NFIB Research Foundation
The Voice of Small Business.

Small Business, Credit Access, and a Lingering Recession

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Executive Summary

- Uncertainty edges sales as the most important finance issue facing small business. The inability to obtain credit is the third most frequently cited finance issue followed by no finance problems. Half of small-business owners tie uncertainty to economic conditions, one-quarter to political/policy conditions, and one-quarter to a combination of the two.

- A disconnect appears between lenders and small-business owners. Lenders think credit standards have not changed or have eased over the year. Small-business owners think they have tightened. Owners also appear more sanguine over their immediate economic prospects than do lenders.

- Almost half of small-business owners now consider one of the largest 18 banks in the country their primary financial institution. Twenty (20) percent principally patronize a local or community bank, a sharp decline over the past three years. Though comparatively few list a credit union as their principal financial institution, the number has doubled since 2009.

- Competition for small business's banking business steadily increased from 1980 to 2006, but has since declined sharply.

- Small-business owners continue to deleverage, part of a trend since at least 2009. Eighty-eight (88) percent of small employers either have credit outstanding or access to it (lines or cards). That number includes 47 percent with credit lines, 29 percent with a business loan, and 79 percent with a credit card(s) used for business purposes. Twenty-eight (28) percent with a card use it for credit; the remainder use it as a means of payment (transaction device) exclusively.

- The number of small-business owners possessing a business loan (not including lines or cards) fell noticeably between 2008 and 2011, from 44 percent to 29 percent. Possession of credit lines has also fallen 10 percentage points over the period, but not since 2009.

- Small-business owners are increasingly employing personal rather than business cards for business purposes.

- Fifty-seven (57) percent of small employers attempted to obtain credit from a financial institution in the last 12 months, a 9 percentage point increase from 2010 with the demand for lines and cards each rising more than one-third. The demand for line renewals and loans were flat. More attempts resulted in more rejections rather than more small-business owners receiving credit.

- Poorer credit risks were more likely to try to borrow in 2011 than better credit risks, other factors equal. A number of financial factors, such as credit score, differentiate the two groups. Men and owners of larger, small businesses were also more likely than their counter-parts to try to borrow.

- Of those seeking credit from a financial institution in 2011, 34 percent were able to acquire all they wanted, 16 percent most of what they wanted, 24 percent some of what they wanted and 20 percent none of what they wanted. The 50 percent who are classified as getting credit and the 44 percent classified as not is less favorable than the 60 – 35 ratio in 2010, though the same as the 50 – 44 ratio recorded in 2009.

- An estimated 1.6 to 1.7 million small employers (out of 5.8 million) obtained credit from a financial institution in *each* of the last three years. The flat number acquiring credit and increased demand effectively means that none of the added demand acquired credit. All new 2011 market entrants effectively shut-out implies that credit standards changed or that nothing but poor credit risks entered the market during the year.

- In addition to several financial variables, factors differentiating small-business owners who were *less* successful acquiring credit compared to their counter-parts include those: located in states with the worst residential real estate markets, whose primary financial institution is a large bank, who possess smaller, small businesses, located in areas other than rural areas or small towns, increasing employment, and decreasing employment. Credit card holders maintaining balances of more than $10,000 after monthly payments are virtually never able to obtain additional credit.

- Small-business owners had *least* difficulty getting line renewals and credit cards. Seventy (70) percent had line renewals approved and 74 percent had cards approved, though just 59 percent of those attempting acquired either with satisfactory terms and/or conditions. Another 11 percent and 15 percent respectively accepted the credit, but were dissatisfied with the terms and/or conditions.

- Small-business owners had *most* difficulty getting new lines and loans. Forty-six (46) percent were rejected for the former and 35 percent for the latter. Nine percent of prospective borrowers rejected an offered new line and 18 percent rejected an offered loan due to adverse terms and/or conditions. The total not successfully procuring a requested new line was 54 percent and requested loan 53 percent.

- Prospective small-business borrowers wanted credit for an average of two and one-half purposes during 2011. The most frequent purpose was cash flow (63%) with replacement investment (32%) and new investment (37%) among other less common purposes. Those wanting to borrow for fewer purposes were substantially more likely to acquire the desired financing.

- Just over half (52%) of small-business owners did not access the credit markets, at least via financial institutions, in 2011. Non-borrowers divide into disinterested borrowers, that is, those who did not want to borrow (34%), discouraged borrowers, that is, those who did not attempt to borrow because they did not think their request would be approved (7%), and rejected borrowers, that is, those who tried to borrow but were turned-down (11%).

- Fifty-four (54) percent extended trade credit to customers, though 30 points extended it selectively. Those who extended it are tightening their trade credit policies due in part to increasing delinquencies.

- Forty-seven (47) percent use trade credit. Those using large amounts of it, defined as making over 25 percent of purchases using trade credit, are more likely than others to possess more credit lines and loans and to have sought credit lines, loans and cards during the year.

- Small-employers continue to own large amounts of real estate and real estate related issues continue to be a major drag on small-business recovery. Eighty-nine (89) percent own their residence, 18 percent a second home, 20 percent their business premises, and 31 percent investment real estate that includes none of the former types. Overall, 92 percent own some form of real estate.

- Many have shed real estate since 2008 as the number owning residences, business (premises), investment real estate, and all three forms combined has fallen.

- Real estate supports much small-business financing. Nineteen (19) percent of small-business owners are currently using the proceeds from a mortgage to help finance the firm and a non-mutually exclusive 15 percent are currently using their real estate for business collateral.

- Full small-business economic recovery is not likely to occur until the real estate problem is "fixed."

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Small Business, Credit Access, and a Lingering Recession

The year began on an economically encouraging note for small-business owners. Optimism appeared to be trending higher in the last quarter of 2010 and that carried over into 2011. Perhaps, at long last, the recession on Main Street was ending. The Great Recession formally concluded a year and a half earlier, but a declaration of economists and even the newly-found optimism could not hide the fact that small business still struggled. Unfortunately, the increasingly positive conditions during the winter of 2010/2011 proved short-lived. By March conditions and optimism were again deteriorating, bottoming in the third quarter. The economy did not "double-dip". Large firms were doing well enough to prevent that from happening. But on Main Street, matters were far more tenuous. Yet, once again starting in the fourth quarter small-business conditions appeared to reverse themselves and optimism began to grow. Would this finally be it? The end? allowing small-business owners to move into a new and more productive future.

Preliminaries

The data presented in this report primarily come from a nationally representative survey of 850 small-business owners[1] conducted in late 2011. (The details on the survey's conduct appear in Data Collection Methods.) Its sample was drawn from the Dun and Bradstreet files. While NFIB members are undoubtedly present in the sample, the survey reflects the conditions and views of all small employers, not just NFIB members.

The survey questionnaire often references conditions and events in the last 12 months. The text of this report refers to the last 12 months as 2011 for convenience and to distinguish data collected in late 2011 from data collected for similar reports in late 2008, 2009, and 2010.[2] These earlier surveys often provide a frame of reference and comparison for the current data as many of the questions in them are either identical or virtually identical to ones in the 2011 survey. The four surveys effectively form a longitudinal (independent samples) review of the ups and downs of small-business credit access and financial conditions during the latter part of the Great Recession and its immediate aftermath.[3] Unfortunately, the 2008 measuring point is limited for comparative purposes because it inquires about borrowing activity only between the fall of Lehman Brothers and the end of the year. That is about a three-month reference period compared to the longer reference period used in the other three surveys. However, the 2008 data are comparable when

[1] "Small-business owner" for purposes of this report is defined as those employing between one and 250 people in addition to the owner(s).

[2] "Access to Credit," *National Small Business Poll*, (ed.) William J. Dennis, Jr., Vol. 8, Iss. 7, NFIB Research Foundation, Washington, 2008; "Small Business Credit in a Deep Recession," William J. Dennis, Jr., NFIB Research Foundation, Washington, January 2010; and "Small Business and Credit Access," William J. Dennis, Jr., NFIB Research Foundation, Washington, January 2011.

[3] The Great Recession technically began in December 2007 and extended to June 2009.

the question refers to a specific point in time. An example of a non-comparable question is, Did you take out a business loan in the last three months? An example of a comparable question is, Do you currently have a business loan? The result is that 2011 is often compared to 2010 and 2009, but less so to 2008.

This report focuses on the demand side of the credit equation. It inquires about small-business owners' interest and experiences tapping credit markets primarily through financial institutions. The principal detour from credit via financial institutions is the data and discussion on trade credit, a critical source of finance for many small businesses, often ignored when assessing credit availability, and one that can be interchangeable with credit from financial institutions. The supply side of the credit equation is addressed indirectly, through the satisfaction of small-business owners' credit demands and the numbers acquiring it.

Credit requests are not always reasonable given existing obligations, credit records, and projected cash flows. However, without reviewing individual credit requests, it is not possible to individually judge their viability. A credit score and information on outstanding obligations does allow development and assessment of important relationships in the extension of credit to small-business owners. The Dun & Bradstreet PAYDEX credit score is available for most respondents.[4] While PAYDEX is a trade credit scoring system rather than one for financial institutions and therefore offers only a partial picture of credit-worthiness, it does provide an indication of recent repayment history. That makes the PAYDEX score useful for present purposes, particularly since other credit scores are not available.

Survey respondents were overwhelmingly owners of small businesses. Their personal and business finances are considered inseparable. However, 10 percent of respondents were managers who had no ownership in the venture. When that occurred, personal and business finances were separated on the assumption that those without ownership do not mix their personal financial affairs with those of another person's business. For example, non-owner/managers were *not* asked about their ownership of a residence because logically it has no consequences for the firm's finances or its credit access. It is assumed that absent owners whose businesses are managed by others have personal credit profiles similar to the remainder of the owner population.

The Sales, Credit and Uncertainty Problems

From the beginning of the Great Recession to the present an on-going debate has focused on the relative problems of small-business sales and small-business finance. Which of the two is of greater concern to small-business owners? Which of the two holds greater priority for policy-makers? And, which of the two most directly leads to resolution of the other?

The evidence appears one-sided.[5] Survey after survey of small-business owners shows an overriding sales problem. The credit problem, while often critical to those who have it, is typically dwarfed by the sales problem both in terms of frequency and relative importance. In the last two years, another entry, a third problem has emerged to challenge the other two for the population's greatest concern. The new entry is uncertainty, that is, the inability to plan and project aspects of business ranging from sales to employment levels to taxes. Though tied to the sales and credit problems, uncertainty presents a different problem with different, if complementary solutions, solutions that could not only resolve the uncertainty issue, but mitigate a notable share of the other two as well.

One-third of small-business owners now find uncertainty the most important finance issue facing their business today (Q#2). Slow or poor sales occupies the second position with 23 percent citing it. Those data reverse last year's ordering of the two problems when sales collected 29 percent of cites and uncertainty 26 percent. Yet, the ordering is sensitive to the

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[4] "The PAYDEX Score is D&B's unique dollar-weighted numerical indicator of how a firm paid its bills over the past year, based on trade experiences reported to D&B by various vendors. The D&B PAYDEX Score ranges from 1 to 100, with higher scores indicating better payment performance." https://smallbusiness.dnb.com/12337428-1.html downloaded 12/23/11.

[5] For example, see: NFIB's *Small Business Economic Trends*, PNC's *Economic Outlook* surveys, https://www.pnc.com/webapp/unsec/ProductsAndService.do?siteArea=/pnccorp/PNC/Home/Small+Business/Business+Resources/Economic+Outlook+Survey+of+Business+Owners/Economic+Outlook+Survey+Fall+2011 downloaded 12/11/11.

way the issue is addressed. Posing the question in a different manner, yields a slightly different ordering. If one assesses the severity of each problem individually rather than identifying the single most important, poor sales reaches the top spot, followed closely by uncertainty, with credit following well behind.[6] Regardless, the two are overwhelmingly the leading concerns of small-business owners.

A majority (54%) of owners who cite the uncertainty problem identify economic conditions as the primary culprit (Q#2a). They feel that they do not know what to expect from the weak economy: will sales strengthen or slide? and, by how much? what will happen to their input costs (business expenses)? and, so on. The reasons for their uncertainty are obvious. While conditions look brighter today than earlier in the year, they also appeared somewhat brighter at the beginning of 2011; sales, though recently improving, remain tepid; the real estate market remains dormant with muted prospects for improvement soon; the European Euro crisis, while having virtually no direct impact on American small businesses, could easily spill-over with important consequences; and, so on. Beyond economics, another 23 percent cite policy/political conditions as the basis for their uncertainty. The reasons for owner policy/political concerns too are obvious. The tax and budget situations of the federal government and many state governments remain chaotic; regulatory requirements are expanding rapidly; the effects of the Patient Protection and Care Act are unknown; and so on. Another 22 percent volunteer a combination of economic and policy/political conditions.

The distribution of reasons for uncertainty is not new. It closely parallels last year's distribution. If a change appears between 2010 and 2011, it shows a small shift in emphasis toward the relative importance of economic conditions. Still, half of owners mentioning policy/political conditions is an unsettling prospect.

An inability to obtain credit is the third most frequently cited finance issue. Fifteen (15) percent mention it, an increase of 3 percentage points from 2010. The fourth is "no finance problems" at 12 percent, down 2 percentage points from the prior year. A strengthening economy presumably would drive the former lower and the latter higher. Yet, the opposite happened. The change in each was so modest however, that they suggest little push from a changing economy in one direction or the other.

The remaining finance problems listed for respondent consideration appear with lesser frequency and have a similar number of citations as last year. They include: the costs and/or terms of credit (5%), real estate values (5%), and receivables/cash flow (2%). The infrequent citation of cost and/or terms of credit is notable given that many small-business owners rejected offered credit precisely for one of those reasons. The matter will be revisited later.

Despite recent history, poor sales and constant turmoil, a large number of small-business owners continue to see business opportunities. In fact, 16 percent claim that "lots" of business opportunities are present even under current conditions (Q#1). Another 41 percent see "some" business opportunities, implying a majority think there are situations available to exploit. Thirty-four (34) percent say "few" opportunities now exist, but only 7 percent think there are none. When opportunities exist, demand for credit should logically rise.

Comparative Credit Climate

The Federal Reserve's survey of Senior Loan Officers shows credit standards for small-business borrowers increasingly squeezed through October 2008. They began to ease marginally in mid-2010 and have generally, if gradually, improved since.[7] NFIB's *Small Business Economic Trends* (SBET) shows conditions starting to improve in late 2010.[8] Yet, small-business owners in the present survey think borrowing conditions have not improved much over the past 12 months. Rather, they have deteriorated. Five percent claim that obtaining credit for businesses such as theirs became less difficult over the last year; 34 percent claimed it became more difficult; and, 25 percent report no change (Q#3). However, 34 percent did

[6] Growth – External Impediments, *National Small Business Poll*, (ed.) William J. Dennis, Jr., NFIB Research Foundation, Vol. 11, Iss. 1, 2011.

[7] Senior Loan Officers Survey, Board of Governors, Federal Reserve System http://www.federalreserve.gov/boarddocs/snloansurvey/201111/chartdata.htm downloaded 12/21/2011.

[8] *Small Business Economic Trends*, (eds.) William C. Dunkelberg and Holly Wade, NFIB Research Foundation, series.

not think they could judge and 3 percent did not respond. Eliminating those who could not or would not offer an assessment, 53 percent claim obtaining credit has become more difficult for small business like theirs over the last 12 months; 38 percent report no change; and, 8 percent think it is less difficult. The competing small business and loan officer data constitute a stark difference of opinion.

Small-business economic conditions appeared to be in the process of improving in the latter part of 2011, just as they did last year at this time. Yet, that positive development is not reflected in assessments of borrowing conditions over the last three months, either. Thirty-seven (37) percent thought credit tightened in the last three months, 13 percent considerably; 36 percent thought it had not changed; and 7 percent thought it eased (Q#3a). Sixteen (16) percent could not judge and 5 percent did not respond.

Two points emerge from small-business owner assessments of borrowing conditions compared to 12 months ago and three months ago. The first is that 16 percent thought they did not have enough information to judge in the three-month appraisal. That is half as many as those who could not judge on a 12-month appraisal. The difference suggests considerably more small-business owners were in the credit market in the last few months than earlier in the year. Effectively, demand was rising later in the year. The second point is that outside those who could not judge, the distribution of responses among those making an assessment is that conditions in the last three months are "less bad." The identical percent (8) in both say conditions are easing. However, 9 percent more evaluate the last three months as "no change" while 9 percent fewer evaluate it as tightening. Those figures represent a modest, positive change toward year's end.

The Policy Response

The year's major policy initiative to relieve any lingering credit issues in the small-business population was implementation of the Small Business Jobs Act of 2010. The Act provided up to $30 billion in loans to credit-worthy small financial institutions (Small Business Lending Fund), primarily community banks, that would in turn lend the money to credit-worthy small-business owners. The Act rested on two questionable assumptions, data being unavailable to support either. The first was that eligible small financial institutions had an inadequate supply of funds to lend. And second, credit-worthy small-business owners wanted and could not otherwise obtain loans for business purposes. While essentially a symbolic, benign effort with modest downside, the response proved underwhelming.[9] Treasury provided more than $4 billion to 332 community banks and community development loan funds,[10] a little more than 10 percent of the money available to less than 5 percent of the nation's community banks.

The Small Business Administration continued to indirectly lend through its 7(a) and 504 programs. Dollar volume of the loans guaranteed reached a record high in 2011, but their number was essentially unchanged from 2010, much above the depressed level of 2009, much below the elevated levels of 2007 and 2008 and about on a par with the 2004 level. Effectively, the average guarantee has grown much larger over time, encouraged by legislation expanding the size and scope of allowable loan activity. Still, SBA guarantees continue to be a small side show in a big circus and impact relatively few small-business owners.

The implementation of Dodd-Frank and other efforts to stabilize the banking system create policy cross-currents for smaller firms. The direct impact on small-business lending from Dodd-Frank is largely unknown, and probably will remain so for years to come. It is complicated by the benefit derived from a more effectively regulated financial system,[11] one better able to avoid and/or withstand the destabilization recently experienced. Still, raising reserve requirements, for example, depresses a banks' ability to lend, other factors equal. Less to lend inevitably means someone will have less to borrow, and there is a good chance that someone will be a small-business owner. In addition, scandals from the housing bubble led regulators to restrict lender discretion. Small banks in particular used flexibility

[9] The program did not become fully operational at the retail end until the latter half of the calendar year.

[10] www.treasury.gov/resource-center/sb-programs/Pages/Small-Business-Lending-Fund.aspx downloaded 12/21/2011.

[11] The ability of the legislation to effectively, efficiently, and fairly prevent a recurrence of the financial crisis precipitating the Great Recession is the crux of the heated debate over the impact of Dodd-Frank.

(relationship lending) to find ways to finance many small businesses. Regulators do not like flexibility very much. The ridiculously high real estate appraisals of the housing bubble, too, have been legislatively curbed and have given way to the ridiculously low appraisals, heavily influenced by short sales. The result is a depressing effect on real estate sales, which have had a severe impact on small businesses beyond the real estate and construction industries. The point is that legislators and regulators are obviously searching for a reasonable balance between a financial system responsive to market demand and systematic stability. It does not appear that they have yet found one. And, small business suffers its consequences.

Dodd-Frank is one of the big issues, one with major impacts, not designed specifically to impact small business, but one that is critically important to small firms. Two other big issues impact the capacity of small business to borrow and the nation's political leadership ducked both. The less obvious is the housing problem. Prior reports in this series identified the tie between real estate and the small-business owner capacity to borrow. Others have done so as well.[12] Yet, both the Administration and the Congress have punted. They have elected to do nothing even as the problem continues to depress economic growth. Only the Federal Reserve with its extended-term, low-interest promotion and purchases of mortgage-backed securities (with more under consideration) appears to have a housing policy. The second and more obvious is the continuing travails over the federal budget. Kabuki reigns, and the status-quo prevails despite its non-sustainability. The immediate small-business consequence of this charade is not so much immediate credit availability, though that is a long-term issue, but the air of uncertainty that artificially depresses credit demand and investment. Who wants to borrow (and who wants to lend) when tomorrow's conditions are a crap-shoot?

The Financial Institutions Small Businesses Patronize

Commercial banks are the primary financial institution for 87 percent of all small businesses claiming one (Q#5). That represents a 7 percentage point *decline* in two years. Thirteen (13) percent claim to primarily patronize another financial institution of some kind. The most common of these is a credit union (7%), more than doubling the 3 percent share it held in 2009. A handful (1%) declare an S&L their primary, meaning that 5 percent designate an unidentified "other financial institution". It is possible that these are investment accounts with a checking facility of some type. Three percent report no primary institution, most of which claim that they do not use a financial institution. It is not clear how this can occur when a firm employs people. The remainder did not respond.

A plurality (43%) of small-business owners patronize a single financial institution (Q#4). However, more (54%) small-business owners patronize more than one. Thirty-two (32) percent patronize two institutions; 12 percent patronize three; 6 percent, four; and 4 percent, five or more. Owners of larger, small ventures are more likely to use more financial institutions than smaller ones, though 24 percent of those employing 50 or more people still use only a single (typically) bank. However, the primary institution is not associated with the number of institutions employed. One might expect a propensity for owners of ventures patronizing community banks and non-banks to draw on more second and third institutions in order to access services than they might not find in a single, small one. Yet, that relationship does not appear. Owners whose primary institutions are large or regional banks are just as likely/unlikely to use additional institutions as are those who patronize community or non-banks as their primary financial institution.

The trend for at least the past four years is for small-business owners to use fewer institutions. Thus, while 43 percent indicated that they used a single financial institution in 2011, the number was 41 percent in 2010, 37 percent in 2009, and 30 percent in 2008. The survey offers no reason for this development. One might speculate that the Great Recession has forced small-business owners to seek more financial security which conceivably is forthcoming when their firm is tied to one institution. However, it will be shown that those using fewer institutions are no more or less satisfied with their

[12] Mark E. Schweitzer and Scott A. Shane, "The Effect of Falling Home Prices on Small Business Borrowing," *Economic Commentary*, Federal Reserve Bank of Cleveland, December 12, 2010.

borrowing outcomes than those using more. A second possibility is that the Great Recession has limited the financial requirements of many small firms and therefore no need exists to seek multiple financial institutions to compete for their banking business.

The Primary Financial Institution

The primary financial institution of almost half (48%) of small-business owners is now one of the 18 largest banks in the country. Thirty-seven (37) percent patronize (as their principal institution) Bank of America, JP Morgan/Chase, Wells Fargo/Wachovia, Citibank, U.S. Bank, HSBC, Sun Trust or PNC (#Q6) with another 11 percent patronizing RBS Citizens, BB&T, Regions, TD Bank, Key, Fifth Third, State Street, Union, Bank of New York/Mellon, or Capital One (Q#7). The current 48 percent represents a 5 percentage point increase from 2009. However, that increase fails to account for mergers and acquisitions, such as Wells Fargo's absorption of Wachovia. The effect of mergers and acquisitions is to add more banks (assets and customers) to the largest 18, effectively creating a somewhat smaller increase in market share for them than drawn from the currently employed static measure. Yet, the current market share of the largest banks represents a notable decline in share from 2008. In late 2008, 50 percent of small-business owners reported that one of the 18 largest banks was their primary financial institution. The share declined 6 percentage points in the following 12 months, a decline almost certainly associated with the financial distress of many of those institutions. The market share decline stabilized in 2009 and 2010 as the large banks did. Now, it is rising again.

Fourteen (14) percent of small-business owners patronize (as their primary institution) a regional bank, defined as a "regional bank with several branches", and another 20 percent a community bank defined as a "local bank with a few branches at most" (Q#8). Both definitions are highly subjective, but are the best possible without identification of an actual institution. Moreover, the definition has remained unchanged since these surveys began three years ago. The share having a regional bank as their primary institution declined modestly (2 percentage points) in the last two years with a market share that is relatively stable. So, it is stunning that community banks register a 12 percentage point decline in market share from 2008 when 32 percent claimed a community bank as their primary financial institution. The erosion has been steady, 31 percent in 2009 and 25 percent in 2010 and now 20 percent. Part of the reason for the decline can be attributed to the approximately 400 small institutions that have closed their doors since the beginning of 2008.[13] This lost market share does not appear to be picked up by other banks. Rather, it seems to have been picked up by non-banks of which credit unions appear the most prominent.

It might be assumed that owners of smaller, small businesses would be more likely to employ small banks as their primary institution and owners of larger, small businesses the opposite, the rationale being that owners of smaller businesses work more easily with smaller financial institutions and vice versa. Yet, the reverse is true, particularly if the population is divided between those employing fewer than 10 people and 10 people or more (Table 1). This association begs explanation. Perhaps, owners of larger, small businesses feel peerage with small banks and owners of smaller, small businesses feel that they are too small for anyone to seriously care about them. Bank size is therefore irrelevant to them. It is also possible that owners of smaller, small businesses find location more attractive, and large banks possess omni-present branches.

Competition for Small Business's Banking Business

Competition for small business's banking business displays an institution's desires to attract more small-business customers. The more competition that exists, the more likely small-business owner customers will receive sympathetic consideration for their loan requests, favorable rates (and terms and conditions), and better service, other factors equal. Table 2 presents a 30-year history of competition for small business's banking business. The data present a story of steadily increasing competition, peaking in the 2001 – 2006 period. Since that time, competition for small business's

[13] http://www2.fdic.gov/hsob/HSOBSummaryRpt.asp?BegYear=2012&EndYear=2007&State=1&Header=1 downloaded 1/18/12.

Table 1
Principal Financial Institution By Employee Size-Of-Business

Principal Financial Institution	Employee Size-of-Business 1 – 9 Empl.	10 – 19 Empl.	20 – 49 Empl.	50+ Empl.	All Empl.
Large Bank	51%	39%	35%	42%	48%
Regional Bank	13	21	21	25	14
Community Bank	18	30	28	21	20
Credit Union	8	1	15	7	7
Other	5	6	9	—	6
No Financial Institution	4	2	—	7	3
DK/Refuse	2	1	3	4	2
Total	100%	100%	100%	100%	100%
N	398	160	153	139	850

banking business has sharply receded.

The last two years, 2010 and 2011, yield similar results. The latest outcome finds 28 percent reporting more competition for their banking business, 10 points much more, and 24 percent less, 13 points much less (Q#9). Netting increases and decreases for 2011 leaves a positive 4 percent compared to a negative 1 percent in 2010. Those levels represent severe reductions from the net 34 percent in 2006.[14]

Little appears to characterize the businesses or owners who perceived more or less competition for their banking business. Owners who were more successful in terms of higher credit scores, adding employees over the last three years, and obtaining all the credit desired were only marginally more positive in their assessments than those diametrically opposed. Those outcomes are counter-intuitive. One assumes that banks would recruit the best credits, which means personal solicitation to distinguish them from the lesser credits. In fact, as late as 2006, many small-business owners experienced personal recruitment.[15] The seeming failure to distinguish among credits for marketing purposes suggests that recent financial institution marketing to small business shunned individual recruitment and focused on more generic appeals. The number of appeals is also likely to have been fewer.

The numbers appearing in Table 2 are not always directly comparable and therefore should be considered carefully. The data between 1980 and 2001 draw from samples of the NFIB membership while the data between 2006 and 2011 draw from nationally representative samples. The former initially also rolls the DK/Refuse category into the "no change" classification where the data from 1987 forward do not. The data up to 2006 reflect a period of business population growth; declines have occurred since, leading to a minor, potential trending issue. Owners of new businesses are presumably more likely to notice bank competition because they are in the process of establishing themselves. That could lead to a modest measure of built-in bias favoring increased competition. The 2010 data show a small difference in perceived competition between owners of younger and older businesses, though the 2011 data do not. Regardless of these limitations, the data on Table 2 present a consistent, coherent, and intuitively satisfactory representation of competition in the small-business banking market extending back over 30 years showing competition growing to its 2006 zenith with its subsequent retreat.

[14] These last three measures exclude firms less than four years old due to the comparative nature of the question, but the results are essentially unchanged if they remain.

[15] Jonathan A. Scott and William C. Dunkelberg, "Bank Competition," *National Small Business Poll*, (ed.) William J. Dennis, Jr., NFIB Research Foundation, Washington, Vol. 5, Iss. 8, 2005.

Table 2
Competition For Small Business's Banking Business Compared To Three Years Ago By Selected Year

Competition	Year (compared to three years prior) 2011	2010	2006	2001*	1995*	1987*	1984*	1982*	1980*
Much More	10%	8%	18%	12%	12%	12%	12%	10%	7%
More	18	15	24	30	26	20	22	17	13
No Change	39	41	47	45	52	56	58	65	68
Less	11	13	4	5	3	3	5	5	10
Much Less	13	11	4	4	3	5	3	3	2
(Can't Judge)	8	10							
DK/Refuse	1	2	4	4	4	4	†	†	†
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%
N	671	791	655	2223	n/d	1921	1714	2349	2657

* NFIB member sample
† Included in no change
n/d no data

Credit Outstanding

Eighty-eight (88) percent of all small, employing businesses and/or their owners have business credit either outstanding or with immediate access to it, such as a credit line or a credit card. The year's 88 percent figure is roughly comparable to the previous two years (86% in 2010 and 87% in 2009), but down from the 92 percent in 2008.

Changes in credit possession more commonly appear in smaller units of analysis. For example, those that have fewer than 10 employees reported credit more frequently in 2011 compared to 2010 while larger sizes reported it less frequently. A larger change appears for those losing 10 or more employees over the prior three years. In 2011, 97 percent of that group indicated credit outstanding or available; the figure was 88 percent in 2010. That change is large enough and makes enough sense to indicate that it is probably more than statistical noise. Similar changes occur elsewhere, but are typically tied to relatively few respondents. Those differences likely mean little.

The remarkable point to note in these smaller units of analysis however, is how relatively little the percentages varied from group to group in 2011 (Table 3). Owners of the smallest and newest businesses and those with the poorest credit scores possess credit less frequently than their counter-parts. Still, over 80 percent of owners in every group (value) appearing in the 10 listed variables currently possess credit.

The overall picture largely conceals a reduction in the number of firms possessing each type of credit examined. In fact, a major theme of this report is the fewer number of small-business owners who have credit in late 2011 than did in late 2008. The unresolved question is how much of that reduction is voluntary and how much has been forced by financial institutions. The data collected for this study cannot resolve the issue.

Credit Lines

Small-business owners reported possession of credit lines with similar frequency in 2011 (45%) as they did in 2010 (47%) and in 2009 (46%) (Q#15). However, they reported noticeably fewer than in 2008 (57%). The major reduction therefore came early in the Great Recession and has stabilized since.

The overwhelming percentage of owners (70%) with a credit line have a single line (Q#15a). Just 19 percent have two and another 4 percent three. That means 93 percent have three or fewer lines. Directly comparable 2008 figures are not available, but it appears that owners also held a somewhat greater average number of lines per owner holding at least one.

Owners of larger and older ventures are *more* likely to possess one or more lines than owners of smaller and younger ones. Those with poor credit scores are much *less* likely to possess a line than those with Dun & Bradstreet's PAYDEX scores over 50. The relatively small number of cases does not allow a full review of characteristics associated with multiple credit lines.

a. The Principal Credit Line

The principal credit line in 82 percent of cases is held at the firm's primary financial institution (Q#15b). When the primary financial institution is a large bank and the business has a credit line, the line will be held at that bank in 80 percent of cases; when the primary financial institution is a regional or local bank and the business has a credit line, the line will be held at that bank in 88 percent of cases. Too few cases exist to determine whether the respondent's principal credit line is held at the owner's primary institution when it is not a bank.

Two-thirds (67%) of principal credit lines not held at the primary financial institution are held at another commercial bank (Q#15b1). Thirteen (13) percent are held at credit unions and 7 percent at a finance company, such as GE Credit.

b. Changing Terms and Conditions

Thirty (30) percent reported that within the last 12 months, the terms and/or conditions of the firm's principal credit line have been unilaterally changed by the financial institution (Q#15c). This frequency of change has been relatively constant over the last three years. The four most consequential changes[16] were: a personal guarantee required (23%), raised interest rates (22%), increased collateral requirements (14%), and cut the line's size (10%) (Q#15c1). Just 5 percent indicate the line had been cancelled. However, 8 percent outlined favorable changes including an increase in the line's size and/or lower interest rates.

The most common reaction by small-business owners to the unilateral changes in their principal line was annoyance. Fifty (50) percent termed the changes "more irritating than harmful" (Q#15c2). Another 15 percent claimed the changes had no impact. But 28 percent called the unilateral changes "harmful" of which 4 points called them "very harmful". Too few cases exist to determine whether one type of change proved more harmful than others. Eight percent considered the changes "helpful" or "very helpful".[17] Just over seven of 10 cases experiencing change in their largest line therefore, were not injured by the financial institution's unilateral action. But, less than three in 10 amounting to 3 percent of the total population were.

Business Loans

The number of owners holding a business loan is decreasing over time. Twenty-nine (29) percent of small-business owners had a business loan, excluding lines of credit in 2011 (Q#16). That number is 2 percentage points lower than in 2010, 7 percentage points lower than in 2009, and 15 points lower than in 2008. The proportion holding at least one loan is strongly associated with firm size, owners of larger firms being substantially more likely to have one than owners of smaller enterprises. Owners of older firms are also more than twice as likely to have a business loan as owners of relatively new ones.

A majority (52%) of those with business loans have a single loan (Q#16a). Another 24 percent have two and 12 percent have three. Eighty-eight (88) percent of those with at least one business loan, therefore, have three or fewer with another 5 percent not reporting. The average number of loans held by owners having at least one is similar to 2008. At that time, 58 percent had one loan, 25 percent two, and 9 percent three. Declines in the number of small-business loans outstanding therefore appear to be a function of the number of owners possessing them rather than in the average number of loans held by small-business borrowers.

[16] The survey questionnaire asked respondents for the most important change. It is therefore possible that changes other than those reported here exist and/or are the more frequent.

[17] Lowered interest rates is an example of a helpful change.

Table 3
Credit From Financial Institutions By Credit Type
And Firm/Owner Characteristics

	Credit Type			
	Any Credit	Credit Line	Business Loan	Credit Card
All Firms	88%	46%	29%	79%
Employee Size				
1 – 9 Empl. (n = 398)	87	44	24	79
10 – 19 Empl. (n = 160)	90	44	42	79
20 – 49 Empl. (n = 153)	93	57	52	79
50+ Empl. (n = 139)	93	64	57	82
Annual Gross Sales (000s)				
< $250 (n = 183)	83	31	17	75
$250 - $499 (n = 108)	89	45	23	87
$500 - $749 (n = 71)	91	59	34	76
$750 - $999 (n = 75)	95	60	48	86
$1,000 - $2,499 (n = 122)	95	51	38	82
$2,500 - $4,999 (n = 86)	100	53	62	84
$5,000 - $9,999 (n = 63)	88	63	48	84
$10,000+ (n = 66)	95	63	61	84
Employment Change (2008 – 2011)				
Gain – 10+ Empl. (n = 94)	90	54	33	79
Gain – 1 – 9 Empl. (n = 173)	86	40	29	77
No change (n = 209)	86	51	26	76
Loss – 1 – 9 Empl. (n = 196)	92	50	32	84
Loss – 10+ Empl. (n = 107)	97	53	48	80
Industry				
Construction (n = 101)	99	46	32	91
Manufacturing (n = 62)	88	63	30	86
Wholesale/Retail (n = 118)	93	50	29	83
Professional Services* (n = 196)	89	53	26	79
Non-Professional Services† (n = 205)	81	36	28	77
Financial Services (n = 72)	82	40	29	75
Other (n = 96)	85	41	34	70
Urban/Rural				
Highly urban city (n = 138)	83	40	25	78
Suburb of highly urban city (n = 171)	92	42	23	86
Mid-size city (250,000) and surrounding area (n = 141)	87	49	27	79
Small city (50,000) and surrounding area (n = 141)	87	43	30	81
Town or rural area (n = 243)	90	50	36	76

Table 3 continued

Credit From Financial Institutions By Credit Type And Firm/Owner Characteristics

	Credit Type			
	Any Credit	Credit Line	Business Loan	Credit Card
Region				
Northeast (n = 138)	90	41	37	82
Southeast (n = 215)	88	45	25	77
Mid-west (n = 178)	83	49	32	71
Central (n = 192)	89	46	26	82
Pacific (n = 127)	92	44	30	87
Size of Principal Bank				
Large bank (n = 377)	91	46	25	86
Regional bank (n = 148)	88	49	34	78
Community bank (n = 201)	86	49	42	67
Other financial institution (n = 92)	85	44	26	77
PAYDEX Credit Score				
100 – 86 (n = 53)	93	58	35	79
85 – 76 (n = 94)	100	49	34	88
75 – 51 (n = 258)	91	52	33	85
50 – 26 (n = 173)	82	39	28	74
25 – 1 (n = 229)	86	39	27	75
Years of Ownership/ Management				
< 4 years (n = 179)	77	26	15	72
4 – 6 years (n = 149)	90	47	26	78
7 – 9 years (n = 76)	94	53	40	84
10 – 14 years (n = 119)	91	38	36	83
15 – 19 years (n = 75)	91	60	39	86
20 – 29 years (n = 127)	93	53	32	86
30+ years (n = 113)	90	65	38	77
Sex				
Male (n = 600)	90	48	33	81
Female (n = 250)	84	41	23	76

* These include NAICs codes 54, 61, and 62.

† These include NAICs codes 56, 71, 72, and 81.

Two of three (66%) small-business owners with a business loan hold their largest loan at the firm's primary financial institution (Q#16b). Fifty-seven (57) percent whose primary financial institution is a large bank obtained their loan from it. However, 87 percent obtained the loan from a regional or local financial institution when that institution was their primary. This type of association appears repeatedly throughout the following pages. Small businesses consistently appear more willing to ask for credit when their bank is a regional or community bank (subsequently not confirmed when controlling for other factors) and they appear to be more successful in their requests (subsequently confirmed when controlling for other factors). Too few cases exist to report when non-banks were the primary institution.

The most likely source of a business loan when not held at an owner's primary financial institution is at a(nother) commercial bank. Forty-six (46) percent fall in that category (Q#16b1). Meanwhile 23 percent obtained theirs from a finance company and 8 percent from a credit union. A hefty 22 percent designated another source. While that source(s) was not identified, it is likely associated with family and/or friends as all of those loans were held by owners of the smallest ventures.

Lenders unilaterally changed just 7 percent of those loans in the last 12 months (#16c). Too few cases fell in this unilaterally changed category to offer details about the changes made or the impact of the changes on the affected firms.

Credit Cards

Credit cards, differentiated from debit or charge cards, serve two functions for their possessors. They offer credit, usually in smaller amounts than loans or lines, which is repaid on preset, revolving terms. They also offer transaction convenience, that is, they make payment easier for the user and/or seller than alternative payment methods, such as checks or cash. Credit cards therefore offer credit, but the holder can use the card to make transactions without using the card for credit purposes. In fact, 28 percent of small-business owners typically use the credit facility of their card(s); 70 percent do not.

Credit cards are the most common type of credit outstanding/available to small-business owners. Seventy-nine (79) percent now use one or more cards in operation of their business (Table 3). That is 3 percentage points higher than in 2010, 5 percentage points higher than 2009, but 6 percentage points lower than 2008. Card use is ubiquitous throughout the small-business population. Not only do almost four in five employ them, but no sector appears to shun them. The group most commonly using credit cards is the construction industry (91%) while the group using them least frequently consists of those in business less than four years (72%).

The most noteworthy change in card use over the last few years is that small-business owners are increasingly employing personal rather than business cards for business purposes.

a. Personal Cards

The survey differentiates between two types of credit cards – personal and business. The distinction for current purposes is the name on the card. Personal cards carry an individual's name and business cards carry the business name. Card issuers have their own distinguishing criteria associated with card benefits and charges, but they are not necessarily self-evident to small-business owners or consistent from issuer to issuer, and therefore are not employed here.

Forty-nine (49) percent of small-business owners use personal credit cards for business purposes (Q#17). This represents a noticeable increase in the last two years. Forty-two (42) percent used personal cards for business purposes in 2009 while 45 percent did in 2010. (Managers who are not also owners were not asked about use of their personal credit cards.) Owners of the smallest firms (less than 10 employees) were 14 percentage points more likely to use personal cards than owners of the largest (50+ employees).

The median amount charged on personal cards for business purposes runs a little over $1,000 a month (Q#17a). However, one in three (34%) typically charge less than $500 on them. One in 10 (11%) small-business owners charge an average of over $10,000 a month on their personal card(s). The proportion of owners charging large amounts ($10,000 or more a month) appears to have changed little in the last two years.

Two-thirds (67%) use their personal cards strictly for convenience; they pay the bill in full at the end of the month, leaving no balances or outstanding credit to be repaid (Q#17b). The larger the firm, the more likely its owner is to monthly pay personal card balances in full.

In contrast, one-third (32%) typically leave balances remaining; this group uses the card(s) for credit. The distribution of these percentages has not fluctuated appreciably in the last two years. Twenty-five (25) percent reported in 2010 that they typically leave outstanding balances on their personal cards compared to 30 percent in 2009. With no direction appearing in the data, it is likely that these changes simply reflect the personal circumstances of card holders.

The median monthly balance after payment has been made is about $1,500 (Q#17c). However, there is considerable variation. Twenty-two (22) percent maintain balances of less than $500 while 17 percent maintain balances of more than $10,000. The number carrying sizeable balances (over $10,000) equate to about 3 percent of the entire population. The average size of balances carried in 2011 appears similar to last year's, but represent a substantial improvement over 2009 when virtually half reported carrying balances of over $5,000, almost twice current totals.

b. Business Cards

Fifty-nine (59) percent of all employing, small businesses use one or more business credit cards (Q#18). That is 5 percentage points lower than in 2009, but a point higher than in 2010. As with personal cards, owners of larger ventures are more likely to use business cards than are owners of smaller ones. The difference in utilization between the largest employers and the smallest is 21 percentage points.

Owners are also likely to charge more on business cards than personal cards. The median amount charged on business cards is about $2,500 a month (Q#18a), more than double the median monthly amount charged on personal cards. The monthly amount varies notably. Seventeen (17) percent typically charge less than $500 per month while 14 percent charge over $10,000 per month. These monthly charge levels are similar to last year's, indicating that small-business owners feel no more or less compelled to use their cards in lieu of other credit/payment types than they were in the immediate past. Again, owners of larger, small firms typically charge much more than owners of smaller ones, 38 percent of the former charging more than $10,000 monthly compared to 10 percent of the latter.

Seventy-eight (78) percent of small-businessmen and women with business cards report typically paying their balances in full each month; 20 percent do not (Q#18b). One in five therefore use their business cards for credit purposes. These proportions are virtually identical to those reported in each of the last two years. Owners of smaller, small businesses are more likely to use cards for credit purposes, the difference between them and owners of larger, small businesses being about 10 percentage points.

Fourteen (14) percent with balances admit to carrying balances of $10,000 or more on their business cards, though another 17 percent typically carry between $5,000 and $10,000 after monthly payment has been made (Q#18c). The 2011 numbers represent a substantial decline in the proportion carrying large balances from last year. The comparative numbers in 2010 were 25 percent and 17 percent, though they were 20 percent and 13 percent in 2009. The number of cases is relatively small, a bit under 100 in each of the three years, meaning a substantial error term. But even then the year's decline is substantial. The outstanding question however is whether the decline is attributable to small-business owners paying down their balances, or whether small-business owners formerly with large balances either no longer having cards or no longer having a business.

c. Personal and Business Cards

The most important credit card for 63 percent of small-business owners using a credit card(s) for business purposes is their business card compared to 36 percent who designate the personal card. The percentages are almost identical (63% - 37%) when the owner uses both types and chooses the most important between them (Q#19). The card preference is highly associated with size of business owned. Those with smaller, small businesses prefer a business card in a majority of cases, but the margin is just 60 percent business card and 40 percent personal card. Those with larger, small businesses also prefer a business card, but the gap is 83 percent for the business card and 17 percent for the personal. Owners with business cards typically charge more on them, but also are more likely to pay their balances in full at the end of the month.

Thirteen (13) percent had some aspect of their most important card unilaterally changed by the issuer over the last 12 months (Q#19a). The most common change was jacked interest rates. Forty-eight (48) percent who reported

a unilateral change identify increased interest rates with another 14 percent identifying lowered limits (Q#19b). The remainder were distributed over the usual suspects. Forty-one (41) percent claimed the changes had a harmful impact on their firm with 15 percentage points claiming it was very harmful (Q#19c). Virtually the same proportion (42%) called the unilateral action more irritating than harmful with another 16 percent citing no harm. Few found the moves helpful.

The number having some aspect of their most important card changed unilaterally has declined 11 percentage points since 2009. Twenty-four (24) percent had their most important card changed in that year. It declined to 20 percent in 2010. Personal cards increasingly became the most important card at the same time. This series of facts offers evidence that the consumer protections for personal cards in the Credit Card Act of 2009 have had an effect.

d. Credit Cards as the Sole Credit Source

A persistent myth is that substantial numbers of small-business owners finance their business activities with credit cards exclusively. Table 3 shows that 79 percent use credit cards for business purposes. Just 10 percent who use cards have neither a line nor a loan. But having a card only does not necessarily mean that these owners are unable to acquire other credit; they simply may find that a card is all they need. Further, cards serve two functions, credit and convenience. If the balance on cards is paid monthly, the assumption is that the card(s) is used for convenience rather than credit; if balances remain, the card(s) is used for credit. The number who use cards, do *not* pay off balances monthly, and have no other credit is under 4 percent of the population, or a little over 200,000 out of 5.8 million. At the same time, it is possible that owner(s) with a card(s) as well as other credit, such as a loan, can acquire no more of it; they have hit their limit. Owners with this problem, not quantified here, could effectively be left to operate their firms with only a credit card. But that is a very different situation than cards substituting totally for other forms of credit.

Credit Demand and Availability in 2011

The demand for credit continues to be a matter of conjecture. Evidence from NFIB's monthly *Small Business Economic Trends* (SBET), the Federal Reserve's quarterly Senior Loan Officer and Survey, the lack of demand from small financial institutions for Treasury's funds (Small Business Jobs Act of 2010), and conversation with bankers show demand continues to be weak, though strengthening. Some business owners, demand for the (subsidized) Small Business Administration's 7(a) and 504 loan programs, and a raft of politicians opine to the contrary. The evidence presented here, the most comprehensive of its kind, tilts toward the former view. However, demand is undoubtedly accelerating as at long last the small-business economy seems to have turned the corner. The likely result is that credit will become tighter in the next year or two, contingent on the speed of recovery, as small-business owners adjust more rapidly to changing conditions than do financial institutions and/or their regulators.

Fifty-seven (57) percent or 3.3 million small employers (out of 5.8 million) attempted to obtain credit in the prior 12 months; 43 percent made no attempts. The number attempting is a 9 percentage point increase from 2010, effectively rebounding to the 2009 demand level when 55 percent attempted to borrow (Table 4). Below the cumulative level, substantially more attempts were made to obtain new credit lines and credit cards in 2011, both lines and cards rising from 2010's 18 percent application rate to 2011's 25 percent (Table 6). Meanwhile, attempts to obtain a loan rose somewhat while those attempting to renew an existing credit line fell marginally.

Predictors of Borrowing and Non-Borrowing

A series of factors (predictors) differentiate those who attempted to borrow in 2011 from those who did not. The statistical analysis (binary logistic regression) exploring those different factors appears in Appendix Table A. However, the analysis can succinctly be summarized - better credits, other factors equal and as best as the author can measure them, were less likely to attempt to borrow in 2011 than poorer credits.

The predictors of attempts to borrow fall into four categories: demographic variables, financial variables, performance variables, and perceptual variables. Each category contains a number of predictors (variables), some of which

help explain the difference between the two groups of owners and some of which do not.

The two demographic predictors that help differentiate those attempting to borrow and not are sex of the owner and employee size-of-business. Women were two-thirds *less* likely to try to borrow than were men, other factors equal. This phenomenon is reasonably well known, but the size of the gap found here is quite large. The immediate question is the role the Great Recession had on female owners' interest in borrowing. Did it exacerbate the differences or not? And, will the numbers change as we move to normalcy? The second demographic is employee size-of-business, which also strongly differentiates the two. Owners of larger, small firms were *more* likely to have wanted to borrow in 2011, other factors equal, than owners of smaller, small businesses. Table 5 clearly illustrates the bi-variate relationship. The reason(s) for owners of larger firms being more likely to want to borrow is not immediately evident, though they are more likely to cite the availability of business opportunities and their enterprises are more likely to be capital-intensive.

Most demographic predictors employed do not help differentiate those attempting to borrow and not. No two-digit industry appears to play a role in any of the relationships assessed, including the decision to borrow or the outcomes of lender decisions. As a result, industry is not incorporated into any statistical analysis presented in this report. Other demographic variables were incorporated, but provided no association with the decision to borrow. They consisted of: new businesses (defined as three years old or less) compared to older businesses, rural areas (or highly urban areas) compared to the rest of the country, and home-based businesses, including related structures, compared to those operating out of more conventional business facilities. Owners in struggling states also were no more or less likely to try to borrow than those in the other states. Struggling states becomes an important variable later for reasons that will be readily apparent. States are classified as struggling when negative equity in home mortgages reaches 30 percent or higher and include: Arizona, California, Florida, Georgia, Michigan, and Nevada.[18] These states effectively possess the nation's worst housing markets.

Financial variables are the most common predictors in the analysis that help differentiate small-business owners who did and did not attempt to borrow. Two have a particularly strong relationship: credit score and real estate assets held free and clear of debt. The higher (better) the Dun & Bradstreet credit score, the *less* likely an owner will want to borrow; the more real estate owned free and clear, the *less* likely an owner will want to borrow. Several other financial variables also help shape the portrait of borrowers and not. If an owner possesses more collateralized properties and/or second mortgages, the *more* likely the owner will want to borrow. The owner will also be *more* likely to want to borrow if he/she uses trade credit to finance 25 percent or more of all business purchases. And, owners who carry $10,000 in credit card debt after making their monthly payment are about 80 percent *more* likely to want to borrow than those who do not. Each of these latter four variables, traditionally associated with poorer credit risks, is tied to small-businessmen and women wanting to borrow.

Financial variables involving financial institutions offer a different perspective. The first is the tie between the number of financial institutions patronized and the decision to borrow. Small employers patronizing more institutions are *more* likely to want to borrow. The question is which comes first, wanting to borrow or patronizing more institutions? Does the prospective borrower think he will fare better by showing loyalty and patronizing one institution or, does he hedge his bets by maintaining relations with multiple institutions? The second is the lack of ties between wanting to borrow and the primary financial institution being a large bank, other factors equal. The lack of a relationship indicates that small-business owners as a group are not intimidated by large banks or at least not more so than any other financial institution. This finding contrasts with bi-variate relationships outlined earlier.

Performance variables measure the objective sales and employment outcomes over a recent time period. (Firms too young to fit the two- and three-year time periods were

[18] CoreLogic, http://www.corelogic.com/about-us/researchtrends/asset_upload_file780_13850.pdf downloaded 1/5/2012.

assigned to a no change category). Two of the three performance variables were associated with the borrowing decision. The more sales increased over the last two years, the less likely an owner wanted to borrow. The increased sales apparently generated enough cash flow and/or earnings so that borrowing became less necessary or even superfluous. Employment growth (at least two employees) over the last three years however, is associated with being more likely to want to borrow. Employment loss over the same period is not related, though it, too, carries a negative sign (more likely to want to borrow). The result leaves the analyst with a predicament. One type of positive performance predicts people will seek credit more than others, while the other has the opposite effect.

Two perceptual variables were part of the analysis. One involves the perception of available business opportunities. The rationale is that owners who see more opportunities will try to exploit them more often and therefore will need additional capital. The other involves the perception that the owner's enterprise has performed better in terms of sales and earnings than its competitor(s). The rationale here is that those who are doing better will be in a better position to borrow and therefore will be more inclined to do it. Neither was associated with the decision to borrow.

The upshot of this review is that those small-business owners exhibiting weaker financials, as best as the survey can measure them, are more inclined to attempt to borrow than those with better financials, other factors equal. That relationship suggests the decision to borrow is often driven by the old canard, more money solves all problems, rather than opportunity. That also suggests high rejection rates are to be expected. Those currently in the best financial position often seem disinterested in borrowing, though the precise cause underlying their lack of interest is not known. A later discussion of discouraged borrowers will examine the possibility that small employers do not try to borrow because they think they have no chance. As will be seen, the discouraged tend to be financially weaker than the disinterested, magnifying the gap between those who attempt to borrow and those who do not because they do not want/need (additional) credit. More likely the attitude of the disinterested, reflecting the state of the economy, is, why borrow when investments will yield no (or negative) return.

Credit Availability

Call Report data indicate that both the number of outstanding commercial and industrial loans under $1,000,000 (small-business loans) and their value peaked in the July 2007 to June 2008 period.[19] Since, both measures of small-business credit use have declined.[20] The declines have been substantial, about 33 percent in number between June 2008 and June 2011 and 21 percent in volume over the same time frame. Both declines are exaggerated due to the extraordinary lending activity during the peak 12-month period. Using the 12 months prior to the peak as the base (July 2006 to June 2007), the decline has been 11 percent in loan numbers and 16 percent in loan volume. But whatever base year employed, the data leave no doubt that the amount of credit flowing to small business has declined over the last few years, now dipping to 2005 or 2006 levels.

Virtually the same number of small-business owners acquired all or most of the credit wanted in 2011 (29% of the population) as in 2010 (29%) and in 2009 (28%). (No data are available for 2008). Those percentages constitute about 1.6 – 1.7 million out of 5.8 million small employers. However, consistency in the number acquiring credit in the last three years is not matched by the number of rejections (Table 4). Rejections increased sharply in the last year. The simple reason is that more owners were in the market in 2011 (57%) than in 2010 (48%) or 2009 (55%).

Fifty (50) percent of small employers who tried to get credit in 2011 can be classified as successful (34% got all they wanted and 16% got most of the credit they wanted); 44 percent can be classified as unsuccessful (24% obtained some credit they wanted and 20% were shut-out); 6 percent failed to answer (Q#11). Just 34 percent of potential borrowers were unsuccessful a year earlier, 10 percentage points fewer than in 2011. That amounts to about

[19] Call Report, Federal Deposit Insurance Corporation http://www2.fdic.gov/SDI/rpt_Financial.asp downloaded 12/23/11.

[20] Note the parallel between Call Report data and competition for small business's banking business (Table 2).

400,000 *more* small-business owners rejected in 2011 than in 2010. A similar number of acceptances and a different number of rejections during the last year compared to the prior year raises a critical point: if credit standards did not change in that time period, then all additional market entrants were credit risks (and rejected). That hardly seems plausible. A general deterioration in economic conditions and business balance sheets could also explain the two numbers in parallel. Yet, that does not seem to be the case, either.[21] The Federal Reserve's Senior Loan Officer survey argues that credit standards for small-business lines and loans are stable or loosening,[22] though small-business owners do not agree as reported earlier. This leaves a seemingly irreconcilable dilemma on a very serious question. A possible explanation is that small-business owners simply think conditions are improving more rapidly than bankers or their regulators.

Predictors of Credit Availability

Predictors of credit availability help explain its level (amount) as well as why some small-business owners can easily enter the credit markets while others cannot. The author attempts to draw these associations in two ways. The first determines the amount of credit that an owner accessed (compared to his wishes) in the last 12 months, that is, did the owner obtain all of the credit wanted, most of the credit wanted, some of the credit wanted, or none of the credit wanted and then attempts to associate a position on that four-point scale[23] with explanatory measures. The advantage of this approach (OLS) is that it offers gradations of credit access, recognizing that accessing credit or not accessing credit are not the only two outcomes. There are areas between where owners access portions of the credit they want, thereby achieving part though not all of the desired outcome. The second approach is to lump all the credit wanted and most of the credit wanted into one outcome, that is, got credit, and some of the credit wanted and none of the credit wanted into a second outcome, that is, did not get credit. The advantage of this approach is that it is clean and easily understood. The prospective borrower acquires credit or not. The author presents the predictors, or explanatory variables, in four categories – demographic, financial, performance, and perceptual – as in the decision to borrow analysis. The results for the ordinary least squares regression (OLS) addressing credit in gradations appears in Appendix Table B and for the binary logistic regression addressing either/or situations appears in Appendix Table C.

a. Demographic Predictors

Two demographic predictors are associated with small-business acquisition of credit in both the gradation and either/or analyses. The first is employee-size-of-business, owners of larger, small firms being more likely to get credit than owners of smaller, small businesses. The survey offers no rationale for this result, though it is expected and likely tied to such things as proven success (to achieve the larger size), more sophisticated accounting systems, more assets, and so forth.

The second demographic variable associated with small-business owner access to credit, other factors equal, is struggling states, that is, the location of the business in one of the states with the nation's worst housing markets defined in terms of negative home equity. The author examined two measures: the first was a state's percentage of home mortgages upside-down in the third quarter of 2011.[24] The second was the six states (AZ, CA, FL, GA, MI, and NV) with 30 percent or more of their mortgages upside-down in the same time frame.[25] Both measures were strongly associated with the ability of a small-business owner to access credit, the latter holding greater explanatory power. The result is that in the "either/or" examination (Appendix Table C) owners located in one of those six states were about half as likely to have their credit needs met (frequency, not necessarily amount) as were owners elsewhere in the country, other factors equal. The reasons for the extreme situation in these states may lie in weak sales affecting repayment capabilities, weaker financial insti-

[21] Dunkelberg and Wade, op. cit.

[22] Senior Loan Officers Survey, op. cit.

[23] The scale was multiplied by the natural log.

[24] CoreLogic, op. cit.

[25] Ibid.

tutions, particularly smaller ones lacking the capacity to gather deposits and spread risk across a wide geographic area, banker shell-shock, significant unemployment, or a host of other factors alone or in combination. Small-employer real estate ownership contributes, but it has been factored in (reported on later) and is therefore a separate issue. Regardless of the specific reason(s) however, small-business access to credit is much reduced in the states where the largest concentrations of home mortgages with negative equity exist. By extension, credit access is almost assuredly reduced in smaller areas where negative equity levels are elevated compared to some measure of normalcy. That is just about everywhere.

Access to credit in rural areas compared to other parts of the country[26] is strongly tied in the either/or analysis, but less so (and not significant) in the gradation one. This result seems to suggest that those in rural areas are more likely to gain approval, other factors equal, but their answer is more likely to be "yes" or "no". Prospective small-business borrowers elsewhere are more likely to encounter the "let's make a deal" response. The reason for the generally higher access rate in rural areas is difficult to attribute since it cannot be related to the size of the financial institution (controlled for). Perhaps it is tied to a more personalized style of banking (relationship banking) regardless of institutional size in areas with lower population densities. If that is true, it is plausible that personal familiarity with borrowers and local conditions caused the more positive result. One consequence of the recent financial debacle and Dodd-Frank is that banker discretion is being curbed. Small-business owners who appear to benefit from banker discretion (relationship lending), at least in rural areas, could thereby be forced into a more rigid, mechanical system with significantly poorer outcomes.

The sex of the business owner, a young firm (compared to a more mature one), and a home-based business (compared to one operating elsewhere) were not related to an ability to acquire credit, other factors equal. No two-digit industry was related, either.

b. Financial Predictors

The most frequent predictors helping explain credit availability are the financial variables. Lacking balance sheet data, the author was compelled to use accessible, rough financial measures. The survey contains a number of them and many, though not all, contribute to distinguishing among those who acquire credit and those who do not. Again, the gradation analysis (Appendix Table B) and the either/or analysis (Appendix Table C) provide similar outcomes.

The prospective borrower's purpose(s) for the money constitutes one of the strongest predictors of credit access. The more purposes for which small-business owners want to borrow money, the less likely they are to get it. This result is understandable, though the precise reason(s) cannot be found in the survey. For example, borrowing money for multiple purposes suggests a lack of management focus, desperation, or generally deteriorating conditions. Multiple purposes may also be tied to the size (amount) of the borrowing attempt(s), data not collected in this survey. Specific purposes for borrowing also appear in disfavor. Borrowing to repay debt and to finance real estate and structures do not fare as well as intended borrowing for other purposes. Borrowing to make a new business investment, contrasted to replacement investment, does not seem to fare as well either, suggesting that the perceptions of business opportunity may currently vary substantially between owner and banker.

The number of properties owned free and clear of debt, effectively large, debt-unencumbered assets, is another financial variable that is strongly associated with credit access. The survey allows a maximum of three such properties. For each additional one held (either/or analysis) the chances of obtaining desired credit doubles, other factors equal. The reverse works as well. For every additional second mortgage a small-business owner holds (either/or analysis), the chance of acquiring the desired credit falls by about 50 percent, other factors equal. Dun & Bradstreet's PAYDEX credit score is yet another financial variable strongly associated with credit access.

Maintaining credit card balances of $10,000 or more after monthly payment is obviously a serious "black mark" when applying for credit. Chances of acquiring additional credit with such high card balances

[26] A rural-urban continuum yielded no result.

are 85 percent less than those without them, other factors equal. The small number of cases (N = 36) may serve to amplify the comparative chances of procuring credit under those circumstances. Still, there is no doubt that carrying large credit card balances substantially reduces the chances of obtaining credit.

Throughout this discussion, small-business owners, whose primary financial institution is one of the nation's largest 18 banks, do not appear to fare as well accessing credit as those who principally use other institutions. A number of caveats must be applied. However, the statistical analyses presented in Appendix Table B and Appendix Table C bear out the basic proposition. The analysis shows that small employers who primarily patronize large banks are less satisfied that their credit needs have been met. This finding is not novel. The data for 2009 and 2010 reach the same conclusion.

Small-business owners patronizing more financial institutions were no more or less able to acquire credit than those patronizing fewer.

Table 4

Success Obtaining Credit: Those Attempting To Borrow And Not, 2009 – 2011

Success Obtaining Credit	2009 Attempting to Borrow	2009 All Firms	2010 Attempting to Borrow	2010 All Firms	2011 Attempting to Borrow	2011 All Firms
Outcome of Attempt(s)						
All credit wanted	40%	22%	41%	20%	34%	20%
Most credit wanted	10	6	19	9	16	9
Some credit wanted	21	12	18	9	24	14
None of credit wanted	23	13	16	8	20	11
DK/Refused	5	3	6	3	6	4
Total	100%	55%	100%	48%	100%	57%
N	447		496		540	
	Attempting to Borrow	**All Firms**	**Attempting to Borrow**	**All Firms**	**Attempting to Borrow**	**All Firms**
No Attempts						
Didn't want to borrow	88%	39%	81%	42%	80%	34%
Didn't think could borrow, i.e., Discouraged Borrower	11	5	15	8	16	7
DK/Refused	1	*	4	2	3	2
Total	100%	44%	100%	52%	100%	43%
N	304		358			310
Total		100%		100%		100%
N		751		854		850

c. Performance and Perceptual Predictors

Sales growth typically suggests positive business performance, particularly considering the severe sales problems encountered by most small firms during the last few years. However, percentage sales growth/decline is unrelated to the owner's ability to acquire credit, other factors equal. The author has no explanation for that result. And, it is also difficult to explain why an owner adding employees would have more difficulty obtaining credit than others unless the firm was growing at breakneck speed. Firms could not grow at breakneck speed for present purposes because the employees-added measure was bracketed. Yet, owners adding employees over the last three years were less able to get credit, other factors equal. Similarly and understandably, owners whose firms were shrinking also had more difficulty. The favored group appears to be those in the middle, effectively those not changing one way or the other.

Perceived positive performance vis-à-vis competitors, on the other hand, was associated with procuring credit, other factors equal. Owners subjectively evaluated their venture's performance in terms of sales and earnings against their competitors. The more positive the evaluation, the more likely small-business owners were to obtain credit. These results are difficult to reconcile with the results in the prior paragraph. The owner's subjective assessment of sales yields better outcomes than his objective reports??? The explanation must lie in other factors associated with the two questions.

Types of Credit Sought

The survey looked deeper into the credit availability issue than just overall access. It investigated separate credit products extended by financial institutions: new credit lines, renewal of credit lines, business loans and credit cards. Table 5 presents the basic demographics of small employers attempting to acquire each. It shows a number of relevant points. First, with the exception of credit cards, owners of larger, small firms are more likely to want to borrow than owners of smaller, small firms. Owners of dynamic firms, that is, firms changing in terms of employment size (higher or lower), are more likely to seek credit than owners of more stable firms. The data present U-shape patterns for credit and each type. Owners with the very highest credit scores (86 – 100 on the PAYDEX scale) infrequently try to acquire new/additional credit. The remainder have much greater credit demands, but exhibit no pattern by credit score. Finally males are about 1/3 more likely to want to borrow than females.

Two measures determine credit access for present purposes. The first measure examines the acquisition of credit, leaving two groups, one that acquired credit and the other that did not. The second measure examines credit approval, also leaving two groups, one whose credit applications were approved and the other whose credit applications were rejected. The difference is the segment of the population that had credit approved, but rejected it due to unfavorable terms and conditions. To this point the discussion focused on the former because they were the only data available. Data are available for both measures in discussion of individual credit types. Yet, small sample sizes prohibit exploration of their differences. The result is description of the two for each credit type with the former referenced as "credit acquired" and the latter "credit approved."

a. New Credit Lines

Twenty-five (25) percent of small employers attempted to obtain a new line of credit in the last 12 months (Q#10A). That is a substantial 7 percentage point increase from last year and 5 percentage points from the year before. Subsequent data will show the (intended) purpose(s) for borrowing that are optimal for lines also rose substantially in 2011.

Thirty-four (34) percent who tried acquired the new line with satisfactory terms and conditions (Q#10A1). Another 10 percent accepted an approved line, though it came with terms and conditions they did not like. Forty-four (44) percent of applicants therefore walked away with a new line (acquired credit). A third group (9%) was also approved, but its members rejected the line because the terms and conditions were unsatisfactory. As a result, 53 percent of those who tried were approved for a new line, but over one in three of them were dissatisfied with the offer (Table 6). Owners expressed dissatisfaction over a number of matters (N = 51). The most frequent were an inadequate line size (41%), collateral demands (24%), interest rate or points (14%), and drawdown requirements (11%) (Q#10A2).

Forty-six (46) percent who attempted to obtain a new line were rejected. That refusal rate not only means that nearly half who

attempted to obtain a new line were turned-down, but also the level of rejections was 17 percentage points higher than in 2010. Still, 2011's rejection level approximated the percentage rejected in 2009. To an extent, the high rejection levels of 2009 and 2011 are offset by the greater dissatisfaction expressed in 2010 with the terms and conditions offered. Thirty (30) percent were unhappy with the terms and conditions in 2010 compared to 17 percent in 2009 and 19 percent in the last 12 months. Yet, an offer, even an offer with terms and conditions an owner eventually declines, gives the owner an option that a flat rejection does not.

A plurality (46%) of small-business owners attempting to obtain a credit line tried at a single financial institution (Q#10A4). Twenty-six (26) percent tried at two and 18 percent at three, with 9 percent trying at four or more. The most recent attempt to obtain a line was made at the firm's primary financial institution in 80 percent of cases (Q#10A3). Little difference appeared in the frequency of attempts to obtain a new credit line by the size of the primary financial institution patronized. Twenty-five (25) percent of those whose primary institution is a large bank attempted to obtain a new credit line compared to 28 percent for regional/community banks.[27] Owners principally using another institution or having none were less frequently interested in procuring a new line of credit.

Small-business owners whose primary institution is a regional/community bank were more successful obtaining a new line than those whose primary institution is a large bank. Fifty-one (51) percent of the former received approval and obtained their new line compared to 33 percent of the latter. Regional/community banks therefore appear decidedly more favorable to small-business interests, at least with respect to new lines. Underscoring the point is the same basic outcomes for line renewals and loans, issues that are presented later. Caveats apply. The first is that the number of cases is relatively small (N = 102 for large banks and N = 81 for the regional/community banks). The second is that there is no direct tie between the institution approving the line and the firm. The assumption is that small-business owners approach their primary institution first. That obviously is not always true and the first lender they approach is not always the one where they obtain credit. Finally, the population patronizing regional/small banks may simply be better credits, though a review of D&B's PAYDEX credit scores indicates no difference between the two sets of customers or even a slightly higher average rating for those whose primary institution is a large bank. Still, the data strongly point to greater success at smaller institutions, a finding that is underscored by the statistical analyses (Appendix Tables B and C).

b. Credit Line Renewals

Periodically lines must be renewed. Twenty-four (24) percent of small employers attempted to renew one in 2011 (Q#10B), 1 percentage point lower than did the prior year, though 3 points above 2009. Given that 45 percent had a line last year, a little over half attempted renewal. Those data should not be construed to mean that just over half tried to renew their lines and the remainder lapsed. Institutions have different policies regarding the duration of lines and line renewals. A more likely outcome is that virtually all who needed to apply for renewal did.

Most renewal requests were granted and with satisfactory terms (Table 6). Fifty-nine (59) percent obtained renewal with satisfactory terms and conditions and another 11 percent had the line renewed, but without satisfactory terms and conditions (Q#10B1). Terms and conditions caused another 10 percent to reject an approved line. Too few cases prevent detailing applicant reservations over terms and conditions, though most appeared upset over interest rates and/or points. But in sum, financial institutions approved 80 percent of line renewals, though only 70 percent actually acquired them. Seventeen (17) percent of small-business owners who requested a line renewal were rejected. That represents about 4 percent of the small-business population.

[27] Regional/community bank, a term frequently found in this discussion, is a combination of regional banks and community banks previously defined. The two are blended because their number of cases is typically too small to report the results for them individually. However, they tend to approximate one another, though the figures for the regional institutions are usually somewhat more favorable to small-business interests. Results from both tend to vary notably from those of large banks.

The disposition of attempts to renew credit lines proved about the same in 2011 as in 2010 and about 5 percentage points more positive than in 2009. Without data on the size of those lines, it is impossible to determine if the total amount of accessible credit rose, fell, or remained constant. Still, the consistency of these annual readings, and their improvement in the last two years, suggests greater stability and/or predictability for renewals than for new lines and/or loans.

Small-business owners made 87 percent of their most recent attempts to renew lines at their primary financial institution (Q#10B2). Those data indicate that when an owner has a line at a financial institution, the financial institution is generally the owner's primary. That association gives rise to the question, unanswered here, does the customer move to where he/she can obtain a line (and renew it) or is the line granted a marginal owner because the request comes from a customer? Given the low propensity of small-business owners to change financial institutions once established,[28] the latter seems the more likely.

Regional/community banks appear more sympathetic to small-business interests with respect to line renewals than do large banks. Thirty-two (32) percent sought renewal of their credit line when their primary institution was a regional/community bank while 21 percent did if they primarily patronized a large one. The former group of small employers was also more successful in having their lines renewed – 86 percent approved with 77 percent acceptance (acquisition). The comparable figures among those primarily patronizing large banks were 71 percent and 59 percent. The same caveats discussed earlier apply here. However, in this instance, the author was able to tie the owner directly to credit sought at the owner's primary financial institution. Seventy-six (76) percent walked away with their line renewed when primarily patronizing a regional/community bank compared to 58 percent when primarily patronizing a large bank.

c. *Business Loans*

Loans proved the type of credit small-business owners were least interested in obtaining. Just 16 percent attempted to procure a business loan in 2011 (Q#10C), 3 percentage points more than 2010 and the same number as in 2009. While somewhat more successful obtaining loans than new credit lines, owners were less successful obtaining loans than either renewing credit lines or acquiring new cards. Forty-three (43) percent obtained a loan with satisfactory terms and conditions and another 5 percent acquired their loan with unsatisfactory terms (Q#10C1). A substantial 18 percent however, rejected an approved loan because of its terms. Meanwhile, 35 percent were turned-down, 1 percentage point lower than 2010. Fifty-three (53) percent therefore did not take out a loan, even though financial institutions approved almost two-thirds of applications (Table 6).

The curious part of these data is the large number of small-business owners who were approved for a loan and subsequently rejected it. Over three times as many owners rejected an approved loan in 2011 as rejected one in 2010. Small-business owners in 2010 were inclined to accept loans when offered unsatisfactory terms and conditions; in 2011 small-business owners were inclined to reject them. The difference logically means either that owners are now in a strong enough position to reject loans with unsatisfactory terms, or that the terms and conditions of loans have become substantially more adverse. Loans are the only type of financing where this large change appeared in 2011, suggesting a terms issue. Yet, a similar phenomenon occurred in 2010 with new credit lines. Seventeen (17) percent turned-down a new line due to terms and conditions then compared to 9 percent this year. Two consecutive years of the phenomenon, though with different credit forms, does not seem coincidental. Yet, there is no obvious explanation for it, either.

Small-business owners often shop for a loan at more than one institution, though it is not clear how much shopping is involved and how much is 'you take it where you can get it.' While 45 percent tried to acquire a loan at a single financial institution, 26 percent approached two, and 20 percent three (Q#10C4). Seven percent tried at four or more. The more institutions an owner solicited, the more likely he/she was to obtain a loan, and a loan with

[28] About 10 percent changed their principal financial institution in the three-year period, 2003 – 2005. Scott and Dunkelberg, op. cit.

satisfactory terms and conditions. Thirty-one (31) percent received approval on their first attempt. Another 8 percent of those who tried at least once got their loan on the second attempt. The remainder (9%) who obtained a loan got theirs on subsequent attempts, with one persistent case registering attempts at 12 different financial institutions. The greatest chance of obtaining a loan is at the first institution approached. That is likely because the best credits will be immediately approved and because it is typically the firm's primary institution. However, it often pays to try various places. About 40 percent of those approved and accepting the loan approached more than a single lender.

Small employers made about two-thirds (66%) of their most recent loan requests at their primary financial institution (Q#10C3). When making it elsewhere, they tended to go to another bank (57%). But a substantial share also went to a finance company, such as GE Credit (26%). Given that many business loans are for the purchase of equipment and vehicles, the frequency of approaches to other than the firm's primary institution should not be a surprise.

Small-business owners both applied more often and were more successful obtaining a loan when their primary bank is a regional/community bank than a large one. For example, 14 percent of small-business owners who are customers of large banks approached them for a business loan compared to 20 percent for regional/community banks. Customers of regional/community banks (primary) were also more successful obtaining a business loan (51%) than those whose primary institution is a large bank (43%). The self-evident interpretation of these numbers is that small-business owners feel more comfortable approaching smaller institutions and they are more successful obtaining credit at them. The caveats noted earlier apply to loans as well. However, because small employers approached and procured loans from so many places, attaching a customer to an institution for analytic purposes is difficult.

Table 5

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

	Credit Type				
	Any Credit	New Line	Line Renewal	Loan	Credit Card
All Firms	57%	25%	24%	16%	25%
Employee Size					
1 – 9 Empl. (n = 398)	55	23	22	14	25
10 – 19 Empl. (n = 160)	64	32	28	16	21
20 – 49 Empl. (n = 153)	69	35	32	29	25
50+ Empl. (n = 139)	79	36	48	30	26
Annual Gross Sales (000s)					
< $250 (n = 183)	46	17	13	11	26
$250 - $499 (n = 108)	62	26	19	12	30
$500 - $749 (n = 71)	51	26	33	15	10
$750 - $999 (n = 75)	65	35	29	23	13
$1,000 - $2,499 (n = 122)	65	39	32	29	29
$2,500 - $4,999 (n = 86)	78	29	44	29	36
$5,000 - $9,999 (n = 63)	76	38	48	20	20
$10,000+ (n = 66)	79	39	45	32	26

Table 5 continued

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

	Any Credit	Credit Type: New Line	Line Renewal	Loan	Credit Card
Employment Change (2008 – 2011)					
Gain – 10+ Empl. (n = 94)	76	40	35	27	27
Gain – 1 – 9 Empl. (n = 173)	55	34	30	24	24
No change (n = 209)	49	18	22	11	17
Loss - 1 – 9 Empl. (n = 196)	63	24	24	18	24
Loss – 10+ Empl. (n = 107)	69	38	43	28	25
Industry					
Construction (n = 101)	65	27	28	18	27
Manufacturing (n = 62)	60	33	28	19	21
Wholesale/Retail (n = 118)	58	30	29	19	20
Professional Services* (n = 196)	52	23	23	13	22
Non-Professional Services† (n = 205)	57	22	17	16	32
Financial Services (n = 72)	55	29	25	12	27
Other (n = 96)	60	21	25	18	23
Urban/Rural					
Highly urban city (n = 138)	53	28	21	15	25
Suburb of highly urban city (n = 171)	64	32	25	16	39
Mid-size city (250,000) and surrounding area (n = 141)	56	21	24	18	17
Small city (50,000) and surrounding area (n = 141)	58	27	21	15	24
Town or rural area (n = 243)	54	21	26	16	20
Region					
Northeast (n = 138)	63	26	25	18	25
Southeast (n = 215)	56	26	23	15	29
Mid-west (n = 178)	57	25	33	17	17
Central (n = 192)	58	26	21	15	23
Pacific (n = 127)	54	22	18	19	28

d. Credit Cards

Twenty-five (25) percent of small employers attempted to obtain a credit card for business purposes during the year (Q#10D). That is the same percentage as attempted to procure a new line of credit, and the same 7 percentage point increase from 2010 than experienced for new lines. The two forms of credit have many of the same features, the most prominent being flexibility to use credit as needed. If an owner applied for one therefore, one might assume he/she applied for the other. But that is not the case. Of those who tried to acquire either, just 22 percent attempted to get both. Forty (40) percent tried to obtain a line exclusively and 38 percent wanted only a card. As a result, small-business owners did not generally appear to want these forms of credit as possible substitutes for one another. Still, owners could have had one and applied for the other as a complement. Those who do have cards did indeed apply more frequently for a line (36%)

Table 5 continued

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

	Credit Type				
	Any Credit	New Line	Line Renewal	Loan	Credit Card
Size of Principal Bank					
Large bank (n = 377)	54	25	21	14	28
Regional bank (n = 148)	66	33	35	22	24
Community bank (n = 201)	63	24	30	20	19
Other financial institution (n = 92)	58	26	19	18	24
PAYDEX Credit Score					
100 – 86 (n = 53)	26	9	19	7	5
85 – 76 (n = 94)	68	33	35	20	26
75 – 51 (n = 258)	54	21	22	13	23
50 – 26 (n = 173)	51	24	25	13	22
25 – 1 (n = 229)	67	28	21	22	31
Years of Ownership/ Management					
< 4 years (n = 179)	63	25	16	19	39
4 – 6 years (n = 149)	50	24	25	12	21
7 – 9 years (n = 76)	60	40	23	27	21
10 – 14 years (n = 119)	52	29	19	15	22
15 – 19 years (n = 75)	60	28	26	12	21
20 – 29 years (n = 127)	53	16	24	12	21
30+ years (n = 113)	61	22	39	17	15
Sex					
Male (n = 600)	63	26	28	19	26
Female (n = 250)	47	23	16	11	21

* These include NAICs codes 54, 61, and 62.

† These include NAICs codes 56, 71, 72, and 81.

than the population (25%). If they had lines, however, they applied for cards in 27 percent of cases, just above the population's average.

Small-business owners were more successful obtaining credit cards than any other type of institutional financing (Table 6). Fifty-nine (59) percent received approval with satisfactory terms while another 15 percent obtained a card, but were unhappy with its terms and conditions (Q#10D1). Approval with satisfactory terms and conditions fell by 7 percentage points from 2010, but was consistent with the 2009 level. Approval with dissatisfaction over terms rose 5 percentage points from 2010 with the 2009 level between. Thus, about the same number of owners acquired cards in 2011 (74%) as in 2010 (76%), though they were less satisfied with the terms and conditions. Eighteen (18) percent experienced a turn-down; 6 percent rejected a card offer. Both numbers are similar to last year's figures. The turn-down rate for cards and line renewals

approximate one another and are substantially lower than that for new lines and loans. The amount of the credit request, though not obtained for the survey, is undoubtedly related to the differing approval rates. Approvals were 80 percent in 2011, 84 percent in 2010, and 79 percent in 2009.

The most recent attempt to obtain a credit card for business purposes typically focused on a business card (in contrast to a personal card for business purposes). Seventy-one (71) percent requested a business card, with 23 percent a personal card (Q#10D2). The remainder did not know or failed to respond. That 71 – 23 split between personal and business tilts more toward business cards than the composition of cards currently held. While it appears that personal cards are extended more often (on a percentage basis) than business cards, the number of cases involving personal cards (N = 35) is too limited to draw conclusions.

Small-business applicants typically tried to obtain a card only once. Seventy-seven (77) percent report a single attempt with another 15 percent reporting two (Q#10D3)

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e. Combinations of Credit Types

When small-business owners seek one type (not source) of credit, there is a strong likelihood that they will seek more than one. Just over half (55%) of the 57 percent who sought credit in 2011 sought only a single type (line, line renewal, loan, card). The remainder pursued more. Twenty-two (22) percent attempted to acquire two types, 14 percent three, and 10 percent all four. It therefore appears that between 10 – 15 percent of the entire small-employer population tried to get just about any type of credit they could. Though the sequence of requests could not be determined, the credit types seem interchangeable for those small-business owners attempting to obtain multiple types. Such behavior contains a whiff of desperation.

The credit type most often pursued in isolation was credit cards. Twenty-five (25) percent who attempted to obtain a new line sought a new line and no other type of credit. Forty (40) percent sought only a line renewal while 22 percent sought only a loan. The most common type of credit sought exclusively was credit cards (53%). The most frequent combinations of attempts are between new lines and line renewals, and new lines and loans. The least frequent involve credit cards and business loans.

Borrowing Purposes

The purpose(s) of borrowing reveals much about the condition of the individual firm and, in aggregate, much about the condition of the greater economy. For example, as a general rule borrowing to invest suggests a healthy firm and a healthy economy; borrowing to roll-over debt or support cash flow suggests the opposite.

The survey asked respondents who attempted to borrow in the last 12 months about the purposes of their (intended) borrowing. It focused on seven potential borrowing purposes including: cash flow or day-to-day operating costs; real estate or structure; replacement of old plant, equipment or vehicles; investment in additional plant, equipment, or vehicles; repayment of debt; reserve of cushion; and inventory.

Table 7 presents the purpose(s) for borrowing in 2011 by the owner's success in acquiring sought after credit. The data presented do not disclose whether the purpose(s) was part of a single or multiple attempts, only that the owner sought to borrow during the last year for the reason(s) cited. As a general rule, the table shows that owners who were shut-out from credit always wanted to borrow for a particular purpose more frequently than those who were successful. The gap between the two makes a useful comparison because the smaller the gap, the more likely the two groups are to recognize common conditions that stimulate their borrowing request. A good example is borrowing for replacement of existing equipment or vehicles. Replacement has considerable regularity because it can only be delayed so long. Credit demand for replacement is therefore much more likely to have an element of stability compared to repaying debt which is more likely tied to the business cycle.

The most frequent purpose for borrowing was to support cash flow. Sixty-three (63) percent of those who attempted to obtain credit did so for that reason (Q#12A). Those who were most successful obtaining credit were less likely to want money for cash flow purposes. Still, a majority (53%) of even the most successful group attempted to borrow for that purpose. Seasonality, slow customer payment, and an unusually large or unexpected outlay are examples of legitimate reasons a business owner might need to borrow to support cash flow. The 20 percentage point gap however, between borrowing intent among

Table 6

Most Recent Attempt To Borrow And Success By Type Of Credit Sought, 2010 And 2011

Borrowing Attempts and Outcomes	Type of Credit Sought: New Line				Renewed Line				Loan				Credit Card			
	Attempting		Total		Attempting		Total		Attempting		Total		Attempting		Total	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
1. Attempted to get a _____			18%	25%			25%	24%			13%	16%			18%	25%
A. Got the _____ with acceptable terms/conditions	38%	34%	7	8	57%	59%	14	14	43%	43%	6	7	66%	59%	12	15
B. Got the _____, but with unsatisfactory terms/conditions	13	10	2	3	15	11	4	3	13	5	2	1	10	15	2	4
C. Turned down the _____ due to unsatisfactory terms/conditions	17	9	3	2	8	10	2	3	5	18	1	3	8	6	1	2
D. Was NOT able to get the _____	29	46	511	16	17	4	4	36	35	5	6	16	18	3	4	
E. DK/Refuse	3	2	1	1	5	3	1	1	3	*	*	*	1	2	*	*
Total	100%	100%			100%	100%			100%	100%			100%	100%		
N	201	246			301	254			158	171			153	204		
2. Did NOT attempt to get a _____			82	74			74	75			83	86			82	75
3. DK/Refused			*	1			1	1			1	1			1	1
Total	100%	100%			100%	100%			100%	100%			100%	100%		
N	856	850			856	850			856	850			856	850		

www.NFIB.com/creditpoll

those totally successful and those shut-out argues that the purpose is more frequent today than it might be in more normal times.

Rolling-over or rescheduling debt can benefit both borrower and lender. The current low interest rates are an opportune time to refinance, assuming other financial issues are satisfactory. However, attempts to refinance or reschedule debt often signal financial distress. That is particularly true in the current environment where real estate has usually lost value and sales are weak. Just 23 percent of small-business owners who attempted to borrow in the last 12 months did so in order to refinance (Q#12E). Those who were least successful obtaining credit were over three times as likely to cite this reason for wanting to borrow as were those who were the most successful. The statistical analyses associating the procurement of credit with select predictors indicated that trying to borrow for this purpose was related to *not* getting credit.

The second most frequent purpose for attempting to borrow was for reserve or cushion, a type of borrowing typically associated with lines of credit or credit cards. The idea is to provide the owner flexibility allowing him/her to move quickly and with minimal administrative burden when necessary. Forty-six (46) percent wanted to borrow for reserve purposes, with the variance between the most and least successful borrowers being relatively small (Q#12F). The latter were less than 25 percent more likely to want to borrow for this reason than the former. As will be seen, demand for this type of credit rose substantially in 2011 compared to prior years.

The remainder of reasons are generally associated with investment, though much of that investment is simple replacement. The most notable is the 37 percent who want to borrow to invest in additional plant, equipment and/or vehicles (Q#12D). Much of this could be considered expansion or growth activity. Small-business owners who were generally able to obtain the credit desired were substantially *less* interested in borrowing for new investment purposes (29%) than those who were not (48%). The gap between the two is 19 percentage points. Owners who tried to borrow to make new investments were less likely to get credit than when applying for other investment. The result is more evidence over a disconnect between borrowers and lenders over business opportunities, particularly replacement investment. Apparently lenders do not see business expansion as typically generating sufficient new cash flow under current conditions to warrant such loans, but are sympathetic to replacement.

The frequency of the need to borrow for replacement of plant, equipment and/or vehicles and inventory are about as common as the frequency of the desire to invest in new or additional plant, equipment and/or vehicles. Thirty-two (32) percent want credit to replace needed things (Q#12C). However, successful borrowers and unsuccessful borrowers identify replacement investment as a reason to borrow in a similar number of cases (29% - 36%). That small discrepancy suggests the need for replacement investment is less subjective than other purposes and more likely to receive favorable lender consideration. The 7 percentage point differential between successful and unsuccessful borrowers is the smallest of the seven borrowing purposes listed on the survey.

Thirty-eight (38) percent want credit to invest in inventory, another type of investment (Q#12G). The gap between those who got all the credit they wanted and none of the credit they wanted when trying to borrow for inventory purposes was 17 percentage points or about 50 percent. Though industry sample sizes are small, intended borrowing for this purpose was not confined to retail or distribution generally. It should be noted, however, that borrowing for inventory has two facets like borrowing for investment, one is to replace what is leaving the shelves and the other is to expand what is there. The survey did not distinguish between the two on inventories.

The fewest number of small-business owners attempting to borrow wanted credit to finance real estate and/or structures. Only 19 percent wanted credit for that purpose (Q#12B). Given the condition of real estate over the last few years, their minimal interest is to be expected. That is particularly characteristic of the most successful borrowers. Just 11 percent of that group wanted money to put into real estate and related purposes. Those with at least one upside-down property were somewhat more interested in borrowing for real estate purposes than those without one. Wanting to borrow for this purpose is associated with not accessing credit, other factors equal. The outcome may have been different, more closely paralleling investment behavior, had inventory been divided in two groups.

Table 7
Purpose(s)/Projected Purpose(s) Of Borrowing By Borrowing Success

Bottowing Purpose	Borrowing Success Amount of Credit Needs Filled All	Most	Some	Total	None
Cash flow	53%	72%	64%	73%	63%
Real estate/Structures	11	24	24	21	19
Replacement – plant, equipment, vehicles	29	22	41	36	32
Investment – added plant, equipment, vehicles	29	28	45	48	37
Repayment of debt	13	18	25	42	23
Reserve/Cushion	42	42	49	52	46
Inventory	33	30	40	50	38

a. Fewer Purposes – Greater Success

Small-business owners who want to borrow for fewer purposes typically find greater success in filling their borrowing needs. Table 7 shows that the average number of purposes for all attempting to borrow is over two and one-half. That two and one-half purposes compares to just over two purposes among those obtaining all of the credit they wanted and almost three and one-quarter purposes among those totally unsuccessful.

The same point can be made from another perspective: 55 percent of those who attempted to borrow for a single purpose obtained all of the credit they wanted in the last 12 months; 11 percent who attempted to borrow for a single purpose were shut-out. In contrast, only 17 percent who attempted to borrow for four of the seven listed purposes obtained all the credit they wanted while 29 percent who attempted to borrow for four purposes were shut-out. Turning the numbers around, one sees that 37 percent of small-business owners who had all their credit needs met over the last 12 months wanted to borrow for only one purpose; 13 percent who were shut-out wanted to borrow for a single reason. In contrast, 12 percent who obtained all credit wanted attempted to borrow for four or more purposes compared to 37 percent among those who obtained none of the credit sought. Factors not identified due to data limitations, such as loan size or number of applications, assuredly also played a significant role in the result. Still, the greater the numbers of borrowing purposes, the less likely lenders were to respond positively. It is also one of the best predictors of credit acquisition and not (see, Appendix Tables B and C).

b. Change in Borrowing Purpose(s) Since 2009

Changes from the prior two years in attempted borrowing purposes indicate a considerably different set of economic conditions today than in 2009. The most important for present purposes is that much of the desperation borrowing (attempts at borrowing) appears over. That means conditions have generally improved, desperation borrowers are now out-of-business, or both – the last being the most likely of the three. The largest of these changes occurred between 2009 and 2010 with 2011 primarily an extension of 2010.

The percentage attempting to borrow for repayment of debt, cash flow and reserve/cushion, the reasons signaling potential financial difficulty, all fell notably between 2009 and 2010. Repayment of debt fell by almost half, cash flow dropped 15 percent, and reserve/cushion declined by a third. The first two of the three held steady into 2011, though the third, reserve/cushion, rebounded to 2009 levels. The reason for the rebound is a likely reaction to the chopping of lines that occurred a few years ago. Note the rise was particularly sharp among those who were able to get credit. Just 26 percent of successful borrowers in 2010 wanted to borrow for reserve/cushion purpose. That proportion increased to 42 percent in 2011. Better credits, therefore, seem to be reentering the market for this credit form even if they are not particularly interested in immediate investment.

The frequency of attempts to borrow for new investment, replacement and inventory remained remarkably stable over the period. Borrowing attempts to finance real estate and structures, while the most infrequent of the potential borrowing purposes listed here, has shown steady declines. A general retrenchment in real estate investment among small-business owners appears underway as will be addressed later and this is one indicator.

Non-Borrowers

Eighty-eight (88) percent of small-businessmen and women have outstanding financial obligations in the form of loans, lines and/or cards or access to credit in the form of lines or cards (Table 3). However, they do not necessarily expand their obligations nor take on new ones in the form of new loans, lines or cards every year. As many as half did not even try to borrow in recent years; another third (depending on the year) has not been successful when attempting to do so. The upshot is that small-business owners who do not borrow have recently constituted a majority; in 2011, 54 percent of the population (4 percent no answer) did not acquire any new or renewed credit. Sixty (60) percent did not procure any in 2010 with 3 percent not responding.

The following discusses three types of non-borrowers: those who do not borrow because they either do not want or need (additional) credit; those who did not think they could acquire the desired financing if they tried; and, those who attempted to borrow and either were rejected by a lender or refused a lender's offer.

a. The Disinterested

The most frequent reason for not borrowing is that small-business owners do not want or need money. These owners may have adequate savings or internal cash flow to make the business investments they want. Or, they may not wish to invest, believing current opportunities are not present or not worth the risk.[29] They also may fear taking on additional financial obligations, knowing that they currently are in no position to do so. Any of these situations could change, putting these owners in the credit markets at some point in the future. But, for the present they simply do not want to borrow. Lacking better terminology, they are here called the "Disinterested."

The Disinterested constitute the largest group of non-borrowers, a larger share than rejected borrowers and discouraged borrowers combined (Table 4). In 2011, 34 percent of the entire population fell in this group and it amounted to 80 percent of the small-business owners who did not attempt to borrow (Q#14). The former is a smaller number than recorded in either 2010 (39%) or 2009 (42%) while the latter approximates last year (81%), but is lower than two years ago (88%).

The disinterested are also arguably the best group of potential credits, including those who borrow.

b. The Discouraged

Seven percent of the small-business employer population can be classified as discouraged borrowers. That represents a 1 percentage point increase from last year and a 2 percentage point increase from the year before. The size of the group therefore has hovered in a narrow band over the last few years.

Discouraged borrowers do not try to borrow because they think they will be rejected. They are probably correct in most cases. Discouraged borrowers generally appear financially weaker than disinterested borrowers (Appendix Table D). Moreover, those weaknesses are often highly visible, not buried in the fine print of a balance sheet. For example, discouraged borrowers were more likely to have *more* upside-down real estate, a *loss* of employees over the last three years, *more* pieces of real estate currently collateralized to support prior borrowing, and *more* frequent credit card balances over $10,000 after monthly payment. The latter factor almost assures that a non-borrower will be discouraged rather than disinterested. Further, these conditions among others lead owners to evaluate their firms as performing negatively compared to competitors.

Holding more real estate free and clear of debt is also a differentiating factor, though not likely to come immediately to mind for a discouraged borrower. Owners of home-based businesses are also *more* likely to be discouraged, though neither employee size-of-business nor new/mature businesses exhibit a differ-

[29] The disinterested judge the business opportunities available similarly to those who attempted to borrow.

ence. The differentiating variable that is difficult to explain is employment growth over the last three years. A possibility is recent experience; these owners grew during the Great Recession, could not acquire credit while doing so, and remain discouraged. Yet, that explanation does appear a stretch. Several variables that differentiate acquiring credit from not acquiring credit, a relevant comparison to the current attempt to differentiate discouraged and disinterested borrowers, demonstrate no predictive capacity here. The most interesting of these is credit score. While its sign is as expected, the relationship is not significant.

A second type of discouraged borrower is not normally considered. He/she is an owner who is able to borrow, but does not request the amount actually wanted. Twenty-eight (28) percent of those attempting to borrow or 15 percent of the total population fall in this group (Q#13). Seven percent who asked for and acquired all or most of the credit they requested indicated that they wanted additional credit, but didn't ask for all they wanted because they did not think they could get it. Just over 50 percent of those who either obtained only some of the credit they wanted or none of the credit they wanted also failed to apply for all of the credit wanted. Many in the rejected group therefore seemingly wanted to apply for even more credit than they actually did, though it is possible there was some confusion about asking for more and asking for any. These data raise two related issues regarding the amount of the request, neither of which can be answered here. The first is, why did those who acquired all or most of the credit they requested fail to request the total amount they really wanted? And, did limiting their request help assure that they obtained the amount they actually acquired? The second is, if those rejected wanted even more credit than the amount they could not get, how realistic were the amounts they really wanted? And, did they scale attempts back to the point that the squeezed amount undermined the cogency of their request?

c. *The Rejected*

The rejected are small-business owners who apply for credit and do not receive it, or at least most of it. Eleven (11) percent of the small-business population and 20 percent of those attempting to borrow in 2011 acquired none of the credit they requested (Table 4). Another 14 percent of the population and 24 percent of applicants obtained some of the credit they wanted, though not in the amounts desired. Both classes of borrower were substantially larger in 2011 than they were in 2010. However, both approximated levels registered in 2009.

Over 600,000 small-business applicants were shut-out of desired credit during 2011. Another estimated 800,000 obtained some credit, but less than in the desired amounts. Are these numbers good or bad? It depends on where one sits, and the credit-worthiness of rejected applicants. But as will be discussed later, there appears to be a fundamental disconnect between prospective borrowers and lenders about economic prospects.

Trade Credit

Trade credit is a form of business credit that does not involve financial institutions, but buyers and sellers extending (or receiving) credit in order to finance a sale. The specie extended in this case is not cash, but goods and/or services. And, the payback term is short, measured in days or upon receipt of the invoice rather than in months or years. Few outside the business world understand the critical nature of trade credit for many small businesses. But the key issue, exacerbated when the economy is poor, is its impact on cash flow. Sellers want to get paid as quickly as possible, even offering discounts for accelerated payment, and sometimes charging interest or penalties for late payment. Purchasers have a diametrically opposed incentive. They want to extend payment as long as possible, though some will take advantage of discounts and avoid penalties. The larger the dollar-volume transaction(s) involving trade credit, the greater the incentive to expedite/delay payment/collection. This is one area where large firms often take advantage of their market power to strong-arm small-business suppliers and customers.

Receivables and payables are opposite sides of the same coin. Seller receivables are the unpaid amounts purchasers owe them. Purchaser payables are the unpaid amounts owed sellers.

Receivables

Fifty-four (54) percent of small businesses extend credit to at least some of their customers (Q#20); 44 percent do not, and 2 percent do not know. While 19 percent now extend trade

credit to all customers, most owners are more discriminating. For example, 6 percent extend it to most customers, 21 percent to select customers, and 9 percent to customers who specifically ask for it.

The principal difference from the prior year is that small-business owners appeared less likely to extend trade credit in 2011. Forty-four (44) percent did not extend trade credit compared to 36 percent one year ago. The decrease could have more than a single meaning. It could indicate that sales conditions are improving, hence reducing the need to finance marginal customers. But it could also indicate that financing customers has become an intolerable burden, one they no longer find worth carrying. Given current conditions, the latter is the more likely of the two.

The terms and conditions of trade credit vary with the seller. Like other lenders, sellers adjust rates and terms for customers though they usually have standard policies. But standard policies can vary as well. Over the last 12 months, 67 percent have not changed their trade credit policy (Q#20a). Meanwhile, 26 percent claim to have tightened it, 13 percent tightening it a lot. Tightening could mean more selective extension, shorter due dates, interest or higher interest on overdue invoices, etc. In contrast, just 4 percent loosened their trade credit policies.

A substantial portion of that "no change" represents those whose credit policies are to not extend credit to customers; they did not extend credit last year and they still do not. Eliminating that group and considering only those who currently extend trade credit does not change the overall picture very much. Sixty-one (61) percent of the reduced group indicate no change from the prior year, while 34 percent claim to have tightened credit and 5 percent loosened it. The practical result is that about one in three businesses that extend trade credit are tightening their credit policies. The survey offers no data on the tightening measures taken or the reasons for them. However, a likely stimulus for the change is delinquencies, and in some cases, non-payment.

Aging receivables or delinquencies can cost the firm in a number of ways. The seller, for example, loses the time-value of money. Or, late payment can force the seller to delay his payments, thereby incurring late charges and/or a reduced credit rating. Moreover, the longer payment is not made, the greater the chance it will never be made. Keeping a watchful eye on receivables is therefore of critical managerial importance. Thirty-six (36) percent of those offering trade credit have no receivables over 60 days (Q#20b). Twenty-five (25) percent have fewer than 10 percent (measured in dollar volume) delinquent as defined here with another 16 percent of firms having between 10 and 19 percent of receivables delinquent. Just 9 percent have 30 percent or more of their outstanding receivables delinquent 60 days or more, a huge proportion of their money waiting to be collected.

Two-thirds (68%) with receivables think their position is the same today as it was last year at this time (Q#20b1). In other words, customers are paying no faster or slower than they did one year prior. The remainder are divided between those whose delinquency rates are higher (20%) and those whose rates are lower (12%). These numbers suggest that the problem is growing, though at a slower rate than in 2010 when 26 percent reported a growing problem and 11 percent a declining one. Despite the possible perception of a growing problem, 61 percent have less than 10 percent of their receivables 60 days or over, a 5 percentage point improvement from one year ago. Similarly the number tightening and loosening their policies has moved little year to year. The situation on balance therefore appears stable, though not necessarily positive. An economic recovery should yield sharply falling delinquency rates and that is not happening.

Payables

Forty-seven (47) percent of small-business owners acknowledge using trade credit; 46 percent do not, and 7 percent do not know (Q#21). The 7 percent no answers are likely light or non-users. Owners of smaller, small firms are noticeably less likely to use it than are others. It is important to recognize, however, that non-use of trade credit is not the equivalent of being unable to qualify for it. Some business situations and industry practices make its use considerably more practical and advantageous than others.

The median amount of firm purchases financed by trade credit is about 7 or 8 percent measured by dollar volume. However, the median amount is closer to 45 percent among those who use any of it. Seven percent finance more than 90 percent of their purchases using

trade credit and another 15 percent finance 50 – 89 percent of theirs in this manner. Trade credit as a method of financing is therefore critical to a non-trivial portion of the small-business population.

Small-business owners think that suppliers have tightened trade credit over the last 12 months. While the majority (65%) of those using trade credit see no change from 12 months ago, 32 percent think the credit policies of suppliers have tightened while just 4 percent think they have loosened (Q#21a). Considering 34 percent of small-business owners extending trade credit claim to have tightened and 4 percent loosened, their general tightening of their extensions is a virtual mirror image of what is happening to them as recipients.

One reason for tighter trade credit policies is customers paying more slowly. Small-business owners, as customers, on average do the same. The majority (68%) report no change in the pace of payments on outstanding trade credit obligations, but 20 percent now pay their bills more slowly than they did one year ago (Q#21a1). Slower pay by one in five is partially offset by the faster payments now reported by 1 in 10.

Suppliers can reject the extension of trade credit just as financial institutions can reject an extension of loans, lines and cards. Over the past 12 months suppliers have denied a request for trade credit at least once to 7 percent of prospective trade credit users (Q#21a2). The few cases of those denied trade credit (N = 44) makes it difficult to draw associations with potentially related activity. However, it does appear that those denied trade credit were also more likely to apply for credit at financial institutions and to have had their applications rejected.

Trade Credit Substituting for Institutional Finance

The pattern of trade credit use compared to use and application for bank finance is complicated. Table 8 illustrates. The table divides users of trade credit into three groups – those who do not use trade credit; those who use it, but finance less than 25 percent of their purchases using it; and, heavy users, that is, those financing 25 to 100 percent of their purchases with trade credit. The table also presents the types of credit currently possessed and the types of credit sought in 2011.

The first point to note on the table is that non-users of trade credit are typically less likely to use financial institution credit than those who do. This is particularly pronounced for credit lines. Credit lines share important characteristics with trade credit, primarily immediate access, and therefore appear to substitute for one another, if not directly, then indirectly. The gap is especially wide (16 percentage points) between those who do not use trade credit and those who use it minimally. A possible reason the latter group employs trade credit minimally is that it has lines to fall back on. Loans are different. Here the gap lies between heavy users of trade credit and the rest. Heavy users are also the more likely to have a business loan than others. So, heavy users seem to use loans as well as lines to complement trade credit while light users are much more likely to use lines. The reason for the difference is not obvious from the data, but is likely tied to a lender's concern over the lack of control over trade credit use. There is no difference in credit card use (as credit) vis-à-vis trade credit among any of the three groups.

Heavy users of trade credit are more likely to try to acquire additional sources of financing in 2011 than either the non-users or the modest users. The exception is credit cards where no differences exist. But, modest users of trade credit were even less likely to seek financing in 2011 than non-users. While the differences are only a few percentage points, they appear for new lines, line renewals, and loans, and the gap sizes between each pair is reasonably constant. This suggests credit source substitution occurring among the two groups. The different group is the heavy users. Its members simply appear to need/use more credit than others. If that is true, trade credit becomes an increasing vital source of small-business finance when financial institutions tighten their standards.

Table 8
Use Of Trade Credit By Types Of Credit Possessed And Sought In 2011

	Use of Trade Credit		
	Don't Use Trade Credit	< 25% of Purchases Using Trade Credit	25% – 100% of Purchases Using Trade Credit
Possessed in 2011			
Line	41%	57%	47%
Loan	26	27	36
Card*	22	26	24
Sought in 2011			
New line	24%	22%	33%
Line renewal	21	18	32
Loan	16	12	21
Card	24	25	26

* Used for credit purposes only – defined as maintaining balances

Equity

The focus of this report is debt financing. However, equity financing, that is, selling a share(s) of ownership, is a relatively unusual, but potential alternative. Five percent attempted to pursue equity financing in the last year (Q#22). That is on the high side of a tight range of survey results on the topic that occasionally appear.[30]

The number of cases is again too few (N = 25) to explore possible associations. But those who explore equity appear to also explore other types of finance much above the average incidence.

Real Estate and Its Implications

The prior two reports in this series argued that substantial real estate holdings have been a major reason that limits the ability of small-business owners to tap the credit markets. Weak sales have capped their borrowing interest, but falling real estate prices have reduced their equity thereby limiting their borrowing capacity even when interested. Those basic facts imply that until real estate prices substantially improve, or until small-business owners can start dumping or revaluing the real estate they now own, it will be difficult for them to invest/reinvest and/or grow. Dumping appears to have begun (Table 9).

The Owner's Residence

Small-business owners remain a well-housed group. However, change appears to be occurring. Eighty-nine (89) percent own their residence (Q#25). The ownership rate is down 5 percentage points in the last year, but remains well above the 67 percent national home ownership rate (2010 data).[31] And, while the most recent figures available date to 2007, the median value of self-employed[32] people's primary residence is $300,000 compared to $200,000 for persons working for someone else.[33] Small-business owners therefore are much more likely to own their primary residence and that primary residence is likely to

[30] See for example, Survey of Small Business Finances, Board of Governors, Federal Reserve System, 2007.

[31] http://research.stlouisfed.org/fred2/series/USHOWN?cid=98 downloaded 1/5/2012.

[32] "Self-employed" is a broader term than the small employers included in the survey. It is likely the primary residences of the small employer subset have an even greater value than the self-employed total.

[33] Brian K. Bucks, Arthur B. Kennickell, Traci L. Mach, and Kevin B. Moore, "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances," Board of Governors of the Federal Reserve System, February 2009. http://www.federalreserve.gov/econresdata/scf/files/2007_scf09.pdf downloaded 1/5/2012.

be of considerably greater value, or at least it was until house prices began to fall, than the general public's.

Seventy-one (71) percent of those who own their primary residence have a mortgage on it (Q#25a). That amounts to 64 percent of the small-employer population having a mortgage on their homes, a total that approximates those reported in 2010, 2009, and 2008 (Table 9). Of those who have a first mortgage, 23 percent have a second mortgage on their primary residence (Q#25b), amounting to 15 percent of all small employers. Those figures, too, approximate 2008 - 2010 totals.

Upside-down or underwater mortgages appear when the value of the property is less than the unpaid balance on the mortgage. It is negative equity for balance sheet purposes. Twenty-two (22) percent of owners with mortgages report that the mortgage on their primary residence is upside-down (Q#25c). That number translates into 14 percent of the small-employer population with an upside-down mortgage on their residence. The proportion of small-business owners in this situation should at least now be stabilizing given the condition of the housing market. Yet, 2011's level of upside-down mortgages was the highest yet recorded in this series. The comparative levels are 6 percent in 2010, 9 percent in 2009, and 13 percent in 2008. This year's directional change in the proportion of upside-down mortgages therefore presents an unwelcome surprise from the prior trend. There are obvious explanations for some, but not all, of this change. House prices have not yet stabilized; they continued to decline even if the worst appears over. Further, the more time since house prices began to fall, the more time people have had to digest the "new" housing market. Friends, family, and neighbors who try to move relay their difficulties, heightening sensitivity to an experience that may not yet have impacted directly those intending to remain in their current residence. Small employers wanting to finance their businesses may recently have had an appraisal of their primary residence required. Every passing year increases the numbers that experience a revised home appraisal. So, the rise in upside-down residences may now be a matter of perception catching up to reality as much as further increases in their number.

The proceeds from mortgages on residences can be used to help finance the business. Indeed, 22 percent with a mortgage report that they have done exactly that (Q#25d); they took equity out of their homes and put it back in the business. That figure represents 14 percent of the small-employer population. Also, 12 percent are using their homes for collateral to obtain business financing (Q#25e). That translates into 11 percent of the population. Both questions about using home equity to help finance the business were worded a bit differently in 2011 than 2010 and 2009 for purposes of clarity. However, the results are similar. The former differs 1 percentage point from last year and 2 percentage points from two years ago. The latter differs 4 percentage points from 2010 and 5 from 2009. The ratchet upward in the latter may reflect a reference to collateralization of trade credit (receivables). No mention of trade credit appeared in the prior years' question.

The two means of tapping into home equity noted immediately above are different and seen as such. Ten (10) percent used it for both purposes, 74 percent neither, and the remainder used it for one purpose, but not the other.

Nineteen (19) percent of small-business owners owning a residence also own a second residence, one used for personal rather than rental or business purposes (Q#25f). The assortment of these second residences is likely dramatic, ranging from winter homes in the sunshine to one-room fishing cabins on a river bank. That number is down from last year's 22 percent. The decline is greater over the entire population as the proportion of primary residential owners also fell. Thus, 18 percent of the small-employer population now own a second home compared to 20 percent last year. The two-point decrease suggests they either are off-loading some of these properties or turning them into rentals.

The Business Premises

One-third (33%) of employing businesses now operate from the home or an associated structure (Q#23). That number has risen steadily over the last decade from about 20 percent. The shift likely reflects a rise in the services and a decline in distribution, but operating from the home is also a means to reduce business overhead significantly, making it especially attractive for new and young enterprises. The Great Recession has likely accelerated the trend.

Thirty-five (35) percent of those *not* operating from the home own all or part of

the building or land on which their business is located (Q#24).[34] That is a monstrous 17 percentage point or a one-third tumble from the prior year, a decline so large that it is difficult to understand. Since the 2008 - 2010 figures are within 3 percentage points of one another, it is the 2011 figure that begs explanation. Some decline should be expected as owners attempt to off-load commercial properties. Others may have lost properties to foreclosure. Still others may have gone out of business without their replacements wanting to own their business premises. But these developments can explain only a portion of the decline, and probably a relatively small one. Dumping that many illiquid assets in such a short period simply cannot be done. So, while a decline should be regarded as occurring, a decline of the size recorded here should be viewed with skepticism.

Ownership of the business premises is related to three factors: size of the business, its geographic location, and its broad industry. The larger the business, the more likely it is to operate from its own facilities. Thirty (30) percent own when the venture has fewer than 10 employees; 57 percent do when it has 50 or more. Similarly, the more urbanized the area, the *less* likely small employers are to own their business premises. Twenty-one (21) percent in the suburbs of major cities own while 50 percent own in small towns or rural areas. Small employers in the production industries are also more likely to own than those in the distribution industries which in turn are more likely to own than those in the service industries.

Sixty-three (63) percent who own their premises have a mortgage on it (Q#24a), 10 percentage points higher than one year ago. An upward movement has occurred in each of the last two years, but 2011 parallels 2008. Ten (10) percent with a mortgage also have a second (Q#24b); that translates into only 2 percent of the population. Low interest rates make refinancing of one or more mortgages an attractive option for those able to do so. Others will need to refinance because of the balloons they must pay off. Fifteen (15) percent now plan to refinance in the next 12 months (Q#24c). The question designed to elicit a reason for refinancing attracted too few responses to report results, but it appears that low interest rates was the overwhelming choice.

Four percent have an upside-down commercial mortgage, about the same number as in 2008 – 2010. That 4 percent however, represents 17 percent who have a mortgage on the property (Q#24d). The commercial real estate market seems to have been moving sideways since 2009.[35] The data presented here appear to conform with its overall pricing.

Like similar questions regarding residences, the wording on the questions related to business use of commercial mortgages and collateralization were altered slightly in 2011 to clarify their meaning. However, current year's data show small-business owners more inclined, and perhaps better able, to use the equity in their business real estate to help finance the business than in 2010. Thirty-five (35) percent with a mortgage used proceeds from one or more of them to finance the business (Q#24e). That is significantly higher than in 2010, but just six points below the 2009 level, making 2011 a rebound year. Note that the percentage with a mortgage has recently been rising. It is likely therefore that more frequent use of commercial mortgages to finance business activities occurred because of greater stability in the commercial real estate market. Change in the question wording may also be partially responsible for a change that large.

Twenty-four (24) percent said that the property was collateralized to support other business activity, including trade credit (Q#24f). The 2011 figure exhibits the third consecutive increase over the last four years. The three prior years were 22 percent, 19 percent, and 10 percent. This sequence indicates that lenders either now want more collateral because the value of the collateral they have taken has fallen, or collateral had to be posted for new borrowing. Both likely are happening.

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[34] The data on the business premises can be presented in terms of the percentage of the total small-employer population or the percentage of just those small employers who operate outside the home thereby combining the residence and the business premises and classifying the hybrid as the residence. The discussion is presented in terms of the latter as it reflects construction of the questionnaire and the cross-tabulations in the Appendix. However, Table 9 presents the data as a percentage of the population to make them comparable to other data on the table.

[35] http://www.rcanalytics.com/derivatives_index.aspx downloaded 12/11/11.

The number of owners complaining about loan terms could also reflect this phenomenon.

Fifty-three (53) percent with mortgages used their equity neither to finance other business activity nor to collateralize a business investment purpose while 21 percent used them for both. The remainder used it for one or the other.

Investment Real Estate

Thirty-six (36) percent of small employers report owning investment real estate, real estate including neither the residence nor the business (Q#26). The figure has eroded gradually each year from 41 percent in 2008 (Table 9). One-third (33%) own a single property, but most own more than one (Q#26a). Twenty-four (24) percent own two, 15 percent three, 7 percent four, 13 percent five to nine, and 1 percent 10 or more. Fewer hold five or more properties this year than last. No comparable data exits for 2009 or 2008.

Fifty-four (54) percent have a first mortgage on their largest investment property (Q#26b). Of those with investment properties, the percent with first mortgages on their largest piece of investment real estate has ranged with no direction over the last four years from 49 percent to 56 percent. Fifteen (15) percent with a first in 2011 have a second (Q#26c), amounting to just 3 percent of the small-employer population.

The number of small-business owners with an upside-down property on their largest piece of investment real estate continues to rise. Twenty-one (21) percent with investment real estate claim that their largest such investment has a mortgage larger than the equity they have in the property (Q#26e). That figure is 6 percentage points higher than it has been in each the last two years and 9 percentage points higher than 2008. Possible reasons for higher rates were outlined previously in the discussion of upside-down residential real estate.

The use of investment real estate to help finance the business remains relatively uncommon compared to residential and commercial. No more than 5 percent of the population in any of the last four years have used a mortgage on their largest real estate investment to underwrite other business activity or used the property to collateralize a business investment. The numbers for 2011 are 3 percent and 2 percent of the population respectively. The former figure translates into 18 percent of those with mortgaged investment real estate (Q#26f) and the latter 5 percent of those with investment property (Q#26g). That makes their appearance small in absolute numbers, but more substantial in terms of proportion of the investment mortgaged.

All Real Estate

Small-business owners are in the process of shedding real estate, though they continue to own substantial amounts.[36] Ninety-two (92) percent of all small employers now own real estate, three points lower than each of the last two years, and four lower than 2008. But the decline appears more substantial examining individual types of real estate owned. For example, the proportion owning their own residence fell from 95 percent in 2008 to 89 percent in 2011. The number of owners with a second home fell 4 percentage points in the last year (no data for prior years). The largest decline occurred in ownership in all or part of the business premises. While the 2011 figure appears low, 15 percentage points fewer own such as real estate today than in 2008. And, the proportion reporting investment real estate dropped four points in four years. Individually these data may be an aberration, but together they present a convincing picture that small-business owners are, at least partially, getting out from underneath the real estate overhang. How much of that reduction is voluntary and how much is forced by lenders and/or financial circumstances is not known. Nor is the amount of real estate they have yet to shed before reaching a comfortable level.

The remaining data related to real estate ownership are consistent with the prior years. The exception is the number of small employers who have upside-down properties. Eighteen (18) percent of the population reports at least one upside-down property, substantially more than in any of the last three years. The question is how much of this increase is an economic phenomenon, that is, due to falling real estate values, and how much of it is awareness of the extent to which property values

[36] Self-employed families held real estate with a median value that far surpassed other families in 2007. The median for the self-employed was about $750,000 and others about $425,000. See, Bucks, et. al., op. cit.

have fallen. The data presented here cannot answer that question. Given the year's trajectory of real estate prices, it is likely that perception is beginning to catch reality. But, there is another important implication of upside-down real estate other than the obvious.

Table 9
Small-Employer-Owned Real Estate By Selected Real Estate Finance Characteristics – 2008 Through 2011
(notes below table)

2008

Characteristic	Residential Total	Residential Own	Residential Mort	Business Total	Business Own	Business Mort	Investment Total	Investment Own	Investment Mort	All Real Estate Total	All Real Estate Own	All Real Estate Mort
Own (at least one)	95%			37%			41%			96%		
1st Mortgage	69	72%		24	63%		22	52%		75	78%	
2nd Mortgage	18	19	27%	2	4	7%	1	4	7%	21	21	27%
Upside-Down	8	9	13	1	4	6	3	6	12	1	11	14
Mortgaged for Bus. Purposes	18	19	26	5	9	20	2	6	11	23	24	30
Used as Collateral	9	10	13	7	19	30	2	5	10	16	17	21
N	690	654	471	690	324	198	690	314	158	690	668	539

2009

Characteristic	Residential Total	Residential Own	Residential Mort	Business Total	Business Own	Business Mort	Investment Total	Investment Own	Investment Mort	All Real Estate Total	All Real Estate Own	All Real Estate Mort
Own (at least one)	93%			37%			39%			95%		
1st Mortgage	63	67%		20	55%		21	52%		71	75%	
2nd Mortgage	17	18	27%	2	6	7%	3	4	7%	20	21	28%
Upside-Down	9	10	15	3	2	6	3	6	12	13	14	19
Mortgaged for Bus. Purposes	16	17	25	6	16	20	5	6	11	21	22	29
Used as Collateral	6	7	10	4	11	30	3	5	10	11	14	16
N	635	618	416	635	248	135	635	278	168	635	609	472

2010

Characteristic	Residential Total	Residential Own	Residential Mort	Business Total	Business Own	Business Mort	Investment Total	Investment Own	Investment Mort	All Real Estate Total	All Real Estate Own	All Real Estate Mort
Own (at least one)	94%			36%			37%			95%		
1st Mortgage	61	65%		19	63%		18	49%		68	71%	
2nd Mortgage	16	17	26%	1	4	7%	2	5	9%	17	18	25%
Upside-Down	6	7	10	1	4	6	3	8	15	8	9	12
Mortgaged for Bus. Purposes	15	16	24	2	9	20	2	5	9	17	18	21
Used as Collateral	7	7	11	4	19	30	2	6	12	11	11	16
N	734	693	457	734	324	198	734	310	166	734	708	537

Table 9 continued

Small-Employer-Owned Real Estate By Selected Real Estate Finance Characteristics – 2008 Through 2011

(notes below table)

	2011											
	Residential			Business			Investment			All Real Estate		
Characteristic	Total	Own	Mort	Total	Own	Mort	Total	Own	Mort	Total	Own	Mort
Own (at least one)	89%			22%			36%			92%		
1st Mortgage	64	71%		14	63%		19	54%		71	77%	
2nd Mortgage	15	16	23%	1	6	9%	3	8	15%	17	18	24%
Upside-Down	14	16	22	2	11	17	4	11	20	18	20	26
Mortgaged for Bus. Purposes	11	12	17	5	24	38	2	5	9	15	16	21
Used as Collateral	11	12	17	5	24	38	2	5	9	15	16	21
N	737	672	478	737	239	157	737	286	158	737	688	540

Total = as a percentage of the small-employer population.
Own = as a percentage of small employers owning the type of real estate.
Mort = as a percentage of small employers with the type of real estate mortgaged.

If more than one in a type owned, reference is always to the largest.

About 22 percent currently use their real estate to directly finance or collateralize business activities. About 9 percent engage exclusively in the former, 9 percent exclusively in the latter, and 8 percent some combination of the two. These owners have built equity in their real estate investment(s). And, it proves to be an asset for large numbers who need finance for their firms. Previous discussion showed free and clear real estate assets are highly associated with successful attempts to borrow. But, a vastly disproportionate number of upside-down firms are young, under 10 years, firms that historically have been most prone to grow. Owners of young firms also not surprisingly own less real estate than owners of more mature ventures, and that which they do own has assuredly been held for fewer years. As a result, real estate assets are currently favorable only to those owning the business more than 10 years, and even more so over 20 years. They often represent a liability to owners of younger ventures. That combination puts even more pressure on job creation.

Final Comments

The rules of the small-business financing game are now a sea of confusion. Years of formal rules and informal practices have seemingly been swept away in a few short years and virtually no one seems to know what to make of it. What was true yesterday is not true today and what is true today may not be true tomorrow. From at least 1980 forward, evolving rules principally brought about by deregulation and financial innovation, such as credit scoring, yielded more competition (see Table 2) and greater opportunities for small-business owners to obtain needed financing. The increasingly conducive financial environment occurred gradually, but relentlessly, much of it due to large banks entering the market in a serious way.[37] Credit flows from commercial banks to small business peaked somewhere in late 2007 or early 2008.[38] Shortly before, a nationally representative survey found 90 percent of small employers who wanted a loan in the prior three years had their last loan request

[37] William J. Dennis, Jr., Small Business Access to Credit: Yesterday, Today and Tomorrow, Swedish Foundation on Small Business Research, September 2008, mimeo.

[38] Call Report, Federal Deposit Insurance Corporation, Washington.

accepted.[39] That is a stunning number! It means that virtually any small-business owner, not on his last legs, could obtain credit from a financial institution. That likely is not reasonable. In the fall of 2008, the financial system crashed and a new financial order was born. The first manifestation for small business was what amounted to a credit freeze, mitigated by shriveling demand due to owner uncertainty and an abrupt sales slow-down. The financing rules quickly began to change in response, at first seemingly by executive fiat and later by legislation (TARP, Dodd-Frank). While change was obviously needed, the new rules created havoc. Lenders, regulators, and certainly customers not only seemed not to know what the new rules were, but could not seem to agree on the rules they thought they knew. The chaos was complicated by the precipitate fall in real estate values. The underlying equity in many small businesses, let alone their owner's portfolio, changed radically. "Mark to market" became a ubiquitous and terrifying catchphrase. And, the change continues. Dodd-Frank still requires completion of well over 100 significant rule-makings, the value of real estate is still falling, new reserve requirements for larger banks reduce loanable funds, and finger-pointing all around when a previously bankable customer cannot get a loan is rampant.

The after-effects of a lingering recession still reverberate. The recession officially ended in the spring of 2009. The Index of Small Business Optimism finally started to move steadily higher,[40] albeit at a leisurely pace, only in the latter part of 2011.[41] That implies loan demand should increase. Demand did run higher in 2011 than in 2010 and should accelerate in 2012. Yet, the number of small employers accessing the credit markets does not seem to have moved in parallel or anywhere close to it. That raises questions, and it should. Moreover, as the pace of the recovery hopefully quickens, demand is likely to increase further with customers presumably having improved balance sheets to support greater credit demand.

A disconnect now exists between lenders and small-business owners. Lenders through the Federal Reserve's Senior Loan Officers Opinion Survey[42] report their credit standards for commercial and industrial loans as stable to looser over the last two years. NFIB's *Small Business Economic Trends*[43] shows some easing over that time frame as well. But by substantial margins, small-business owners in this survey report credit increasingly more difficult to access in 2011, even in the latter part of the year. The difference can be attributed to the type of credit small-business owners are trying to access and the survey-respondent populations. The Senior Loan Officer survey and *Trends* both focus on loans. Yet, the current small-business interest lies in lines (and cards), not loans. By taking a broader perspective on small-business finance through the inclusion of lines and cards, small-employer respondents to this survey have their assessments of credit conditions influenced by a wider array of financial products. New lines proved far and away the most difficult form of credit to acquire in 2011, much more so even than in 2010. Further, while loan approval rates were similar in the last two years, the frequency of borrower rejection of an approved loan was 13 percentage points higher in 2011. Lenders can argue that these are approved loans, but borrowers can argue that they did not get the money. The second matter is respondent composition. Assessments in this survey are made by the population, subsequently filtered by those claiming knowledge of conditions. They could have been in the market at any one point during the year, at multiple points or not at all. *Trends* reports on those who borrow at least quarterly. By definition, they borrow regularly. The quality of (potential) borrower is higher here than a population that includes rejected credit applicants. The lender survey applies to policy, not its implementation at the retail level and it would appear bankers have become decidedly more conservative over the last few years. So, it appears each is

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[39] William C. Dunkelberg and Jonathan A. Scott, Evaluating Banks, *National Small Business Poll*, (ed.) William J. Dennis, Jr., Vol. 5., Iss. 7, NFIB Research Foundation, Washington, 2005.

[40] With a false start in the winter of 2010/2011.

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

[42] Senior Loan Officers survey, op. cit.

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

measuring something a bit different. But it is also clear a different perspective prevails within the two groups.

The disconnect between lenders and small-business owners extends to an assessment of general economic and business conditions and/or owner capacity to repay its obligations. The number attempting to borrow in 2011 rose 9 percentage points overall and 7 percentage points for new lines. That increase suggests many small-business owners had reevaluated their situations in the year and found their prospects more favorable than they had been. Yet, the number acquiring credit did not change. Lenders effectively rejected all net new borrowers. Moreover, the number acquiring all of the credit wanted declined as did the number who obtained credit with satisfactory terms and conditions, though marginally. The two groups clearly saw something different. Further, over one in three wanted to invest in new equipment, vehicles, etc. Slightly fewer wanted to invest in replacement equipment, vehicles, etc. The former typically did not receive favorable consideration; the latter did. The two again clearly saw something different.

Bank size plays a role in this. The largest financial institutions supported the large increase in small-business lending during the early 2000s. Their struggles in the latter part of the decade led substantially to its contraction. Part of that contraction is the result of new reserve requirements designed to stabilize these institutions; they have less to lend. Still, that is the bank's problem, which becomes small business's problem only when small businesses become dependent on these institutions. Throughout this series of reports small-business owners whose primary financial institution is a regional or community bank consistently report more favorable consideration. The data in the reports are not definitive. But they offer enough evidence that small-business owners should ask themselves why they patronize large rather than regional or community institutions.

Housing specifically and real estate more generally lie behind a substantial portion of small business's current plight. It has been a terrible drag on the small-business sector and continues to be. The first reason real estate values are such a problem is because the construction industry is the major industry most dominated by smaller firms. Formal numbers capturing the decline of the population in the construction industry are not yet available. Still, the number of construction firms employing people fell by almost 40,000 (5%) just between 2007 and 2008.[44] Traditionally, small business leads the country out of recessions, or at least it is often thought to.[45] It did not do so this time, and many wonder why. The answer is simple: the small-business-dominated construction industry generally leads the country out, not small business per se,[46] and the industry was devastated by the Great Recession.

The second reason housing and real estate are so important for small business is that their owners possess so much of it. When real estate values tumbled, so did the capacity of small-business owners to finance business investment even when their sales were adequate to support it. They lost significant amounts of equity, potential collateral. Sometimes that meant small-business owners had to put up even more collateral to maintain the credit they currently had. More often it meant further loans would not be forthcoming even when otherwise good business opportunities arose. The equity needed to support a loan simply was not there.

The third reason is that small businesses located in states where negative equity in home mortgages is highest have considerably more difficulty acquiring finance than similar businesses in other states. That argues other factors related to housing are at work depressing small businesses beyond those considered in the survey. It could logically be such factors as employment, small-business sales, confidence, etc. But whatever the factor(s), it is associated with housing and is damaging smaller firms, particularly in those states. By extension, the damage occurs wherever negative equity is elevated above some base level.

Finally, the impact on new starts has not been quantified. Few starts actually use real

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[44] http://www.sba.gov/sites/default/files/files/us_mi.pdf downloaded 12/11/11.

[45] Joel Popkin and Company, *Small Business During the Business Cycle*, under contract SBAHQ-01-C-0151, Office of Advocacy, U.S. Small Business Administration, July 2003.

[46] Ibid.

estate equity, particularly home equity, to start businesses.[47] So, even if good numbers were plentiful, and they are not, they would almost assuredly reveal little direct use of home equity. The important consideration in this regard is the so-called "wealth effect", the confidence to invest or otherwise spend knowing that there are resources behind the expenditure should something go awry. The loss in value of real estate undermines, if not erases, that effect, thereby dampening new business formation activity.

Housing (and real estate) has been the elephant in the room since the onset of the Great Recession. Yet, policy-makers have avoided the issue like the plague. One can only speculate on the reasons for avoidance since everyone understands the fundamental problem. But it is fair to say that no viable solution is without pain; no slam-dunk, win-win situation is apparent; if taxpayer interest counts, any solution is a zero-sum game. So, policy-makers abnegated responsibility, not by doing nothing and letting the market clean up the problem, but by doing just enough to prolong the problem without alleviating the pain. The issue has become so glaring that leadership on the issue seemingly has devolved to the Federal Reserve Board, though promised rock-bottom interest rates into 2014 is hardly likely to stampede potential home buyers and investors into an early bidding frenzy. And, 2012 is an election year, which means nothing is likely to happen for another 12 months.

It is not a good time to be optimistic. But small-business owners by nature seem to be.

[47] Casey Frid, Financing the Emerging Firm, mimeo, Clemson University, drawn from data in the Panel Study of Entrepreneurial Dynamics.

Small Business, Credit Access, and a Lingering Recession

(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. Lots of business opportunities	16.1%	16.3%	16.9%	22.2%	16.4%
2. Some business opportunities	41.1	38.0	44.1	51.9	41.3
3. Few business opportunities	33.5	34.8	33.9	22.2	33.3
4. No business opportunities	7.4	8.7	3.4	3.7	7.2
5. (DK/Refuse)	1.9	2.2	1.7	—	1.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850
2. What is the most important finance problem facing your business today?					
1. An inability to obtain credit	14.9%	13.3%	15.8%	22.2%	15.0%
2. Slow or poor sales	23.8	17.8	24.6	18.5	23.1
3. Real estate values	4.9	4.4	7.0	—	4.9
4. The cost and/or terms of credit	5.4	6.7	3.5	7.4	5.4
5. The unpredictability of business conditions	33.1	36.7	26.3	29.6	32.9
6. Something else	3.1	7.7	5.3	3.7	3.8
7. No finance problems	11.5	13.3	15.8	14.8	12.1
8. Receivables	1.9	—	1.8	3.7	1.8
9. (DK/Refuse)	1.3	—	—	—	1.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850
2a. Is that unpredictability primarily about economic conditions or about policy and political conditions?					
1. Economic Conditions	56.9%	—%	—%	—%	54.3%
2. Policy/Political Conditions	22.6	—	—	—	23.3
3. (Both)	20.5	—	—	—	22.4
4. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	120	49	38	36	242

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

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

1. Much less difficult	0.1%	2.2%	1.7%	—%	0.5%
2. Less difficult	4.2	3.3	6.8	7.4	4.4
3. Not changed	22.7	28.3	33.9	37.0	24.5
4. More difficult	19.4	15.2	16.9	22.2	18.8
5. Much more difficult	15.6	10.9	11.9	11.1	14.7
6. You can't really judge	35.4	37.0	27.1	18.5	34.5
7. (DK/Refuse)	2.5	3.3	1.7	3.7	2.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

3a. Over the last three months has the trend in obtaining credit for small businesses like yours:?

1. Considerably eased	0.4%	1.1%	—%	—%	0.5%
2. Eased	6.8	3.3	3.5	7.4	6.2
3. Not changed	33.4	44.6	45.6	51.9	36.0
4. Tightened	25.7	16.3	21.1	18.5	24.1
5. Considerably tightened	13.2	9.8	10.5	11.1	12.6
6. Can't judge	15.5	19.6	14.0	7.4	15.5
7. (DK/Refuse)	4.9	5.4	5.3	3.7	4.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

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. None	3.0%	2.2%	—%	—%	2.6%
2. One	44.5	42.9	37.3	24.1	43.1
3. Two	32.1	33.0	33.9	27.6	32.2
4. Three	11.6	8.8	15.3	17.2	11.8
5. Four	5.7	5.5	6.8	13.8	6.0
6. Five or more	2.5	6.6	6.8	13.8	3.6
7. (DK/Refuse)	0.6	1.1	—	3.4	0.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

	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. Bank	85.1%	93.3%	86.2%	96.2%	86.5%
2. Credit union	8.1	1.1	5.2	—	6.9
3. Savings and loan	0.8	1.1	1.7	—	0.8
4. Other	4.9	4.4	6.9	3.8	5.0
5. (Don't have primary institution)	0.6	—	—	—	0.5
6. (DK/Refuse)	0.5	—	—	—	0.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	387	157	153	139	836

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?

1. Yes	48.1%	30.1%	31.3%	40.0%	44.6%
2. No	51.2	69.9	68.8	60.0	54.9
3. (DK/Refuse)	0.7	—	—	—	0.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	333	145	132	128	728

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. Yes	26.4%	19.0%	12.1%	13.3%	23.6%
2. No	73.6	81.0	87.9	86.7	76.4
3. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	174	103	89	76	442

8. Is the firm's primary financial institution best described as an Internet bank with virtually no locations like ING (pronounced as separate letters, I-N-G), a regional bank with several branches, or a local bank with a few branches at most?

1. Internet bank	—%	—%	—%	—%	—%
2. Regional bank	40.0	39.6	41.4	53.8	40.7
3. Local bank	58.6	58.3	55.2	46.2	57.7
4. (DK/Refuse)	1.5	2.1	3.4	—	1.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	130	84	78	66	358

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

9. Compared to three years ago, 2008, is there much more, slightly more, about the same, slightly less, or much less competition for this firm's banking business?

1. Much more competition	9.8%	14.0%	11.9%	10.7%	10.4%
2. More competition	16.9	11.8	15.3	14.3	16.2
3. About the same	38.6	37.6	40.7	46.4	38.9
4. Less competition	10.4	10.8	11.9	14.3	10.7
5. Much less competition	12.6	11.8	11.9	10.7	12.4
6. (DK/Refuse)	11.8	14.0	8.5	3.6	11.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

10. 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. Yes	23.0%	31.9%	34.5%	35.7%	25.2%
2. No	76.5	68.1	63.8	64.3	74.4
3. (DK/Refuse)	0.4	—	1.7	—	0.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

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

1. Obtained the new line with a satisfactory limit AND terms	30.1%	40.0%	40.0%	—%	33.6%
2. Obtained the new line, but with an unsatisfactory limit OR terms	9.8	6.7	15.0	—	10.0
3. Didn't take the new line because the limit or terms were UNACCEPTABLE	6.5	20.0	10.0	—	8.5
4. Were not able to obtain the new line	51.6	30.0	35.0	—	46.0
5. (DK/Refuse)	2.0	3.3	—	—	1.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	96	52	50	48	246

	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?

1. Inadequate line amount/limit	—%	—%	—%	—%	40.5%
2. Collateral demands	—	—	—	—	24.3
3. Personal guarantee	—	—	—	—	2.7
4. Interest rate and/ or points	—	—	—	—	13.5
5. Term or duration of line	—	—	—	—	8.1
6. Drawdown requirements	—	—	—	—	10.8
7. Other	—	—	—	—	—
8. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	16	13	12	10	51

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

1. Yes	80.6%	82.8%	70.0%	—%	80.4%
2. No	18.7	17.2	30.0	—	19.2
3. (No primary financial institution)	—	—	—	—	—
4. (DK/Refuse)	0.6	—	—	—	0.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	96	52	50	48	246

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

1. One	42.9%	55.2%	63.2%	44.4%	46.4%
2. Two	29.2	10.3	21.1	22.2	25.6
3. Three	18.2	20.7	10.5	11.1	17.5
4. Four	5.2	6.9	5.3	—	5.2
5. Five or more	1.8	6.9	—	22.2	3.3
6. (DK/Refuse)	2.6	—	—	—	1.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	96	52	50	48	246

	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. Yes	21.7%	28.3%	32.2%	46.1%	24.0%
2. No	77.0	70.7	66.1	51.9	74.7
3. (DK/Refuse)	1.3	1.1	1.7	—	1.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

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

1. Extended or renewed the line with a satisfactory limit AND terms	57.2%	—%	—%	71.4%	58.9%
2. Extended or renewed the line, but with an unsatisfactory limit OR terms	11.0	—	—	7.1	10.9
3. Didn't take the line because the limit or terms were UNACCEPTABLE	9.7	—	—	7.1	10.4
4. Were not able to extend or renew the line of credit	19.3	—	—	14.3	16.8
5. (DK/Refuse)	2.8	—	—	—	3.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	94	46	49	65	254

B2. Was this attempt made at the firm's primary financial institution?

1. Yes	84.9%	—%	—%	100.0%	87.3%
2. No	15.1	—	—	—	12.7
3. (No primary financial institution)	—	—	—	—	—
4. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	94	46	49	65	254

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

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

1. Yes	14.4%	16.3%	29.3%	29.6%	16.1%
2. No	84.8	82.6	69.0	70.4	63.1
3. (DK/Refuse)	0.7	1.1	1.7	—	0.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

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

1. Obtained the loan with a satisfactory amount AND terms	40.6%	—%	—%	—%	42.6%
2. Obtained the loan, but with an unsatisfactory amount OR terms	3.1	—	—	—	5.1
3. Didn't take the loan because the amount or terms were UNACCEPTABLE	18.8	—	—	—	17.6
4. Were not able to obtain the loan	37.5	—	—	—	34.6
5. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	61	27	44	39	171

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

1. Yes	67.0%	66.7%	64.7%	62.5%	66.4%
2. No	32.0	33.3	35.3	37.5	32.8
3. No primary financial institution	—	—	—	—	—
4. (DK/Refuse)	1.0	—	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	61	27	44	39	171

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
C3. Was this attempt made at:?					
1. A finance company, such as GE Credit or Ford Motor Credit	—%	—%	—%	—%	26.2%
2. A bank	—	—	—	—	57.1
3. A credit union	—	—	—	—	2.4
4. An S & L	—	—	—	—	—
5. (Other)	—	—	—	—	9.5
6. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	22	9	15	15	61
C4. How many different financial institutions were approached to try to get the loan?					
1. One	—%	—%	—%	—%	44.9%
2. Two	—	—	—	—	26.1
3. Three	—	—	—	—	19.6
4. Four	—	—	—	—	2.2
5. Five or more	—	—	—	—	5.0
6. (DK/Refuse)	—	—	—	—	2.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	61	27	44	39	171
D. Get a credit card or cards for business purposes?					
1. Yes	25.3%	20.7%	24.6%	25.9%	24.7%
2. No	74.3	78.3	73.7	74.1	74.7
3. (DK/Refuse)	0.4	1.1	1.8	—	0.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
D1. What was the outcome of the firm's most recent request?					
1. Obtained the card with a satisfactory limit AND terms	56.5%	—%	—%	—%	59.2%
2. Obtained the card, but with an unsatisfactory limit OR terms	16.5	—	—	—	14.7
3. Didn't take the card because the limit or terms were UNACCEPTABLE	6.5	—	—	—	6.2
4. Were not able to obtain a card	18.8	—	—	—	18.0
5. (DK/Refuse)	1.8	—	—	—	1.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	98	32	37	37	204
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. Business	66.3%	94.1%	86.7%	85.7%	70.7%
2. Personal	26.0	5.9	13.3	14.3	23.1
3. (DK/Refuse)	7.7	—	—	—	6.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	98	32	37	37	204
D3. How many times did the firm apply to try to get the most recent card?					
1. One	75.7%	—%	—%	—%	77.1%
2. Two	16.0	—	—	—	15.2
3. Three	5.3	—	—	—	5.2
4. Four	0.6	—	—	—	0.5
5. Five or more	2.4	—	—	—	2.0
6. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	98	32	37	37	204

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

11. 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. All of the credit wanted	30.8%	44.8%	42.5%	47.6%	34.2%
2. Most of the credit wanted	16.6	10.3	12.5	19.0	15.6
3. Some of the credit wanted	25.6	19.0	25.0	14.3	24.3
4. None of the credit wanted	20.7	15.5	17.5	14.3	19.5
5. (DK/Refuse)	6.3	10.4	2.5	4.8	6.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	222	103	104	111	540

12. How did the firm, or will the firm, use the credit it obtained? Is the firm using it for:?

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

1. Yes	65.0%	56.6%	55.3%	60.0%	63.0%
2. No	35.0	43.4	44.7	40.0	37.0
3. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	208	93	101	105	507

B. Real estate or structures

1. Yes	19.0%	17.0%	15.4%	23.8%	18.6%
2. No	80.5	83.0	82.1	76.2	80.7
3. (DK/Refuse)	0.6	—	2.6	—	0.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	208	93	101	105	507

C. Replacement of old plant, equipment, or vehicles

1. Yes	30.9%	30.2%	44.7%	42.9%	32.5%
2. No	68.8	67.9	55.3	57.1	67.0
3. (DK/Refuse)	0.3	1.9	—	—	0.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	208	93	101	105	507

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
D. Investment in additional plant, equipment, or vehicles					
1. Yes	34.7%	39.6%	47.4%	52.4%	37.1%
2. No	65.3	60.4	52.6	47.6	62.9
3. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	208	93	101	105	507
E. Repayment of debt					
1. Yes	23.9%	22.6%	26.3%	14.3%	23.5%
2. No	75.5	77.4	73.7	85.7	76.0
3. (DK/Refuse)	0.6	—	—	—	0.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	208	93	101	105	507
F. Reserve or cushion					
1. Yes	48.7%	35.8%	38.5%	35.0%	45.7%
2. No	51.0	64.2	61.5	65.0	54.1
3. (DK/Refuse)	0.3	—	—	—	0.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	208	93	101	105	507
G. Inventory					
1. Yes	39.7%	32.1%	33.3%	23.8%	37.5%
2. No	59.8	67.9	66.7	76.2	62.1
3. (DK/Refuse)	0.6	—	—	—	0.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	208	93	101	105	507

13. 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. Yes	31.1%	16.7%	25.0%	18.2%	28.3%
2. No	65.8	78.3	72.5	77.3	68.4
3. (DK/Refuse)	3.0	5.0	2.5	4.5	3.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	176	57	49	28	310

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

14. 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. Didn't want credit	80.7%	75.0%	—%	—%	80.4%
2. Didn't think could get credit	16.0	21.9	—	—	16.3
3. (DK/Refuse)	3.3	3.1	—	—	3.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	176	57	49	28	310

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

1. Yes	43.8%	44.1%	56.9%	64.3%	45.4%
2. No	54.7	53.8	39.7	32.1	52.8
3. (DK/Refuse)	1.4	2.2	3.4	3.6	1.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

15a. How many different lines of credit does the firm have?

1. One	70.1%	68.3%	65.6%	68.8%	69.5%
2. Two	18.4	19.5	21.9	25.0	19.1
3. Three	3.7	7.3	3.1	6.3	4.2
4. Four	2.0	2.4	3.1	—	2.1
5. Five or more	4.0	—	—	—	3.2
6. (DK/Refuse)	1.7	2.4	6.2	—	2.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	183	70	88	89	430

15b. (Think of the firm's largest line.) Is that credit line held at the PRIMARY financial institution?

1. Yes	80.6%	87.8%	87.9%	88.2%	82.3%
2. No	17.3	12.2	12.1	11.8	16.1
3. Does not apply	1.4	—	—	—	1.0
4. (DK/Refuse)	0.7	—	—	—	0.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	183	70	88	89	430

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
15b1. Is the line held at:?					
1. A finance company, such as GE Credit or Ford Motor Credit	—%	—%	—%	—%	6.6%
2. A bank	—	—	—	—	67.2
3. A credit union	—	—	—	—	13.1
4. An S & L	—	—	—	—	—
5. (Other)	—	-	—	—	9.8
6. (DK/Refuse)	—	-	—	—	3.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	31	8	10	11	60

15c. (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. Yes	30.2%	27.5%	30.3%	22.2%	29.5%
2. No	66.4	67.5	66.7	77.8	67.1
3. (DK/Refuse)	3.4	5.0	3.0	—	3.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	183	70	88	89	430

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
15c1. What did the institution do?					
1. Cut line size	9.1%	—%	—%	—%	9.9%
2. Increased line size	2.3	—	—	—	2.7
3. Raised interest rates	21.6	—	—	—	21.6
4. Lowered interest rates	2.3	—	—	—	5.4
5. Increased collateral requirements	12.5	—	—	—	13.5
6. Required personal guarantee	22.7	—	—	—	22.5
7. Decided not to extend line, cut it off, cancelled it entirely	6.8	—	—	—	5.4
8. Changed terms	4.5	—	—	—	3.6
9. Other	3.4	—	—	—	2.7
10. (DK/Refuse)	10.2	—	—	—	9.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	56	19	26	22	123
15c2. How did that decision impact the business? Was it:?					
1. Very harmful	3.8%	—%	—%	—%	3.9%
2. Harmful	25.3	—	—	—	24.3
3. More irritating than harmful	50.6	—	—	—	49.5
4. No impact	15.2	—	—	—	14.6
5. Helpful	1.3	—	—	—	3.9
6. Very helpful	3.8	—	—	—	3.9
7. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	51	18	26	19	114

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

1. Yes	24.3%	42.4%	51.7%	57.1%	29.2%
2. No	75.3	54.3	46.6	39.3	69.9
3. (DK/Refuse)	0.4	3.3	1.7	3.6	1.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

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

16a. How many different business loans with financial institutions does the firm have?

1. One	54.6%	52.6%	42.9%	42.9%	52.3%
2. Two	20.9	28.9	35.7	28.6	24.3
3. Three	12.9	10.5	7.1	14.3	11.9
4. Four	1.8	2.6	3.6	7.1	2.5
5. Five or more	1.2	2.6	7.2	7.1	4.0
6. (DK/Refuse)	6.1	2.6	3.6	—	4.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	105	68	78	77	328

16b. (Think of the largest business loan.) Is that business loan held at the firm's primary financial institution?

1. Yes	62.0%	71.1%	75.9%	73.3%	65.7%
2. No	34.4	28.9	24.1	26.7	31.8
3. (DK/Refuse)	3.7	—	—	—	2.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	105	68	78	77	328

16b1. Is that business loan held by:?

1. A finance company, such as GE Credit or Ford Motor Credit	—%	—%	—%	—%	23.4%
2. A bank	—	—	—	—	45.5
3. A credit union	—	—	—	—	7.8
4. An S & L	—	—	—	—	—
5. (Other)	—	—	—	—	22.1
6. (DK/Refuse)	—	—	—	—	1.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	35	20	19	21	95

16c. (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. Yes	5.5%	12.8%	10.3%	6.7%	7.3%
2. No	93.3	87.2	89.7	93.3	91.9
3. (DK/Refuse)	1.2	—	—	—	0.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	105	68	78	77	328

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

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.

17. Do you use a personal credit card or cards to pay business expenses?

1. Yes	49.8%	42.3%	47.9%	36.4%	48.6%
2. No	48.9	56.4	52.1	63.6	50.3
3. (DK/Refuse)	1.3	1.3	—	—	1.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	361	137	129	110	737

17a. On average, about how much per month in new business expenditures does the firm charge to personal credit cards?

1. Less than $500	37.3%	21.2%	12.5%	—%	33.5%
2. $500 to less than $1,000	11.8	15.2	16.7	—	12.4
3. $1,000 to less than $2,500	18.3	12.1	8.3	—	17.3
4. $2,500 to less than $5,000	13.7	21.2	25.0	—	15.1
5. $5,000 to less than $10,000	4.9	15.2	12.5	—	6.5
6. $10,000 or more	9.2	15.2	20.8	—	10.8
7. (DK/Refuse)	4.9	—	4.2	—	4.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	181	59	61	41	342

17b. Are the business expenses charged to personal credit cards generally paid in full each month or do balances typically remain?

1. Paid in full	64.4%	72.7%	82.6%	—%	66.8%
2. Balances remain	34.3	27.3	17.4	—	32.2
3. (DK/Refuse)	1.3	—	—	—	1.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	181	59	61	41	342

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

17c. On average, what is the balance of business charges on personal credit cards after payments are made?

1. Less than $500	24.8%	—%	—%	—%	22.2%
2. $500 to less than $1,000	17.1	—	—	—	17.1
3. $1,000 to less than $2,500	19.0	—	—	—	17.9
4. $2,500 to less than $5,000	8.6	—	—	—	9.4
5. $5,000 to less than $10,000	11.4	—	—	—	12.0
6. $10,000 or more	15.2	—	—	—	17.1
7. (DK/Refuse)	3.8	—	—	—	4.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	60	16	11	5	92

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

1. Yes	57.0%	63.7%	65.5%	77.8%	59.0%
2. No	42.0	36.3	32.8	22.2	40.1
3. (DK/Refuse)	1.0	—	1.7	—	0.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

18a. On average, about how much per month in new business expenditures does the firm charge to business credit cards?

1. Less than $500	18.5%	13.8%	7.9%	4.8%	16.6%
2. $500 to less than $1,000	15.9	12.1	7.9	—	14.2
3. $1,000 to less than $2,500	17.4	13.8	13.2	19.0	16.8
4. $2,500 to less than $5,000	18.2	15.5	15.8	14.3	17.6
5. $5,000 to less than $10,000	9.6	15.5	21.1	14.3	11.4
6. $10,000 or more	10.4	22.4	28.9	38.1	14.4
7. (DK/Refuse)	9.9	6.9	5.2	9.6	9.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	233	102	101	104	540

18b. 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	76.2%	83.1%	81.6%	85.7%	77.8%
2. Balances remain	21.9	15.3	15.8	14.3	20.4
3. (DK/Refuse)	1.8	1.7	2.6	—	1.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	233	102	101	104	540

18c. On average, what is the balance of charges on business credit cards after payments are made?

1. Less than $500	—%	—%	—%	—%	12.6%
2. $500 to less than $1,000	—	—	—	—	18.1
3. $1,000 to less than $2,500	—	—	—	—	14.8
4. $2,500 to less than $5,000	—	—	—	—	14.5
5. $5,000 to less than $10,000	—	—	—	—	17.2
6. $10,000 or more	—	—	—	—	14.1
7. (DK/Refuse)	—	—	—	—	9.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	49	15	17	13	94

19. 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?

1. Business	60.1%	—%	—%	—%	62.9%
2. Personal	39.2	—	—	—	36.5
3. (DK/Refuse)	0.6	—	—	—	0.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	97	33	41	29	200

19a. 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. Yes	14.3%	8.3%	8.7%	12.5%	13.2%
2. No	85.1	90.3	89.1	83.3	85.9
3. (DK/Refuse)	0.6	1.4	2.2	4.2	0.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	317	128	121	116	682

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

19b. What did the card issuer do?

1. Raised the minimum monthly payment	—%	—%	—%	—%	7.0%
2. Lowered the minimum monthly payment	—	—	—	—	—
3. Raised the interest rate	—	—	—	—	47.7
4. Lowered the interest rate	—	—	—	—	—
5. Raised the credit limit	—	—	—	—	3.5
6. Lowered the credit limit	—	—	—	—	14.0
7. Changed the type (or rewards) of the card	—	—	—	—	4.7
8. Cancelled the card	—	—	—	—	3.5
9. Changed overdraft (over-the-limit) policy	—	—	—	—	4.7
10. Changed charges/ fee	—	—	—	—	5.8
11. Other (list)	—	—	—	—	1.2
12. (DK/Refuse)	—	—	—	—	5.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	44	9	10	14	75

19c. How did that decision impact the business? Was it:?

1. Very harmful	—%	—%	—%	—%	14.6%
2. Harmful	—	—	—	—	26.8
3. More irritating than harmful	—	—	—	—	41.5
4. No impact	—	—	—	—	15.9
5. Helpful	—	—	—	—	—
6. Very helpful	—	—	—	—	1.2
7. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	44	9	10	14	75

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

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

1. All customers	17.6%	19.6%	27.6%	25.9%	18.8%
2. Most customers	5.1	7.6	5.2	11.1	5.5
3. Select customers	20.4	22.8	24.1	25.9	21.1
4. Customers who ask for it	8.6	8.7	6.9	7.4	8.5
5. Don't extend credit to any customers	46.3	40.2	32.8	29.6	44.2
6. (DK/Refuse)	1.9	1.1	3.4	—	1.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

20a. 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. Tightened a lot	12.5%	17.4%	10.5%	7.1%	12.7%
2. Tightened a little	12.6	15.2	21.1	17.9	13.6
3. Not changed	68.2	64.1	66.7	71.4	67.8
4. Loosened a little	4.2	1.1	1.8	3.6	3.6
5. Loosened a lot	0.3	1.1	—	—	0.4
6. (DK/Refuse)	2.2	1.1	—	—	1.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

20b. 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. None	38.1%	24.3%	35.3%	18.2%	35.5%
2. < 10%	21.9	27.0	47.1	45.5	24.9
3. 10% - 19%	17.1	13.5	5.9	18.2	16.0
4. 20% - 29%	12.3	10.8	11.8	18.2	12.9
5. 30% or more	9.7	13.5	—	—	8.9
6. (DK/Refuse)	1.3	5.4	—	—	1.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	139	63	55	59	316

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

20b1. How does that compare to last year at this time? Are delinquencies:?

1. Much higher	2.2%	11.4%	5.0%	—%	3.5%
2. Higher	17.9	8.6	10.0	10.0	16.0
3. About the same	67.7	68.6	70.0	70.0	68.1
4. Lower	9.0	8.6	15.0	20.0	9.7
5. Much lower	3.1	—	—	—	2.4
6. (DK/Refuse)	—	2.9	—	—	0.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	135	60	54	58	307

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

1. None	48.0%	39.6%	32.2%	38.5%	45.7%
2. < 10%	7.2	9.9	3.4	—	7.0
3. 10% – 24%	10.3	7.7	11.9	15.4	10.3
4. 25% - 49%	7.7	5.5	10.2	3.8	7.6
5. 50% - 89%	13.7	16.5	22.0	15.4	14.6
6. 90% - 99%	2.4	6.6	6.8	11.5	3.4
7. 100%	3.3	6.6	6.8	7.7	4.0
8. (DK/Refuse)	7.4	7.7	6.8	7.7	7.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

21a. 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? (Includes only those who use trade credit.)

1. Tightened a lot	12.5%	8.2%	13.9%	11.8%	12.1%
2. Tightened a little	20.8	16.3	16.7	23.5	20.0
3. Not changed	62.4	75.5	63.9	58.8	64.0
4. Loosened a little	3.0	—	5.6	5.9	3.0
5. Loosened a lot	1.3	—	—	—	1.0
6. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	188	87	94	81	450

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

21a1. Compared to last year at this time, is this firm paying its outstanding trade credit bills:?

1. Much faster	1.1%	5.5%	2.6%	—%	1.7%
2. Faster	6.9	9.1	10.5	11.8	7.6
3. About the same	68.5	69.1	65.8	70.6	68.4
4. Slower	18.3	14.5	15.8	11.8	17.4
5. Much slower	2.9	—	2.6	5.9	2.6
6. (DK/Refuse)	2.2	1.8	—	—	1.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	212	96	101	86	495

21a2. 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. Yes	5.2%	9.1%	15.8%	5.9%	6.5%
2. No	92.8	90.9	84.2	94.1	91.9
3. (DK/Refuse)	2.0	—	—	—	1.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	212	96	101	86	495

22. 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. Yes	3.6%	10.9%	6.9%	3.7%	4.6%
2. No	95.4	88.0	91.4	96.3	94.4
3. (DK/Refuse)	1.0	1.1	1.7	—	1.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

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

1. Yes	40.3%	7.6%	7.0%	3.6%	33.3%
2. No	59.4	91.3	93.0	96.4	66.4
3. (DK/Refuse)	0.3	1.1	—	—	0.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

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

24. Do you own all or part of the building or land on which your business is located?

1. Yes	30.4%	40.8%	50.0%	57.1%	34.8%
2. No	68.5	59.2	47.7	42.9	64.1
3. (DK/Refuse)	1.2	—	2.3	—	1.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	220	126	117	106	569

24a. Is there a mortgage on that property?

1. Yes	61.0%	63.3%	69.6%	66.7%	62.9%
2. No	39.0	36.7	30.4	33.3	37.1
3. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	71	52	58	58	239

24b. Is there a second mortgage on that property?

1. Yes	—%	—%	—%	—%	9.5%
2. No	—	—	—	—	90.5
3. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	43	34	41	39	157

24c. Does management plan to refinance a mortgage on this property in the next 12 months?

1. Yes	10.9%	16.7%	26.7%	25.0%	15.2%
2. No	85.9	83.3	73.3	75.0	82.9
3. (DK/Refuse)	3.1	—	—	—	1.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	71	52	58	58	239

24d. 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. Yes	—%	—%	—%	—%	17.0%
2. No	—	—	—	—	80.2
3. (DK/Refuse)	—	—	—	—	2.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	43	34	41	39	157

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
24e. Were the proceeds from one or more of the mortgages taken out on this property used to finance business activities?					
1. Yes	—%	—%	—%	—%	34.9%
2. No	—	—	—	—	62.3
3. (DK/Refuse)	—	—	—	—	2.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	43	34	41	39	157
24f. Is this property being used as collateral for any business loans, including trade credit?					
1. Yes	19.8%	33.3%	27.3%	33.3%	24.1%
2. No	80.2	66.7	68.2	66.7	75.3
3. (DK/Refuse)	—	—	4.5	—	0.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	71	52	58	58	239
25. Do you own your residence?					
1. Yes	88.4%	91.0%	93.9%	95.5%	89.3%
2. No	11.2	9.0	6.1	4.5	10.5
3. (DK/Refuse)	0.3	—	—	—	0.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	361	137	129	110	737
25a. Do you have a mortgage on that property?					
1. Yes	71.6%	70.4%	71.7%	68.2%	71.4%
2. No	28.0	28.2	26.1	27.3	27.9
3. (DK/Refuse)	0.4	1.4	2.2	4.5	0.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	321	125	121	105	672
25b. Do you have a second mortgage on that property?					
1. Yes	22.1%	28.0%	24.2%	26.7%	23.0%
2. No	77.4	72.0	72.7	73.3	76.4
3. (DK/Refuse)	0.5	—	3.0	—	0.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	228	89	86	75	478

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

25c. 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. Yes	23.7%	18.0%	12.1%	13.3%	22.0%
2. No	71.5	78.0	81.8	86.7	73.3
3. (DK/Refuse)	4.9	4.0	6.1	—	4.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	228	89	86	75	478

25d. Were the proceeds from one or more of the mortgages taken out on this property used to finance business activities?

1. Yes	20.9%	26.0%	30.3%	20.0%	22.0%
2. No	78.6	74.0	69.7	80.0	77.6
3. (DK/Refuse)	0.5	—	—	—	0.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	228	89	86	75	478

25e. Is this property being used as collateral for any business loans, including trade credit?

1. Yes	10.3%	18.3%	17.8%	19.0%	11.9%
2. No	88.8	80.3	82.2	81.0	87.2
3. (DK/Refuse)	0.9	1.4	—	—	0.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	321	125	121	105	672

25f. Do you own a second home, one primarily used for personal rather than rental or business purposes?

1. Yes	16.6%	28.2%	22.2%	33.3%	18.7%
2. No	82.5	70.4	77.8	66.7	80.4
3. (DK/Refuse)	0.9	1.4	—	—	0.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	321	125	121	105	672

26. 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. Yes	33.6%	45.5%	43.8%	40.9%	35.6%
2. No	65.5	53.2	56.3	54.5	63.3
3. (DK/Refuse)	1.0	1.3	—	4.5	1.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	361	137	129	110	737

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

26a. Do you have one such investment, two, three, four, five to nine, or 10 or more?

1. One	32.5%	33.3%	36.8%	—%	32.5%
2. Two	24.3	19.4	26.3	—	24.4
3. Three	14.6	22.2	10.5	—	15.1
4. Four	7.8	11.1	5.3	—	7.7
5. Five to nine	13.1	8.3	15.8	—	12.9
6. 10 or more	1.0	—	—	—	0.7
7. (DK/Refuse)	6.8	5.6	5.3	—	6.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	123	63	53	47	286

26b. (Think of the largest single real estate investment you have.) Do you have a mortgage on that property?

1. Yes	52.4%	54.3%	65.0%	—%	53.9%
2. No	47.6	45.7	35.0	—	46.1
3. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	123	63	53	47	286

26c. Do you have a second mortgage on that property?

1. Yes	14.8%	—%	—%	—%	14.5%
2. No	85.2	—	—	—	85.5
3. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	63	34	33	28	158

26d. Do you plan to refinance a mortgage on this property in the next 12 months?

1. Yes	25.0%	—%	—%	—%	25.9%
2. No	74.1	—	—	—	73.5
3. (DK/Refuse)	0.9	—	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	63	34	33	28	158

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

26e. 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. Yes	21.3%	—%	—%	—%	20.7%
2. No	78.7	—	—	—	79.3
3. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	63	34	33	28	158

26f. Was one or more of the mortgages taken out on this property used to finance other business activities?

1. Yes	16.7%	—%	—%	—%	17.8%
2. No	83.3	—	—	—	82.2
3. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	63	34	33	28	158

26g. Is this property being used to collateralize the purchase of other business assets?

1. Yes	1.9%	16.7%	10.0%	—%	4.8%
2. No	98.1	83.3	90.0	—	95.2
3. (DK/Refuse)	—	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	123	63	53	47	286

Demographics

QD1. Which best describes your position in this business?

	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
1. Owner/Manager	85.4%	76.1%	77.6%	69.0%	83.3%
2. Owner but NOT manager	5.8	8.7	6.9	10.3	6.3
3. Manager but NOT owner	8.8	15.2	15.5	20.7	4.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

QD2. Please tell me your age.

1. < 25 years	1.3%	2.2%	1.7%	—%	1.4%
2. 25 – 34 years	7.6	8.9	3.4	3.7	7.3
3. 35 – 44 years	16.3	17.8	17.2	18.5	16.6
4. 45 – 54 years	30.6	28.9	34.5	37.0	30.9
5. 55 – 64 years	28.0	26.7	31.0	25.9	28.0
6. 65 – 74 years	9.8	12.2	10.3	11.1	10.1
7. 75+ years	3.1	1.1	1.7	3.7	2.8
8. (Refuse)	3.3	2.2	—	—	2.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

QD3. What is your highest level of formal education?

1. Did not complete high school	2.4%	1.1%	1.7%	—%	2.1%
2. High school diploma/GED	14.3	15.4	13.8	7.4	14.1
3. Some college or an associate's degree	20.4	22.0	24.1	14.8	20.6
4. Vocational or technical school degree	4.5	2.2	1.7	—	3.9
5. College diploma	36.0	33.0	31.0	40.7	35.5
6. Advanced or professional degree	20.8	25.3	25.9	37.0	22.1
7. (DK/Refuse)	1.7	1.1	1.7	—	1.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

QD4. Sex (voice recognition)?

1. Male	64.6%	70.7%	79.3%	75.0%	66.6%
2. Female	35.4	29.3	20.7	25.0	33.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
QD5. How long have you owned/operated this business?					
1. < 4 years	23.3%	21.7%	18.6%	17.2%	22.6%
2. 4 – 6 years	21.8	13.0	18.6	13.8	20.4
3. 7 – 9 years	9.5	8.7	5.1	10.3	9.1
4. 10 – 14 years	11.4	17.4	16.9	17.2	12.7
5. 15 – 19 years	5.5	9.8	13.6	10.3	6.7
6. 20 – 29 years	14.7	13.0	15.3	17.2	14.7
7. 30+ years	11.9	14.1	11.9	13.8	12.2
8. (DK/Refuse)	1.8	2.2	—	—	1.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850
QD6. What is the primary industry of your business?					
1. Agriculture, Forestry or Fishing	6.4%	3.2%	3.4%	—%	5.6%
2. Construction	12.8	12.9	12.1	6.9	12.6
3. Manufacturing	4.7	9.7	8.6	13.8	5.9
4. Wholesale Trade	7.3	3.2	5.2	6.9	6.7
5. Retail Trade	7.0	6.5	12.1	6.9	7.3
6. Transportation and Warehousing	3.9	4.3	3.4	3.4	3.9
7. Information	3.3	3.2	—	3.4	3.1
8. Finance and Insurance	5.7	3.2	3.4	—	5.1
9. Real Estate and Rental/ Leasing	5.5	3.2	1.7	6.9	5.1
10. Professional, Scientific, or Technical Services	16.1	15.1	10.3	6.9	15.3
11. Admin. Support, Waste Management, or Remediation	8.7	4.3	8.6	10.3	8.3
12. Educational Services	0.7	1.1	1.7	—	0.8
13. Healthcare and Social Assistance	6.6	8.6	6.9	17.2	7.2
14. Arts, Entertainment, or Recreation	2.4	2.2	1.7	—	2.2
15. Accommodations or Food Services	2.2	11.8	17.2	17.2	4.8
16. Repair and Maintenance Services or Personal Care Services	6.6	7.5	3.4	—	6.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
QD7. Which of the following best describes the place the business is located?					
1. Highly urban city	15.3%	14.0%	16.1%	18.5%	15.3%
2. Suburb of highly urban city	19.6	21.5	16.1	25.9	19.8
3. Mid-sized city of about 250,000 or surrounding area	14.9	17.2	19.6	18.5	15.6
4. Small city of about 50,000 or surrounding area	17.1	17.2	17.9	11.1	17.0
5. Town or rural area	31.0	28.0	30.4	25.9	30.4
6. (DK/Refuse)	2.0	2.2	—	—	0.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850
QD8. Geographic regions (derived from zip codes)?					
1. Northeast	12.6%	16.3%	22.8%	18.5%	13.9%
2. Southeast	30.5	20.7	28.1	14.8	28.7
3. Mid-west	17.7	21.7	19.3	29.6	18.6
4. Central	23.3	23.9	17.5	25.9	23.1
5. Pacific	15.9	17.4	12.3	11.1	15.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850
QD9. Annual gross sales?					
1. < $250,000	44.9%	11.0%	3.4%	0.0%	36.9%
2. $250,000 - $499,999	18.1	17.6	5.1	3.6	16.7
3. $500,000 - $749,999	10.1	7.7	6.8	3.6	9.4
4. $750,000 - $999,999	6.2	15.4	10.2	3.6	7.4
5. $1,000,000 - $2,499,999	7.3	19.8	22.0	17.9	10.0
6. $2,500,000 - $4,999,999	2.7	11.0	23.7	10.7	5.3
7. $5,000,000 - $9,999,999	1.0	4.4	13.6	21.4	2.9
8. $10,000,000 - $24,999,999	0.3	2.2	6.8	17.9	1.5
9. $25,000,000+	—	1.1	3.4	10.7	0.7
10. No Data	9.4	9.9	5.1	10.7	9.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850

	Employee Size of Firm				
	1-9 emp	10-19 emp	20-49 emp	50-250 emp	All Firms
QD10. Over the last two years, has your real-volume sales:?					
1. Increased by 30 percent or more	14.4%	16.3%	13.8%	14.3%	14.6%
2. Increased by 20 to 29 percent	9.8	9.8	10.3	10.7	9.9
3. Increased by 10 to 19 percent	19.3	17.4	24.1	25.0	19.6
4. Increased, but by less than 10 percent	8.6	12.0	20.7	10.7	9.9
5. (Stayed the same)	4.2	5.4	5.2	3.6	4.3
6. Decreased, but by less than 10 percent	8.9	5.4	6.9	10.7	8.5
7. Decreased by 10 percent or more	29.2	26.1	17.2	17.9	27.7
8. (DK/Refuse)	5.6	7.6	1.7	7.1	5.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	398	160	153	139	850
QD11. Current employment compared to 2008?					
1. Lost 10+ employees	4.7%	12.0%	16.3%	37.5%	7.5%
2. Lost 2 – 9 employees	23.7	33.3	14.3	4.2	23.4
3. Lost 1 employee	11.6	2.7	—	—	9.4
4. No change	32.8	25.3	28.6	20.8	31.3
5. Gained 1 employee	16.8	2.7	4.1	4.2	13.9
6. Gained 2 – 9 employees	10.4	20.0	18.4	4.2	11.8
7. Gained 10+ employees	0.0	4.0	18.4	29.2	2.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	318	130	129	121	698
QD12. Compared to your competitors over the last three years, do you think the overall performance of your business in terms of sales and net profits makes it a:?					
1. Low performer	15.4%	6.6%	6.1%	4.2%	13.3%
2. Somewhat low performer	6.7	2.6	2.0	4.2	5.9
3. Moderate performer	41.6	42.1	34.7	33.3	40.8
4. Somewhat high performer	18.2	21.1	32.7	29.2	19.9
5. High performer	12.2	22.4	24.5	25.0	14.6
6. (DK/Refuse)	5.9	5.2	—	4.2	5.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
N	318	130	129	121	698

Appendix Tables

Variables Defined

Demographic

Employee size-of-business	Natural log of one plus the number of employees (full- and part-time)
New business (0, 1 dummy)	0 = else; 1 = business < 4 years old
Home-based business	0 = else; 1 = business principally located in a residence
Rural area (0, 1 dummy)	0 = else; 1 = business principally located in a small town or rural area
Struggling states (0, 1 dummy)	0 = else; 1 = AZ, CA, FL, GA, MI, or NV, states with highest negative equity in the housing market
Sex of owner (0, 1 dummy)	0 = male; 1 = female

Finance

Multiple financial institutions	Number of financial institutions used for business purposes (0 – 6)
Large bank (0, 1 dummy)	0 = else; 1 = one of the 18 largest commercial banks in the country
Credit score	Dun & Bradstreet PAYDEX score (1 – 100)
Assets	Number of properties owned free and clear (0 – 3)
2nd mortgages owed	Number of 2nd mortgages owed (0 – 3)
Upside-down properties	Number of upside-down properties held (0 – 3)
Collateralized properties	Number of properties used as collateral for business loans (0 – 3)
Credit card balances of $10,000+ (0, 1 dummy)	0 = else; 1 = maintains credit card balances of $10,000+
Slowing payables (0, 1 dummy)	0 = else; 1 = slower making payment than last year
Heavy trade credit use (0, 1 dummy)	0 = else; 1 = 25 percent of purchase or more made using trade credit
Purposes for which credit sought (number of)	Number of different purposes for which credit sought (0 - 7)

Performance

Employment gain (2008-2011) (0, 1 dummy)	0 = else; 1 = employment gain
Employment loss (2008-2011) (0, 1 dummy)	0 = else; 1 = employment loss
Sales gain/loss (last two years)	bracketed (1 – 7) (1 = increased 30% or more)

Perceptual

Opportunities	Presence of business opportunities (1 – 4) (1 = lots)
Performance	Firm sales and earnings performance compared to principal competitors (5 – 1) (1 = low performer)

Appendix Table A

Summary Logistic Regression Results Of The Decision To Borrow
(0 = Attempted To Borrow; 1 = Did Not Attempt To Borrow)

Predictors	B	Std. Err.	Wald	Sig.	Exp(B)
Demographic					
Employee size-of-business	-.285	.102	7.771	.005	.752
New business	-.129	.179	.447	.283	.970
Home-based business	-.030	.193	.028	.504	.879
Rural area	.026	.171	.022	.881	1.026
Struggling states	.093	.183	.257	.612	1.097
Sex	.509	.161	10.043	.002	1.664
Financial					
Credit score	.010	.003	10.811	.001	1.010
Assets	.443	.111	15.906	.000	1.557
2nd mortgages outstanding	.413	.199	4.289	.038	1.511
Upside-down properties	-.290	.203	2.042	.153	.748
Properties collateralizing business debt	-.565	.203	7.717	.005	.569
Credit card balances	-1.407	.559	6.333	.012	.245
Slowing payables	-.298	.265	1.263	.261	.743
Heavy trade credit use	-.430	.177	5.894	.015	.651
Large bank	.159	.156	1.050	.306	1.173
Multiple financial institutions	-.215	.068	9.697	.002	.807
Performance					
Gain employees	-.334	.194	2.955	.086	.716
Lose employees	-.102	.227	.203	.652	.903
Sales change	.132	.045	8.484	.004	1.141
Perceptual					
Performance	.008	.075	.011	.916	1.008
Opportunities	.053	.518	1.585	.208	.521
Constant	-.652	.518	1.585	.208	.521

-2 Log likelihood = 1026.561
Cox & Snell R^2 = .146
Nagelkerke R^2 = .196
N = 850

Appendix Table B

Summary Regression Results Of Credit Access (Outcomes)
(1 = All Credit Needs Met, 2 = Most Credit Needs Met,
3 = Some Credit Needs Met, 4 = No Credit Needs Met)

Predictors	B	Std. Err.	Beta	t	Sig.
(Constant)	.461	.155		2.973	.003
Demographic					
Employee size-of-business	-.080	.029	-.139	-2.762	.006
New business	-.041	.057	-.031	-.712	.477
Home-based business	-.039	.056	-.032	-.698	.486
Rural area	-.079	.055	-.064	-1.441	.150
Struggling states	.134	.057	.106	2.368	.018
Sex	-.021	.053	-.017	-.401	.689
Financial					
Credit score	-.003	.001	-.125	-2.855	.005
Assets	-.173	.038	-.197	-4.600	.000
2nd mortgages outstanding	.117	.065	.082	1.818	.070
Upside-down properties	.034	.057	.027	.603	.547
Properties collateralizing business debt	.036	.051	.031	.697	.486
Credit card balances	.220	.104	.089	2.113	.035
Slowing payables	.099	.073	.059	1.365	.173
Heavy trade credit use	.023	.051	.019	.444	.657
Large bank	.131	.048	.116	2.711	.007
Multiple financial institutions	.028	.018	.064	1.522	.129
Borrowing purposes	.112	.016	.292	6.906	.000
Performance					
Gain employees	.123	.059	.098	2.091	.037
Lose employees	.211	.067	.154	3.158	.002
Sales change	.005	.013	.017	.363	.716
Perceptual					
Performance	-.041	.023	-.083	-1.778	.076
Opportunities	.059	.032	.085	1.838	.067

R2 = .294
SEE = .0486
F = 8.201
Sig. = .000
N = 507

Appendix Table C

Summary Logistic Regression Results Of Credit Access (Outcomes) (1 = Credit Needs Met; 0 = Credit Needs Not Met)

Predictors	B	Std. Err.	Wald	Sig.	Exp(B)
Demographic					
Employee size-of-business	.282	.149	3.594	.058	1.326
New business	.036	.275	.017	.896	1.036
Home-based business	.326	.278	1.375	.241	1.386
Rural area	.856	.279	9.417	.002	2.353
Struggling states	-.708	.283	6.236	.013	.493
Sex	.333	.266	1.571	.210	1.396
Financial					
Credit score	.012	.005	6.705	.010	1.012
Assets	.770	.209	13.562	.000	2.159
2nd mortgages outstanding	-.721	.329	4.799	.028	.486
Upside-down properties	-.293	.280	1.089	.297	.746
Properties collateralizing business debt	-.145	.258	.314	.575	.865
Credit card balances	-1.781	.683	6.794	.009	.168
Slowing payables	-.757	.361	4.384	.036	.469
Heavy trade credit use	.007	.256	.001	.978	1.007
Large bank	-.439	.239	3.362	.067	.645
Multiple financial institutions	.009	.092	.009	.925	1.009
Borrowing purposes	-.562	.090	39.451	.000	.570
Performance					
Gain employees	-.931	.334	7.751	.005	.394
Lose employees	-.819	.298	7.568	.006	.441
Sales change	.006	.068	.008	.928	1.006
Perceptual					
Performance	.285	.118	5.855	.016	1.329
Opportunities	-.168	.166	1.030	.310	.845
Constant	.485	.767	.399	.528	1.623

-2 Log likelihood = 467.742
Cox & Snell R^2 = .300
Nagelkerke R^2 = .400
N = 507

Appendix Table D

Summary Logistic Regression Results Contrasting Disinterested And Discouraged Non-Borrowers (0 = Disinterested Borrower; 1 = Discouraged Borrower)

Predictors	B	Std. Err.	Wald	Sig.	Exp(B)
Demographic					
Employee size-of-business	-.360	.257	1.963	.161	.698
New business	.284	.439	.418	.518	1.328
Home-based business	-1.009	.434	5.397	.020	.365
Rural area	.458	.378	1.470	.225	1.581
Struggling states	.145	.416	.121	.728	1.156
Sex	-.282	.360	.611	.434	.755
Financial					
Credit score	-.010	.007	2.088	.148	.990
Assets	-.707	.294	5.784	.016	.493
2nd mortgages outstanding	-.249	.402	.383	.536	.780
Upside-down properties	1.323	.438	9.102	.003	3.754
Properties collateralizing business debt	.948	.408	5.394	.020	2.581
Credit card balances	2.826	1.357	4.335	.037	16.882
Slowing payables	.140	.559	.062	.803	1.150
Heavy trade credit use	.024	.432	.003	.956	1.024
Large bank	-.091	.350	.068	.794	.913
Multiple financial institutions	.139	.147	.895	.344	1.149
Borrowing purposes	.140	.141	.986	.321	1.150
Performance					
Gain employees	.799	.461	2.998	.083	2.223
Lose employees	1.772	.496	12.081	.001	5.598
Sales change	-.009	.110	.756	.385	.909
Perceptual					
Performance	-.723	.195	13.735	.000	.486
Opportunities	-.054	.215	.064	.800	.947
Constant	1.404	1.272	1.218	.270	4.072

-2 Log likelihood = 245.421
Cox & Snell R^2 = .189
Nagelkerke R^2 = .316
N = 298

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 the survey were conducted throughout October and November 2011 from a sample of small employers, that is, small-business owners employing between one and 250 people in addition to the owner(s). The response rate was 31 percent and the incidence rate was 78 percent.

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 was employed to compensate for the highly skewed distribution of small businesses. Almost 60 percent of employers in the United States employ between 1 and 4 people; another 20 percent employ between 5 and 9. A random sample would therefore yield comparatively few employers owning larger, small businesses to interview. Since size within the small-business population is often an important differentiating variable, it is imperative that an adequate number of interviews be conducted among those employing more than 10 people. Hence, an oversampling of larger size groups (stratification) was used.

Survey results are broken down in tabular form. Separate results for the four strata sizes, 1 – 9 employees, 10 – 19 employees, 20 – 49 employees, and 50 – 250 employees, are presented along with a population total. The total is derived by weighting cases to compensate for the sample stratification. Sampling and weighting are based on a population universe (2008) prepared for the Office of Advocacy at the U.S. Small Business Administration by the Bureau of the Census.

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