

# 2017 SMALL BUSINESS CREDIT SURVEY

## Report on Employer Firms



**FEDERAL RESERVE BANKS of**

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The views expressed are mine and do not necessarily represent those of the Federal Reserve Bank of Atlanta or the Federal Reserve System.

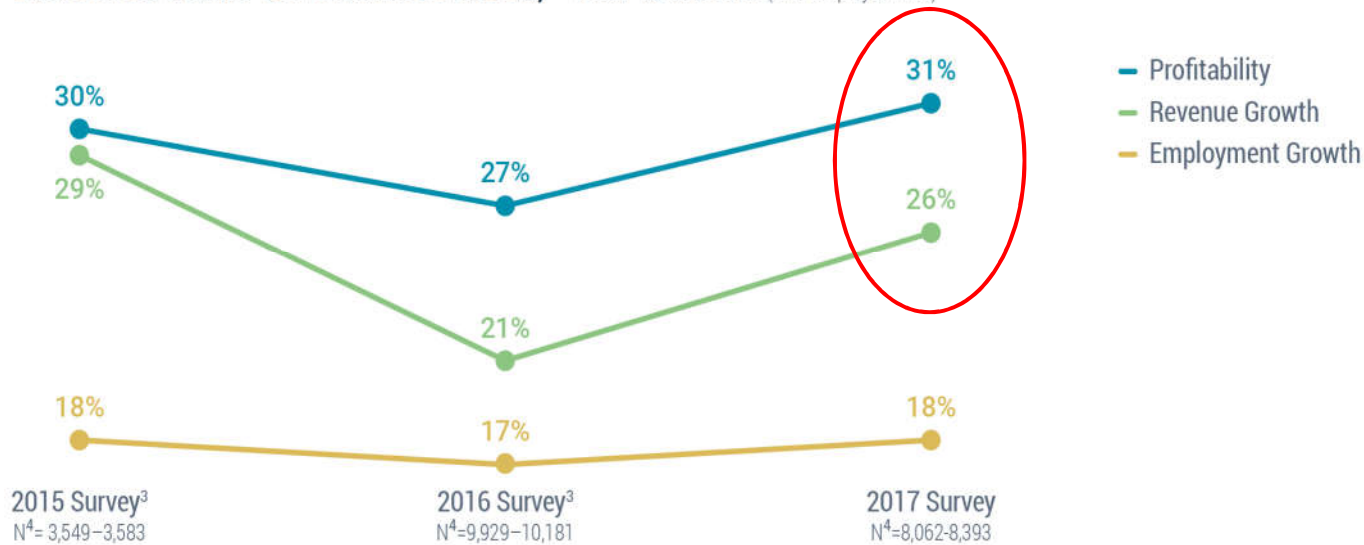
# SBCS: How is the information collected?

- This **annual survey** is administered online and takes 10-15 minutes to complete. It was fielded in Q3 and Q4 2017. About 14,500 responses; **8,169 employer firms, 241 in Alabama.**
- **Convenience sample** through contacts from over 400 community partners: SBDCs, microenterprise centers, chambers of commerce, etc.
- **The responses are weighted** based on number of employees, age, industry, gender, race/ethnicity, and geographic location to manage biases and **create a nationally representative picture** of business and credit conditions for small businesses.
- In order to display data on individual states, each state needs to meet 2 thresholds: at least 100 observations and a standard error of less than 0.25 on one of the key survey questions.

# Overall performance metrics

The following chart provides an overview of the survey respondents business performance

EMPLOYER FIRM PERFORMANCE INDEX,<sup>1,2</sup> Prior 12 Months (% of employer firms)

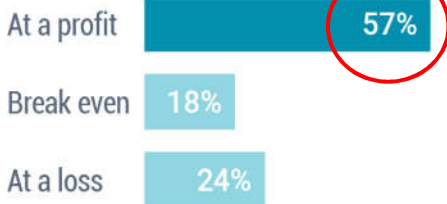


EMPLOYER FIRM PERFORMANCE, 2017 Survey (% of employer firms)

## PROFITABILITY,<sup>5</sup>

End of 2016

N=7,830



## REVENUE CHANGE,<sup>6</sup>

Prior 12 Months<sup>6</sup>

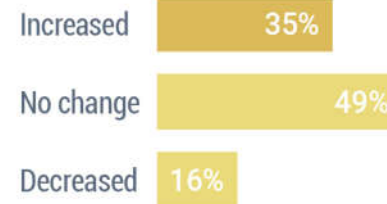
N=7,983



## EMPLOYMENT CHANGE,<sup>6</sup>

Prior 12 Months<sup>6</sup>

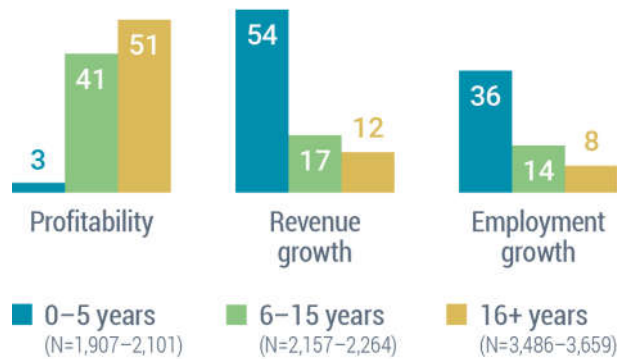
N=7,684



# Firm-type performance metrics

The following chart provides an overview of performance by age of firm, size, and industry

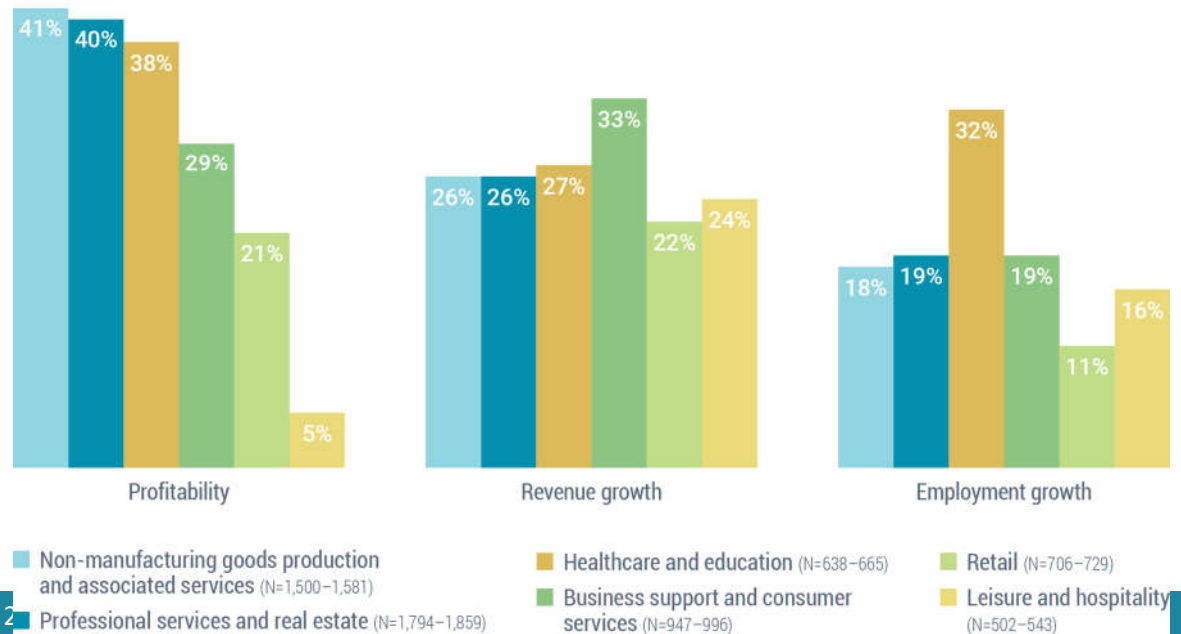
**PERFORMANCE INDEX BY AGE OF FIRM,<sup>1</sup>**  
Prior 12 Months<sup>2</sup> (% of employer firms)



**PERFORMANCE INDEX BY REVENUE SIZE OF FIRM,<sup>1</sup>**  
Prior 12 Months<sup>2</sup> (% of employer firms)



**PERFORMANCE INDEX BY INDUSTRY,<sup>1</sup>** Prior 12 Months<sup>2</sup> (% of employer firms)

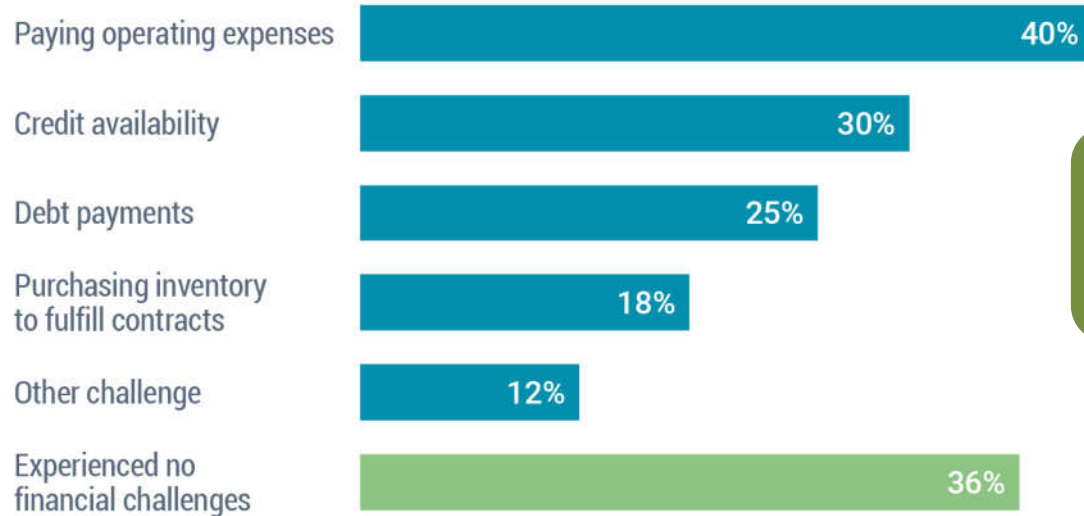


# Overall financial challenges

## TYPES<sup>2</sup> OF FINANCIAL CHALLENGES, *Prior 12 Months*<sup>1</sup>

N=8,097

(% of employer firms)

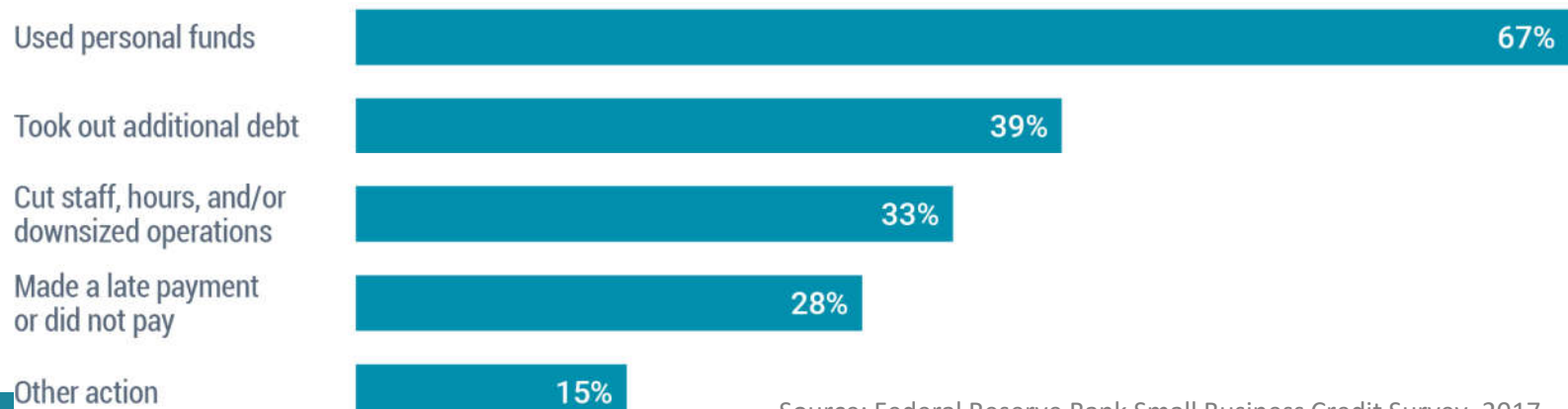


64% of firms reported they experienced some type of financial challenge.

## ACTIONS<sup>2,3</sup> TAKEN AS A RESULT OF FINANCIAL CHALLENGES, *Prior 12 Months*<sup>1</sup>

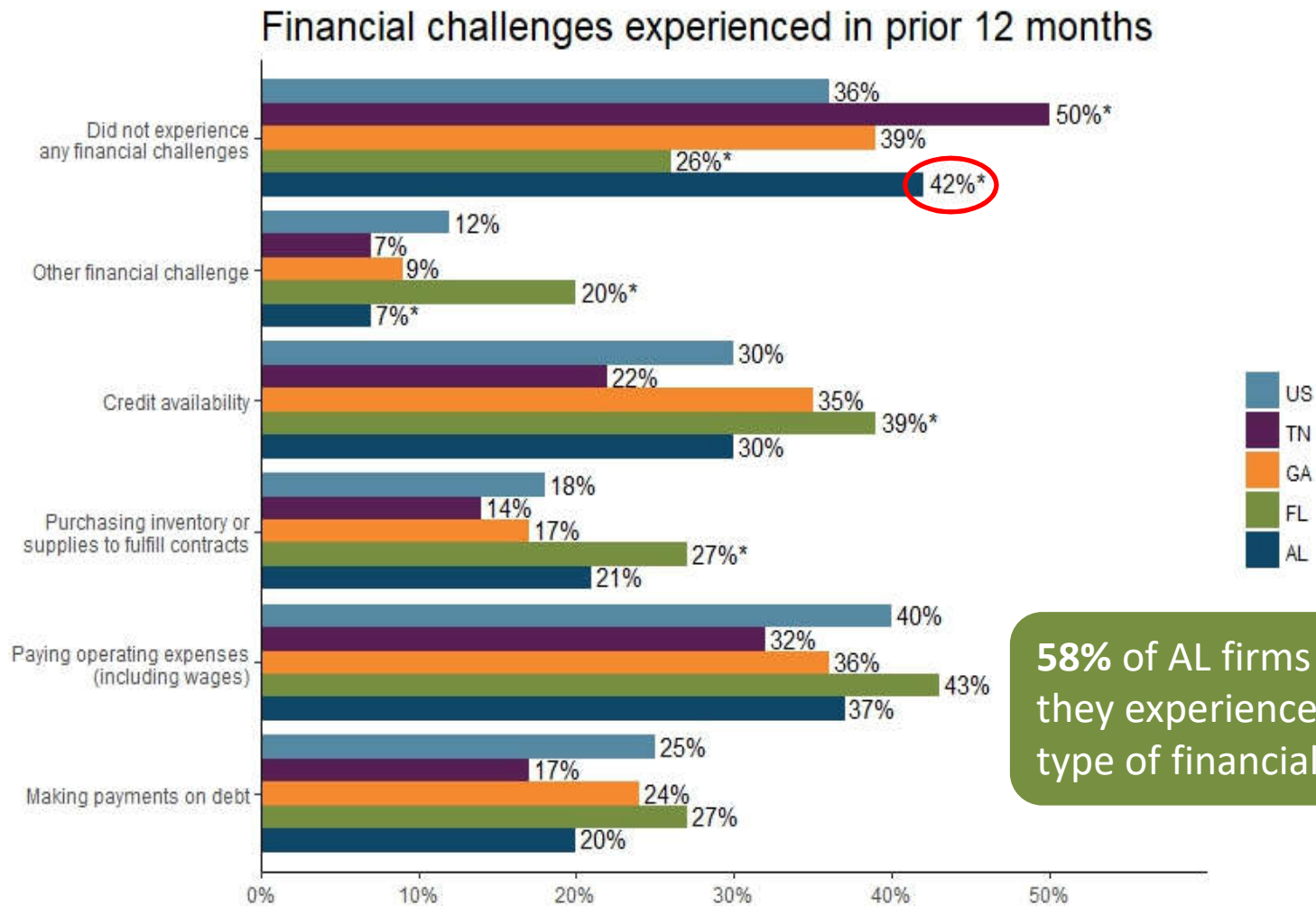
N=4,956

(% of employer firms reporting financial challenges)



Source: Federal Reserve Bank Small Business Credit Survey, 2017

# Alabama firms less likely to encounter challenges

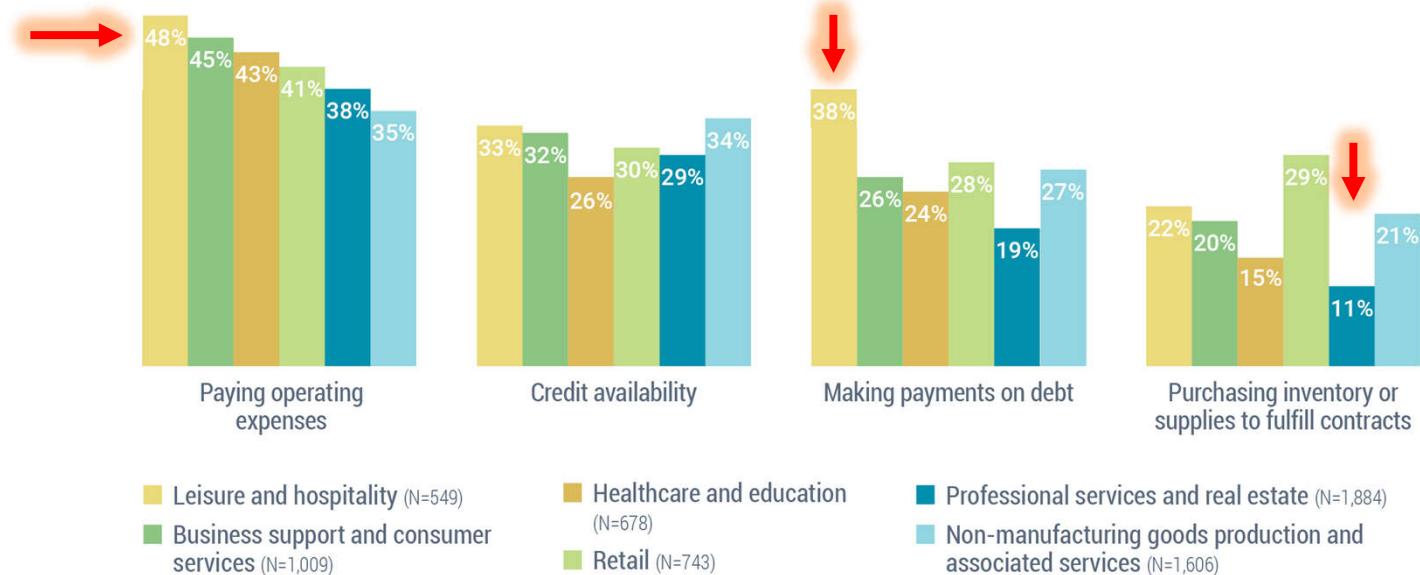


58% of AL firms reported they experienced some type of financial challenge.

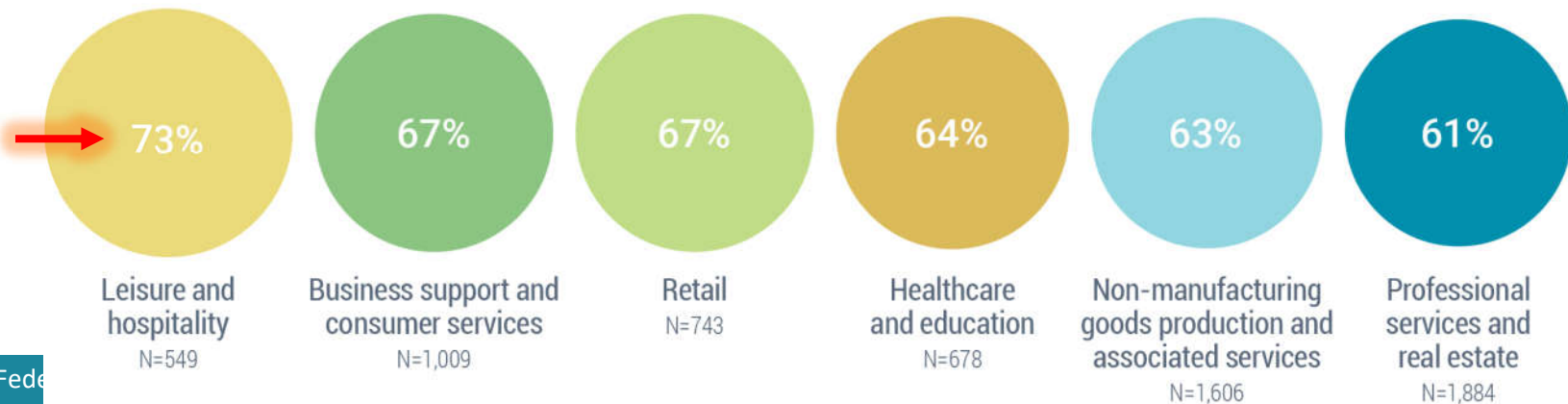
Note: \* indicates that the difference compared to the national average is statistically significant  
 Source: Federal Reserve Banks' 2017 Small Business Credit Survey

# Financial challenges by industry

TYPES OF FINANCIAL CHALLENGES BY INDUSTRY,<sup>1</sup> Prior 12 Months<sup>2</sup> (% of employer firms)



SHARE OF FIRMS WITH FINANCIAL CHALLENGES BY INDUSTRY, Prior 12 Months<sup>1</sup> (% of employer firms)

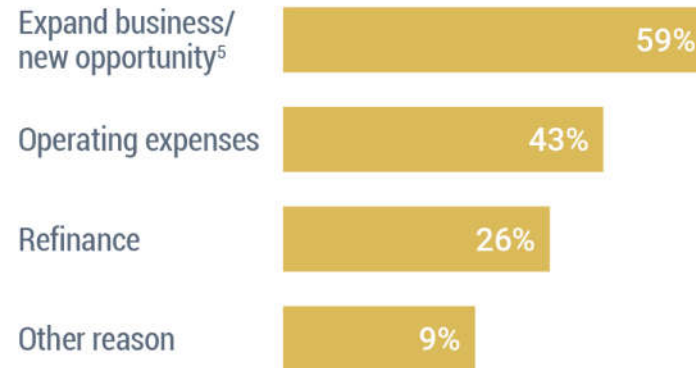


# Seeking financing, reasons and amount

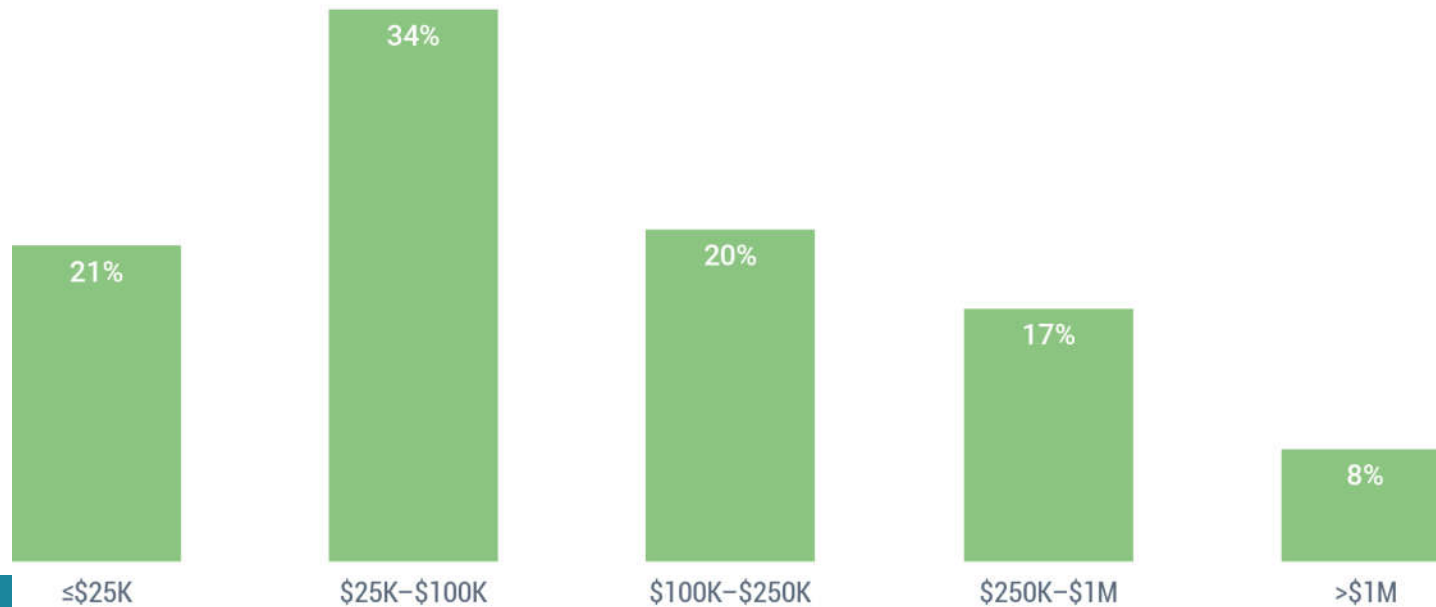
**SHARE THAT APPLIED FOR FINANCING,<sup>1</sup>**  
*Prior 12 Months<sup>2</sup>* (% of employer firms)



**REASONS FOR APPLYING<sup>3,4</sup>** N = 3,514  
 (% of applicants)



**TOTAL AMOUNT OF FINANCING SOUGHT** (% of applicants) N = 3,434





# Experiences by size, age, and industry

## SHARE THAT APPLIED FOR FINANCING BY REVENUE SIZE OF FIRM, *Prior 12 Months*<sup>1</sup>

(% of employer firms)

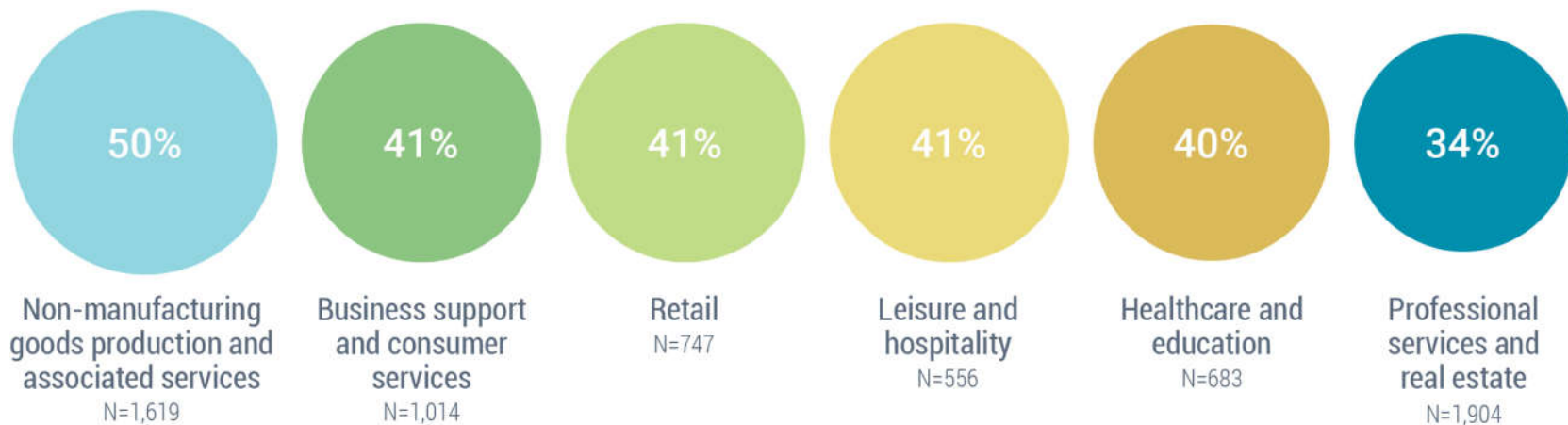


## SHARE THAT APPLIED FOR FINANCING BY AGE OF FIRM, *Prior 12 Months*<sup>1</sup>

(% of employer firms)

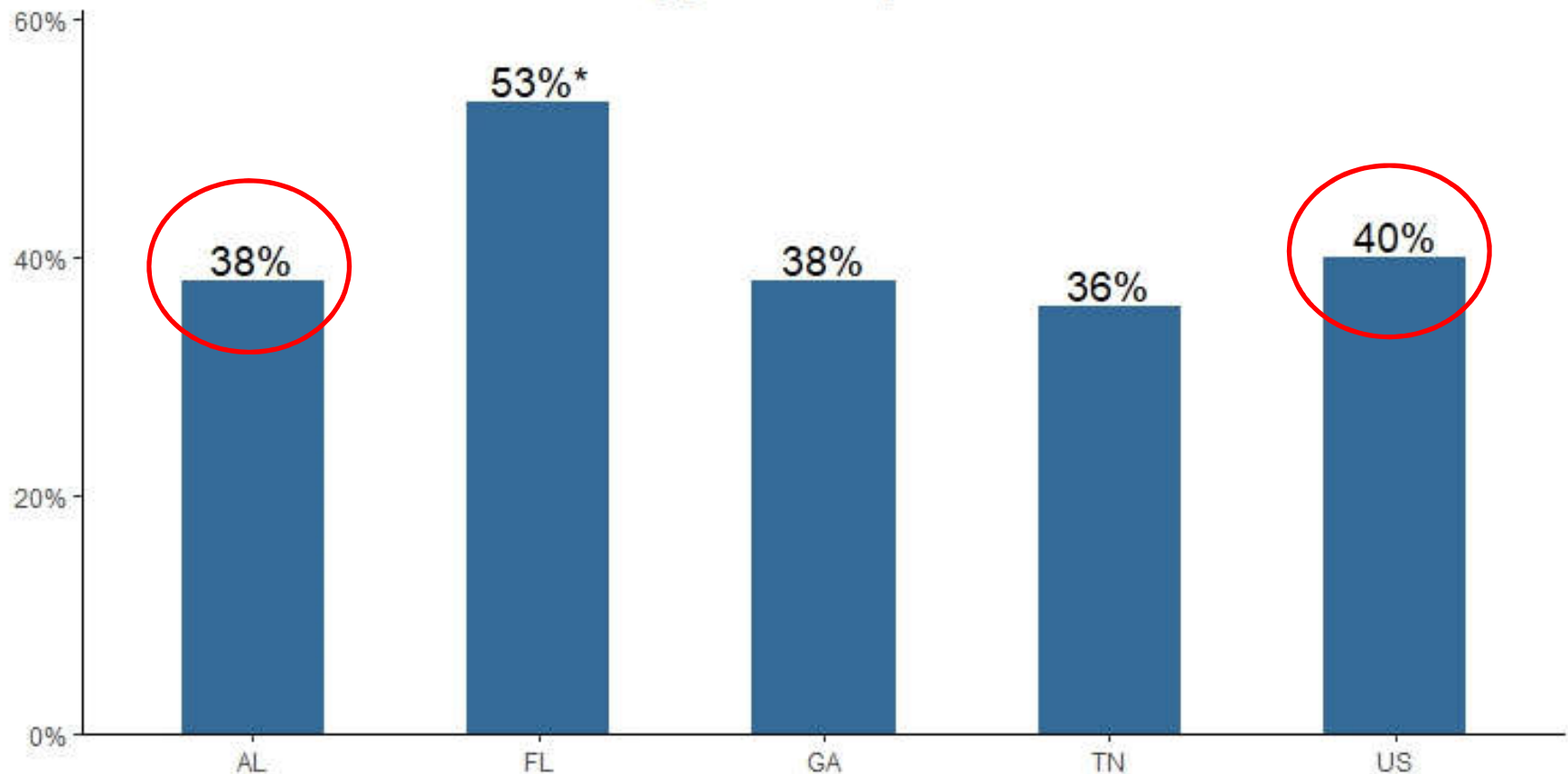


## SHARE THAT APPLIED FOR FINANCING BY INDUSTRY, *Prior 12 Months*<sup>1</sup> (% of employer firms)



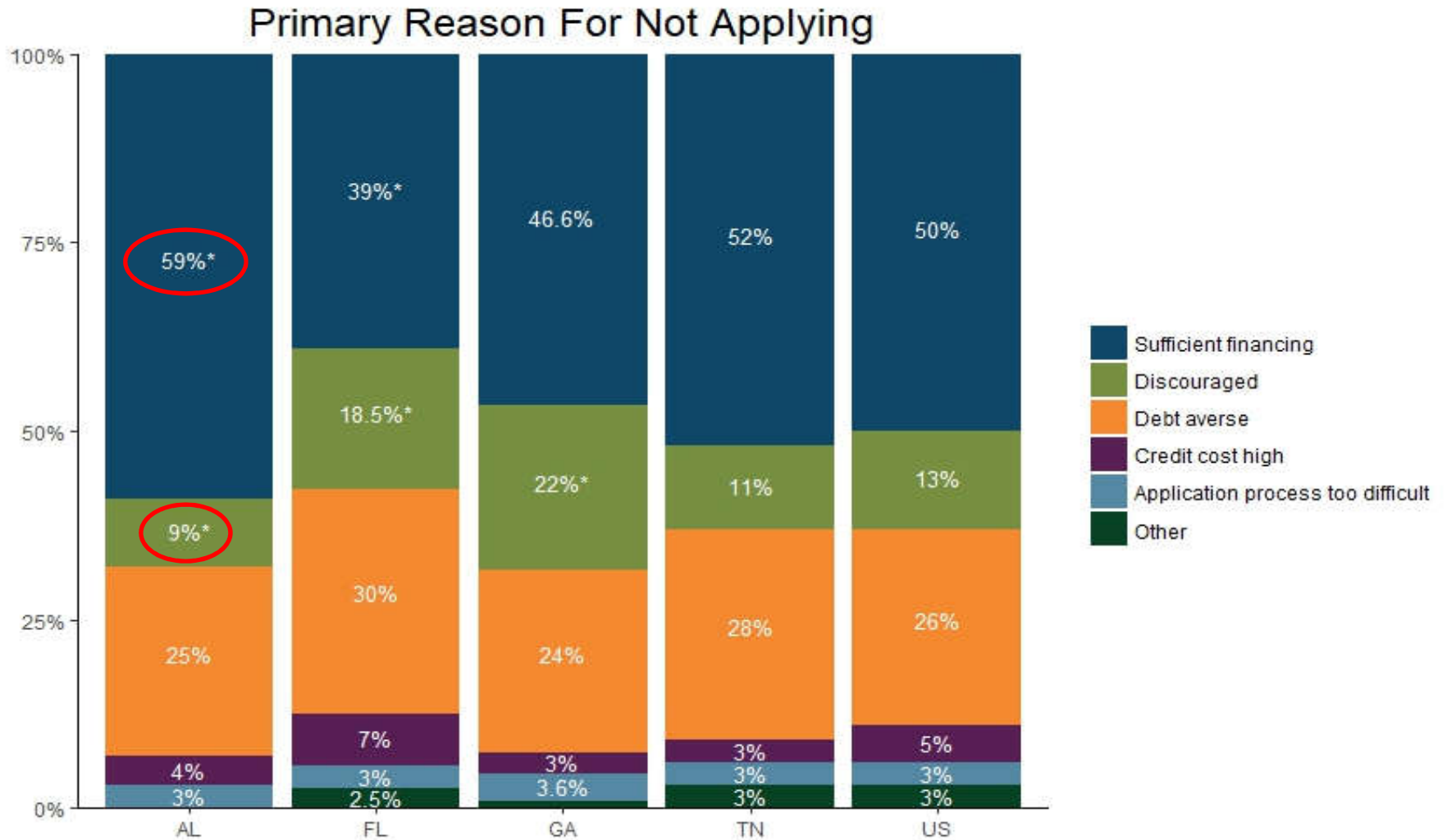
# Alabama application rate similar to national

Firms that applied in prior 12 months



Note: \* indicates that the difference compared to the national average is statistically significant  
Source: Federal Reserve Banks' 2017 Small Business Credit Survey

# Alabama, more didn't apply because they already had sufficient financing

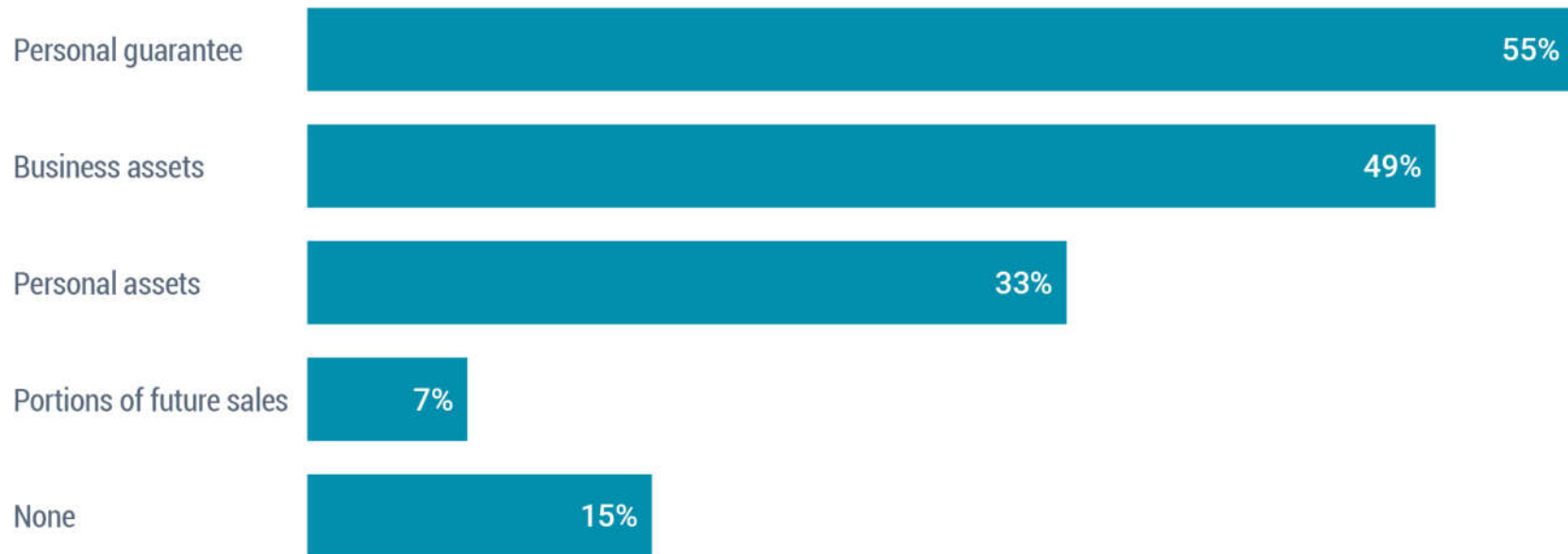


Note: \* indicates that the difference compared to the national average is statistically significant  
 Source: Federal Reserve Banks' 2017 Small Business Credit

# Securing debt

**COLLATERAL<sup>1</sup> USED TO SECURE OUTSTANDING DEBT** (% of employer firms with debt)

N=5,654



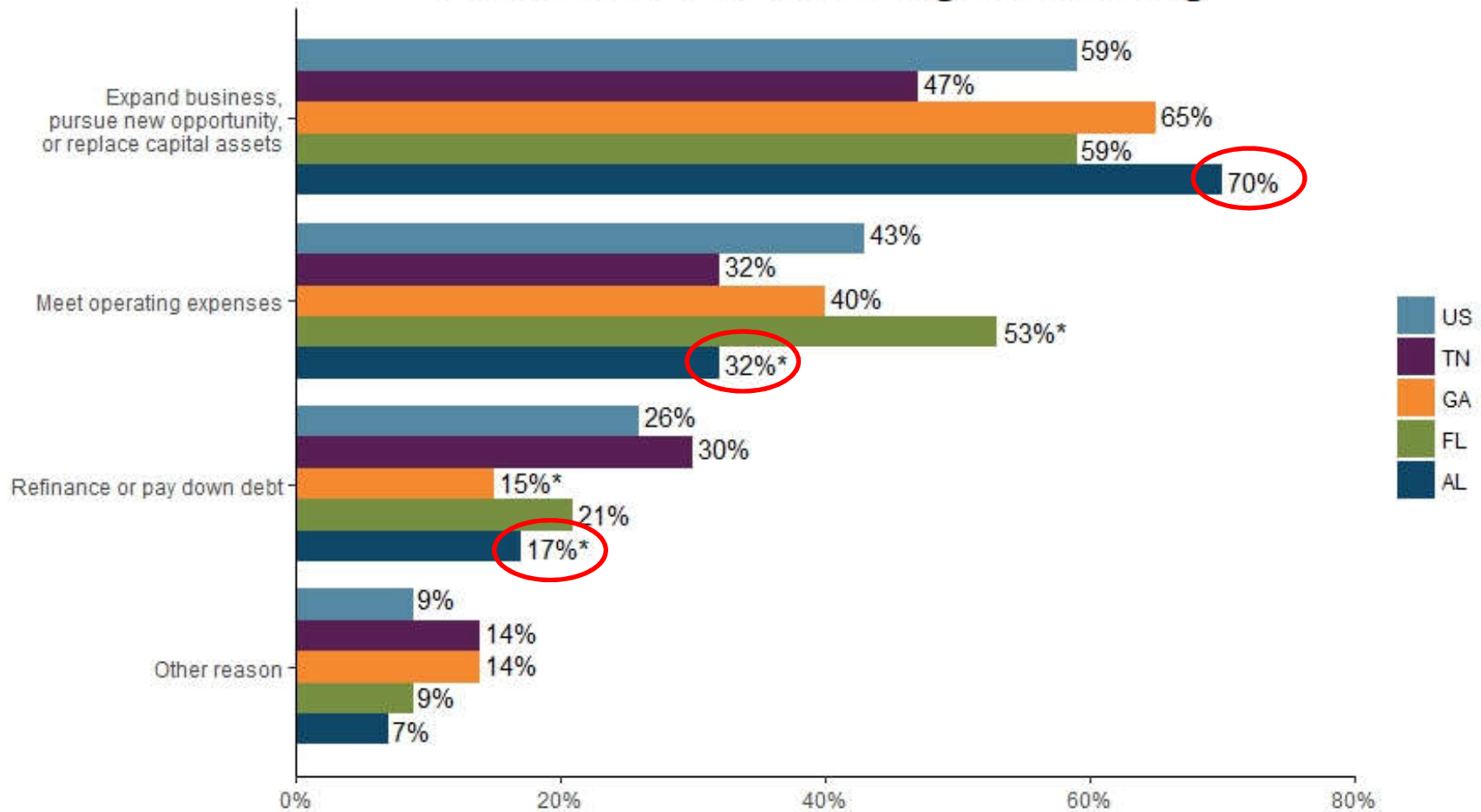
**USE OF PERSONAL AND BUSINESS CREDIT SCORES** (% of employer firms)

N=5,941



# Alabama businesses looking to grow

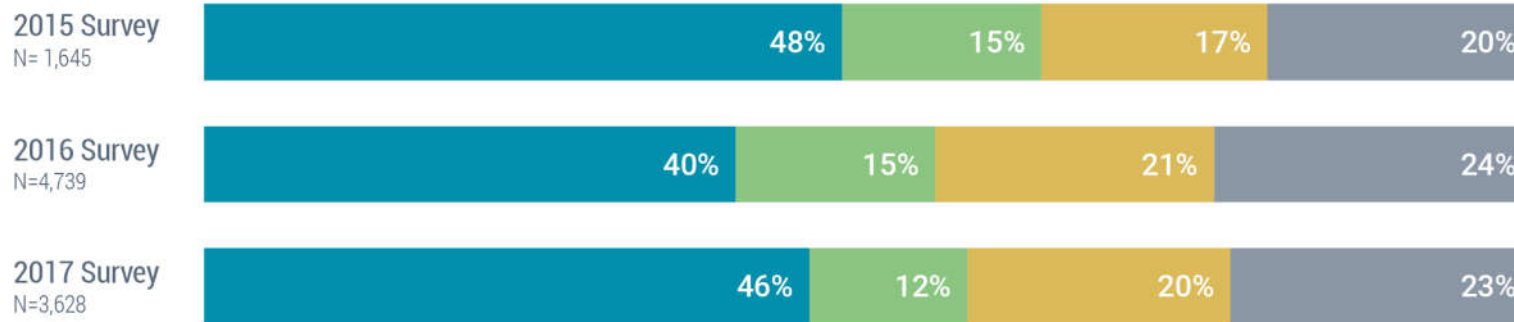
## Reasons for seeking financing



Note: \* indicates that the difference compared to the national average is statistically significant  
Source: Federal Reserve Banks' 2017 Small Business Credit Survey

# Financing success

## TOTAL FINANCING RECEIVED<sup>1,2,3,4</sup> (% of applicants)



■ All (100%) 
 ■ Most (51%–99%) 
 ■ Some (1%–50%) 
 ■ None (0%)

## FINANCING RECEIVED BY CREDIT RISK OF FIRM<sup>1,3,5</sup> (% of applicants)

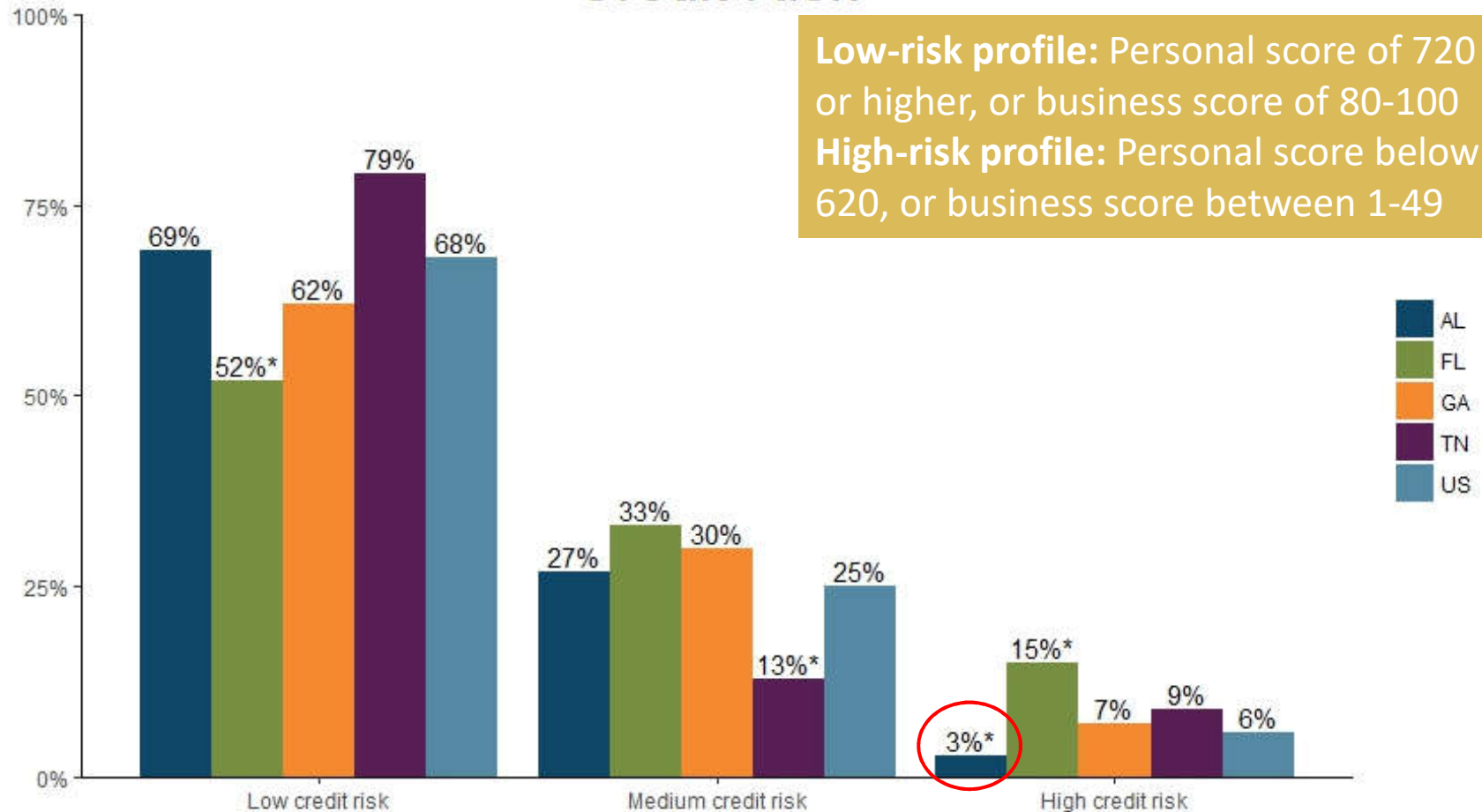


**Low-risk profile:** Personal score of 720 or higher, or business score of 80-100  
**High-risk profile:** Personal score below 620, or business score between 1-49

Source: Federal Reserve Bank Small Business Credit Survey, 2017

# Credit profile of Alabama firms similar to national average

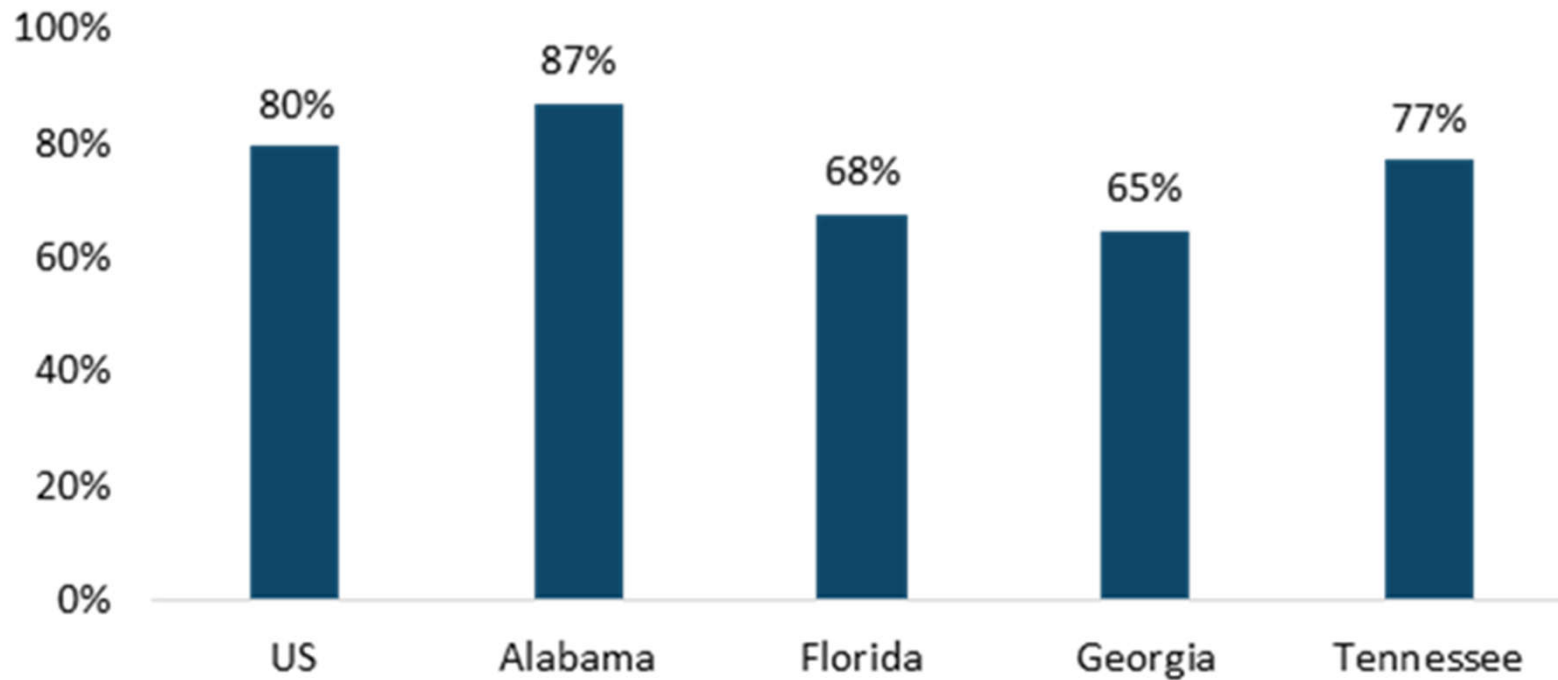
## Credit Risk



Note: \* indicates that the difference compared to the national average is statistically significant  
Source: Federal Reserve Banks' 2017 Small Business Credit Survey

# Firms receiving some financing

Share of applicants approved for at least some financing

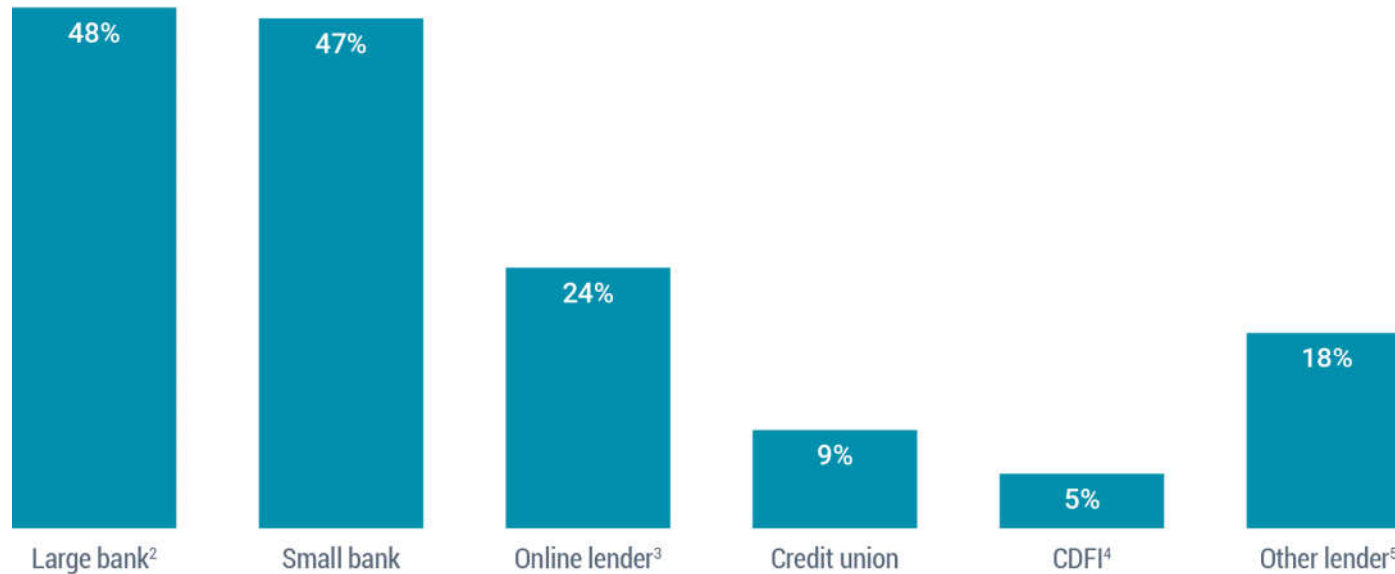




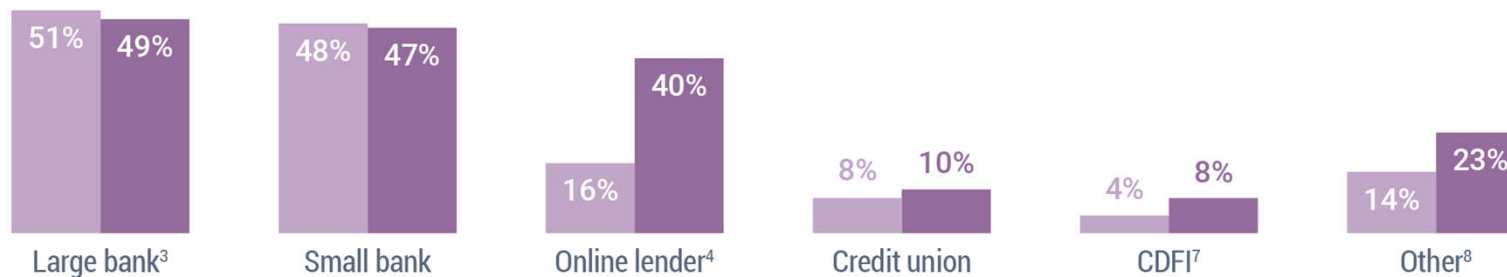
# Credit sources and borrower risk

**CREDIT SOURCES APPLIED TO<sup>1</sup>** (% of loan/line of credit and cash advance applicants)

N=2,818



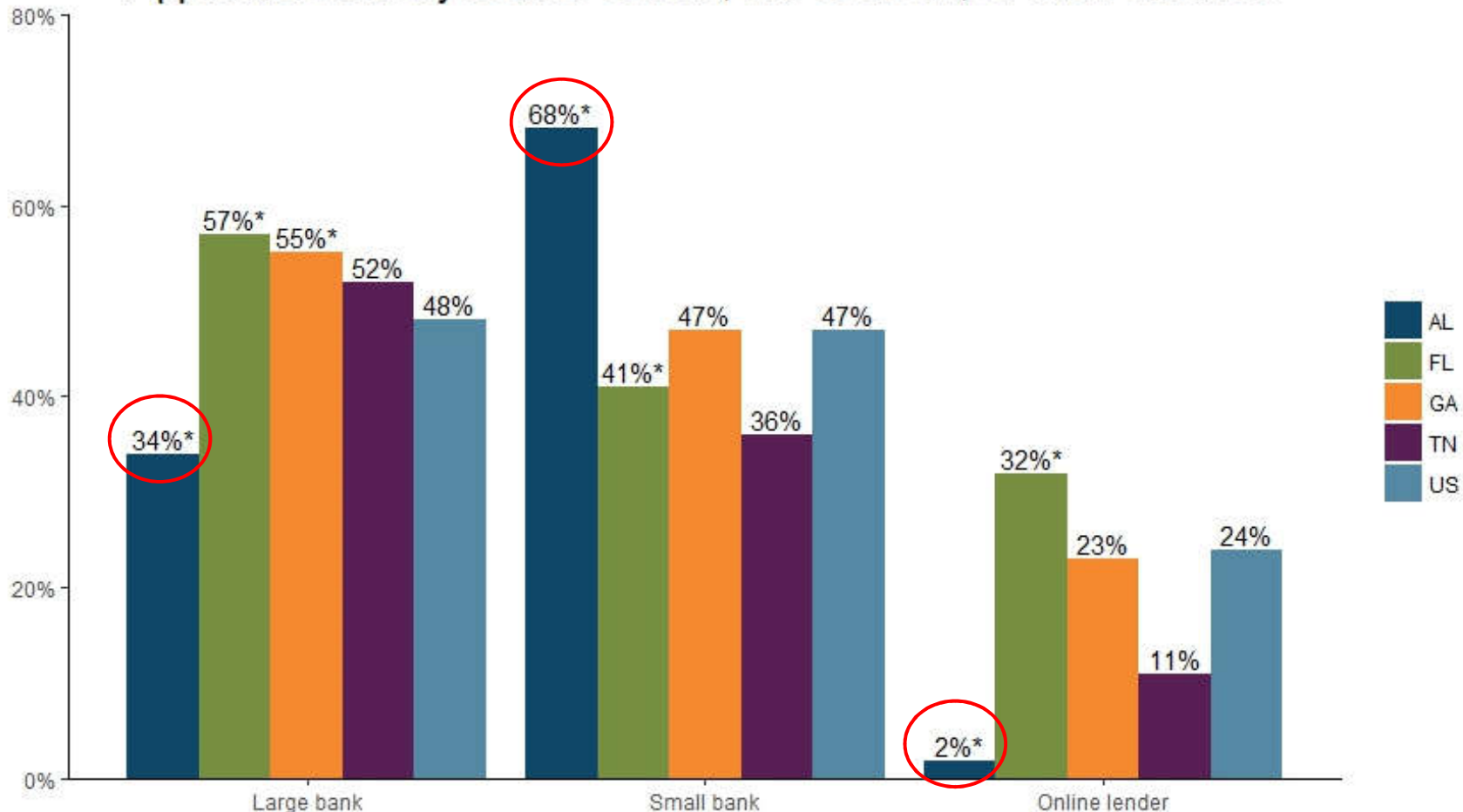
**CREDIT SOURCES APPLIED TO BY CREDIT RISK OF FIRM<sup>1,5,6</sup>** (% of loan/line of credit and cash advance applicants)



■ Low credit risk (N=1,345) ■ Medium/high credit risk (N=856)

# Alabama firms rely heavily on small banks, not online lenders

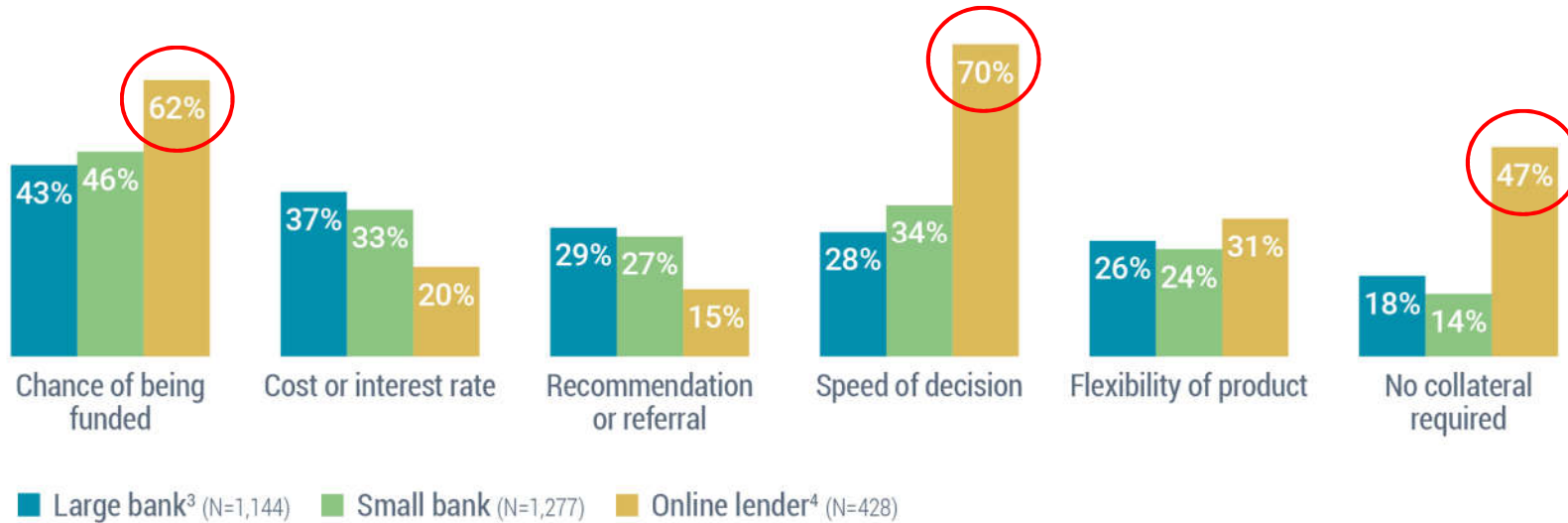
Application rate by source of loan, line of credit, or cash advance



Note: \* indicates that the difference compared to the national average is statistically significant  
Source: Federal Reserve Banks' 2017 Small Business Credit Survey

# How firms decide where to apply

FACTORS INFLUENCING WHERE FIRMS APPLY<sup>1,2</sup> (% of loan/line of credit and cash advance applicants)



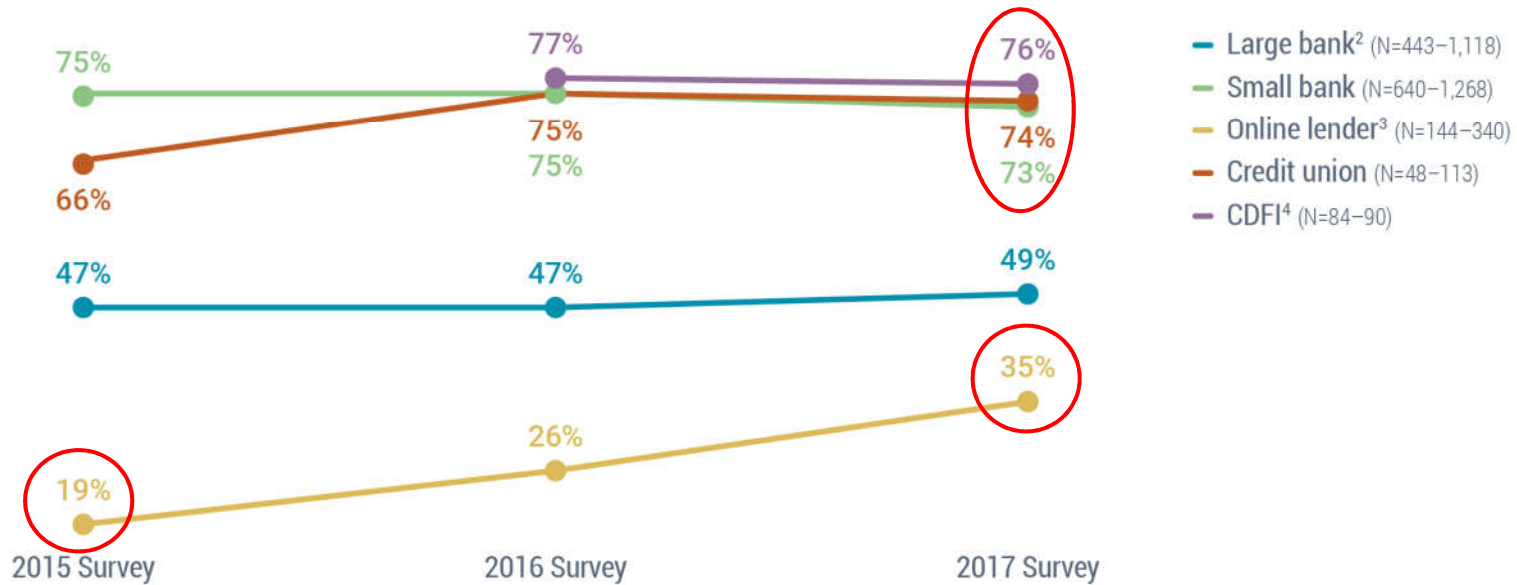
BORROWERS WHO APPLIED TO ONLINE LENDERS<sup>3,6</sup> (% of loan/line of credit and cash advance applicants)



# Lender satisfaction

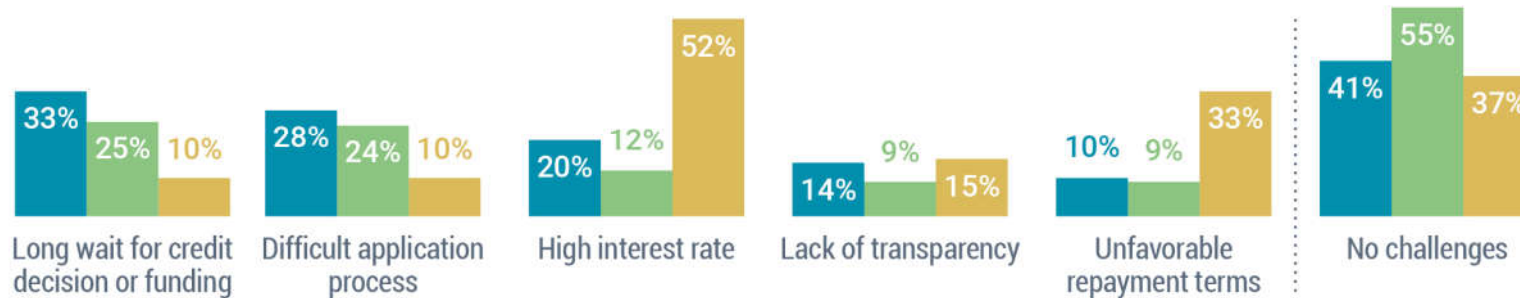
## NET LENDER SATISFACTION OVER TIME<sup>5</sup>

(% satisfied minus % dissatisfied, among loan/line of credit and cash advance applicants approved for at least some financing)



## CHALLENGES WITH LENDERS,<sup>1</sup> *Select Lenders*

(% of loan/line of credit and cash advance applicants)



■ Large bank<sup>2</sup> (N=1,130) ■ Small bank (N=1,237) ■ Online lender<sup>3</sup> (N=423)

Source: Federal Reserve Bank Small Business Credit Survey, 2017

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## What's Fed Small Business?

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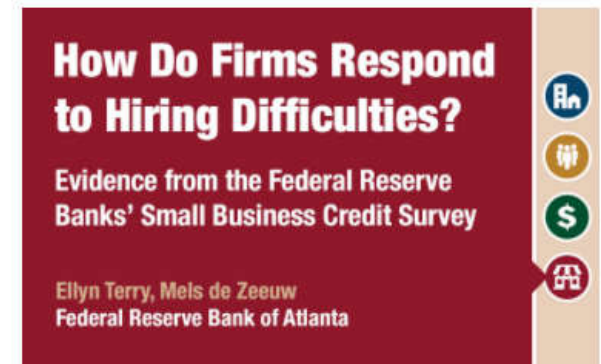
### Report on Employer Firms

Heading into 2018, small businesses with



### Report on Disaster-Affected Firms

Forty percent of firms in FEMA-designated



### How Do Firms Respond to Hiring Difficulties?

# Questions?

**Contact me.  
Mels de Zeeuw**

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# **Background information (not for presentation)**

# Small business demographics

The following charts provide an overview of small business demographics

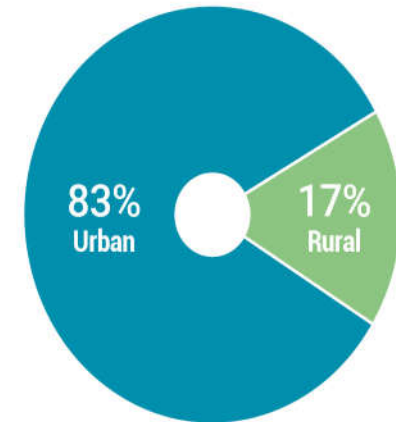
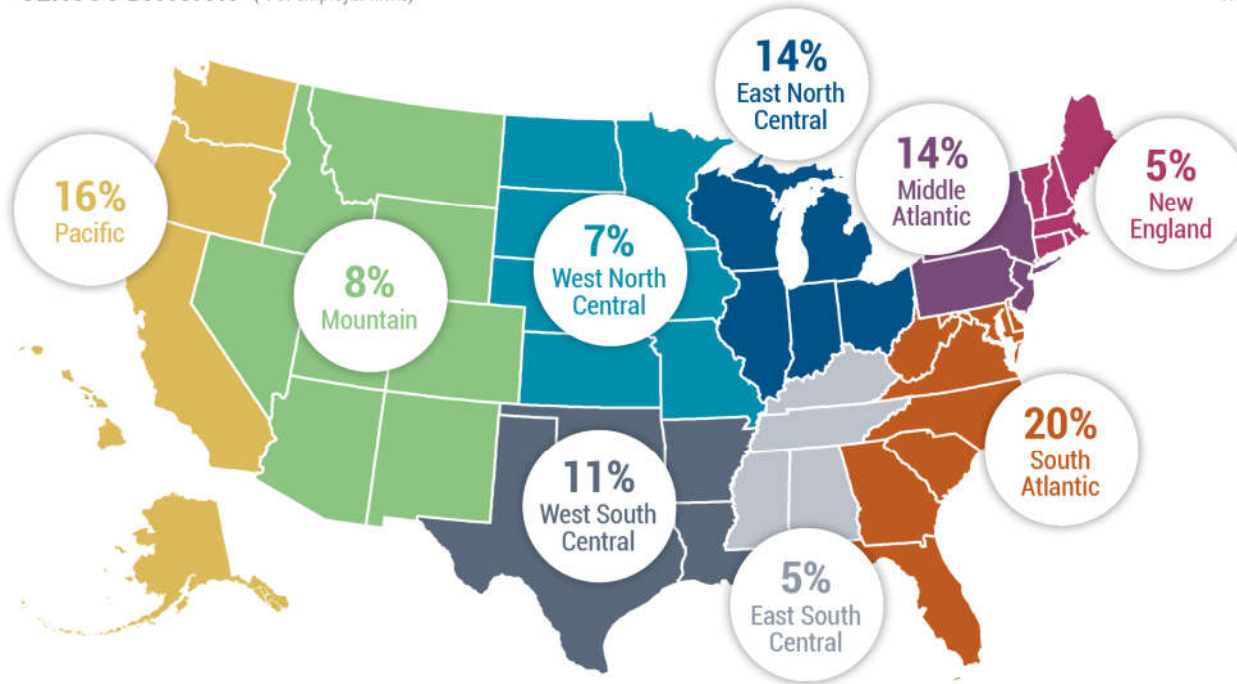
## GEOGRAPHIC LOCATION<sup>1,3</sup>

(% of employer firms)

N=8,169

## CENSUS DIVISION<sup>1</sup> (% of employer firms)

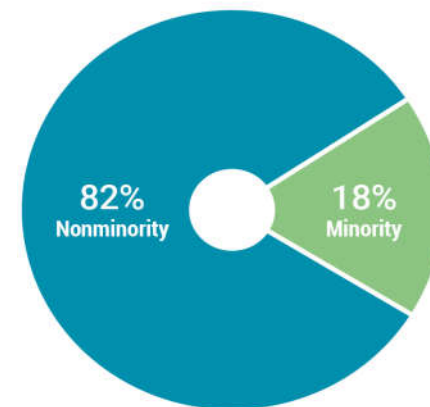
N=8,169



## RACE/ETHNICITY<sup>3</sup> OF OWNER(S)<sup>4</sup>

(% of employer firms)

N=8,169



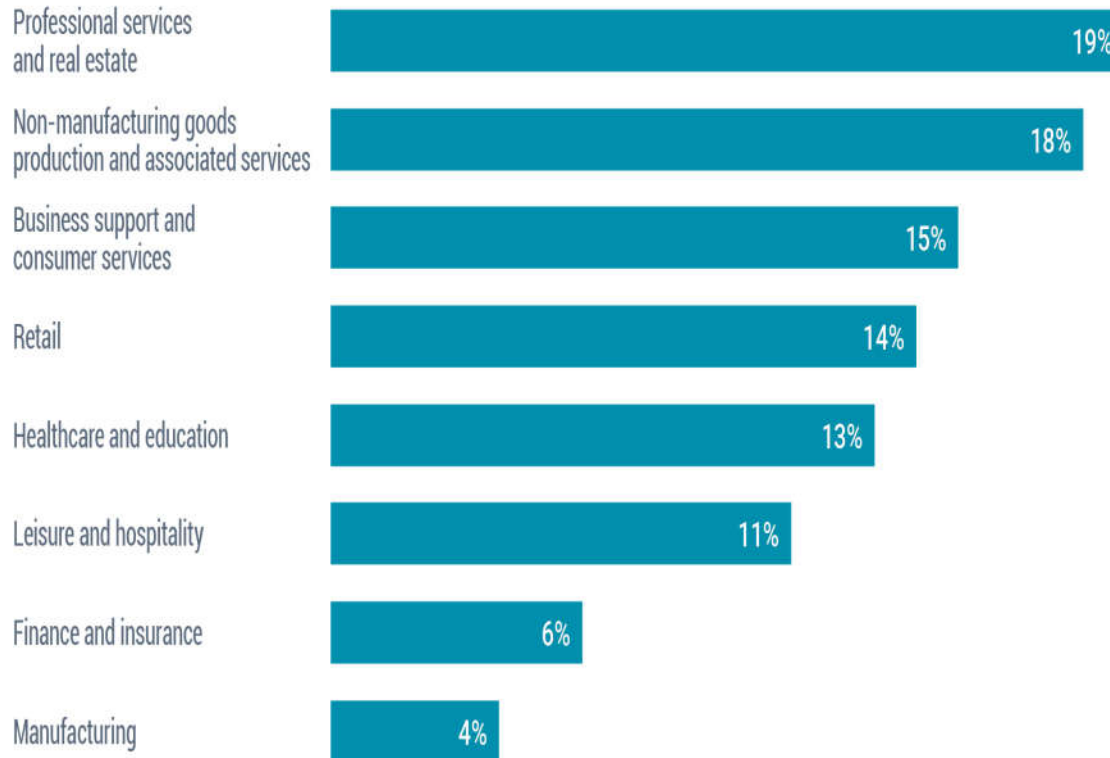


# Small business demographics – Cont'd

The following charts provide an overview of small business demographics

**INDUSTRY<sup>1,2</sup>** (% of employer firms)

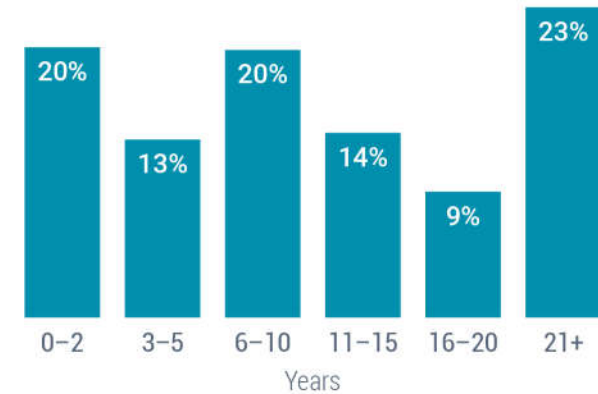
N=8,169



**AGE OF FIRM<sup>1,2</sup>**

(% of employer firms)

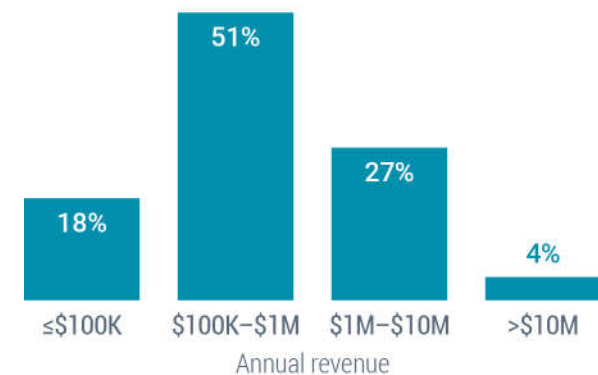
N=8,169



**REVENUE SIZE OF FIRM**

(% of employer firms)

N=7,823



*\*Categories have been simplified for readability. Actual categories are: ≤\$100K, \$100,001K-\$1M, \$1,000,001M-\$10M, >\$10M.*

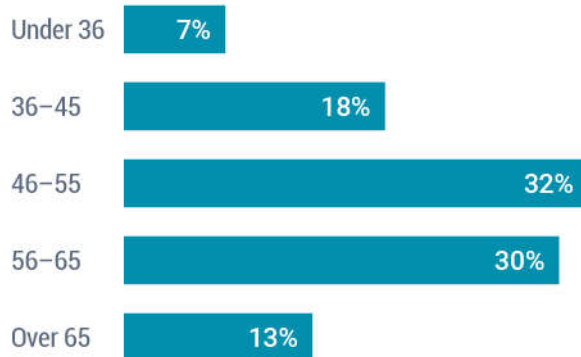
# Small business demographics – Cont'd

The following chart provides an overview of small business demographics

## AGE OF FIRM'S PRIMARY FINANCIAL DECISION MAKER

N=7,660

(% of employer firms)



## NUMBER OF EMPLOYEES<sup>1,2,4</sup>

N=8,169

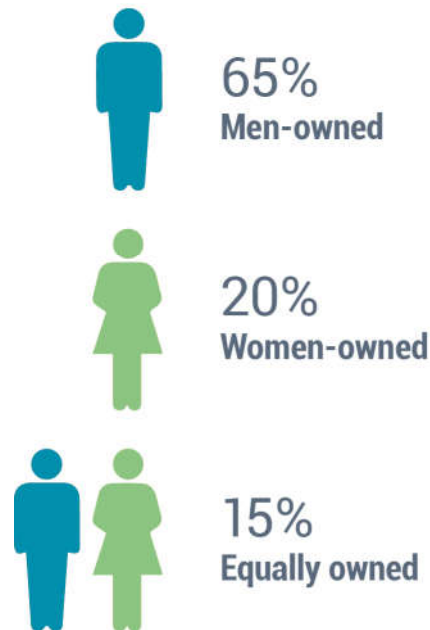
(% of employer firms)



## GENDER OF OWNER(S)<sup>4</sup>

N=8,169

(% of employer firms)



## CREDIT RISK<sup>1</sup> OF FIRM<sup>2</sup>

N=5,349

(% of employer firms)

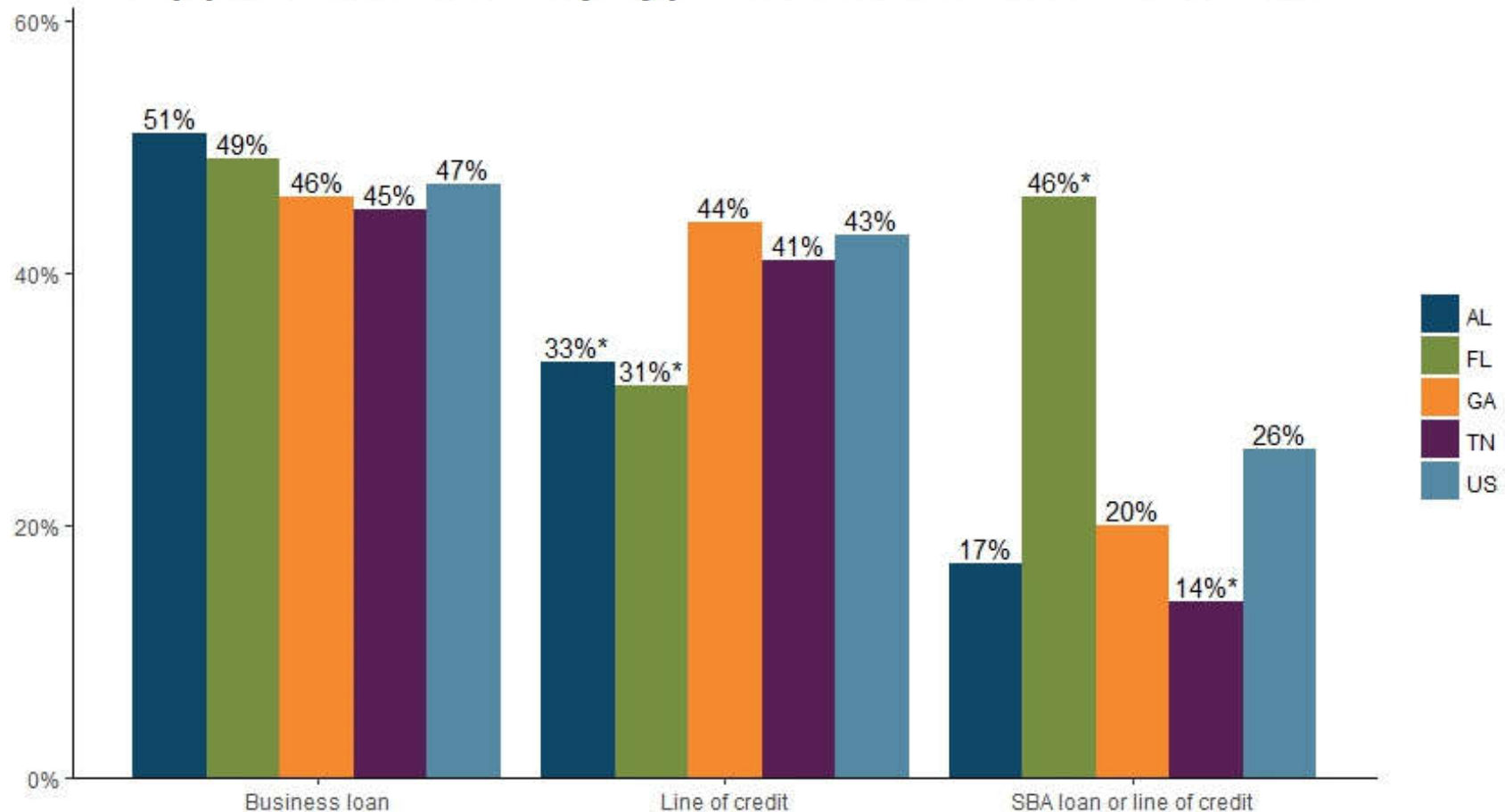


**39%** of employer firms use contract workers.

N=8,101

# Alabama, more business loan applications

## Application rate by type of loan or line of credit



Note: \* indicates that the difference compared to the national average is statistically significant  
Source: Federal Reserve Banks' 2017 Small Business Credit Survey

# More information on the SBCS

- ***Fed Small Business:***
- Report Homepage on Fed Small Business:  
<https://www.fedsmallbusiness.org/survey/2018/report-on-employer-firms>
- PDF of Report:  
<https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2018/sbcs-employer-firms-report.pdf>
- Press Release with All Regional Takeaways:  
<https://www.fedsmallbusiness.org/press/2018/sbcs-report-on-employer-firms-05222018>
- Data Appendix:  
<https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2018/sbcs-employer-firms-appendix.xlsx>

# Credit Market Experiences and Borrowing Patterns of Minority-Owned Employer Firms (forthcoming)

Alicia Robb, Brett Barkley, Mels de Zeeuw

- Using data from the 2016 SBCS we assess the relative likelihood of various scenarios for small minority-owned businesses compared to white-owned firms:
  - Getting approved for financing
  - Feeling discouraged from applying for financing
  - Applying to an online lender
  - Getting approved by an online lender
  - Feeling dissatisfied with their lender
- We use a series of logistic regression models, with controls for firm-specific variables, including: revenue size, employment size, firm age, industry, self-reported credit profile, rural/urban location, in an LMI zip code, profitability, gender of ownership, veteran status of ownership

# Likelihood of Getting Approved for At Least Some Financing (compared to White-Owned)

Variables	Coefficient
Black-Owned	-.048**
Asian-Owned	-.029
Hispanic-Owned	-.038
Race not reported	-.032
Control Variables: Size (revenues), Firm Age, Industry, Self-reported Credit Risk, Rural/Urban, LMI Area, Employment size, Profitability, Gender of ownership, Veteran status of ownership	
Observations	3,524

Coefficients are expressed as Average Marginal Effects

\*\*\* p<0.01

\*\* p<0.05

\* p<0.1

# Likelihood of Feeling Discouraged from Applying for Financing (compared to White-Owned)

Variables	Coefficient
Black-Owned	.082***
Asian-Owned	.008
Hispanic-Owned	.010
Race not reported	.025
Control Variables: Size (revenues), Firm Age, Industry, Self-reported Credit Risk, Rural/Urban, LMI Area, Employment size, Profitability, Gender of ownership, Veteran status of ownership	
Observations	3,989

Coefficients are expressed as Average Marginal Effects

\*\*\* p<0.01

\*\* p<0.05

\* p<0.1

# Likelihood of Applying to an Online Lender for a Loan or Line of Credit (compared to White-Owned)

Variables	Coefficient
Black-Owned	.038*
Asian-Owned	.023
Hispanic-Owned	.050*
Race not reported	.055
Control Variables:	
Size (revenues), Firm Age, Industry, Self-reported Credit Risk, Rural/Urban, LMI Area, Employment size, Profitability, Gender of ownership, Veteran status of ownership	
Observations	3,007

Coefficients are expressed as Average Marginal Effects

\*\*\* p<0.01  
 \*\* p<0.05  
 \* p<0.1



# Likelihood of Approval for a Loan or Line of Credit from an Online Lender (compared to White-Owned)

Variables	Coefficient
Black-Owned	-.017
Asian-Owned	-.121
Hispanic-Owned	.007
Race not reported	-.046
Control Variables: Size (revenues), Firm Age, Industry, Self-reported Credit Risk, Rural/Urban, LMI Area, Employment size, Profitability, Gender of ownership, Veteran status of ownership	
Observations	3,007

Coefficients are expressed as Average Marginal Effects

\*\*\* p<0.01

\*\* p<0.05

\* p<0.1

# Likelihood of Being Dissatisfied with Lender (compared to White-Owned)

Variables	Coefficient
Black-Owned	.059**
Asian-Owned	.165***
Hispanic-Owned	.096***
Race not reported	.056
Control Variables: Size (revenues), Firm Age, Industry, Self-reported Credit Risk, Rural/Urban, LMI Area, Employment size, Profitability, Gender of ownership, Veteran status of ownership	
Observations	3,007

Coefficients are expressed as Average Marginal Effects

\*\*\* p<0.01  
\*\* p<0.05  
\* p<0.1

# Conclusions

- We find some evidence for gaps in credit approval by the race or ethnicity of the business owner, even when controlling for important firm characteristics such as self-reported credit scores, revenue size, and industry.
- Black-owned firms are less likely to be approved for financing, more likely to feel discouraged from applying, more likely to apply for financing at an online lender, and more likely to feel dissatisfied with their lender compared to similar white-owned firms.
- Hispanic-owned firms are more likely to apply to an online lender, and together with Asian-owned firms are more likely to feel dissatisfied with their lender compared to similar white-owned firms.
- We do not find evidence for significant gaps in approval rates between minority- and white-owned firms at online lenders.