more (Q#19b), 14 percentage points fewer than last year. Another 30 percent have fewer than 10 percent (as a percentage of dollar volume sales) of theirs seriously delinquent.

- Just 6 percent of small employers who requested trade credit in the last year from vendors typically granting it had a request denied. Suppliers are torn between absorbing the added risk and making sales.

- One in five of those using trade credit are paying more slowly now than last year at this time compared to just 8 percent who have hastened payment.

- Just 3 percent of small employers attempted to raise equity capital in 2010.

- Real estate ownership continues to be a major drag on small business's capacity (and presumably willingness) to borrow. Ninety-five (95) percent of the population own it, while 68 percent have at least one mortgage, 17 percent at least one second mortgage, and 12 percent have at least one collateralized.

- The real estate situation appears to have improved over the last year, particularly with respect to the number owning upside-down properties and the number using mortgages to finance other business purposes.

- The commercial real estate problem appears to be focused on larger firms, though a modest, but unknown percentage, of small business owners will be directly impacted. Just 3 to 4 percent of all small employers plan to roll-over loans on commercial real estate in 2011 primarily because notes are due or because interest rates are low.

Small Business and Access to Credit

The Small Business Climate in 2010

The climate for small business in 2010 remained difficult, a level above 2009 for most of the year, but still below or hovering close to the nadir of the five most recent recessions. Though large, particularly export-oriented firms, seemed to recover, little was happening on Main-Street, creating uneasiness about the duration of recessionary conditions.[1] The damage is perhaps most visible in the employment figures. Firms employing 1- 9 people, for example, accounted for over half of the jobs lost in the first calendar quarter of 2010.[2] Meanwhile, business bankruptcies filed totaled 58,322 for the year ending September 30, virtually the identical number to 2009 and more than double that of 2007.[3] Those bankruptcy figures include firms of all sizes, but small businesses always constitute virtually the entire population. Business conditions did appear to improve somewhat in late spring. Yet, the rebound resembled the spring of a partially deflated basketball; it bounced, but barely made it off the floor.

Public policy rather than helping stabilize the situation and instilling confidence unfortunately did just the opposite. Misplaced priorities exacerbated problems, particularly at the federal level. While the economy floundered, Washington engaged in a civil war over an unsettling health care bill, left hundreds of billions in future tax liabilities hanging, and idly watched as real estate markets deteriorated further. November's election recomposed the Congress (and several state legislatures) for two years, but the resulting change guaranteed small business owners neither certainty nor a stronger economy.

Still small business owners are resilient, and even in the darkest hours there are those who can find opportunities. Eleven (11) percent think that current conditions offer "lots" of business opportunities, 39 percent "some", 39 percent "few" and 10 percent "no" business opportunities (Q#1). History suggests that the country must yet endure a period before it totally escapes current problems,[4] but a signifi-

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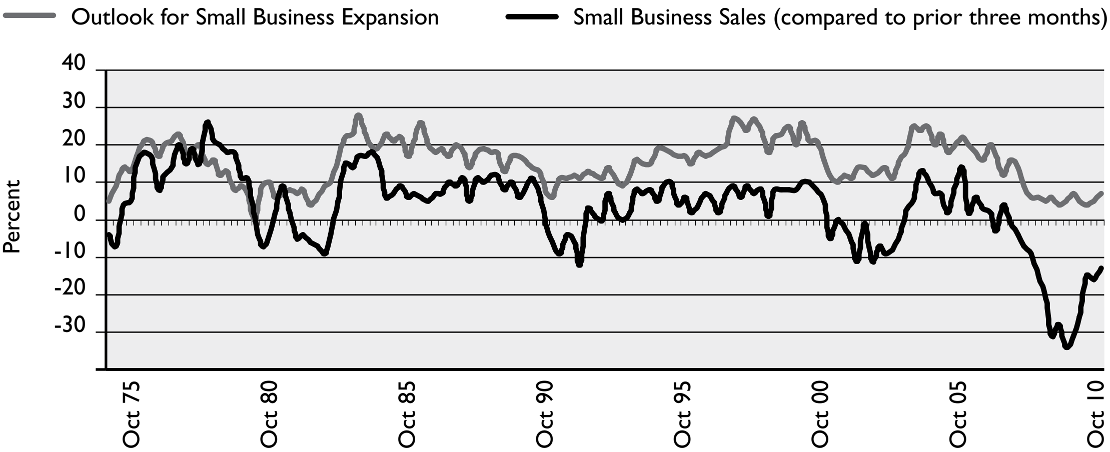
1 *Small Business Economic Trends* (series). (Eds.) Dunkelberg, WC and H Wade, NFIB Research Foundation, Washington, DC.

2 Bureau of Labor Statistics, Business Employment Dynamics data series, http://www.bls.gov/web/cewbd/table_a.txt. Accessed December 3, 2010.

3 United States Courts, Bankruptcy Statistics, http://www.uscourts.gov/Statistics/BankruptcyStatistics.aspx, Accessed December 3, 2010.

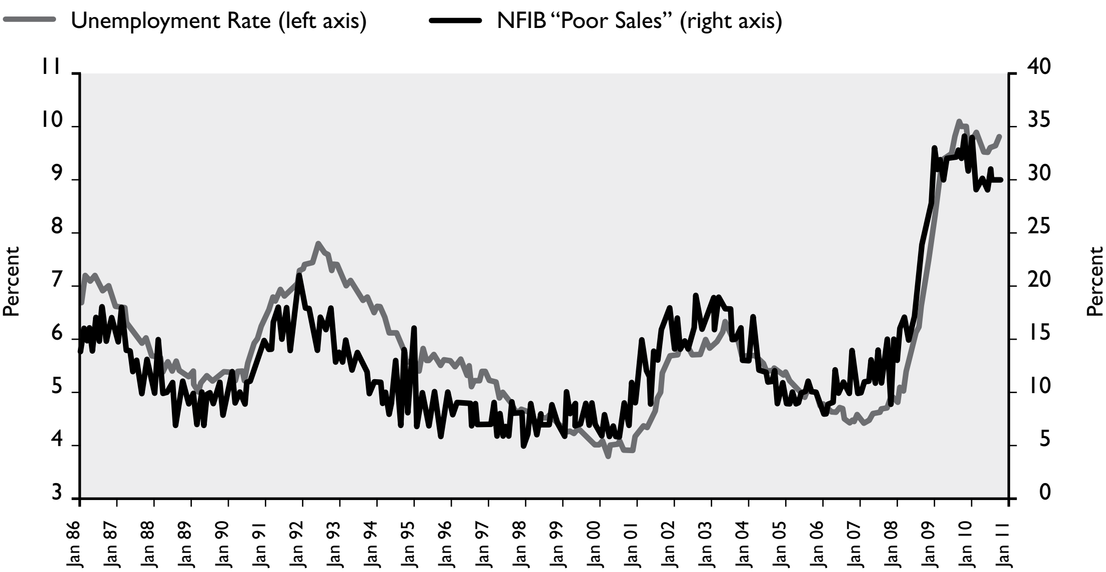
4 Reinhardt, CM and Rogoff, KS (2009). *This Time Is Different: Eight Centuries of Financial Folly*. Princeton University Press, Princeton, NJ.

Figure 1
Small Business Sales And The Small Business "Outlook"
October 1974 to October 2010



Data Source: *Small Business Economic Trends*, NFIB, data smoothed.

Figure 2
Poor Small Business Sales Parallel the Unemployment Rate
January 1986 to Ocotboer 2010



Courtesy: Merrill-Lynch

cant share of the small business owner population have their eyes on the future.

The Sales and Credit Problems

Poor sales continued to be the principal concern occupying the thoughts of more small business owners throughout 2010 than any other. And, for good reason. Demand remained weak, near historic lows, though better than 2009. Sales in 2010, as measured in NFIB's *Small Business Economic Trends,* remained among the most dismal in the survey's 38-year history (Figure 1). And, that embodies the continuing dreary outlook for small business expansion (Figure 1). The small business sales problem also reflects larger national economic issues and its association with it. Note in Figure 2, for example, the strong relationship between sales as the single most important small business problem and the unemployment rate.

Small business owner respondents to *Small Business and Access to Credit* reemphasized the current sales problem and inserted a potent comment about uncertainty. When asked their most important current finance *problem*, 29 percent of small employer respondents cited poor or weak sales, while another 25 percent noted the uncertainty in business conditions (Q#2). Half of those mentioning uncertainty identified economic conditions as the underlying issue; just over one-quarter identified policy or political considerations, and just under one-quarter volunteered both economic and policy factors (Q#2a). Fourteen (14) percent indicated that they had no finance problems, the third most frequently mentioned most important finance problem. The inability to obtain credit (12%) was the fourth most often cited, followed by "other" (5%), real estate values (4%), and receivables/cash flow (4%).

An argument is often made that small business has a credit problem, that owners cannot access business loans in order to expand and grow (or to stabilize their finances, resolve cash flow issues, and rollover debts). That problem is shared by a relatively small number, certainly compared to other pressing matters, such as sales and earnings. But clearly small business financing conditions deteriorated over the last two to three years. A majority of small employers who expressed a view indicate that credit access for businesses such as theirs grew more difficult over the last 12 months. Thirty-seven (37) percent could not judge, presumably because they were not in the market, and 24 percent saw no change (Q#3). But 32 percent, about half those expressing a view, report credit has become more difficult with half that number stating it is much more difficult. The duration of recessionary conditions contributes significantly to that result and credit market assessments are not likely to change notably until their remnants have largely passed

The question is, why have credit conditions deteriorated? The "correct" answer(s) to that question leads directly to policy proposals which might alleviate the situation. The incorrect answer(s) leads us unwittingly down a blind path, worse than avoiding the problem altogether.

The Policy Response

The policy response to small business problems since the onset of the Great Recession has been plagued by an inability or unwillingness to understand the real issues, let alone to grapple with them. The small business problem has been and remains weak sales; the secondary small business problem is and remains housing in specific and real estate in general. The incapacity and/or reluctance of small business owners to access the credit system are the result of both. Credit demand falls when balance sheets deteriorate and comparatively few investment opportunities exist. Credit access falls when financial institutions are financially weak and lack confidence. The basis of any small business credit problem, therefore, lies in the broad sweep of the American economic and financial performance, instead of a corner known as small business credit access. Access is the lagging variable, not the leading one. To address access as the illness rather than a symptom of the illness is disingenuous.

Political considerations require that attention be directed to immediate resolution of the credit problems for small business owners who have them. Three choices are available to do that; none are particularly attractive. The first is to subsidize small business loans through public programs that effectively ask taxpayers to help finance them. Subsidies impact a relative handful of small firms, even in the best of times. The present is far from the best of times given the financial outlook for government from the nation's Capitol to its city halls. Thus, the limited taxpayer dollars involved can economically accomplish little in the scheme of things (clearly a few small employers will benefit), meaning their essence is a political charade designed to show action.

A second course is to revert to the credit standards of the mid-00s. Those standards certainly allowed credit to flow freely to virtually any borrower, including small business owners. Yet, that is a fundamental reason for our present predicament, and no one wants to relive recent experience. The third course is to tackle the fundamental issues of economic performance (sales) and housing, problems which have been allowed to fester over the last two years. Though the logical course, it promises only a torturously slogging journey with at least some of the more prominent trails spent or closed. That is not a popular message to communicate, regardless of its merits.

The answer to the current small business condition is not to sit on our collective hands. It is first to be honest with small business owners about what has happened and what lies ahead. It is fundamentally fraudulent to assert that the basic small business problem is a lack of credit and most small business owners recognize that fact. To promise (or imply a promise) that SBA lending or a state equivalent seriously addresses the national finance problem small business is caught up in is just plain wrong, factually and morally.[5] Accentuating the positive, including developments that will be outlined later in this report and actions to further progress achieved to date, is one thing; falsely raising expectations is another.

Second, attack the big problems that still beset smaller firms and are intrinsic to the credit and other problems they face. Economic growth and real estate come immediately to mind.[6] Restoration of public confidence would also be an enormous boost. Targeted small business initiatives, such as special loan programs or lending funds, are not on the list.

Third, lending standards and related issues appear in constant flux. What was true yesterday does not seem to apply today, and things may be different again tomorrow. The massive change in just the last two to three years has all participants in the lending circle blaming everyone else. For example, small business owners blame tight-fisted bankers and inept regulators when unable to access credit and both blame increased losses from small business lending and lousy small business balance sheets. Bankers blame regulators for imposing "unrealistic" new standards, while regulators obviously believe bankers overstepped the prior amount of discretion given them. Small business owners and bankers blame appraisers for low-ball real estate valuations; appraisers blame politicians for setting rules which gives them no choice. Around the circle we travel! Much of the finger-pointing is the blame-game in response to a tragedy where few hands are clean. Time and practice will eventually settle many of the outstanding questions. However, constant pressure on lenders by regulatory authorities to make (good) small business loans as well as broad dissemination of bank by bank lending performance, such as produced by the Office of Advocacy at the U.S. Small Business Administration, can be helpful.[7]

Preliminaries

From the outset the reader should recognize four points about the data collected for this report to better understand what he/she can and cannot draw from them:

First, the text frequently compares credit conditions in 2010 to those in 2009. That comparison is not precise. The referenced 2009 data were collected in November 2009; the referenced 2010 data were collected in October 2010 (see, Methodological Appendix). The interval between surveys was therefore 11 months rather than 12. The year 2010 includes the 12 months between October 2009 and October 2010. To avoid confusing respondents, questions referenced the prior 12 months rather than 2010.

Second, owner availability means that an employee-manager was often (11 percent of the time) interviewed for the survey in lieu of the/an owner. Employee-managers can be the more appropriate respondent to small business surveys possessing potentially greater awareness of day-to-day operating activities. However, some of the questions for this

[5] The Congressional Oversight Panel put the possibilities of government lending programs into perspective. See, Congressional Oversight Panel (2010). May Oversight Report: The Small Business Credit Crunch and the Impact of the TARP. May 13. http://cop.senate.gov/reports/library/report-051310-cop.cfm. Accessed December 16, 2010.

[6] Schweitzer and Shane conclude that returning small business credit levels to prior levels will require an increase in home prices or a weaning of small business owners from home equity as a business financing source, neither of which is quick nor easy. See, Schweitzer, ME and SA Shane (2010). The Effect of Falling Home Prices on Small Business Borrowing, *Economic Commentary*. Federal Reserve Bank of Cleveland. http://www.clevelandfed.org/research/commentary/2010/2010-18.cfm. Accessed December 21, 2010. Also see, **The Owner's Residence** later in this report.

[7] The Office of Advocacy at the U.S. Small Business Administration for a number of years has produced bank by bank performance on small business lending (see, http://www.sba.gov/content/banking-study-2009). While there are inherent issues with these annual reports, including their timeliness, they offer small business owners and potential borrowers insights into the amount of small business lending done by specific banks and allow comparison of competitors. It helps a small business owner move beyond the advertising.

survey are irrelevant for employee-managers given that their personal finances in contrast to the owner's are not intertwined with the business's. That means inquiries into personal assets of employee-managers, for example, are immaterial in contrast to the same inquiries of owners. The result is the assumption for current purposes that the asset profile of employee-managed firms and their owners is similar to that of owner-managed firms and their owners, a supposition that can be challenged as employee-managed firms tend to be larger and their owners older. These representativeness issues have only recently been addressed and are not resolved.[8]

Third, credit scores are an important determinant of credit access. The author was able to procure Dun & Bradstreet's PAYDEX score for individual respondents, though not other scores such as the owner's FICO score. The PAYDEX score projects the amount of time it will take a specific business to complete the payment terms of a credit arrangement.[9] The higher the score, the less time on average it takes a firm to pay the obligation. The less time it takes to pay, the better the credit risk. However, it should be noted that credit scores reflect a history of repayment, that is, demonstration of a commitment to pay obligations in a timely fashion and the owner's judgment to limit credit use to that which can be repaid; they are silent on the prospective borrower's *capacity* to repay a new loan.

Fourth, this survey report reviews credit conditions in 2010 for employing small businesses. It examines the status and issues involved, primarily from the demand side, that is, from the perspective of small employers. It addresses recent small employer experiences with financial institutions, credit and credit issues, both actual and perceptual. The survey report generally ignores the supply side, that is, the bank (lender) side, because NFIB has no means to collect appropriate data from lenders. Still, one side cannot have context without at least some attention to the other. That leaves a report concentrating on the demand side of small business credit access with modest consideration to the supply side.

The Financial Institutions Small Business Owners Patronize

Virtually all small businesses (87%) use one to three financial institutions to conduct their banking business (Q#4). A plurality (41%) uses one exclusively, while 31 percent use two and 15 percent three. Another 9 percent, concentrated among larger, small firms, use a greater number. The oddity is the 3 percent who claim not to use a financial institution for business purposes. These are all among the smallest enterprises, both in terms of employment and sales, though not necessarily the youngest. Yet, it is difficult to understand how they function without one. The new federal tax rules requiring electronic tax deposits in lieu of coupons will make operating without a financial institution even more problematic.

The number of financial institutions used shows signs of increasing in the last five years,[10] though the change is too small to draw conclusions at this time. Still, there are reasons to have more than one institution, including a hedge against possible credit rejection. Regardless of the appeal underlying the rationale for a hedge, data presented later (see, Appendix Table A) suggests that a hedge probably offers no advantage in terms of credit access. However, event sequencing and missing information on second and third institutions make determination here not possible.

The Primary Financial Institution

The most important or primary financial institution for 90 percent of those using at least one institution is a commercial bank (Q#5). Credit unions (5%), unspecified other types of financial institutions (4%), and saving and loans (1%) constitute the remainder of choices. (Three percent either have no primary

8 Owners and Managers (2008). *National Small Business Poll*, (ed.) Dennis, WJ, Jr., Vol. 8, Iss. 8, Washington, DC.

9 An explanation of Dun & Bradstreet's PAYDEX credit scoring system can be found at: http://www.dnb.com/about-dnb/15062603-1.html

10 Comparable figures for 2005 show 47 percent using a single financial institution, 32 percent using two, and 13 percent using three. See, Scott, JA and WC Dunkelberg (2005), Bank Competition, *National Small Business Poll*, (ed.) Dennis, WJ, Jr., Vol. 5, Iss. 8, Washington, DC.

institution or refuse to answer.) An obvious relationship to size exists with the owners of smaller firms more likely to have something other than a bank as their principal financial institution. Though the industry samples in the survey are small, a comparatively large proportion in the agriculture and real estate/ leasing industries appear to use institutions other than banks as their primary. However, a disproportionate majority of those not doing so also employ at least one other institution. It is almost as if affected small business owners think that they need a backup to ensure full access to the financial system.

Forty-three (43) percent of small employers list a commercial bank with more than $100 billion in assets as their primary bank (Q#6 and Q#7). Another 18 percent of small employers cite a regional bank defined as a bank "with several branches", while 25 percent chose a local bank "with a few branches at most" (Q#8). Though Internet banks were specifically mentioned to respondents, not one selected such an institution. The remaining 15 percent used an institution other than a bank, did not have a principle bank, or used no institution.

Market shares (for small business customers) are reasonably comparable to 2009. The exception is local banks which fell 6 percentage points from 31 percent in 2009 to 25 percent in 2010. The reason(s) for this decline in small bank market share is not obvious. One possible explanation is that troubled small banks fail (or, are purchased by a regional bank) while troubled large ones merge with other large banks or are bailed out. But, as will be shown subsequently, small banks appear more sympathetic lenders to small business than large ones, which should yield the opposite result. A second possibility is that small banks are more likely to attract smaller businesses on average. The recession has been very hard on business entries, winnowing their numbers notably. Relatively fewer entries may therefore have affected market share by bank size.

A limited number of characteristics distinguish customers that use different-sized institutions. The most pronounced is the urban/ rural continuum, with large banks dominating the small business market in highly urban areas and local banks dominating it in rural areas. Owners of new businesses are more likely to cite a small bank or the miscellaneous category than a large bank. Customers of local banks also have a considerably higher average credit score than others, all factors equal.

Competition for Small Business's Banking Business

NFIB has documented the rise in competition for small business's banking business since 1980, at first with member samples and subsequently with national samples. Each successive measuring point found small business owners believing that competition was increasing for their firm's banking business. Their assessment made sense in light of deregulation of the financial services sector and the increasing recognition of small business as an important bank profit center. By early 2006, 43 percent of small employers reported (national sample) greater competition for their banking business than three years prior; 45 percent reported no change and 9 percent a decline.[11]

The three-decade trend reversed itself in the 2010 data. Just 24 percent now think there is greater competition for their banking business than three years ago (Q#8a), the lowest figure since NFIB started to measure the phenomenon in 1980. However, 23 percent think there is less competition for their banking business in 2010 compared to three years ago. That figure is more than twice as large as any level recorded in the last 30 years. Forty (40) percent reported no change in competition for their banking business. These numbers (24% more competition, 23% less competition) argue that on balance the competitive environment has at best stopped getting better over the last three years and may be on the cusp of reversal. Whether a revived small business sector would cause competition to again change direction, this time favorably, is an open question.

A freeze in the competitive environment may be fair assessment. But stabilization represents a huge adverse change, a change that most small employers have never experienced and undoubtedly would rather not face. Its significance cannot be overemphasized. The change in momentum from constantly

[11] Scott, JA and Dunkelberg, WC (2005). Bank Competition, op. cit.

increasing competition and access to credit to an abrupt freeze, if not direction reversal, is tied to the current confusion exhibited by many owners and analysts when assessing small business credit conditions. It also raises the related questions: what are *normal* credit conditions? And, what is normal access? Normality, at least in the sense of constancy, has not existed in years.

Large Banks and Small

"Too big to fail" and the pejorative "big banks" are themes that continuously flow in and out of American history. Both were central to the recent debate on the Dodd-Frank Act and are likely to persist as the nation's largest banks push for elimination of the Federal Reserve's ten percent market share rule and the numbers of small banks keeps dwindling. As a result, it is useful to review how useful small businesses fare in dealing with large banks. Since the survey data identify each respondent's principal bank, if any, by institution size, the author is able to make comparisons about small businesses who primarily patronize large and small institutions. The foremost drawback to the comparison is that a majority of small employers patronize more than one bank. The data, therefore, cannot be conclusive, but they are highly suggestive: small banks treat their small business customers better than large ones, at least in terms of credit access.

The evidence from this survey for the 'smaller is better' assertion comes in two forms, general impressions and performance. For example, about 50 percent more customers of large banks[12] than customers of small banks think the availability of credit is their single most important financial problem. That is the beginning. Forty-six (46) percent of owners who call a small bank their primary financial institution judge credit to be more difficult (including much more difficult) to obtain this year than last. The equivalent figure for customers of a large bank was 57 percent. The difference between the negative categories "more difficult" and "much more difficult" was more striking. A substantial majority of the negative responses of small bank customers use the descriptor "more difficult" while the majority of large bank customers use the descriptor "much more difficult". The similar comparative assessment of competitive environment for small business's banking business provided similar results. Fifteen (15) percent of small employers who principally patronize a small bank think that there is *less* competition for their banking business today than three years ago. Twenty-seven (27) percent of owners principally patronizing a large bank express that view. And, as will be shown subsequently, small business owner customers of large banks are *less* satisfied with credit outcomes, all factors equal (see, Appendix Table A).

The survey data also find that customers of small banks are also substantially more likely to have their credit applications approved for new credit lines, credit line renewals, and business loans (see, Appendix Table C). Since the number of cases is relatively small for each type of credit sought, the author combined attempts to obtain by those whose primary financial institution is a large bank (n = 282) and a small bank (n = 180). Forty-eight (48) percent of large bank customers got the money in 2010 compared to 73 percent of small bank customers. To be fair, customers of large banks are neither more likely to use trade credit, a potential substitute for bank credit, nor to apply for credit more often, a potential reaction to increased rejections. Small bank customers also have better credit scores, though scores are controlled in tests for factors associated with credit approval. The preponderance of evidence is, therefore, quite clear.

This relative performance by bank size occurred while small banks appeared to lose market share, a development that on the surface makes little sense. It is possible that large institutions provide other services that small employers' value more highly. Yet, small business owners keep telling researchers that the bank attributes they most strongly demand are to "know me and my business" and to be a "reliable source of credit".[13]

The performance of regional banks on these measures vacillates between large and small. At

[12] The size of a small business owner's principal bank defines him or her as a customer of that sized institution.

[13] For the latest example see, Scott, JA and Dunkelberg, WC (2005). Evaluating Banks, *National Small Business Poll*, (ed.) Dennis, WJ, Jr., Vol. 5, Iss. 7, Washington, DC.

times, it more closely resembles the large and at other times the small. The number of cases involving financial institutions other than banks is too small to assess.

Credit Outstanding

Eighty-six (86) percent of small employers use some type of bank credit instrument, a line of credit, a business loan, or a credit card for business purposes (Table 1). Owners of larger firms, those employing 10 or more people, almost universally participate in the formal credit system. Owners of younger firms, those without a principal financial institution, and those with the poorest credit scores are least likely to do so. Still, over three of four even in those groups use some type of credit. (Later it will be shown that trade credit simply constitutes another source of outstanding credit rather than one that substitutes for that obtained from financial institutions.)

Credit Lines

Forty-seven (47) percent of small employers hold a line of credit with one or more financial institutions; 52 percent do not (Q#13). Size of firm is directly related to possession. Seventy-nine (79) percent of those employing 50 or more people have a line(s) compared to 42 percent of those employing fewer than 10 people (Table 1).

Most small employers (67%) with credit lines have a single line (Q#13a). But 23 percent have two lines and another 5 percent have three. Three percent have more than three lines. The data offer no reason for possession of multiple credit lines, though size of firm is *not* associated. One possible explanation is that some still hold a line(s) on their residence, a remnant of the mid-2000s when seemingly every homeowner with equity in it had a line.

Credit lines, or the largest credit line when the firm possesses more than one, are typically taken out at the firm's primary financial institution.[14] Eighty-five (85) percent hold their line there (Q#13b). When not held at the firm's primary institution, the line was most often held at another bank (49%) (Q#13b1). The remainder were spread among other types of institution. The 2010 profile of credit lines held is similar to 2009's.

During the prior 12 months, one in four (25%) small employers experienced a change in their line ordered by the lending institution (Q#13c). The most common change was the added requirement of a personal guarantee (23%), though increased collateral (18%) and higher interest rates (15%) were also common (Q#13c1). The required changes seemed to have little effect, however. The most common customer response was simple irritation. Half (50%) affected responded that the unilateral lender change(s) were more irritating than harmful with another 21 percent reporting the changes had no impact (Q#13c2). Still, 24 percent termed the required change "harmful" or "very harmful." The frequency of required changes in 2010 appears modestly fewer than in 2009, and the adverse impacts among those impacted were less frequent this year than last.

Credit cards as credit lines offer considerable flexibility as well as credit. They are, therefore, natural substitutes for lines. Yet, they do not appear to substitute for one another as will be examined in Interchangeable Credit Types.

Business Loans

Thirty-one (31) percent of small business owners have one or more business loans outstanding (Q#14). Larger firms are more likely to have one than smaller firms. While a majority (55%) have only one, 26 percent have two, 9 percent three, and another 9 percent four or more (Q#14a). Owners of firms with more than 20 employees frequently have five or more business loans. While five or more business loans seems like a large number, one must recall that pieces of equipment and vehicles can be financed with separate loans.

The loan, or the largest loan if there were more than one, is held by the firm's primary financial institution in 73 percent of cases (Q#14b). That figure rises to 83 percent when a small (local) bank is the small employer's

[14] One assumes that small employers take out the line at their principal financial institution because few of them change banks in any year (Scott and Dunkelberg, Bank Competition, op. cit.). But, the data presented here do not document the sequence of events. It is, therefore, possible some may have taken out the line and switched institutions, meaning they took out the line from an institution that subsequently became their principal rather than the opposite, more likely, sequence.

primary financial institution, but falls to 66 percent when national and regional banks are. If the loan is *not* held by the principal institution, it is most often held by another bank (53%) or a finance company (32%) (Q#14b1).

The lending institution is less likely to unilaterally change a loan than other types of credit extensions. Eight percent of small employers had loan terms change in 2010 (Q#14c), approximating the same number as the prior year. Too few cases were registered to report the specific changes required or the impact on the affected businesses.

Credit Cards[15]

Credit cards have two principal functions: they function as a source of credit and they function as a transaction convenience. Charge cards, debit cards and similar instruments serve the second function, but not the first. The convenience portion of credit cards is indisputably positive, but the credit portion raises multiple issues, largely with respect to its cost and transparency. Credit card financing is traditionally very expensive and more opaque, though also more accessible, than similar types of financing, such as credit lines.

Personal and Business Cards

Many types of credit cards are on the market. The author divides them into two categories for present purposes, personal cards and business cards. The former is a card with the owner's name on it and the latter is a card with the business's name on it, though business cards often carry additional business-related features. While the former presumably was taken out for personal use and the latter for business use, they both can be and are used interchangeably.

Forty-five (45) percent of small employers use personal credit cards to pay business expenses (Q#15). Size of the business appears to play no role in decisions to use personal cards. The median average monthly amount charged is about $1,000. However, a plurality (30%) charge less than $500 per month on average, though 8 percent charge $10,000 or more (Q#15a).

Business credit cards are more often used for business purposes than personal cards. Fifty-eight (58) percent of small employers employ a business credit card(s) to pay business expenses (Q#16). Those employing 10 or more people do so with about a 20 percentage point greater frequency than those with fewer than 10. The median monthly average amount charged on those cards is about $2,500, though 16 percent charge less than $500 per month on average and 12 percent charge $10,000 or more (Q#16a).

Twenty-four (24) percent use both a personal and business card(s) for business purposes. When employing both cards, 70 percent consider their business card the more important (Q#17). When employing any card, the more important for two-thirds is a business card and for one-third a personal card.[16]

The financial institution that issued a credit card can change its terms and conditions with notice or simply cancel it. Twenty (20) percent discovered a unilateral change made to their most important card in the last 12 months (Q#18), down 4 percentage points from the prior year. The most frequent change was an increase in the interest rate (34%) and a reduced credit limit (20%) (Q#18a). Five percent had their most important card cancelled.

The impact of the change for half was irritation. Fifty (50) percent reported the action was more irritating than harmful and another 16 reported it had no impact (Q#18b). Still 26 percent reported the change was harmful or very harmful. An insufficient number of cases prevented determination of which actions were more harmful than others, though presumably cancelling the card was one of them.

Credit Card Balances

A credit card becomes a source of credit rather than simply a means of transaction convenience

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15 For a detailed discussion of small business use of credit cards and the small business credit card market through 2009 see, Board of Governors of the Federal Reserve System (2010). Report to the Congress on the Use of Credit Cards by Small Businesses and the Credit Card Market for Small Businesses. May. http://www.federalreserve.gov/BoardDocs/RptCongress/smallbusinesscredit/smallbusinesscredit.pdf. Accessed July 9, 2010.

16 Employee-managers of small businesses are not likely to use their personal credit card for business purposes. Employee-managers were, therefore, excluded from the personal credit card portion of the survey. It is assumed for present purposes that owners of employee-managed small businesses use them in the same way as owner-managers.

when balances are maintained at the end of the month. Most small business owners using cards pay them off monthly, meaning they do not typically employ cards as a credit source. But if owners do not pay off one card, the same is typically true for the other cards they use.

Seventy-two (72) percent pay balances off on their personal credit card (used for business purposes) each month (Q#15b). In other words, 72 percent of those using personal credit cards for business purposes use that card for convenience exclusively; they do not use it for credit. Yet, the personal cards used by about one in four (25%) for business purposes do serve as a credit source. That figure translates into 11 percent of the small employer population. The balances they carry, that is, the amount on which they pay interest and related fees, vary considerably. But 17 percent (or 2 percent of the population) carry balances of $10,000 or more; 22 percent carry less than $500 (Q#15c).

More than three-quarters (77%) of small employers using business credit cards pay them in full every month (Q#16b). Owners of larger, small firms, that is, those employing 50 or more people charge on average the largest amounts to them, but almost universally (95%) pay them off monthly. In contrast, just 75 percent of the smallest, those employing fewer than 10 people, pay off their card(s) each month, though they charge less on average.

Balances remaining on business cards are much higher than they are on personal cards. One-quarter (25%) who do not pay in full every month have outstanding balances of $10,000 or more (Q#16c) and another 17 percent have balances of $5,000 to $9,999.

Seven percent of all small employers have a credit card(s) and typically carry balances of $5,000 or more, a majority of that number carrying $10,000 or more. Interest and fees incurred on these obligations over the year are substantial, certainly more than incurred on most credit lines. That raises the obvious question, why do they not borrow more cheaply?

The answer is that they likely have few choices. Small business owners who typically maintain balances on their credit card(s), personal or business, are also more likely to use additional sources of credit than others and in 2010 applied more often for additional amounts (Table 2). When the balances are over $5,000, borrowing attempts rise dramatically. For example, small employers with large card balances wanted a new line 27 percent of the time compared to 17 percent for others, a line renewal 43 percent of the time compared to 24 percent for others, and a loan 18 percent of the time compared to 13 percent for others. Only credit cards did they want less frequently than those without high balances. Their success borrowing was substantially less. These data underscore the point that high balances imply financially extended businesses. While cash flow considerations may occasionally cause an owner to rationally interrupt a typical monthly pay-off practice, holding balances, let alone sizeable balances, makes no economic sense unless alternatives are not available.

Credit Cards as the Sole Credit Source

The use of credit cards as a source of credit is not normally advisable; the cost is simply too great. Yet, press reports often point to small business owners who use credit cards in lieu of other, cheaper credit forms and swallow the associated costs. That raises at least two associated questions. The first question is the frequency of the phenomenon. How many small employers only use credit cards as a credit source? The second is alternative availability of other credit sources. Do small employers have alternatives to credit cards? While the analysis is complicated by presence of employee-managers in the data set and exclusion of their personal cards, important points can be established.

About 24 percent of the small employer population currently uses a credit card(s) as their sole credit source. In other words, owners of about one and one-half million small businesses have a card(s) used for business purposes but neither a business line nor a business loan. Thus, a non-trivial portion of the population falls into this category. It should be emphasized that this population *neither* includes self-employed persons without employees (other than the owner(s)) *nor* start-ups which are yet to employ people.

The data cannot provide a definitive answer to the question about alternatives. However, the available evidence strongly supports the idea that most of these owners only use credit cards because that is all the credit they want to use. For example, one assumes that if small employers wanted more credit, they would apply for it. Yet, the group of owners with cards only is much less likely to apply for any other type of credit than others, and by sizeable margins. Seven percent with only a credit card applied for a new line; 22

Table 1
Credit From Financial Institutions By Credit Type And Firm/Owner Characteristic

	Any Credit	Credit Type: Credit Line	Business Loan	Credit Card
All Firms	86%	47%	31%	76%
Employee Size				
1-9 Emp. (n = 161)	83	42	28	74
10-19 Emp. (n = 119)	96	59	42	83
20-49 Emp. (n = 104)	97	69	50	84
50+ Emp. (n = 113)	97	79	52	89
Industry				
Constr. (n = 88)	88	47	37	78
Manf. (n = 65)	89	52	46	87
Retail (n = 145)	85	47	32	69
Finance (n = 68)	92	43	25	86
Professional Services (n = 165)*	90	48	25	86
Other Non-Fin. Services (n = 185)†	80	42	38	67
Else (n = 140)	84	51	26	73
Employment Growth (2007-2010)				
Add 2+ Employees (n = 83)	83	46	30	75
Stable, -1 to +1 Employees (n = 440)	84	43	24	75
Lose 2-9 Employees (n = 244)	90	51	42	78
Lose 10+ Employees (n = 63)	88	57	44	78
Urban/Rural				
Highly urban city (n = 116)	84	48	27	81
Suburb of highly urban city (n = 152)	88	44	29	78
Mid-size city (250,000) and surrounding area (n = 141)	86	49	34	80
Small city (50,000) and surrounding area (n = 166)	88	47	34	73
Town or rural area (n = 271)	84	47	31	73
Years of Ownership/ Management				
< 4 years (n = 65)	78	38	37	63
4-6 years (n = 80)	79	30	24	73
7-9 years (n = 69)	84	42	27	79
10-19 years (n = 215)	88	52	38	78
20-29 years (n = 207)	88	52	29	79
30+ years (n = 218)	88	49	29	77

TABLE 1 CONTINUED
CREDIT FROM FINANCIAL INSTITUTIONS BY CREDIT TYPE
AND FIRM/OWNER CHARACTERISTIC

	Credit Type			
	Any Credit	Credit Line	Business Loan	Credit Card
Size of Principal Bank				
Very Large (n = 371)	85	46	30	78
Regional (n = 160)	94	56	44	81
Small (n = 225)	86	47	31	70
Else/None (n = 100)	78	38	21	74
PAYDEX Credit Score				
100-86 (n = 366)	90	50	32	78
85-76 (n = 90)	81	46	25	68
75-51 (n = 151)	89	43	31	80
50-26 (n = 70)	91	53	30	86
25-1 (n = 165)	77	52	35	68

percent of all other small employers applied. Seven percent of the former applied for a new loan; 16 percent of the latter did. Perhaps small employers who only employ credit cards are poorer risks or simply discouraged borrowers. Neither possibility holds up under closer examination. The PAYDEX credit scores of both are similar and the proportions who are discouraged borrowers are virtually identical in both populations.

Interchangeable Credit Types

Using the Survey of Small Business Finances, Cole finds that different sources of credit complement rather than substitute for one another.[17] The data collected in this survey appear to corroborate and extend Cole's results (also see, **Complements**).

Table 2 shows that credit cards tend to complement other credit sources. In other words, when a small business owner employs a credit card(s), he has a propensity to use other types of credit as well. For example, 52 percent of those with balances on their business credit card also have a loan, but only 34 percent who pay their balances monthly have one. The same relationship holds for lines and a combination of lines and loans. In addition, small employers with balances on their business cards are more likely to apply for other forms of credit. The behavior of small employers with balances on personal cards (for business purposes) parallel those with balances on business cards. Cards do not therefore substitute for other sources of credit; they appear to complement them.

Credit Demand and Access

Small business credit demand remained weak in 2010 and down from 2009, at least in terms of the number of small employers attempting to borrow. Non-borrowing rose, most of it was purposeful, that is, they did not want credit. But after another year of weak economic conditions, the proportion of "discouraged borrowers", that is, those who do not apply because they do not think they can get credit, also rose. Still, small employers were modestly more successful obtaining credit approval this year than last and were somewhat more satisfied with credit outcomes. The result was about as many small business owners accessing credit in 2010 as in 2009.

[17] Rebel Cole (2010). Bank Credit, Trade Credit or No Credit: Evidence from the Survey of Small Business Finances. Contract SBAHQ-08-M-0464. U.S. Small Business Administration, Office of Advocacy, Washington, DC.

Table 2
Small Business Owner Use Of Credit Cards And Other Credit Sources

	Uses Card	Does *Not* Use Card	Personal Card Paid	Personal Card Balances	Business Card Paid	Business Card Balances
Has Line	53%	29%	51%	60%	52%	60%
Has Loan	35	21	30	42	34	52
Has Both Line And Loan	23	8	21	24	22	34
Has Neither Line Nor Loan	36	58	40	24	36	23
Apply for Line	19%	15%	20%	21%	17%	25%
Apply to Renew Line	28	16	20	31	30	38
Apply for Loan	14	13	14	16	14	17

Credit Demand

The number of small employers applying for credit fell 7 percentage points to 48 percent in 2010 compared to 2009 (Table 3). Since the survey measures only the number of owners or businesses attempting to obtain credit rather than the aggregate amount sought, total dollar-volume demand is not known. Still, the year over year decline found here is notable and consistent with the Federal Reserve's Senior Loan Officer survey, which shows demand decelerating in 2010 though at a much more modest pace than the prior year and then turning up at year's end.[18]

Owners of larger, small firms were more likely to seek credit than were owners of the more numerous smaller, small firms (Table 2). In fact, the propensity to seek credit rose directly with employee size as just 44 percent of small employers with fewer than 10 employees sought credit in 2010 while 75 percent of those employing 50 or more did. Other demographic differences are smaller. However, after controlling for various relevant factors, that is, making all things equal, most non-financial differences fade away, except employee size-of-firm (see, **Predictors of Non-Borrowing** and Appendix Table B, Panel 1).

Credit Access

Applicants were somewhat more likely to obtain credit in 2010 than in 2009 (Table 4). Virtually the same percentage of the small business population received "all" or "most" of the credit wanted in both years (29% vs. 28%). Unmet requests were more common in 2009. Twenty-five (25) percent of all small employing businesses obtained only "some" or "none" of their requests in 2009 compared to 17 percent in 2010. Better outcomes on average occurred because relatively fewer applicants were rejected. However, the degree of this positive change is a function of the denominator, that is, the number applying for credit and fewer did.[19]

Examining just those owners who attempted to borrow better illustrates the greater success experienced in 2010. Sixty (60) percent of prospective borrowers obtained "all" or "most" of the credit they wanted (Q#10) in 2010 compared to 50 percent in 2009. Meanwhile, 34 percent obtained "some" or "none" of the credit they wanted in 2010 contrasted to 44 percent the prior year. The year (2010) therefore produced a nice percentage increase in application approvals from a reduced demand that in aggregate yielded virtually no

[18] Board of Governors, Federal Reserve System, Senior Loan Officer's Survey, http://www.federalreserve.gov/boarddocs/snloansurvey/201011/chartdata.htm. Accessed December15, 2010.

[19] The Federal Deposit Insurance Corporation's Call Report data indicate that the number of commercial and industrial loans under $1 million extended in 2010 approximates the number in 2009, but the total amount extended was lower. See, http://www2.fdic.gov/qbp/timeseries/SmallBusiness&FarmLoans.xls. Accessed December 16, 2010.

Table 3
Attempts To Obtain Credit From A Financial Institution In The Last 12 Months By Credit Type And Firm/Owner Characteristic

		Credit Type			
	Any Credit	New Line	Line Renewal	Loan	Credit Card
All Firms Attempting	48%	18%	25%	13%	18%
Employee Size					
1-9 Emp. (n = 161)	44	16	21	12	18
10-19 Emp. (n = 119)	60	21	39	13	15
20-49 Emp. (n = 104)	67	31	43	25	16
50+ Emp. (n = 113)	75	36	54	36	21
Industry					
Constr. (n = 88)	57	21	33	15	15
Manf. (n = 65)	50	17	37	13	14
Retail (n = 145)	41	13	21	10	21
Finance (n = 68)	53	20	25	17	14
Professional Services (n = 165)*	47	13	16	13	24
Personal Services (n = 185)†	43	21	28	16	14
Else (n = 140)	54	22	30	13	18
Employment Growth (2007-2010)					
Add 2+ Employees (n = 83)	61	23	35	23	23
Stable, -1 to +1 Employees (n = 440)	45	13	21	12	20
Lose 2-9 Employees (n = 244)	47	23	26	12	14
Lose 10+ Employees (n = 63)	67	25	48	22	14
Urban/Rural					
Highly urban city (n = 116)	57	23	32	20	20
Suburb of highly urban city (n = 152)	48	9	24	9	22
Mid-size city (250,000) and surrounding area (n = 141)	51	25	25	10	19
Small city (50,000) and surrounding area (n = 166)	47	16	20	15	20
Town or rural area (n = 271)	44	17	26	14	13
Years of Ownership/ Management					
< 4 years (n = 65)	54	25	23	13	20
4-6 years (n = 80)	50	18	21	22	17
7-9 years (n = 69)	45	13	10	13	31
10-19 years (n = 215)	47	18	27	10	15
20-29 years (n = 207)	46	18	26	24	14
30+ years (n = 218)	51	14	30	12	17

Table 3 continued
Attempts To Obtain Credit From A Financial Institution In The Last 12 Months By Credit Type And Firm/Owner Characteristic

	Credit Type				
	Any Credit	New Line	Line Renewal	Loan	Credit Card
Size of Principal Bank					
Very Large (n = 371)	49	16	25	14	22
Regional (n = 160)	51	23	31	16	10
Small (n = 225)	44	18	25	11	12
Else/None (n = 100)	49	18	19	14	27
PAYDEX Credit Score					
100-86 (n = 366)	44	14	24	10	16
85-76 (n = 90)	50	24	30	17	19
75- 51 (n = 151)	52	20	23	17	19
50-26 (n = 70)	57	19	32	14	24
25-1 (n = 165)	47	17	25	16	14

* NAICS 54, 61, and 62
† NAICS 56, 71, 72, and 81

net change in the number of small businesses obtaining credit year to year. The same number of small employers effectively accessed the credit markets in 2010 as in 2009.

Small business demand for credit presumably will rise as sales improve and overall business conditions recover. That does not necessarily mean that approval rates will also continue to rise. Just the opposite could quite well occur. Conditions for the population could temporarily deteriorate for a myriad of reasons, not the least of which is poorer small business risks now on the sidelines deciding to enter the market. That means there is a distinct possibility, if not a likelihood, that credit access for the population in the market could decline in the short-term. An analogy is the unemployment rate rising before it falls due to fluctuation in the number of people looking for work.

Predictors of Credit Access

The financial variables that the survey captured prove the best predictors of credit access (see, Table Appendix A for regression results). Simply put, the more favorable the business's finances, at least to the extent that they could be measured here, the more likely a small business owner was to obtain the desired credit. Access was infrequently associated with other factors often considered important explanations.

Perhaps the best predictor was Dun & Bradstreet's PAYDEX credit score. Ten points higher on its 100 point scale means that the credit applicant is 27 percent more likely to fall one outcome higher on the four point access scale (for example, "some" to "most"), all factors equal. Credit score was a much more powerful predictor in 2010 than 2009, suggesting greater stability and predictability in more recent credit transactions than in the turmoil of one year ago.

Four other financial predictors also possessed notable explanatory capabilities, the number of purposes the credit was used (was to be used) for, the number of credit types (lines, loans and cards) already being used, the number of mortgages currently held, and the number of properties owned free and clear. The **Borrowing Purposes** section of this report discusses seven different purposes for which sought after credit could be used. The more purposes small employers used/intended

Table 4

Success Obtaining Credit: Those Attempting To Borrow And Not, 2009 And 2010

	2009		2010	
Success Obtaining Credit	**Attempting to Borrow**	**All Firms**	**Attempting to Borrow**	**All Firms**
Outcome of Attempt(s)				
All credit wanted	40%	22%	41%	20%
Most credit wanted	10	6	19	9
Some credit wanted	21	12	18	9
None of credit wanted	23	13	16	8
DK/Refused	5	3	6	3
Total	100%	55%	100%	48%
N	447		496	
	Not Attempting to Borrow		**Not Attempting to Borrow**	
No Attempts				
Didn't want to borrow	88%	39	81%	42
Didn't think could borrow, i.e., Discouraged Borrower	11	5	15	8
DK/Refused	1	*	4	2
Total	100%	45%	100%	52%
N	304		358	
Total		100%		100%
N		751		854

to use credit for, the less likely they were to obtain it. This variable likely serves as a proxy for the presence of multiple financial problems or a lack of managerial focus. Yet, adding just one purpose increases a potential borrower falling into a lower access category (such as, from "most" to "some") on the 1 – 4 scale by 28 percent, all factors equal.

Small business owners who already have credit find it easier to obtain more than those who begin with less, at least in terms of bank credit types already accessed. This predictor seems counter-intuitive given the obvious limits to the amount of credit any one business can repay and lender fear of over-extension. But since the measure employed here is different types of outstanding credit rather than its total volume, the dimension captured is likely to be the diversity of credit approvals already obtained.

The final two financial predictors are the number of mortgages, first and second, held and the number of properties (real estate) held free and clear, that is, owned without a mortgage and not collateralized. The two variables appear to be reciprocals at first blush, but they prove to measure different things. The maximum number of mortgages that can be held as will be seen later in the **Real Estate** section is six. One additional mortgage increases the chances of moving to a lower credit access category by 13 percent, all factors equal, the reason being the higher level of liabilities on the balance sheet. In contrast, the number of properties owned free and clear represent balance sheet assets which are available to be mortgaged or collateralized. This measure allows a maximum of three, one each in the residential, commercial and investment categories. One additional such property increases the likelihood of moving to a higher category by nine percent, all factors equal.

A limited number of firm demographic variables also help explain credit access. Yet, demographic variables are of as much interest for the relationships that do not exist as for the relationships that do. For example, the employee size of firm variable bears no relationship to the capacity to access credit, all factors equal. That holds true regardless of whether the size measure is linear, logarithmic or a dummy divided at varying sizes. Growth in employees over the last three years, however, is strongly related to credit access. The critical factor is not the total number of employees gained or lost, which bears no relationship to credit access; the critical factor is direction. To give the variable explanatory power, it had to be truncated at the extremes and transformed into an 11 point growth scale, thereby putting more emphasis on the direction of change and less on its absolute magnitude.

Two results were unexpected and are difficult to explain. The first is greater access for owners of young enterprises, businesses less than four years old. While marginally significant, their elevated success is possibly due to self-imposed restraints on credit amounts. Yet, these small employers were no more likely to report limiting their credit requests than were owners of more mature firms. New owners are more likely to use small banks, which is a positive factor. It is also possible the severity of the recession has raised the quality of the survivors. Another is that a very limited number even bothered to apply (not the case). Still, this result remains puzzling. And, so does a second result.

The professional, scientific, and technical services industry, which also includes the health, social service and private education industries for present purposes, was inversely related to credit access, and strongly so. It had less access than other industries, all factors equal. While the pressed construction and retail industries fared no worse than others, the professional services industries are in search of an explanation for their lesser access.

The housing problem has been more intractable in some parts of the country than others even though all parts have suffered from it. The greatest problems arguably lie in the states of Arizona, California, Florida, Michigan and Nevada.[20] Small employers in those five states as a group have more difficulty accessing credit than others. In fact, simply because a small business is domiciled in one of these states, it has a 9 percent greater chance of falling into a lower credit access category. Possible reasons for this condition are multiple, including relative health of the businesses and relative health of the banks. Finally, customers of large banks are less likely to have all their credit needs met, other factors equal. This is *not* the equivalent of lesser access to credit at large financial institutions compared to others. However, it is one piece of evidence that leads to the conclusion that small business cannot access credit as easily at large banks as small (see, **Large Banks and Small**).

Types of Credit Sought

The distribution in the type of credit sought in 2010 paralleled that of 2009. The frequency of demand for new lines and renewed lines increased marginally from the prior year (within the margin of sampling error) while the frequency of demand for business loans declined somewhat with the demand for new business credit cards about the same as the prior year. The most frequent request in 2010 was for renewal of a credit line (25%), followed by a request for a new line (18%), a credit card for business purposes (18%) and a business loan (13%) (Table 5). Each of these numbers is marginally lower than the ones recorded last year, excepting attempts to obtain new lines which are marginally higher.

A healthy majority (61%) sought just one of the four types of credit considered. One-quarter (25%) attempted to access two types of credit, 12 percent three, and 2 percent all four. The most common combination found, just over half of small employers who attempted to obtain a new credit line, also attempted to renew an existing line. While data revealing application sequence is not available, those who successfully renewed their line sought a new line modestly less frequently than those who did not. This combination suggests that attempts for new lines were not in response

[20] These five states have the highest levels of residential mortgage delinquencies.

to rejection for a current line extension, but an effort to extend the amount of accessible credit or get better terms. A credit card was the type of credit least often sought in combination with others.

"Borrowing Success"

Table 4 categorizes the outcomes of credit attempts. The first category is 'got credit with satisfactory terms and/or conditions' and the fourth is 'did not get the credit'. The former is an obvious success and the latter is an obvious failure. The author considers the second category, 'got the credit but with unsatisfactory terms and/or conditions', borrowing success because the small employer accepted the credit even if swallowing the deal's unfavorable terms. The third category, 'rejected credit because of unsatisfactory terms and/or conditions', is more difficult to classify. The institution offered credit, implying success. Yet, the small employers did not take it, implying failure. The category constitutes from 5 – 17 percent of borrowing attempts and therefore cannot be ignored.

The author arbitrarily terms this third category (rejected credit) as a borrowing failure. However, in discussing predictors of borrowing success and failure for each credit type subsequently, he will transfer the category back and forth to make selected points. Similarly, in Appendix Table C, the predictors of borrowing success and failure are presented in two ways, one with the third category classified as success and the other with it classified as failure. The reader can thereby make his or her own interpretation.

New Lines

Half of the 18 percent (Q#9A) who attempted to get a new credit line in 2010 were successful (Q#9A1), though new lines proved to be the most difficult type of credit to procure. Terms and/or conditions were a common issue for prospective recipients even when their applications were accepted. The most common complaint was interest rates and/or points followed by an inadequate amount (Q#9A2). Still, just 9 percent of the small employer population procured a new credit line in 2010. Eight percent more attempted, but were not successful.

Seventy-six (76) percent of most recent attempts were made at the firm's primary financial institution; 24 percent of them were made elsewhere (Q#9A3). Success was 15 percentage points *less frequent* at the primary institution than at another! This relationship is counter-intuitive; one assumes that existing customers would receive comparable, if not more favorable, consideration. One explanation is that small employers who believe they have a marginal chance apply only at their primary institution. Still, the data argue that small business owners should shop for credit just as they would for any other item.

It does not appear that small employers shopped extensively for new lines. Fifty (50) percent sought a new line at only one institution, 15 percent at two, 19 percent at three, and 16 percent at four or more (Q#9A4). One-quarter (26%) obtained the new line they wanted on terms and/or conditions that were satisfactory on their first try, so they had no need to shop further. That means approximately another 25 percent did not get what they wanted, including 4 percentage points who got the line with unsatisfactory terms and/or conditions, but did not shop further. The frequency of success declined the more institutions that were approached. Still, 7 percentage points were able to get what they wanted at the second institution and another 4 percentage points at the third. Though success after three institutions approached are too few to report, it appears that success is very limited after that many tries.

The best predictor of a small employer's success obtaining a new credit line is the firm's credit score (see, Appendix Table C). The odds of success rose 2.6 percent for each point higher on the PAYDEX score, other factors equal. A second predictor is whether the small employer considers a $100 billion bank his principal financial institution. If the owner does, the chances that he will be successful, all factors equal, are only one-quarter of that had his primary bank been smaller or he did not have one. While there are too few cases to tie the lower propensity of large bank customers to obtain a new line directly to large banks, small employers do have a propensity to approach their primary institution for credit first.

The more mortgages held, the less likely a small employer obtained a new credit line. That association seems reasonable; greater outstanding debt is generally a liability when attempting to borrow. However, as will be noted later, the relationship does not hold across all types of credit sought. In fact, two of the four specific types exhibit a positive relationship between the number of mortgages held and a favorable credit outcome. More will be said of this later.

Small business owners in more urban areas are also substantially less likely to obtain a new credit line than are those in rural areas. The same relationship also occurs with loans, though not with line renewals or credit cards. Yet, small employers in urban areas are no more or less satisfied with overall credit outcomes than are those in rural areas. Since several likely factors influencing relationships on the urban/rural continuum are controlled for, the reasons for these differences are not clear.

Two industries are also related to obtaining new credit lines. Owners of businesses in the professional, scientific, and technical services industry were less likely to obtain a new line, while those in manufacturing were more likely. Since construction and retail were not related, the possibility of an inventory-intensive industry relationship does not hold. Yet, something seems to characterize the professional services industries which makes it particularly difficult for them to borrow.

Owners in states hit hard by the housing bubble are also less likely to be able to obtain a new credit line than owners in other states.

Employee size, business growth, and new businesses are unrelated to new credit lines.

Line Renewals

The most common type of credit sought in 2010 was renewal of a credit line. Twenty-five (25) percent sought a renewal (Q#9B) and 72 percent of them were successful (Q#9B1). Still, 24 percent could not renew a line they previously had been granted.

Eighty-six (86) percent of the most recent renewal attempts were made at the firm's primary financial institution (Q#9B3). Primary institutions were more likely to renew lines of credit than others, almost 10 percentage points more likely.

Several variables help predict success obtaining a renewed line, including the number of mortgages held (the more mortgages, the lower the chances), the number of loan purposes (the more purposes, the lower the chances), and the credit score (the higher the score, the better the chances) (see, Appendix Table C). These three financial variables all follow the expected pattern.

Owners with businesses located in states hit hardest by the housing bubble and subsequent foreclosures were three times less likely to have credit lines renewed as small employers in the other states, other factors equal. The survey did not establish the reason(s), though the author previously speculated on rebuilding bank capital, business assets depressed by real estate ownership or weak business demand resulting from foreclosures, unemployment and consumer caution.

Customers of larger banks were less likely to have their lines renewed.

Loans

Just 13 percent of small employers tried to get a business loan in 2010 (Q#9C). Of that number, 56 percent got the loan on their most recent attempt, though 13 percentage points of that number were dissatisfied with the terms and/or conditions; 41 percent did not receive approval (Q#9C1).

Seventy-two (72) percent applied in their most recent attempt to their principal financial institution (Q#9C2). The principal institution was somewhat more likely to reject a customer's application than to accept it with satisfactory terms and conditions. The number of small employers making loan applications is relatively small, so conclusions must be tempered. But the applicant's principal institution appears to convey no advantage in obtaining a business loan and perhaps a bit of a liability when that institution is large.

Sixty (60) percent of small employers applied to only one institution (Q#9C3). One-third of all who applied for a business loan had their first application accepted with satisfactory terms and/or conditions at that institution, though 16 percent had theirs rejected and did not apply elsewhere. Seventeen (17) percent applied to two institutions and 13 percent to three. The remaining 10 percent applied to four or more. The chances of acceptance appear lower when applying to a second and third place, but approval frequency appears to make attempts worthwhile. Applying to more than three, however, seems to yield little if any positive results.

The three financial variables (or proxies) were also predictors of success obtaining a business loan. Credit score again held considerable explanatory power. The number of mortgages held was inversely related to borrowing success as expected and so was the number of borrowing purposes (inversely). However, business loans in that group of states most affected by the housing problem were particularly difficult to obtain. The coefficient shows small businesses in these states experience over 12 times as much difficulty obtaining a business loan as those in the other states, all factors equal, though the numbers are so high as to test credulity. Yet, even the relatively small sample and the possibility of other error makes the relationship compared to the comparative prospects of small employers in other states, truly stunning.

Credit Cards

Eighteen (18) percent attempted to get a credit card(s) for business purposes in 2010 (Q#9D). Seventy-six (76) percent of applicants were successful, though 10 percentage points were not happy with the associated terms and/or conditions (Q#9D1). Another 8 percent was offered a card, but rejected it on the basis of the terms and/or conditions required. Sixteen (16) percent did not get a card.

Over three of four (79%) of the applications were for business cards, defined as having the business's name rather than the owner's name on it (Q#9D2). Nineteen (19) percent were for a personal card with 2 percent not reporting.

Eighty-seven (87) percent of those wanting a card applied just one time (Q#9D3). Ninety-five (95) percent who got a card with satisfactory terms and/or conditions were successful on the first try.

Few variables that predicted access to other types of credit helped explain the outcome of a credit card application. The most prominent was credit score, which bore no relationship to acceptance/rejection of a card. Last year's credit card assessment yielded the same result. This suggests that the models used by credit card issuers bear little resemblance to the PAYDEX score used by D&B. While that seems odd, enough cases were examined in 2010 and 2009 to be reasonably confident of the conclusion.

Credit information of some type is used, however. The more purposes credit was/is planned to be used for was related to obtaining a card. Purpose is, of course, not directly a financial variable, but suggests associated problems. The second is the number of mortgages held. The more mortgages a prospective borrower holds, the less likely he is of obtaining a card.

Non-Borrowers

A majority of small employers (52%) did not attempt to borrow in 2010, at least not from a financial institution (Table 3). The 52 percent figure is seven percentage points higher than one year ago. Credit demand has been weak throughout the year. Loan volume to small businesses is also down overall.[21]

The overwhelming majority (81%) of non-borrowers assumed that status because they had no desire to obtain (more) credit (Q#12). They were satisfied, or at least believed that they were in no position to take on additional financial obligations. Their numbers as a percent of the total population changed little from 2009, up three percentage points to 42 percent (Table 4).

Discouraged Borrowers

"Discouraged borrowers," that is, those small employers wanting to borrow but believing their poor chances of success do not even warrant a credit application, form a comparatively small segment of the non-borrowing population. This group constituted 15 percent of owners who did not attempt to borrow in 2010 (Table 4). The result is 8 percent of all small employing business owners qualify as discouraged borrowers compared to 5 percent in 2009.

There is a variant to discouraged borrowing behavior that has a similar effect. It occurs when small business owners attempt to borrow and even get credit, but the amount is not as much as they want. They do not request more because they do not think they can get it, and a full request may jeopardize that which they can access.

Twenty-four (24) percent of small business owners who applied for credit reduced their request(s) because they feared they could not get it (Q#11). That is over 50 percent more than proved to be the classic discouraged borrower. Yet, their reticence to apply for additional credit can be at least partially explained by the reception they got to the credit request(s) they made. Thirty-nine (39) percent of the group obtained no credit while 51 percent got just

[21] Ibid.

some or most of the credit they wanted. Just 5 percent obtained all they wanted (requested), though fearing to ask for more.

Predictors of Purposeful Non-Borrowers

Purposeful non-borrowers, that is, those who do not want credit, are smaller and appear financially stronger than borrowers. They have fewer outstanding mortgages, more fully owned properties (clear assets), and better credit scores (see, Appendix Table B, Panel 1). That indicates likely good risks are sitting on the sidelines. Whether they will be the first or last ones to reenter the credit markets will influence the speed of the recovery and the extent of unmet credit demands. Growth over the past three years sheds no light on the question as the change in employment size of firm is unrelated to borrowing propensity. However, larger firms are clearly more inclined to borrow than smaller ones.

Small employers with credit outstanding are those most likely to seek further access to the credit markets. The best predictor of attempts to borrow is current possession of credit. The propensity to be in the credit market almost doubles with each type of bank credit (lines, loans, cards) employed. A similar result appears with use and non-use of trade credit. Those more likely to use trade credit are also more likely to be in the market for some type of bank credit. One could argue that the relationship between outstanding credit and attempts to obtain more or to renew/roll-over existing credit is a simple tautology, that the two are effectively the same thing. However, if the analysis eliminates the variable measuring the number of credit types currently employed, the altered analysis yields little change. The most substantive are that the already strongly related size variable becomes stronger and the weakly related assets and credit score relationships fall to non-significance.

Owners of construction firms and home-based businesses are more likely to try to borrow. The former is self-explanatory; the latter is not. However, the latter could be tied to the apparent increase in the proportion of home-based businesses within the population (see, **The Business Premises**). While it is not clear whether the phenomenon is due to the number of small businesses leaving their commercial or industrial premises, the number not moving from the home to commercial or industrial facilities, or the number of owners who opt to start in their homes, the cost saving measure suggests that home-based businesses as a group are increasingly financially strapped and hence have a greater need to borrow. Yet, this hypothesis is questionable. While owners of home-based businesses want to borrow for more purposes than others, the largest gap between the two, 20 percentage points, is for new investment in plant and equipment. Perhaps they simply want to escape their surroundings.

Lastly, small employers in urban areas attempt to borrow more than those in rural areas. Since urban/rural location is not associated with owner's view of available opportunities, the reason for the gap is not obvious.

Predictors of Discouraged Borrowers

Discouraged borrowers also differed from purposeful non-borrowers. The most prominent factor separating the two is credit score (Appendix Table B, Panel 2); it dwarfs other influences. Discouraged borrowers possessed substantially lower credit scores, 45 on average compared to 67 for purposeful non-borrowers. While discouraged borrowers may not know their credit score, they likely have a sense of their credit record, which in turn results in non-application for fear of rejection.

The number of mortgages is associated with discouraged borrowers in the expected way. Another distinguishing variable is growth. More growth reduces the likelihood of a discouraged borrower. Size of business, however, had no relationship. In addition, those owners with businesses in the retail and construction industries, particularly the former, were more likely to be discouraged. The reason is not certain, but it is likely tied to weak sales in both industries and the owners' recognition of their inability to repay. Home-based businesses were positively associated as well.

Discouraged borrowers are discouraged for a reason: they do not appear to be good credit risks compared to their peers. The results here contradict earlier findings that suggest discouraged borrowers do differ little from others and that their chances of success compared to owners of similar businesses are probably reasonably good.[22] The 2010 findings parallel 2009's.

Borrowing Purposes

Small business owners borrow for a large number of purposes, either separately or in combination. The survey listed some of

Table 5
Most Recent Attempt To Borrow And Success By Type Of Credit Sought - 2010

	Type of Credit Sought							
	New Line		Renewed Line		Loan		Credit Card	
Borrowing Attempts and Outcomes	Total	Attempting	Total	Attempting	Total	Attempting	Total	Attempting
1. Attempted to get a ____	18%		25%		13%		18%	
A. Got the ______ with acceptable terms/conditions	7	38%	14	57%	6	43%	12	66%
B. Got the ______, but with unsatisfactory terms/conditions	2	13	4	15	2	13	2	10
C. Turned down _____ because terms/conditions unsatisfactory	3	17	2	8	1	5	1	8
D. Was NOT able to get the ______	5	29	4	16	5	36	3	16
E. DK/Refused	*	3	1	5	*	3	*	1
Total		100%		100%		100%		100%
N		201		301		158		153
2. Did NOT attempt to get a ________	82		74		86		82	
3. DK/Refused	*		1		1		1	
Total	100%		100%		100%		100%	
N	856		856		856		856	

the most common borrowing purposes and asked respondents the purpose(s) of their latest borrowing attempt. The most common purpose was for cash flow, which explains the special owner interest in obtaining new credit lines and/or renewing existing ones. Sixty-two (62) percent of all prospective borrowers listed cash flow as a borrowing purpose (Q#10aA). Inventory was cited with second greatest frequency (39%) (Q#10aG), but three other purposes, new investment (36%) (Q#10aD), replacement investment (35%) (Q#10aC) and reserve/cushion (35%) (Q#10F), were almost as frequently the borrowing intent. Just 22 percent each designated real estate/structures (Q#10B) and repayment of debt (Q#10E). In about 30 percent of cases, small employers wanted credit for one purpose exclusively.

The purpose(s) for borrowing is related to credit access both in terms of the purpose per se and the aggregate number of purposes (Table 6). The purposes that suggest more pressing credit needs are less likely to yield borrowing success than those suggesting more, less pressing needs. Borrowing for cash flow purposes and repayment of debt, for example, suggests more pressing credit requirements. Note on Table 6 that the two purposes are highly related to credit access or lack thereof. The more frequent the requests for these purposes, the less likely small business owners are to borrow successfully. In contrast, the purchase of inventory and replacement of equipment create routine credit needs and do not signal potential distress. Thirty-nine (39) percent of all prospective borrowers intend to borrow for inventory purpose, just two percentage points more than the proportion that received all of the credit they wanted. The same comparison for replacement of plant, equipment and vehicles produces the same result. Still, caution is warranted. The immediate borrowing purpose does not always provide an accurate assessment of either the prospective borrower's capacity to repay or the wisdom of the credit's use. Borrowing to repay debt, for example, may be little more than a shrewd attempt to take advantage of low interest rates, and those who obtained all the credit they wanted and used some or all of it for this purpose likely did exactly that. But on balance, borrowing purposes more often associated with distress were less likely to yield the desired credit.

One of the best predictors of borrowing success is the number of purposes for which credit is sought. More successful prospective borrowers wanted credit for fewer purposes than less successful borrowers. For example, small employers who obtained all of the credit they wanted over the last year borrowed/intended to borrow for an average of 2.1 purposes, compared to 2.4 purposes among those who obtained "most" of the credit they wanted, 3.2 purposes for those who obtained "some" and 3.3 purposes for those who were

Table 6
Purpose(s)/Projected Purpose(s) of Borrowing by Borrowing Success

	Borrowing Success				
	Amount of Credit Needs Filled				
Borrowing Purpose	**All**	**Most**	**Some**	**None**	**Total**
Cash flow	48%	64%	82%	71%	62%
Real estate/Structures	17	25	17	37	22
Replacement – plant, equipment, vehicles	33	25	42	44	35
Investment – added plant, equipment, vehicles	29	33	40	52	36
Repayment of debt	11	17	43	33	22
Reserve/Cushion	24	29	54	46	35
Inventory	37	43	35	45	39

[22] Cole, op. cit.

shut-out.[23] No data were captured regarding the size of credit demands. Diversity of borrowing purpose could, therefore, be a function of the amount demanded as well as the reasons for the projected expenditures. The association between borrowing success and number of purposes could be spurious. Yet, a large number of purposes suggest a lack of management focus, over-extension, or some combination of the two, none of which offers the lender much comfort.

Perhaps the most striking data on Table 6 is the frequency of those who did not obtain credit expressing the desire to use at least part of the funds to reinvest in their business through replacement or addition. The shut-out group ("some" and "none" combined) is one-third more likely to express interest in borrowing for reinvestment purposes than the accessing group ("all" and "most" combined). The former is also about 50 percent more likely to want to invest in new plant, equipment, and vehicles. In addition, the shut-out group is substantially more likely to want to borrow for investment purposes in 2010 than they were in 2009. These data argue that a substantial number of small employers who want to invest in productive activity simply cannot find the money to do so. And, that is correct as far as it goes. A parabolic relationship, however, exists between the intent to reinvest or newly invest in these items on the one hand and two of the better measures of financial worthiness in the survey (credit score and change in employment) on the other. The most frequent intent to invest rests among those with higher and lower credit scores, and increased and substantially decreased employment. Small employers in the middle of the distribution in both variables are less inclined to reinvest or newly invest. In addition, the shut-out group offers over 50 percent more purposes. While it is, therefore, clear that a substantial number of small employers seek to borrow for investment purposes, it is not equally clear that they are in any financial position to do so.

Though the 2010 data are not equivalent to 2009 numbers, they are sufficiently alike so that some comparison can be made between last year and this. The most notable is the decline in the proportions attempting to borrow in order to repay (roll-over) debt. In 2009, between 45 percent and 50 percent of those who could only get some or none of the desired credit wanted to use at least a part of the money for that purpose. The 2010 number was 10 percentage points lower than 2009's, implying that some wanting to borrow to roll-over debt did not survive, some successfully rolled it over, and the need to roll-over debt may have declined.

Trade Credit

Trade credit presents small business a conundrum in two important ways and that conundrum can become acute in periods of distress, such as the recession most small firms recently experienced. The purpose of trade credit is two-fold from the customer's perspective, much like a credit card. It offers them short-term credit and facilitates a sale because payment is not required with delivery. The advantage for the seller is that it makes the sales more attractive, which in many instances has made offering it customary. But trade credit also puts the enterprise extending it into the finance business. It makes them lenders and debt collectors, functions most small employers do not want and do not perform very well.

When banks lend minimally or reluctantly, customers fall back on suppliers beyond customary levels to finance sales. That forces the seller into a difficult choice, finance the sale or lose it. (Several impromptu complaints to the survey focused on the lack of customer financing from commercial lending sources.) If the seller chooses to finance the sale, cash dries up, making it increasingly difficult to conduct business operations, including payment of the seller's own bills. But, that is just the beginning! Those who extend trade credit can encounter severe management problems when customer recipients either delay payment beyond the terms of the arrangement or simply default. Collecting this debt often becomes a delicate management problem, particularly when delinquent customer(s) are long-standing, important, and/or personal friends. Yet, failure to stay on top of collections can exacerbate cash flow

[23] Thirty-two (32) percent wanted to borrow for a single purpose; 29 percent wanted to borrow for two purposes, 18 percent for three, 10 percent for four, 8 percent for five, 2 percent for six and 2 percent for all seven.

problems for the extender, which in turn can force the business to delay payment of obligations to its creditors. Traditional practice often means the customer expects trade credit. And, that is the starting point to measure extraordinary credit extensions in difficult periods. Regardless, trade credit extensions are usually difficult for a small enterprise, made even more difficult when the financial system forces more onto their shoulders.

Receivables

Trade credit was increasingly stretched in 2010 compared to 2009 as the number and duration of receivables increased while the length of payables grew. While receivables and payables cannot be reciprocals as customers other than small businesses receive trade credit and creditors other than small businesses participate in trade credit transactions, the data show the two moving in the same direction as expected. Given that trade credit is an essential part of the financial structure of many small businesses, often more so and/or complementary to that of financial institutions, trends in trade credit can teach us as much about the financial health of the small business community as bank lending.

Sixty-five (65) percent of small employers indicated that they offered trade credit to at least some customers in 2010 (Q#19); 36 percent did not. A minority offered it to most customers (31%). The majority offering were more choosey with 25 percent providing it to only select customers or customers who asked for it (7%). Those numbers are virtually identical to 2009's, indicating no change in their basic trade credit policies over the year. Unknown is the amount of trade credit granted per firm which could appreciably change totals.

Small business owners did tighten their trade credit policies on balance during 2010. While a healthy majority (67%) did not change their policies, 28 percent tightened them, 13 percent tightened them a lot (Q#19a). Just 4 percent loosened their trade credit policies. The general trend was very much in accord with the times and generally replicates what happened last year, which also saw tightening.

Of those who extend trade credit, just 26 percent have no receivables outstanding 60 days or more (Q#19b), 14 percentage points fewer than last year. Another 30 percent have fewer than 10 percent (as a percentage of dollar volume sales) of theirs seriously delinquent. Over half therefore seem to have their receivables under reasonable control. But another 26 percent report from 10 percent to one-third of theirs delinquent 60 days or more and another 15 percent report more than one-third of their receivables 60 days or more in arrears (5 percentage points higher than 2009), including 4 percent with more than half of their dollar-volume receivables 60 days or more delinquent. The odds are that a significant share of these will soon move from delinquent to uncollectable.

Delinquencies are a problem that may be growing. Sixty-two (62) percent estimate that their current receivables status is about the same as it was one year ago (Q#19b1). Eleven (11) percent even think the situation is better. But 26 percent judge it to be deteriorating with delinquencies higher than one year ago. Members of the latter group are typically those facing serious delinquency problems. The data provide no evidence to determine whether collections have been poor or lackluster, credit extensions have been too generous, or a combination of the two.

Payables

The other side of trade credit is its use and small business owners as a group use considerable amounts, though they are more frequently extenders than recipients. Thirteen (13) percent make 90 percent or more (virtually all) of their dollar-volume purchases using trade credit (Q#20). At the other extreme, 42 percent of small employing businesses do not employ any trade credit to make their purchases. The remaining businesses (45%) are well distributed between the two extremes.

Owners of larger firms are 10-15 percentage points more likely to use trade credit than are smaller, small firms. That relationship holds when controlling for all other factors. Part of the explanation for trade credit use is industry. For example, construction businesses employ it often in an industry where its use is common practice. Trade credit is also used less frequently by small employers located in states hit hardest by housing foreclosures. This appears logical given the struggles of many local businesses in those areas. However, credit score is not related to the use of trade credit, even though the score used here is Dun & Bradstreet's derived from trade credit repayment performance. That suggests may be extending it regardless of risk in order to move product. The extent to which that differs from the past, that is, prior to the Great Recession, is not known.

Just as small business owners are tightening their trade credit policies, their suppliers, large and small alike, are doing the same thing. Sixty-one (61) percent report no basic change over the last 12 months in suppliers' credit policies, while 34 percent report tightening (Q#20a). Just 5 percent think the trade credit policies of their suppliers have eased in the last year. Still, just 6 percent of small employers have had one or more suppliers (that offer trade credit) deny requested trade credit over the last 12 months (Q#20a2). Too few experienced such a denial to report their assessment of the denial's impact, nor profile the denied firms.

Poor sales and increasing trade credit delinquencies put pressure on a firm's cash flow, thereby putting pressure on its ability to pay its financial obligations in a timely fashion. As logic argues, some small business owners are stretching their payables. Twenty (20) percent using trade credit maintain that they are paying their obligations "slower" than last year, 3 percentage points maintain "much slower". Still, 72 percent of small employers using trade credit are paying their outstanding trade credit obligations at about the same pace this year as last year (Q#20a1). Eight percent, in contrast, claim to be paying theirs faster.

Complements

The extent to which trade credit has replaced other sources of credit available to small firms is an important issue. Effectively, it poses the question, to what extent do nonfinancial businesses replace financial businesses as a source of small business credit? While the data presented here cannot offer conclusions, they make an interesting question more interesting.

Trade credit complements one source of credit, in the sense of being used together, but not two others. Credit lines are a complement to the use of trade credit; loans and cards are not. Application for a credit line, application for renewal of a credit line, and possession of a credit line are significantly (statistically) related to the use of trade credit. Twenty-nine (29) percent of the total population employ both a line and trade credit and 35 percent employ both bank credit (a line or a loan) and trade credit, 5 percentage points lower than Cole found using Survey of Small Business Finances data. Similar relationships are not present with loans or cards. Application for a loan, application for a card, possession of a loan, and possession of a card are unrelated to use of trade credit.

The question raised by these relationships and lack thereof is why. Why are some types of credit complements and the others not? That seems particularly true for cards, which enjoy some of the convenience that trade credit offers.

Equity

The principal topic of this inquiry is debt capital, that is, money loaned from one entity, principally financial institutions, to small businesses. However, to present a more complete view of current small business financing, a limited number of questions in the survey addressed equity capital. Those questions found few efforts to obtain equity financing among owners of operating small businesses. Just 3 percent attempted to raise equity capital for their business in the last 12 months (Q#21). The instances were so few that the results of the follow-up focusing on success of those efforts remain unreported.

Real Estate Holdings and Their Implications

The decline in real estate values has had an enormous adverse impact on small business owners. Virtually all of them own at least one piece of property and many own more than one. The implication is that small employers have seen their balance sheets deteriorate due to falling real estate values even as poor sales lowered business profitability. The fallout has been a struggle to finance existing debt, let alone take on new obligations. While real estate did not directly impact every owner, it forced enough owners to the economic sidelines to dampen overall economic activity severely. Real estate, therefore, has played and continues to play a major role hindering economic recovery.

The real estate position of small business owners improved somewhat over the last year (Table 6). The number of owners, for example, with at least one property upside-down declined as did the number of mortgages outstanding. The changes, while notable and favorable, still leave many small business owners in difficult straits. Further, some degree of the progress made is likely a measurement artifact. More small businesses than usual have exited during the year and fewer than usual have entered.[25] Presumably, the weakest died first. Their departure, therefore, bettered the small business population's statistics without bettering the country's overall condition by a commensurate amount.

The Owner's Residence

The personal and business assets of small business owners are theoretically separate, at least in an incorporated business which most employing small businesses are. Nothing could be farther from the truth in reality. The owner's residence is every bit as much a part of the business balance sheet as the firm's equipment and vehicles. In fact, the asset value of the owner's residence is more important to more owners than other real estate assets. A decline in the value of the residence therefore adversely affects the balance sheet.

While median home price stabilized during 2009 and 2010, it fell between 25 and 30 percent or about $70,000 between their peak in the fourth quarter of 2005 to the third quarter of 2010.[26] It is likely prices declined more for business owner residences as their home averaged about 60 percent higher than the median American home.[27]

Ninety-four (94) percent of small employers own their own residence (#Q24). Sixty-five (65) percent have a first mortgage on the property (Q#24a) and 26 percent of that number also have a second (Q#24b). Those levels are similar to the levels recorded in 2009 as is to be expected. However, the number of upside down residences declined by a third over the year, leaving 6 percent of the small employer population with an underwater residence (Q#24c). That equates to one in 10 of those with a mortgage on their home (Table 7), less than half the frequency of underwater residences held by the general public.[28] A likely contributing factor to the latter is the age of owners, which being substantially older than the population suggests longer ownership.

The residence is often used to financially support the business directly or indirectly. For example, 24 percent (15% of the population) took out one or more mortgages on the residence to finance other business activities (Q#24d). The house in effect became the financial reservoir for the business. Seven percent also directly employed their residence to collateralize business assets (Q#24e). However, that figure rises to 20 percent among owners of businesses employing more than 50 people. The level of both variables approximates last year's.

Many things can happen to owners who fall in one of the two categories above (mortgaged or collateralized for business purposes), none of them good. The first is that the lender can ask for part of the mortgage to be repaid or for additional collateral to be put up. These contingencies do not appear to happen often, but are far from unknown (see, **Credit Outstanding**). Other credit conditions can also be adversely changed to effectively discourage borrowing, steps that are considerably more common, such as raising interest rates and fees or reducing limits. The most important impact of the shrunken residential asset is that it deprives the owner of borrowing capacity, principally due to reduced collateral value, from borrowing, or borrowing the same amount, which he or she may have borrowed just three or four years ago. And, that makes no difference if the property is owned free and clear or if it is mortgaged. The same principles apply; only the amounts differ. All of this, of course, ignores the added financial risk to the potential borrower, which is likely also a factor in any decision to seek (additional) credit.

Twenty-two (22) percent report a second home, one primarily used for personal rather than rental or business purposes (Q#24f). The survey did not collect information about any mortgages on it or its use as to financial support for business activities unrelated to the mortgaged structure/land. But it is reasonable to assume that on average, those properties depreciated as much, if not more, than the primary residence. Hence, its value to support borrowing for business purposes has declined over the last few years.

[25] http://www.sba.gov/advocacy/7495. Accessed December 20, 2010. See, One page Q &A in pdf.

[26] http://www.nahb.com/fileUpload_details.aspx?contentID=534. Accessed December 26, 2010.

[27] Bucks, KB, AB Kennickell and KB Moore (2006). Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances, *Federal Reserve Bulletin*, Vol. 92, March 22, pp. A1 – A38.

[28] http://www.businessweek.com/news/2010-12-13/fewer-u-s-homes-underwater-as-foreclosures-mount.html.Accessed December 27, 2010.

The Business Premises

Many small employers have more than one living space, but an even larger number share living space with the business. Twenty-nine (29) percent of small employing businesses now operate primarily from the home (Q#22). That appears to be an increase of three to five percentage points from earlier points in the decade[29] and may be tied to the recession and attempts to minimize business costs. Home-based employers are most common among the smallest firms, those employing one to nine people. Yet 4 percent employing 50 or more claim to operate principally from the home.

Fifty-two (52) percent of small employers (excluding home-based) own all or part of the land or building on which their business is located (Q#23). (Home-based businesses are separated from other businesses for discussion of the business premises thereby excluding 29 percent of the population.) While ownership is modestly related to firm size, particularly above and below a ten employee boundary, the dominating relationship is geography. Two-thirds own their business premises in small towns or rural areas while just one-third do so in highly urban centers. The typical types of structures owned are low-rise and industrial buildings.[30]

Fifty-three (53) percent of non-home-based small employers who own their business premises have a first mortgage on it (Q#23a). Owners of larger, small firms are more likely to have a mortgage than owners of smaller, small firms. But second mortgages are not common. Eight percent report a second mortgage on their business facility (Q#23b). Note on Table 7 the contrast in the number of second mortgages with those on residential properties.

Just 4 percent of small employers with a mortgage on their business premises report it upside down (Q#23d). This number is probably low for several reasons. Valuation of commercial property is difficult, particularly if a facility is special use. Comparables are not easy to locate and there is often no active market in such properties. Unless the owner plans to sell or intends to refinance, a recent valuation is not likely. The owner, therefore, may not fully appreciate the extent to which falling real estate values affect his own property. As a result, the 4 percent figure should be considered a low-end estimate.

Twenty-two (22) percent with a mortgage use its proceeds to help finance other business activities (Q#23e). But just 12 percent use their business premises to collateralize other business assets (Q#24f). That is less than half the number recorded one year ago. The size of the decline rather than the decline per se is puzzling. It likely means that some of the mortgages were paid off, though that number is constrained by the similar frequency of outstanding mortgages in 2010 and 2009. More likely they were simply paid down.

Investment Real Estate

Thirty-seven (37) percent of small employers own investment real estate (Q#25), down four percentage points from 2009. However, the change approximates sampling error, so it is not clear whether the difference is a sampling issue or whether deleveraging is occurring. Thirty-four (34) percent claim one investment property while 24 percent claim five or more (Q#25a). While the 2010 survey question on the number of investment properties held is more detailed than 2009's, the results suggest little if any change in the number of investment properties owned.

Forty-nine (49) percent of small business owners with at least one property (largest property if more than one is owned) carry a first mortgage (Q#25b). Nine percent of those with a mortgage also carry a second mortgage (Q#25c). Both figures are somewhat lower in 2010 than in 2009, again raising the specter that deleveraging is occurring. But 15 percent claim their investment, or the largest investment when they have more than one, is upside down (Q#25e). In percentage terms, more small employers with investment property report an upside down property than on either their residence or their business. In absolute terms, a larger percentage report upside down residential property.

Relatively few use their investment real estate to support the business; likely the opposite is more common. Nine percent use one or

29 Business Activity in the Home (2008). National Small Business Poll, (ed.) Dennis, WJ, Jr., Vol. 8, Iss. 4, Washington, DC.

30 Energy Consumption (2006). National Small Business Poll, (ed.) Dennis, WJ, Jr., Vol. 6, Iss. 3, Washington, DC.

more of their mortgages to support other business activities (Q#25f). Twelve (12) percent use their investment property as collateral for other business assets (Q#25g). Both were substantially lower in 2010 than 2009.

Commercial Real Estate

The financial health of the commercial real estate industry has drawn attention and considerable concern over the last few years,[31] even as the visibility of the residential real estate problem continues to over-shadow it. While most assume that commercial real estate is a problem focused on large developers of such things as shopping malls and apartment complexes and their need to roll-over loans on real estate of depreciated value, comparatively little note has been paid to the commercial real estate owned by small business people and their need to roll it over. Not long ago the Congressional Oversight Panel emphasized the number of (potentially) troubled commercial mortgages held by regional and small banks. An obvious implication is that small business owners may hold substantial more of this looming problem than many realize.

Prior sections of this report on The **Business Premises** and **Investment Real Estate** demonstrate that small employers own a considerable amount of commercial real estate. The dollar value was not established, but its pervasiveness, even when often categorized with non-commercial real estate assets, suggests a relatively large amount. The good news is that little of it is upside down. Yet, we find that 15 percent of small employers with a mortgage on the business premises (Q#23c), that is 4 percent of the small employer population and 15 percent of those with mortgaged investment property (Q#25d), that is 3 percent of the population, intend to rollover their loans on the property in question within the next 12 months. There are two principal reasons to rollover the loans: the loans may be due and/or low current interest rates make roll-overs quite profitable. The number of cases for each type of real estate examined was too small to determine the principal reason for a roll-over. But when pooling data from the two questions, the author finds the overwhelming rationale, albeit on a limited number of cases, was low interest rates. The upshot is that while individual small employers will face problems refinancing the commercial real estate they own, this situation probably will not be a serious small business problem over the next 12 months. The 12 months following is an open question.

These data presented above seem at odds not only with the Congressional Oversight Panel, but with reports often seen in the financial press. The difference is unsettling. If owner reports prove inaccurate because many failed to recall that a balloon is due in 2011, serious difficulty for those owners and their businesses is likely to ensue.

All Real Estate

The critical issue is the combined effect of all real estate owned. For the most part, conditions appear more positive in 2010 than they did one year ago. However, real estate is on the whole illiquid and its worth has fallen sharply over the last few years. Those conditions do not change quickly. That means owners saddled with real estate problems are likely to be constrained for a reasonable period into the future.

Ninety-five (95) percent of small employers own at least their residence, or their business premises, or an investment property. Thirty-two (32) percent own two of the three types and 20 percent own all three. That does not count multiple properties owned in a single category. While the author emphasizes outstanding mortgages throughout this report, it should be noted that 46 percent own at least one of the three types of properties free and clear (including as collateral), 15 percent two, and 3 percent three. While those properties may have depreciated over the last few years, they remain assets available to be used in support of other business activities should the owner wish to do so.

Still, 68 percent of the population has at least one first mortgage and 17 percent has at least one second mortgage. The latter figure rises to 25 percent when a first mortgage is

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[31] For example, see, Congressional Oversight Panel (2010). February Oversight Report: Commercial Real Estate Losses and the Risk to Financial Stability, February 10. http://cop.senate.gov/reports/library/report-021110-cop.cfm. Accessed December 16, 2010.

held. These mortgage numbers are somewhat more favorable in 2010 than 2009, but the change appearing on Table 7 is inflated to a presently unknown degree by the statistical artifact previously noted.

Small employers most apt to want to borrow are those most likely to currently have a mortgage(s). For example, 62 percent of those with a mortgage on their business premises tried to borrow during 2010, while 43 percent without one (and owned the property) did. That means that those currently in the credit markets are likely the most vulnerable to depressed real estate values.

The better news appears in the proportion of small employers with at least one upside down property. Just 8 percent had at least one property upside down at the end of the 2010 measuring period compared to 13 percent at the end of 2009. The reason for the year over year decline is not available from the data set. But the most likely reason(s) are positive except for the reappearing statistical artifact.

The 11 percent who used real estate for collateral in 2010 is unchanged from 2009. But the 17 percent who used proceeds from mortgages to support other business activities declined over the year. The change was relatively small as might be expected, but it is almost certainly part of a broader effort to pay down debt.

Final Comments

The mid-00s will likely be remembered as the hey-day of small business borrowing. Credit was widely available to small business owners for any reasonable purpose, and some that were not so reasonable. Few small business owners expressed concerns about credit and those generally arose in niches, such as moderate sized new businesses, that traditionally and for good reason face access problems. The Great Recession changed all that. While poor sales and falling real estate values generally pushed credit as a business problem even farther into the back seat, it is only a matter of time before that too changes. Economic recovery will pull small business owners again back into the credit markets; their balance sheets will be much improved and investment opportunities will have expanded. The question then becomes, what happens to small business credit access? Access will not, and probably should not, reach the levels it did five to 10 years ago. But, at what level will it settle? That answer still lies in the future.

The country has not yet recovered and loan demand still is weak. Small business economic conditions remain historically frail, though at long last the direction is consistently, if painfully slow, positive.[32] As the new year begins there is consensus that the worst has passed. Demand for credit is likely to rise as a result. This transition period will be difficult. Small business owners will want to press ahead while lenders and regulators are likely to be apprehensive. The clash of outlooks will be particularly sharp if those who choose to reenter first are the weaker applicants. Small employers currently on the sidelines are often good credits, often more so than borrowers. But will they be the group that wants to enter first, if at all? Or, is it more likely that current borrowers will want to extend themselves? Or, that even weaker current non-borrowers, such as discouraged borrowers, will be the first to return? The issue becomes more complex in states hit hardest by housing foreclosures and associated real estate problems. As a result, it is possible, if not likely, that small business access to credit will become a considerably larger problem, before it gets better. And, there is no magic currently on the horizon to alleviate its most severe impacts.

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[32] *Small Business Economic Trends*, op. cit.

Table 7
Small Employer Owned Real Estate By Selected Real Estate Finance Characteristic – 2010 and 2009

2010

Characteristic	Residential Total[3]	Residential Owned[4]	Residential Mortg[5]	Business[1] Total[3]	Business[1] Owned[4]	Business[1] Mortg[5]	Investment[2] Total[3]	Investment[2] Owned[4]	Investment[2] Mortg[5]	All Real Estate Total[3]	All Real Estate Owned[4]	All Real Estate Mortg[5]
Own (at least one)	94%			52%			37%			95%		
1st Mortgage	61	65%		27	53%		18	49%		68	71%	
2nd Mortgage	16	17	26%	2	4	8%	2	5	9%	17	18	25%
Upside-Down	6	7	10	1	2	4	3	8	15	8	9	12
Mortgaged for Business Purposes	15	16	24	3	6	12	2	5	9	17	18	21
Used as Collateral	7	7	11	6	12	22	2	6	12	11	11	16
N	734	693	457	612	351	204	734	310	166	734	708	537

2009

Characteristic	Residential Total[3]	Residential Owned[4]	Residential Mortg[5]	Business[1] Total[3]	Business[1] Owned[4]	Business[1] Mortg[5]	Investment[2] Total[3]	Investment[2] Owned[4]	Investment[2] Mortg[5]	All Real Estate Total[3]	All Real Estate Owned[4]	All Real Estate Mortg[5]
Own (at least one)	93%			49%			39%			95%		
1st Mortgage	63	67%		27	55%		21	56%		71	75%	
2nd Mortgage	17	18	27%	3	6	10%	3	7	13%	20	21	28%
Upside-Down	9	10	15	1	2	5	3	8	15	13	14	19
Mortgaged for Business Purposes	16	17	25	8	16	29	5	13	23	21	22	29
Used as Collateral	6	7	10	5	11	19	3	9	16	11	14	16
N	635	618	416	533	248	135	635	278	168	635	609	472

1 Excludes home-based businesses.
2 When more than one owned, refers to the largest.
3 Total population; the denominator is the total small employer population.
4 The population owning at least one property; the denominator is the population owning at least one property.
5 The population with at least one mortgaged property; the denominator is the number of small employers with at least one mortgaged property.

Small Business and Access to Credit

(Please review notes at the table's end.)

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

1. Do current business conditions offer lots of business opportunities, some opportunities, few opportunities, or no business opportunities?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Lots of business opportunities	10.0%	14.0%	15.8%	21.4%	11.2%
2. Some business opportunities	37.7	45.2	43.9	42.9	39.1
3. Few business opportunities	40.2	32.3	33.3	32.1	38.6
4. No business opportunities	11.3	6.5	7.0	3.6	10.3
5. DK/Refused	0.7	2.1	—	—	0.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

2. What is the most important *finance problem* facing your business today?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. An inability to obtain credit	12.4%	8.9%	11.7%	6.7%	11.8%
2. Slow or poor sales	29.9	30.0	21.7	16.7	28.9
3. Real estate values	4.6	2.2	3.3	3.3	4.2
4. The cost and/or terms of credit	1.9	3.3	3.3	6.7	2.3
5. The unpredictability of business conditions	24.9	26.7	28.3	30.0	25.5
6. (Receivables/Cash flow)	4.0	12.2	3.3	6.7	4.1
7. (Something else)	8.6	6.8	13.3	13.3	8.9
8. No finance problems	12.7	17.8	15.0	16.7	13.5
9. DK/Refused	1.0	—	—	—	0.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

2a. Is that unpredictability primarily about economic conditions or about policy and political conditions?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Economic Conditions	50.0%	50.0%	—%	—%	49.0%
2. Policy/Political Conditions	27.2	20.8	—	—	27.1
3. (Both)	22.8	29.2	—	—	23.8
4. DK/Refused					
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	86	52	45	43	226

3. Compared to 12 months ago, has obtaining credit for small businesses like yours become?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Much less difficult	0.6%	2.2%	—%	3.6%	0.8%
2. Less difficult	2.8	2.2	3.5	10.7	3.0
3. Not changed	22.7	28.9	26.3	35.7	24.0
4. More difficult	13.5	26.7	26.3	21.4	16.0
5. Much more difficult	16.9	12.2	17.5	10.7	16.3
6. You can't really judge	40.4	25.6	24.6	17.9	37.0
7. DK/Refused	3.1	2.2	1.8	—	2.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

4. Please think about the financial institutions, such as banks, credit unions, or finance companies that this firm uses. How many financial institutions does the firm use for business purposes?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. None	3.4%	0.0%	1.8%	0.0%	2.8%
2. One	43.4	29.0	32.1	25.0	40.5
3. Two	30.0	40.9	30.4	28.6	31.2
4. Three	14.6	17.2	19.6	21.4	15.4
5. Four	3.5	6.5	7.1	7.1	4.2
6. Five or more	5.0	6.5	9.0	17.8	5.9
7. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

5. Think of the firm's most important or PRIMARY financial institution. Is it a bank, a credit union, a savings and loan, or another type of financial institution?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Bank	89.6%	91.2%	91.2%	96.4%	90.1%
2. Credit union	5.3	2.2	3.5	—	4.7
3. Savings and loan	0.6	2.2	—	—	0.7
4. Other	4.3	4.4	5.3	3.5	4.3
5. DK/Refused	0.2	—	—	—	0.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	342	200	157	140	839

6. I am going to read you a list of large banks in the United States. Please tell me if the PRIMARY financial institution for the business is one of them: Bank of America, JP Morgan/Chase, Wells Fargo, Citibank, HSBC, U.S. Bank, Wachovia, SunTrust, or PNC? (If a "bank" in Q#5.)

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	40.6%	36.6%	37.7%	38.5%	39.9%
2. No	59.0	63.4	60.4	61.5	59.7
3. (Don't have primary institution)	0.3	—	1.9	—	0.4
4. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	309	182	145	134	770

7. Is it one of these: RBS Citizens, BB&T, Regions, TD Bank, Key, PNC, Fifth Third, State Street, Union, or Bank of New York/Mellon?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	14.4%	15.4%	22.6%	12.5%	15.0%
2. No	85.6	84.6	77.4	87.5	85.0
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	185	115	87	82	469

8. Is the firm's primary financial institution best described as an Internet bank with virtually no locations like ING, a regional bank with several branches, or a local bank with a few branches at most?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Internet bank	—%	—%	—%	—%	—%
2. Regional bank	39.2	40.9	50.0	35.7	39.9
3. Local bank	56.1	59.1	50.0	64.3	56.3
4. DK/Refused	4.8	—	—	—	3.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	159	98	67	70	394

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

8a. Compared to three years ago, 2007, is there much more, slightly more, about the same, slightly less, or much less competition for this firm's banking business?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Much more competition	9.4%	11.1%	8.8%	10.7%	9.6%
2. More competition	13.6	12.2	21.1	17.9	14.1
3. About the same	39.8	47.8	36.8	39.3	40.4
4. Less competition	11.9	13.3	15.8	10.7	12.3
5. Much less competition	11.2	7.8	14.0	10.7	11.0
6. DK/Refused	14.1	7.8	3.6	10.7	12.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

9. In the last 12 months, did you ATTEMPT to?

A. Get a NEW line of credit for the business, NOT including credit cards and NOT including renewals of an existing line?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	15.5%	20.9%	31.0%	35.7%	17.8%
2. No	84.4	79.1	69.0	64.3	82.1
3. DK/Refused	0.1	—	—	—	0.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

A1. What was the outcome of the firm's *most recent* attempt? You:

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Obtained the new line with a satisfactory limit AND terms	34.6%	—%	—%	50.0%	38.4%
2. Obtained the new line, but with an unsatisfactory limit OR terms	11.5	—	—	20.0	12.6
3. Didn't take the new line because the limit or terms were UNACCEPTABLE	20.2	—	—-	10.0	17.2
4. Were not able to obtain the new line	31.7	—	—	20.0	29.1
5. DK/Refused	1.9	—	—	—	2.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	61	43	45	52	201

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

A2. What was unsatisfactory or unacceptable about the new line? (Open ended and code)

1. Inadequate line amount/limit	—%	—%	—%	—%	23.3%
2. Collateral demands	—	—	—	—	2.3
3. Personal guarantee	—	—	—	—	—
4. Interest rate and/ or points	—	—	—	—	41.9
5. Term or duration of line	—	—	—	—	9.3
6. Drawdown requirements	—	—	—	—	4.7
7. Other	—	—	—	—	18.6
8. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	19	12	8	13	52

A3. Was this attempt made at the firm's primary financial institution?

1. Yes	75.2%	—%	—%	80.0%	76.3%
2. No	24.8	—	—	20.0	23.7
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	61	43	45	52	201

A4. How many different financial institutions were approached to try to get the line?

1. One	50.5%	—%	—%	62.5%	50.3%
2. Two	9.7	—	—	25.0	15.2
3. Three	19.4	—	—	12.5	18.6
4. Four	7.8	—	—	—	6.9
5. Five or more	10.7	—	—	—	7.6
6. DK/Refused	1.9	—	—	—	1.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	61	43	45	52	201

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

B. Extend or renew an existing line of credit for the business, NOT including credit cards?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	20.8%	39.1%	43.1%	53.6%	25.4%
2. No	78.4	60.9	56.9	46.4	74.0
3. DK/Refused	0.7	—	—	—	0.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

B1. What was the outcome of the firm's most *recent attempt*? You:

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Extended or renewed the line with a satisfactory limit AND terms	54.2%	60.0%	61.5%	66.7%	56.9%
2. Extended or renewed the line, but with an unsatisfactory limit OR terms	12.7	22.9	15.4	20.0	15.1
3. Didn't take the line because the limit or terms were UNACCEPTABLE	9.2	5.7	3.8	6.7	7.8
4. Were not able to extend or renew the line of credit	17.6	11.4	15.4	6.7	15.6
5. DK/Refused	6.3	—	3.8	—	4.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	77	79	69	76	301

B2. What was unsatisfactory or unacceptable about extending the line?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Inadequate line amount/limit	—%	—%	—%	—%	29.8%
2. Collateral demands	—	—	—	—	—
3. Personal guarantee	—	—	—	—	4.3
4. Interest rate and/or points	—	—	—	—	36.2
5. Term or duration of line	—	—	—	—	4.3
6. Drawdown requirements	—	—	—	—	—
7. Other	—	—	—	—	25.5
8. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	17	21	13	19	70

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

B3. Was this attempt made at the firm's primary financial institution?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	83.0%	86.1%	96.0%	93.3%	85.7%
2. No	13.5	13.9	4.0	6.7	12.0
3. DK/Refused	3.5	—	—	—	2.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	77	79	69	76	301

C. Get a loan for business purposes from a financial institution, NOT including a line of credit or a credit card?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	11.5%	13.2%	24.6%	35.7%	13.3%
2. No	87.8	86.8	75.4	64.3	86.1
3. DK/Refused	0.7	—	—	—	0.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

C1. What was the outcome of the most recent attempt? You:

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Obtained the loan with a satisfactory amount AND terms	—%	—%	—%	60.0%	43.0%
2. Obtained the loan, but with an unsatisfactory amount OR terms	—	—	—	10.0	13.2
3. Didn't take the loan because the amount or terms were UNACCEPTABLE	—	—	—	—	5.3
4. Were not able to obtain the loan	—	—	—	20.0	36.0
5. DK/Refused	—	—	—	10.0	2.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	43	27	37	51	158

C2. Was this attempt made at the firm's primary financial institution?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	—%	—%	—%	80.0%	72.4%
2. No	—	—	—	20.0	27.6
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	43	27	37	51	158

C3. How many different financial institutions were approached to try to get the loan?

	Employee Size of Firm 1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. One	—%	—%	—%	60.0%	59.6%
2. Two	—	—	—	20.0	16.7
3. Three	—	—	—	10.0	13.2
4. Four	—	—	—	10.0	4.4
5. Five or more	—	—	—	—	6.2
6. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	43	27	37	51	158

D. Get a credit card or cards for business purposes?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	18.1%	15.2%	15.8%	21.4%	17.8%
2. No	81.3	84.8	84.2	78.6	81.8
3. DK/Refused	0.6	—	—	—	0.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

D1. What was the outcome of the firm's most recent request? You:

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Obtained the card with a satisfactory limit AND terms	64.5%	—%	—%	—%	65.8%
2. Obtained the card, but with an unsatisfactory limit OR terms	11.3	—	—	—	9.9
3. Didn't take the card because the limit or terms were UNACCEPTABLE	8.1	—	—	—	7.9
4. Were not able to obtain a card	15.3	—	—	—	15.8
5. DK/Refused	0.8	—	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	67	31	25	30	153

D2. Was the most recent request for a business card with the firm's name on it or a personal card with the owner's name on it?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Business	78.0%	—%	—%	—%	78.7%
2. Personal	19.5	—	—	—	19.3
3. DK/Refused	2.4	—	—	—	2.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	67	31	25	30	153

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

D4. How many times did the firm apply to try to get the most recent card?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. One	84.7%	—%	—%	—%	86.6%
2. Two	4.0	—	—	—	4.0
3. Three	5.6	—	—	—	4.7
4. Four	0.8	—	—	—	0.7
5. Five or more	—	—	—	—	—
6. DK/Refused	4.8	—	—	—	4.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	67	31	25	30	153

10. In the last 12 months, has the business been able to get all of the credit it wanted, most of the credit, some of the credit, or none of the credit the firm wanted?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. All of the credit wanted	37.9%	47.3%	48.7%	57.1%	41.2%
2. Most of the credit wanted	19.5	16.4	15.4	19.0	18.6
3. Some of the credit wanted	18.1	20.0	17.9	19.0	18.4
4. None of the credit wanted	17.8	12.7	15.4	4.8	16.2
5. DK/Refused	6.7	3.6	2.6	—	5.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	161	119	104	113	497

10a. How did the firm, or will the firm, use the credit it obtained? Is the firm using it for:? How would the firm have used the credit it wanted, but could not obtain? Would the firm have used it for:?

A. Cash flow or day-to-day operating costs

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	64.2%	55.8%	58.3%	50.0%	61.7%
2. No	35.8	44.2	41.7	50.0	38.3
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	151	114	101	111	447

B. Real estate or structures

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	20.5%	21.6%	26.3%	27.3%	21.6%
2. No	78.8	78.4	71.1	72.7	77.6
3. DK/Refused	0.7	—	2.6	—	0.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	151	114	101	111	447

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
C. Replacement of old plant, equipment, or vehicles					
1. Yes	34.2%	33.3%	40.5%	36.4%	34.8%
2. No	65.1	66.7	59.5	63.5	64.7
3. DK/Refused	0.7	—	—	—	0.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	151	114	101	111	447
D. Investment in additional plant, equipment, or vehicles					
1. Yes	34.4%	36.5%	48.6%	40.9%	36.4%
2. No	65.6	63.5	51.4	59.1	63.6
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	151	114	101	111	447
E. Repayment of debt					
1. Yes	21.5%	25.5%	29.7%	18.2%	22.6%
2. No	78.5	74.5	70.3	81.8	77.4
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	151	114	101	111	447
F. Reserve or cushion					
1. Yes	34.9%	33.3%	39.5%	27.3%	34.7%
2. No	65.1	66.7	60.5	72.7	65.3
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	151	114	101	111	447
G. Inventory					
1. Yes	41.9%	34.6%	32.4%	22.7%	39.0%
2. No	57.3	65.4	67.6	77.3	60.5
3. DK/Refused	0.7	—	—	—	0.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	151	114	101	111	447

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

11. In the last 12 months, was there credit the firm wanted, but did not apply for, because management didn't think you could get it?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	25.4%	24.5%	23.7%	9.1%	24.3%
2. No	71.2	75.5	76.3	90.9	73.3
3. DK/Refused	0.7	—	—	—	0.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	161	119	104	113	497

12. You indicated that the firm did not try to get any of these types of credit in the last 12 months. Was that because management did NOT want any credit or was it because management thought it couldn't get the credit even if it tried?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Didn't want credit	79.2%	86.5%	90.0%	100.0%	80.5%
2. Didn't think could get credit	16.1	13.5	10.0	—	15.4
3. DK/Refused	4.7	—	—	—	4.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	193	82	56	28	359

13. Does this business currently have a line of credit, NOT including credit cards, with one or more financial institutions?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	42.0%	59.3%	69.0%	78.6%	46.9%
2. No	56.9	40.7	31.0	21.4	52.3
3. DK/Refused	1.0	—	—	—	0.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

13a. How many different lines of credit does the firm have?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. One	66.9%	68.5%	65.8%	65.0%	66.9%
2. Two	23.2	20.4	23.7	25.0	23.0
3. Three	4.2	7.4	7.9	10.0	5.3
4. Four	2.1	—	—	—	1.5
5. Five or more	1.1	1.9	—	—	1.1
6. DK/Refused	2.5	1.9	2.6	—	2.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	149	119	108	108	484

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

13b. (Think of the firm's largest line.) Is that credit line held at the PRIMARY financial institution?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	85.2%	87.0%	84.6%	85.7%	85.4%
2. No	14.1	13.0	15.4	14.3	14.1
3. DK/Refused	0.7	—	—	—	0.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	149	119	108	108	484

13b1. Is the line held at:? (If "No" in Q#13b.)

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. A finance company, such as GE Credit or Ford Motor Credit	—%	—%	—%	—%	13.2%
2. A bank	—	—	—	—	49.1
3. A credit union	—	—	—	—	7.5
4. An S & L	—	—	—	—	9.4
5. (Other)	—	—	—	—	17.0
6. DK/Refused	—	—	—	—	3.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	23	15	17	16	71

13c. (Again, thinking of the firm's largest credit line.) In the last 12 months has the financial institution changed the size, interest rate, collateral requirements, OR other terms of the line, such as requiring a personal guarantee?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	24.2%	25.5%	28.2%	36.4%	25.4%
2. No	71.6	70.9	69.2	63.6	70.8
3. DK/Refused	4.2	3.6	2.6	—	3.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	149	119	108	108	484

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

13c1. What did the institution do?

1. Cut line size	—%	—%	—%	—%	11.0%
2. Increased line size	—	—	—	—	5.0
3. Raised interest rates	—	—	—	—	15.0
4. Lowered interest rates	—	—	—	—	11.0
5. Increased collateral requirements	—	—	—	—	18.0
6. Required personal guarantee	—	—	—	—	23.0
7. Decided not to extend line, cut it off, cancelled it entirely	—	—	—	—	1.0
8. Other	—	—	—	—	16.0
9. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	37	30	30	38	135

13c2. How did that decision impact the business? Was it:?

1. Very harmful	—%	—%	—%	—%	3.9%
2. Harmful	—	—	—	—	19.6
3. More irritating than harmful	—	—	—	—	50.0
4. No impact	—	—	—	—	20.6
5. Helpful	—	—	—	—	3.9
6. Very helpful	—	—	—	—	2.0
7. DK/Refused					
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	37	30	30	38	135

14. Does the business currently have a loan, NOT including credit cards or credit lines, with one or more financial institutions?

1. Yes	27.6%	41.8%	50.0%	51.9%	31.4%
2. No	71.5	58.2	50.0	48.1	67.9
3. DK/Refused	0.8	—	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

14a. How many different business loans with financial institutions does the firm have?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. One	57.7%	54.1%	44.8%	35.7%	54.6%
2. Two	26.5	24.3	20.7	28.6	25.7
3. Three	7.4	16.2	13.8	7.1	9.3
4. Four	2.6	2.7	6.9	7.1	3.3
5. Five or more	3.1	2.7	13.8	21.4	5.2
6. DK/Refused	2.6	—	—	—	1.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	103	84	79	73	339

14b. (Think of the largest business loan.) Is that business loan held at the firm's primary financial institution?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	71.8%	71.1%	79.3%	73.3%	72.6%
2. No	28.2	28.9	20.7	26.7	27.4
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	103	84	79	73	339

14b1. Is that business loan held by:?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. A finance company, such as GE Credit or Ford Motor Credit	—%	—%	—%	—%	31.5%
2. A bank	—	—	—	—	53.4
3. A credit union	—	—	—	—	6.8
4. (Other)	—	—	—	—	8.2
5. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	32	23	16	19	90

14c. (Again, thinking of the largest business loan.) In the last 12 months, has the lending institution changed any aspect of the loan, including calling it in?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	6.4%	10.3%	10.3%	13.3%	7.8%
2. No	93.0	89.7	89.7	86.7	91.1
3. DK/Refused	0.5	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	103	84	79	73	339

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
	Employee Size of Firm				

A personal credit card has an individual's name on it. A business credit card has a business name on it. Credit cards do NOT include check cards or cards that are EXCLUSIVELY debit cards.

15. Do you use a personal credit card or cards to pay business expenses? (Employee-managers in Q#D1 excluded.)

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	45.8%	36.7%	40.8%	50.0%	44.6%
2. No	53.6	63.3	59.2	50.0	54.9
3. DK/Refused	0.7	—	—	—	0.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	317	174	136	107	734

15a. On average, about how much per month in new business expenditures does the firm charge to personal credit cards?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Less than $500	31.8%	20.8%	23.8%	9.1%	29.6%
2. $500 to less than $1,000	20.7	17.2	14.3	9.1	19.6
3. $1,000 to less than $2,500	16.1	17.2	19.0	27.3	16.7
4. $2,500 to less than $5,000	10.7	17.2	14.3	9.1	11.8
5. $5,000 to less than $10,000	6.1	13.8	9.5	9.1	7.0
6. $10,000 or more	6.8	10.3	14.3	27.3	8.2
7. DK/Refused	7.9	3.4	4.8	9.1	7.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	141	63	56	55	315

15b. Are the business expenses charged to personal credit cards generally paid in full each month or do balances typically remain?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Paid in full	71.7%	75.9%	65.0%	90.9%	72.3%
2. Balances remain	25.1	24.1	35.0	9.1	25.1
3. DK/Refused	3.2	—	—	—	2.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	141	63	56	55	315

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

15c. On average, what is the balance of business charges on personal credit cards after payments are made?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Less than $500	—%	—%	—%	—%	22.2%
2. $500 to less than $1,000	—	—	—	—	13.6
3. $1,000 to less than $2,500	—	—	—	—	17.3
4. $2,500 to less than $5,000	—	—	—	—	11.1
5. $5,000 to less than $10,000	—	—	—	—	11.1
6. $10,000 or more	—	—	—	—	17.3
7. DK/Refused	—	—	—	—	7.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	33	15	18	4	70

16. Does the firm use a business credit card or cards to pay business expenses?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	53.6%	71.4%	74.1%	75.0%	57.6%
2. No	44.5	28.6	25.9	25.0	40.9
3. DK/Refused	1.9	—	—	—	1.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

16a. On average, about how much per month in new business expenditures does the firm charge to business credit cards?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Less than $500	17.9%	12.3%	11.9%	4.8%	16.1%
2. $500 to less than $1,000	14.0	9.2	9.5	4.8	12.6
3. $1,000 to less than $2,500	24.2	15.4	11.9	9.5	21.3
4. $2,500 to less than $5,000	20.9	20.0	14.3	23.8	20.3
5. $5,000 to less than $10,000	7.7	7.7	19.0	14.3	8.9
6. $10,000 or more	6.0	27.7	26.2	38.1	12.0
7. DK/Refused	9.3	7.7	7.2	4.8	8.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	200	143	118	106	567

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

16b. Are the business expenses charged to business credit cards generally paid in full each month or do balances typically remain?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Paid in full	74.7%	81.5%	85.7%	95.2%	77.4%
2. Balances remain	25.3	18.5	14.3	4.8	22.6
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	200	143	118	106	567

16c. On average, what is the balance of charges on business credit cards after payments are made?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Less than $500	—%	—%	—%	—%	4.7%
2. $500 to less than $1,000	—	—	—	—	9.3
3. $1,000 to less than $2,500	—	—	—	—	19.6
4. $2,500 to less than $5,000	—	—	—	—	15.0
5. $5,000 to less than $10,000	—	—	—	—	16.8
6. $10,000 or more	—	—	—	—	25.2
7. DK/Refused	—	—	—	—	9.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	48	26	17	7	98

17. Think of the credit card that over the last 12 months has been most important in conducting your business. Is that card a business credit card or a personal credit card? (Excludes respondents using one type of or the other exclusively.)

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Business	69.7%	—%	—%	—%	69.6%
2. Personal	30.3	—	—	—	29.8
3. DK/Refused	—	—	—	—	0.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	74	40	38	37	189

18. Thinking about the most important card used over the last 12 months, has the institution that issued that most important card changed any aspect of it, including cancelling it?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	22.0%	13.2%	16.7%	8.0%	20.0%
2. No	75.2	84.2	81.3	88.0	77.2
3. DK/Refused	2.8	2.6	2.1	4.0	2.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	267	166	136	124	693

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

18a. What did the card issuer do?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Raised the minimum monthly payment	—%	—%	—%	—%	—%
2. Lowered the minimum monthly payment	—	—	—	—	—
3. Raised the interest rate	34.0	—	—	—	33.6
4. Lowered the interest rate	1.8	—	—	—	1.6
5. Raised the credit limit	0.9	—	—	—	0.8
6. Lowered the credit limit	17.4	—	—	—	20.0
7. Changed the type (or rewards) of the card	1.8	—	—	—	1.6
8. Cancelled the card	5.5	—	—	—	5.6
9. Shortened the grace period	—	—	—	—	—
10. Lengthened the grace period	—	—	—	—	—
11. Other (list)	26.6	—	—	—	26.4
12. DK/Refused	11.9	—	—	—	10.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	55	21	21	10	107

18b. How did that decision impact the business? Was it?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Very harmful	—%	—%	—%	—%	11.2%
2. Harmful	—	—	—	—	17.2
3. More irritating than harmful	—	—	—	—	50.0
4. No impact	—	—	—	—	16.4
5. Helpful	—	—	—	—	—
6. Very helpful	—	—	—	—	5.2
7. DK/Refused					
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	49	21	20	9	99

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

19. Does the business currently extend credit to most customers, to select customers, to customers who ask for it, OR to no customers?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Most customers	28.9%	29.3%	39.7%	53.6%	30.5%
2. Select customers	24.5	27.2	27.6	17.9	24.8
3. Customers who ask for it	7.2	8.7	6.9	3.6	7.2
4. Don't extend credit to any customers	38.3	32.6	25.9	25.0	36.4
5. DK/Refused	1.0	2.2	—	—	1.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

19a. Over the last 12 months, has the firm's credit policy tightened a lot, tightened a little, loosened a little, loosened a lot, or has it not changed?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Tightened a lot	12.7%	16.5%	15.5%	10.7%	13.2%
2. Tightened a little	13.9	16.5	22.4	17.9	14.9
3. Not changed	68.3	63.7	55.2	71.4	67.0
4. Loosened a little	2.5	3.3	3.4	—	2.6
5. Loosened a lot	1.6	—	1.7	—	1.4
6. DK/Refused	1.0	—	1.7	—	0.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

19b. Receivables are the amount of money owed to the firm. Roughly, what percent of the firm's receivables in dollar terms, is 60 days or more delinquent?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. None	30.1%	16.9%	7.0%	14.3%	26.2%
2. < 10%	27.2	37.3	41.9	42.9	30.1
3. 10% to 32%	24.8	28.8	34.9	33.3	26.4
4. 33% to 50%	11.9	10.2	7.0	4.8	11.0
5. > 50%	4.1	3.4	4.7	4.8	4.1
6. DK/Refused	1.9	3.4	4.6	—	2.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	220	132	117	104	573

19b1. How does that compare to last year at this time? Are delinquencies:?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Much higher	6.7%	5.3%	4.9%	4.8%	6.3%
2. Higher	19.6	22.8	24.4	14.3	20.1
3. About the same	61.4	63.2	61.0	66.7	61.8
4. Lower	8.7	8.8	9.8	9.5	8.8
5. Much lower	2.5	—	—	4.8	2.1
6. DK/Refused	1.2	—	—	—	1.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	215	126	112	103	556

20. Approximately, what percentage of the firm's purchases in dollar terms is financed using trade credit, that is, credit provided by suppliers?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. None	45.6%	28.3%	27.6%	32.1%	42.1%
2. 10 percent	8.6	12.0	8.6	14.3	9.1
3. 25 percent	8.1	10.9	10.3	10.7	8.7
4. 50 percent	9.3	6.5	8.6	7.1	8.9
5. 75 percent	6.8	9.8	6.9	3.6	7.0
6. 90 percent	4.1	10.9	10.3	10.7	5.5
7. Virtually all	12.5	14.1	20.7	17.9	13.5
8. DK/Refused	5.0	7.6	6.9	3.6	5.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

20a. Over the last 12 months, have the firm's SUPPLIERS, as a group, tightened their credit policy a lot, tightened it a little, loosened it a little, loosened it a lot, have not changed it, OR does the firm always pay at the time of purchase?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Tightened a lot	9.0%	10.8%	10.0%	10.5%	9.4%
2. Tightened a little	20.5	18.5	20.0	21.1	20.2
3. Not changed	50.5	61.5	57.5	57.9	52.9
4. Loosened a little	3.6	3.1	5.0	5.3	3.7
5. Loosened a lot	0.5	—	—	—	0.4
6. Always pay at the time of purchase	15.3	6.2	7.5	5.3	13.1
7. DK/Refused	0.5	—	—	—	0.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	199	140	112	94	545

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

20a1. Compared to last year at this time, is this firm paying its outstanding trade credit bills:?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Much faster	0.7%	1.7%	—%	—%	0.7%
2. Faster	7.5	10.0	5.6	5.3	7.6
3. About the same	71.3	70.0	72.2	78.9	71.6
4. Slower	17.3	16.7	19.4	10.5	17.1
5. Much slower	3.3	1.7	2.8	5.3	3.1
6. DK/Refused					
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	170	132	101	91	494

20a2. Over the last 12 months, has any supplier that offers trade credit to business customers denied a request for trade credit from this firm?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	6.8%	3.3%	8.1%	5.6%	6.4%
2. No	92.9	96.7	91.1	94.4	93.4
3. DK/Refused	0.3	—	—	—	0.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	170	132	101	91	494

21. Over the last 12 months, has the owner or owners actively attempted to raise equity capital for the business by selling a portion of it to non-owners?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	2.7%	2.2%	5.1%	7.1%	2.9%
2. No	97.2	97.8	93.2	92.9	96.9
3. DK/Refused	0.1	—	1.7	—	0.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

22. Is this business operated primarily from the home, including any associated structures, such as a garage or a barn?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	35.4%	5.5%	3.4%	3.6%	29.0%
2. No	63.7	94.5	96.6	96.4	70.3
3. DK/Refused	0.9	—	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

23. Do you own all or part of the building or land on which your business is located? (Employee-managers in Q#D1 excluded.)

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	47.7%	66.7%	59.6%	54.5%	51.7%
2. No	50.8	33.3	40.4	40.9	47.0
3. DK/Refused	1.5	—	—	4.5	1.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	213	165	130	104	612

23a. Is there a mortgage on that property?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	48.9%	59.2%	63.0%	66.7%	52.9%
2. No	50.5	38.8	37.0	33.3	46.4
3. DK/Refused	0.5	2.0	—	—	0.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	107	110	75	59	351

23b. Is there a second mortgage on that property?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	5.5%	10.3%	—%	—%	7.6%
2. No	94.5	89.7	—	—	92.4
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	52	64	47	41	204

23c. Do you plan to refinance a mortgage on this property in the next 12 months?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	15.6%	17.2%	—%	—%	15.3%
2. No	83.3	38.8	—	—	84.0
3. DK/Refused	1.1	2.0	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	52	64	47	41	204

23d. Is the property upside down, that is, is this property worth LESS on the open market today than the mortgage or mortgages on it?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	2.2%	10.3%	—%	—%	4.1%
2. No	97.8	89.7	—	—	95.9
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	52	64	47	41	204

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

23e. Was one or more of the mortgages taken out on this property to finance other business activities?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	8.9%	17.2%	—%	—%	11.8
2. No	91.1	82.8	—	—	88.2
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	52	64	47	41	204

23f. Is this property being used to collateralize the purchase of other business assets?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	10.2%	12.0%	14.3%	27.3%	11.6%
2. No	89.8	86.0	85.7	72.2	88.0
3. DK/Refused	—	2.0	—	—	0.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	104	110	75	59	351

24. Do you own your residence?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	93.3%	94.9%	95.9%	95.2%	93.7%
2. No	5.9	5.1	4.1	4.8	5.7
3. DK/Refused	0.8	—	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	317	174	136	107	734

24a. Do you have a mortgage on that property?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	64.5%	65.3%	66.0%	75.0%	65.0%
2. No	35.5	33.3	34.0	25.0	34.9
3. DK/Refused	—	1.3	—	—	0.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	297	164	130	102	693

24b. Do you have a second mortgage on that property?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	26.1%	24.5%	25.8%	33.3%	26.1%
2. No	73.9	75.5	74.2	66.7	73.9
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	191	107	85	74	457

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

24c. Is this property being used to collateralize the purchase of other business assets?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	6.5%	6.8%	10.4%	20.0%	7.2%
2. No	93.3	93.2	89.6	80.0	92.7
3. DK/Refused	0.2	—	—	—	0.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	297	164	130	102	693

24d. Was one or more of the mortgages taken out on this property to finance other business activities?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	24.4%	22.4%	29.0%	13.3%	24.1%
2. No	75.6	77.6	71.0	86.7	75.9
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	191	107	85	74	457

24e. Is this property being used to collateralize the purchase of other business assets?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	6.5%	6.8%	10.4%	20.0%	7.2%
2. No	93.3	93.2	89.6	80.0	92.7
3. DK/Refused	0.2	—	—	—	0.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	297	164	130	102	693

24f. Do you own a second home, one primarily used for personal rather than rental or business purposes?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	20.1%	27.0%	34.0%	35.0%	22.2%
2. No	93.3	93.2	89.6	80.0	92.7
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N 297	164	130	102	692	

25. Do you own investment real estate property, including undeveloped land, commercial or residential buildings, or other real estate assets, NOT including your business or your home?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	34.8%	39.2%	51.0%	52.4%	36.8%
2. No	63.7	58.2	49.0	47.6	61.8
3. DK/Refused	1.4	2.5	—	—	1.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	317	174	136	102	734

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

25a. Do you have one such investment, two, three, four or more than four?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. One	34.7%	32.3%	36.0%	16.7%	33.8%
2. Two	21.6	16.1	24.0	16.7	21.0
3. Three	17.8	9.7	12.0	16.7	16.4
4. Four	3.3	12.9	4.0	16.7	5.0
5. More than four	22.5	29.0	24.0	33.3	23.8
6. DK/Refused					
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	114	69	69	58	310

25b. (Think of the largest single real estate investment you have.) Do you have a mortgage on that property?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	46.9%	54.8%	57.7%	58.3%	49.3%
2. No	53.1	45.2	42.3	41.7	50.7
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	114	69	69	58	310

25c. Do you have a second mortgage on that property?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	10.0%	—%	—%	—%	9.4%
2. No	83.0	—	—	—	84.8
3. DK/Refused	2.0	—	—	—	1.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	53	38	40	35	166

25d. Is this property being used to collateralize the purchase of other business assets?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	5.6%	—%	11.5%	8.3%	5.7%
2. No	94.4	100.0	88.5	91.7	94.3
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	114	69	69	58	310

25e. Is the property upside down, that is, is this property worth LESS on the open market today than the mortgage or mortgages on it?

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	17.0%	—%	—%	—%	15.2%
2. No	93.0	—	—	—	84.8
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	53	38	40	35	166

25f. Was one or more of the mortgages taken out on this property to finance other business activities?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	9.0%	—%	—%	—%	9.4%
2. No	91.0	—	—	—	90.6
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	53	38	40	35	166

25g. Is this property being used to collateralize the purchase of other business assets?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Yes	5.6%	—%	11.5%	8.3%	5.7%
2. No	94.4	100.0	88.5	91.7	94.3
3. DK/Refused	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	114	69	69	58	310

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

Demographics

D1. How would you describe your primary business activity?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Agriculture, forestry, fishing	5.5%	2.2%	1.7%	—%	4.7%
2. Construction	11.8	11.0	5.0	7.7	11.1
3. Manufacturing/Mining	5.5	9.9	6.7	7.7	6.1
4. Wholesale trade	5.0	5.5	11.7	7.7	5.6
5. Retail trade	17.3	18.7	12.4	15.4	17.1
6. Transportation/ Warehousing	4.0	3.3	6.7	3.8	4.1
7. Information	1.6	3.3	1.7	3.8	1.9
8. Finance/Insurance	4.6	3.3	3.3	3.8	4.3
9. Real Estate/Leasing	6.1	2.2	3.3	3.8	5.4
10. Professional, Scientific, and Technical Services	17.8	11.0	10.0	15.4	16.4
11. Administrative and Support	5.8	2.2	6.7	7.7	5.5
12. Education Services	0.3	1.1	3.3	—	0.6
13. Health Care and Social Assistance	2.1	4.4	6.7	11.5	2.9
14. Arts, Entertainment, and Recreation	1.0	2.2	3.3	—	1.3
15. Accommodations/ Food Services	3.3	13.2	13.4	7.7	5.2
16. Repair/Personal Services	8.3	6.6	3.3	3.8	7.6
17. Other	0.1	—	—	0.1	0.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

D2. Were your sales in the last calendar or fiscal year:? (in 000s).

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. < $250	40.9%	4.3%	—%	—%	32.9%
2. $250 - $499	20.4	10.9	5.3	3.7	17.8
3. (< $500, undifferentiated)	1.2	—	1.8	—	1.1
4. $500 - $749	9.9	15.2	7.0	—	10.0
5. $750 - $999	4.3	10.9	8.8	—	5.2
6. ($500 - $999, undifferentiated)	1.0	1.1	—	—	0.6
7. $1,000 - $2,499	11.9	27.2	21.1	11.1	14.2
8. $2,500 - $4,999	3.4	18.5	22.8	14.8	6.7
9. $5,000 - $9,999	0.9	4.3	15.8	25.9	3.0
10. $10,000 - $24,999	0.6	2.2	8.8	22.2	2.0
11. $25,000 or more	0.3	1.1	3.5	18.5	1.2
12. ($5,000 +, undifferentiated)	0.7	—	—	—	0.6
13. DK/Refused	4.5	4.4	5.3	3.7	4.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

D3. Business growth (change in employees) over the last three years (2007 – 2010).

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Grow (> 1 employee)	7.7%	20.4%	27.1%	32.1%	11.2%
2. Stable (+1 – -1 employee)	57.3	39.8	33.9	28.6	52.9
3. Loss (2 – 10 employees)	28.6	33.3	27.1	10.7	28.4
4. Large Loss (> 10 employees)	6.5	6.5	11.9	28.6	7.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

D4. Compared to your competitors over the last three years, do you think the overall performance of the business in terms of sales and net profits makes it a:?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Low performer	13.7%	3.3%	6.9%	0.0%	11.7%
2. Somewhat low performer	6.0	6.6	3.4	3.6	5.8
3. Moderate performer	46.2	39.6	44.8	32.1	45.0
4. Somewhat high performer	15.9	27.5	20.7	28.6	17.9
5. High performer	13.8	20.9	24.1	35.7	16.0
6. DK/Refused	4.3	2.2	—	—	13.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

D5. What is the zip code of the business? (Grouped into geographic regions.)

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. East (zips 010-219)	17.4%	17.6%	15.8%	14.8%	17.2%
2. South (zips 220-427)	21.4	27.5	29.8	18.5	22.5
3. Mid-West (zips 430-567)	21.8	16.5	21.1	33.3	21.6
4. Central (zips 570-599, 660-898)	26.3	26.4	21.1	22.2	25.8
5. West (zips 900-999)	13.1	12.1	12.3	11.1	12.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

D6. Which best describes the place the business is located? Is it a:?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Highly urban city	13.0%	13.2%	15.3%	11.1%	13.1%
2. Suburb of highly urban city	17.8	15.4	20.3	18.5	17.8
3. Mid-sized city of about 250,000 or the surrounding area	14.6	18.7	22.0	18.5	15.0
4. Small city of about 50,000 or the surrounding area	18.3	18.7	22.0	22.2	18.7
5. Town or rural area	35.4	34.1	27.1	29.6	34.5
6. DK/Refused	0.8	—	3.4	—	0.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

D7. Which best describes your position in the business?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Owner/Manager	83.6%	80.2%	77.6%	71.4%	82.5%
2. Owner but NOT manager	6.6	6.6	6.9	3.6	6.5
3. Manager but NOT owner	9.7	13.2	15.5	25.0	11.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

D8. Please tell me your age.

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. < 25 years	0.7%	—%	—%	—%	0.6%
2. 25 – 34 years	3.4	3.3	5.3	3.6	3.5
3. 35 – 44 years	13.6	12.1	10.5	10.7	13.1
4. 45 – 54 years	26.7	31.9	26.3	32.1	27.4
5. 55 – 64 years	34.1	35.2	43.9	35.7	34.9
6. 65 + years	20.8	15.4	14.0	14.3	19.6
7. Refuse	0.7	2.2	—	3.6	0.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms

D9. What is your highest level of formal education?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Did not complete high school	1.9%	3.3%	1.7%	—%	2.0%
2. High school diploma/ GED	19.3	11.0	17.2	10.7	18.0
3. Some college or an associate's degree	29.2	23.1	19.0	17.9	27.5
4. Vocational or technical school degree	2.7	4.4	3.4	3.6	2.9
5. College diploma	27.1	35.2	39.7	39.3	29.2
6. Advanced or professional degree	19.1	23.1	19.0	28.6	19.9
7. DK/Refused	0.7	—	—	—	0.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

D10. How long have you owned/operated this business?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. < 3 years	8.6%	8.8%	6.9%	6.9%	8.4%
2. 4 – 6 years	12.1	8.8	3.4	13.8	11.2
3. 7 – 9 years	7.8	8.8	6.9	6.9	7.8
4. 10 – 19 years	25.1	26.8	24.1	24.1	25.1
5. 20 – 29 years	23.7	18.7	32.8	20.7	23.7
6. 30 or more years	21.7	28.6	25.9	24.1	22.8
7. DK/Refused	1.0	—	—	3.4	0.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

D11. Gender

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Male	68.8%	68.5%	74.1%	85.7%	69.7%
2. Female	31.2	31.5	25.9	14.3	30.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	354	201	160	141	856

Table Notes

1. All percentages appearing are **weighted** data.
2. All "Ns" appearing are **unweighted** data.
3. Data are not presented (—) where there are fewer than 50 unweighted cases.
4. ( )s around a response in a question indicates a volunteered answer.
5. DK/Refuse indicates the respondent either did not know or refused to answer.

CAUTION – When reviewing the tables, care should be taken to distinguish between the percentage of the population and the percentage of those asked a particular question; they are not always the same. Not every respondent was asked every question. The denominator of all percentages appearing on the table is the number of respondents asked the question.

Appendix Tables

Variables Defined

# of Clear Properties Held (Assets)	Number of properties owned free and clear, 0 – 3.
# of Credit Types	Number of credit sources (lines, loans, cards) currently being used 0 – 3.
# of Mortgages Held (Mortgages)	Number of mortgages (first or second) held on any property, 0 – 6.
# of Loan Purposes (Purposes)	Number of intended purposes for which credit was sought, 0 - 7.
Bubble States (0, 1 dummy)	0 = else; 1 = AZ, CA, FL, MI, or NV.
Credit Access (Access)	1 to 4 with 1 = all credit needs met and 4 = no credit needs met.
Credit Score (Score)	D&B's PAYDEX score. 1 = lowest score; 100 = highest score.
Credit Card (Card)	0 = lender rejected small employer's application; 1 = lender accepted small employer's application. (See, Table C for variations.)
Discouraged Borrowers	Small employer who does not attempt to borrow because he fears he cannot get credit (see, Q#12).
Employee Size (Size)	Natural log of one plus the number of employees (full- and part-time).
Growth	Employees in 2010 minus employees in 2007; 11 point bracketed scale, 6 = no change; 5 and 7 = 1 – 3 empl. change; 4 and 8 = 4 – 9 empl. change; 3 and 9 = 10 – 24 empl. change; 2 and 10, 25 – 49 empl. change; and 1 and 11 = 25+ empl. change.
Home-Based Business (0, 1 dummy) (Home-Based)	0 = else; 1 = home-based business.
Industry	
Construction (0, 1 dummy)	0 = else; 1 = construction
Manufacturing (0, 1 dummy)	0 = else; 1 = manufacturing
Retail (0, 1 dummy)	0 = else; 1 = retail
Professional, Scientific, and Technical Services (0, 1 dummy) (Prof Serv)	0 = else; 1 = professional, scientific, and technical services.

Large Bank, Primary Financial Institution (0, 1 dummy)	0 = else; 1 = the primary financial institution of a small employee is a bank with over $100 billion in assets.
Line of Credit (0, 1 dummy) (Line)	0 = lender rejected small employer's application; 1 = lender accepted small employer's application. (See, Table C for variations.)
Loan (0, 1 dummy)	0 = lender rejected small employer's application; 1 = lender accepted small employer's application. (See, Table C for variations.)
New Business (0, 1 dummy)	0 = else; 1 = < 4 years old.
Purposeful Non-Borrower	Small employer who does not attempt to borrow because he does not want credit (see, Q#12).
Renewal of Line (Line Renewal)	0 = lender rejected small employer's application; 1 = lender accepted small employer's application. (See, Table C for variations.)
Trade Credit (0, 1 dummy)	0 = uses trade credit; 1 does not use trade Credit.
Urban/Rural	1 to 5 with 1 = most urban and 5 = least urban.

Appendix Table A
Summary Regression* Results of Credit Access (Outcomes)
(1 = All Credit Needs Met to 4 = No Credit Needs Met)

Predictors	B	Std. Err.	Beta	t	Sig.
(Constant)	2.947	.298		9.893	.000
Size	-.009	.052	-.008	-.174	.862
Growth	-.109	.032	-.152	-3.406	.001
New Business	-.290	.172	-.075	-1.687	.092
Home-Based	-.082	.123	-.033	-.662	.508
Construction	-.163	.150	-.050	-1.088	.277
Manufacturing	-.224	.204	-.049	-1.099	.272
Prof. Serv.	.486	.144	.152	3.372	.001
Retail	.126	.144	.040	.870	.385
Bubble States	.237	.119	.087	1.982	.048
Urban/Rural	.049	.034	.065	1.426	.155
Assets	-.126	.069	-.087	-1.812	.071
Mortgages	.121	.046	.126	2.618	.009
Purposes	.213	.035	.277	6.100	.000
Credit Types	-.215	.057	-.176	-3.748	.000
Trade Credit	-.079	.098	-.035	-.801	.424
Credit Score	-.009	.002	-.266	-6.128	.000
Largest Banks	.175	.100	.078	1.745	.082
Banks Used	-.142	.102	-.061	-1.383	.168

R^2 = .317
SEE = 0.942
F = 10.184
Sig. = .000
N = 414

* The results of an ordinary least squares (OLS) regression appear on this page. The technically correct technique for this analysis is ordinal logistic regression because the data for the dependent variable lie on an ordinal rather than an interval or ratio scale. Ordinal logistic regression was also applied to this investigation and effectively yielded the same outcomes as OLS. The results of the more familiar OLS technique are, therefore, presented.

Appendix Table B, Panel I

Summary Logistic Regression Results Distinguishing Tried to Borrow and Purposeful Non-Borrower (0 = Tried to Borrow, 1 = Purposeful Non-Borrower)

Predictors	B	Std. Err.	Wald	Sig.	Exp(B)
Size	-.355	.097	13.383	.000	.701
Growth	.016	.063	.065	.798	1.016
New Business	-.400	.303	1.744	.187	.671
Home-Based Business	-.403	.194	4.300	.038	.669
Construction	-.488	.283	2.976	.085	.614
Manufacturing	.316	.339	.873	.350	1.372
Prof. Serv.	.289	.220	1.727	.189	1.335
Retail	.069	.228	.092	.761	1.072
Bubble States	.239	.197	1.468	.226	1.270
Urban/Rural	.123	.057	4.679	.031	1.131
Assets	.177	.106	2.760	.097	1.193
Mortgages	-.175	.085	4.288	.038	.839
Credit Types	-.531	.095	32.201	.000	.588
Trade Credit	-.362	.160	5.084	.024	.697
Credit Score	.004	.003	2.811	.094	1.004
Largest Banks	-.043	.165	.070	.792	.957
Banks Used	-.073	.167	.194	.660	.929
(Constant)	.921	.509	3.274	.070	2.512

-2 Log likelihood = 966.637

Cox & Snell R^2 = .146

Nagelkerke R^2 = .194

N = 807

Appendix Table B, Panel 2
Summary Logistic Regression Results Distinguishing "Discouraged" and Purposeful Non-Borrowers (0 = Purposeful Non-Borrowers, 1 = Discouraged Borrowers)

Predictors	B	Std. Err.	Wald	Sig.	Exp(B)
Size	.046	.210	.047	.828	1.047
Growth	-.267	.126	4.515	.034	.766
New Business	.089	.580	.023	.878	1.093
Home-Based Business	.474	.360	1.730	.188	1.607
Construction	1.022	.493	4.300	.038	2.779
Manufacturing	-.601	.792	.576	.448	.548
Prof. Serv.	.159	.432	.135	.713	1.172
Retail	.971	.378	6.585	.010	2.640
Bubble States	-.539	.363	2.211	.137	.583
Urban/Rural	-.095	.108	.783	.376	.909
Assets	-.480	.226	4.521	.033	.619
Mortgages	.102	.175	.338	.561	1.107
Credit Types	.299	.180	2.775	.096	1.349
Trade Credit	-.297	.330	.805	.370	.743
Credit Score	-.019	.004	18.493	.000	.981
Largest Banks	.322	.320	1.143	.285	1.380
Banks Used	-.475	.337	1.985	.159	.622
(Constant)	.647	.985	.431	.512	1.909

-2 Log likelihood = 318.595
Cox & Snell R^2 = .129
Nagelkerke R^2 = .224
N = 442

Appendix Table C

Logistic Regression Results of Accepted/Rejected Attempts to Obtain Different Types of Credit by Selected Predictors of Success

	Type of Credit Sought							
Predictors	**New Line (1)**	**New Line (2)**	**Line Renewal (1)**	**Line Renewal (2)**	**Loan (1)**	**Loan (2)**	**Credit Card (1)**	**Credit Card (2)**
Employee Size								
Wald	1.619	.140	1.713	.401	.105	.000	.005	.000
Exp(B)	1.327	.924	1.253	1.132	1.085	.999	1.017	1.100
Sig.	.203	.709	.191	.527	.745	.998	.946	.903
Growth								
Wald	1.239	1.878	.243	1.968	1.666	1.071	.669	.249
Exp(B)	1.158	1.199	1.056	1.189	1.224	1.169	1.135	1.094
Sig.	.266	.171	.622	.161	.197	.301	.413	.618
New Business								
Wald	.454	6.116	.007	.015	1.947	.423	1.238	.015
Exp(B)	.646	.216	1.059	.913	6.789	2.708	2.213	1.100
Sig.	.500	.013	.932	.904	.163	.423	.266	.903
Construction								
Wald	.297	.024	.007	.751	4.117	1.749	.381	1.801
Exp(B)	1.408	.908	.959	.626	7.160	3.406	1.912	9.800
Sig.	.586	.878	.933	.386	.042	.186	.537	.180

Appendix Table C continued

Logistic Regression Results of Accepted/Rejected Attempts to Obtain Different Types of Credit by Selected Predictors of Success

	Type of Credit Sought							
Predictors	**New Line (1)**	**New Line (2)**	**Line Renewal (1)**	**Line Renewal (2)**	**Loan (1)**	**Loan (2)**	**Credit Card (1)**	**Credit Card (2)**
Manufacturing								
Wald	3.187	1.360	.862	3.546	.095	.235	.560	.433
Exp(B)	4.951	3.083	.567	.309	.510	1.796	.490	.512
Sig.	.074	.244	.353	.060	.758	.628	.454	.511
Retail								
Wald	.801	1.378	.184	.172	2.682	2.563	.005	.659
Exp(B)	.543	.464	.794	1.313	.220	.242	.957	1.804
Sig.	.371	.240	.668	.678	.101	.109	.943	.417
Prof. Serv.								
Wald	4.726	1.406	.106	.095	.687	2.921	.189	3.300
Exp(B)	.235	.433	1.254	.797	.510	.262	.782	6.113
Sig.	.030	.236	.744	.758	.407	.087	.664	.069
Mortgages								
Wald	4.470	3.721	7.599	1.869	4.036	3.723	3.705	.264
Exp(B)	.696	.727	1.550	1.263	1.615	1.551	.672	.879
Sig.	.034	.054	.006	.172	.045	.054	.054	.608

Appendix Table C continued

Logistic Regression Results of Accepted/Rejected Attempts to Obtain Different Types of Credit by Selected Predictors of Success

	Type of Credit Sought							
Predictors	**New Line (1)**	**New Line (2)**	**Line Renewal (1)**	**Line Renewal (2)**	**Loan (1)**	**Loan (2)**	**Credit Card (1)**	**Credit Card (2)**
Purposes								
Wald	2.662	.407	5.473	2.367	3.095	5.448	11.113	12.401
Exp(B)	.791	.915	.755	.811	.726	.670	.571	.486
Sig.	.103	.523	.019	.124	.079	.020	.001	.000
Credit Score								
Wald	13.225	6.643	5.180	10.118	11.620	9.500	1.419	1.744
Exp(B)	1.026	1.017	1.012	1.020	1.034	1.027	1.009	1.012
Sig.	.000	.010	.023	.001	.001	.002	.234	.187
Large Bank								
Wald	7.779	5.147	4.201	10.081	6.626	5.647	*	*
Exp(B)	.271	.359	.481	.270	.247	.294	*	*
Sig.	.005	.023	.040	.001	.010	.017	*	*
Bubble States								
Wald	2.834	.862	6.001	.921	12.097	7.585	1.995	2.210
Exp(B)	.394	.626	.330	.632	.069	.180	.496	.417
Sig.	.092	.353	.014	.337	.001	.006	.158	.137

Appendix Table C continued

Logistic Regression Results of Accepted/Rejected Attempts to Obtain Different Types of Credit by Selected Predictors of Success

	Type of Credit Sought							
Predictors	**New Line (1)**	**New Line (2)**	**Line Renewal (1)**	**Line Renewal (2)**	**Loan (1)**	**Loan (2)**	**Credit Card (1)**	**Credit Card (2)**
Urban/Rural								
Wald	5.481	2.573	.507	2.296	3.224	2.276	.131	.979
Exp(B)	.611	.757	.890	.766	.658	.718	.939	1.243
Sig.	.019	.109	.477	.130	.073	.131	.718	.322
Constant								
Wald	.138	1.540	.522	1.189	.155	.192	2.208	1.013
Exp(B)	1.539	4.179	1.960	3.165	.562	1.840	7.545	4.846
Sig.	.710	.215	.470	.276	.693	.661	.137	.314
-2 Log likelihood	155.110	156.424	214.364	175.680	96.994	103.270	135.999	96.660
Cox & Snell R^2	.305	.208	.183	.182	.413	.354	.185	.225
Nagelkerke R^2	.407	.289	.264	.286	.552	.481	.278	.382
N	201	201	301	301	158	158	153	153

(1) Small employers who rejected a credit offer due to unsatisfactory terms and/or conditions are classified as not successful borrowers.

(2) Small employers who rejected a credit offer due to unsatisfactory terms and/or conditions are classified as successful borrowers.

Exp(B) numbers > 1 indicate a positive relationship; Exp(B) numbers < 1 indicate a negative relationship.

*No theoretical or empirical rationale to include in the equation.

Data Collection Methods

The data for this survey report were collected for the NFIB Research Foundation by the executive interviewing group of The Gallup Organization. The interviews for this finance survey were conducted during October 2010 from a sample of small employers. "Small employer" was defined for purposes of this survey as a business owner employing no less than one individual in addition to the owner(s) and no more than 250.

The sampling frame used for the survey was drawn at the Foundation's direction from the files of the Dun & Bradstreet Corporation, an imperfect file but the best currently available for public use. A random stratified sample design is typically employed to compensate for the highly skewed distribution of small-business owners by employee size of firm (Table A1). Almost 60 percent of employers in the United States employ just one to four people meaning that a random sample would yield comparatively few larger small employers to interview. Since size within the small-business population is often an important differentiating variable, it is important that an adequate number of interviews be conducted among those employing more than 10 people. The interview quotas established to achieve these added interviews from larger, small-business owners are arbitrary but adequate to allow independent examination of the 10-19, 20-49, and 50-250 employee size classes as well as the 1-9 employee size group.

Table A1
Sample Composition Under Varying Scenarios

	Expected from Random Sample*		Obtained from Stratified Random Sample			
Employee Size of Firm	**Interviews Expected**	**Percent Distribution**	**Interview Quotas**	**Percent Distribution**	**Completed Interviews**	**Percent Distribution**
1-9	680	80	350	41	354	41
10-19	85	10	200	24	201	24
20-49	60	7	150	18	160	19
50-250	25	3	150	18	141	16
All Firms	850	100	850	101	856	100

* Sample universe developed from the Bureau of the Census (2007 data) and published by the Office of Advocacy at the Small Business Administration.

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