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Staying Connected: The Federal Reserve Small Business Credit Survey

■ Tuesday, November 21, 2017 2:00 PM ET
Presenters

Karen Leone de Nie
Federal Reserve Bank of Atlanta

Emily Mitchell
Federal Reserve Bank of Atlanta

Lauren Stebbins
Opportunity Finance Network
Agenda

- Overview of the Small Business Credit Survey
- Findings from the 2016 Survey
- How to Get Involved in the 2017 Survey
Housekeeping

- This webinar is being recorded – the recording and powerpoint will be posted at ofn.org/webinars

- During the webinar, you can type your questions into the GoToWebinar question box

- Two Q&A sessions
  - One for the survey overview and findings
  - One for questions about getting involved as a survey partner
Quick poll!

What do you know about the Federal Reserve Small Business Credit Survey?

- This is new to me.
- I’ve heard about it but haven’t been a partner before.
- I was a survey distribution partner for the first time in 2016.
- I’ve been a long-time survey distribution partner.
SMALL BUSINESS CREDIT SURVEY

Filling the data gap about small businesses credit for better policy and lending products
Webinar for the Opportunity Finance Network
November 21, 2017

Karen Leone de Nie and Emily Mitchell, Federal Reserve Bank of Atlanta

The views expressed do not necessarily reflect those of the Federal Reserve Banks or the Federal Reserve System.
The history of the Survey

- Started during the financial crisis to better understand supply and demand for credit and capital alternatives.
- Different pilots by different Federal Reserve Banks at first.
- Self-employed, women-owned firms, and urban & rural firms reports released soon.
How is the information collected?

• Created a convenience sample working with over 400 community partners…SBDCs, microenterprise centers, chambers of commerce, and more…who invited their small business contacts to participate.

• The responses are weighted based on number of employees, age, industry, and geographic location to manage biases and create a national picture of business and credit conditions.

• Annual survey administered online, takes 10-12 minutes to complete. In 2016, 10,303 employer firms, 5,688 non employer firms responded. Third quarters of firms have less than 10 employees.
Most businesses face financial challenges
Lean on personal funds as a solution

SHARE OF FIRMS WITH FINANCIAL CHALLENGES BY REVENUE SIZE OF FIRM, Prior 12 Months
(% of employer firms)

61% of employer firms faced financial challenges in the prior 12 months.

61%

All firms
N=10,129

67%

≤ $1M
N=4,880

47%

> $1M
N=4,917

TYPES OF FINANCIAL CHALLENGES, Prior 12 Months
(% of employer firms)

Credit availability or securing funds for expansion
44%
Paying operating expenses
36%
Making payments on debt
25%
Purchasing inventory or supplies to fulfill contracts
17%
Experienced none of these challenges
39%

76% of firms with financial challenges used personal funds to address the problem.

Source: Small Business Credit Survey: Report on Employer Firms
Across every dimension, minority-owned firms report more challenges

<table>
<thead>
<tr>
<th>Financial Challenges</th>
<th>Asian</th>
<th>Black</th>
<th>Hispanic</th>
<th>White</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds for expansion</td>
<td>45%</td>
<td>62%</td>
<td>47%</td>
<td>31%</td>
</tr>
<tr>
<td>Credit availability</td>
<td>42%</td>
<td>58%</td>
<td>45%</td>
<td>32%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>49%</td>
<td>49%</td>
<td>43%</td>
<td>39%</td>
</tr>
<tr>
<td>Debt payments</td>
<td>34%</td>
<td>33%</td>
<td>30%</td>
<td>27%</td>
</tr>
<tr>
<td>Fulfill contracts</td>
<td>23%</td>
<td>28%</td>
<td>26%</td>
<td>17%</td>
</tr>
<tr>
<td>None of these</td>
<td>25%</td>
<td>18%</td>
<td>23%</td>
<td>38%</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>200</td>
<td>570</td>
<td>268</td>
<td>2,727</td>
</tr>
</tbody>
</table>

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</tr>
<tr>
<td>Debt payments</td>
<td>15%</td>
<td>33%</td>
<td>22%</td>
<td>17%</td>
</tr>
<tr>
<td>Fulfill contracts</td>
<td>14%</td>
<td>15%</td>
<td>17%</td>
<td>11%</td>
</tr>
<tr>
<td>None of these</td>
<td>46%</td>
<td>28%</td>
<td>47%</td>
<td>55%</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>166</td>
<td>172</td>
<td>177</td>
<td>3,077</td>
</tr>
</tbody>
</table>

Source: Small Business Credit Survey: Report on Minority-owned Firms
Personal funds, crutch for financial challenges

Source: Small Business Credit Survey: Report on Minority-owned Firms
Personal credit is business credit

87% rely on personal credit, 58% use personal guarantee, 37% use personal assets

Source: Small Business Credit Survey: Report on Employer Firms
45% sought credit, most for small amount

55% of firms seek less than $100K in financing

Source: Small Business Credit Survey: Report on Employer Firms
More black-owned firms seek smaller amounts of financing, Asian-owned firms seek larger amounts

Source: Small Business Credit Survey: Report on Minority-owned Firms
Where do businesses look for credit?

Large banks, closely followed by small banks top list

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

<table>
<thead>
<tr>
<th>Source</th>
<th>All firms (N=3,868)</th>
<th>≤ $1M (N=1,700)</th>
<th>&gt; $1M (N=2,074)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large bank</td>
<td>50%</td>
<td>49%</td>
<td>52%</td>
</tr>
<tr>
<td>Small bank</td>
<td>46%</td>
<td>42%</td>
<td>53%</td>
</tr>
<tr>
<td>Online lender</td>
<td>21%</td>
<td>26%</td>
<td>12%</td>
</tr>
<tr>
<td>Other</td>
<td>20%</td>
<td>22%</td>
<td>16%</td>
</tr>
<tr>
<td>Credit union</td>
<td>11%</td>
<td>13%</td>
<td>4%</td>
</tr>
<tr>
<td>CDFI</td>
<td>6%</td>
<td>7%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: Small Business Credit Survey: Report on Employer Firms
Minority-owned firms choose large banks, online lenders, and CDFI more than white-owned firms

Source: Small Business Credit Survey: Report on Minority-owned Firms

*Online lenders* are defined as nonbank alternative and marketplace lenders, including Lending Club, OnDeck, CAN Capital, and PayPal Working Capital.

**Respondents who selected “other” were asked to describe the source. They most frequently cited auto/equipment dealers, farm-lending Institutions, friends/family/owner, nonprofit organizations, and private investors.
Financing success
76% of firms receive at least some financing

TOTAL FINANCING RECEIVED BY REVENUE SIZE OF FIRM (% of applicants)

- **All firms**
  - N=4,739
  - 40% All, 36% Some, 24% None

- **≤ $1M**
  - N=2,117
  - 33% All, 38% Some, 29% None

- **> $1M**
  - N=2,496
  - 55% All, 31% Some, 14% None

Source: Small Business Credit Survey: Report on Employer Firms
Even minority-owned firms with good credit scores report lower rates of financing approval.

<table>
<thead>
<tr>
<th>SHARE RECEIVING AT LEAST SOME FINANCING</th>
<th>SHARE RECEIVING AT LEAST SOME FINANCING BY CREDIT RISK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percent of applicants</strong></td>
<td><strong>% of applicants</strong></td>
</tr>
<tr>
<td>73% Asian N=191</td>
<td>Low Credit Risk</td>
</tr>
<tr>
<td>61% Black N=407</td>
<td>nonminority 85% 1,689</td>
</tr>
<tr>
<td>74% Hispanic N=232</td>
<td>minority 75% 404</td>
</tr>
<tr>
<td>80% White N=2,653</td>
<td>Medium or High Credit Risk</td>
</tr>
<tr>
<td></td>
<td>nonminority 65% 508</td>
</tr>
<tr>
<td></td>
<td>minority 59% 352</td>
</tr>
</tbody>
</table>

Source: Small Business Credit Survey: Report on Minority-owned Firms
Approval by source
Greatest success at CDFIs and small banks

APPROVAL RATE BY SOURCE OF LOAN/LINE OF CREDIT (% of loan/line of credit applications)

ALL FIRMS

<table>
<thead>
<tr>
<th>Source</th>
<th>Approval Rate</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDFI</td>
<td>77%</td>
<td>143</td>
</tr>
<tr>
<td>Small bank</td>
<td>67%</td>
<td>1,829</td>
</tr>
<tr>
<td>Online lender</td>
<td>62%</td>
<td>604</td>
</tr>
<tr>
<td>Large bank</td>
<td>54%</td>
<td>1,890</td>
</tr>
<tr>
<td>Credit union</td>
<td>46%</td>
<td>280</td>
</tr>
</tbody>
</table>

Source: Small Business Credit Survey: Report on Employer Firms
For black-owned firms, credit score is top reason for credit denial

Source: Small Business Credit Survey: Report on Minority-owned Firms
Borrower satisfaction
Most satisfied with small banks and credit unions

LENDER SATISFACTION (% of applicants approved for at least some financing at source)

<table>
<thead>
<tr>
<th>Lender</th>
<th>Satisfied</th>
<th>Neutral</th>
<th>Dissatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small bank</td>
<td>80%</td>
<td>15%</td>
<td>5%</td>
</tr>
<tr>
<td>Credit union</td>
<td>78%</td>
<td>19%</td>
<td>3%</td>
</tr>
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<td>CDFI</td>
<td>77%</td>
<td>22%</td>
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Source: Small Business Credit Survey: Report on Employer Firms

Reasons for dissatisfaction:
- High interest rate
- Unfavorable repayment terms
- Long wait for credit decision
- Difficult application process
- Lack of transparency
Q&A

Type your question into the GoToWebinar question box
Partners value what the survey offers

- Provides a snapshot of your clients’ experiences compared to the nation and in many cases the state (currently 33 states).
- Raises local and national attention about small business.
- Creates a look at segments of the small business landscape. Reports will be released on startups, micro-enterprises, minority-owned businesses, and more.
Timeline

1. **SEPTEMBER** | Survey launches.
   Email survey link to your members, promote through various platforms.
   We provide all the information needed.

2. **OCTOBER** | Send first reminder to small business contacts/members.
   Reminders tend to help in generating responses. We encourage you to do two.

3. **NOVEMBER** | Send second reminder to small business contacts/members.
   Using or customizing language we provide, remind small businesses of the survey opportunity.

4. **DECEMBER 31st** | Survey closes.
   Congratulate your organization on generating large numbers of responses in your footprint.

5. **SPRING 2018** | Federal Reserve Banks publish first reports from 2017 survey.
   Share results with your small business partners through various platforms and events.
What is expected of my organization?

REGISTRATION
Two-step process when survey opens (see next slide).

RECRUITMENT
• Send out survey link and introductory language
• Use newsletters, email blasts, social media to reminder partners
• Follow up outreach
Parents / Children registration process
Two-step process for both parents AND children

STEP 1 (PARENT - OFN):
Parents receive email with link to register for the survey and complete the data use agreement

STEP 2 (PARENT - OFN):
Parents receive two unique survey URLs to share with: 1) small business contacts, and 2) regional SBDC “children” who can in turn share that survey URL with their small business clients.

STEP 1: (CHILDREN – OFN Partners)
Children receive a link to four-question registration form (first name, last name, email, org).

STEP 2: (CHILDREN – OFN Partners)
Upon registration completion, children automatically receive a link to complete the data use agreement and then an automatic email with the survey link to share.
Q&A

Type your question into the GoToWebinar question box