



**WE BELIEVE
IN OPPORTUNITY.
FOR ALL.**

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.



FEDERAL RESERVE BANKS *of*

Atlanta • Boston • Chicago • Cleveland • Dallas • Kansas City • Minneapolis •
New York • Philadelphia • Richmond • St. Louis • San Francisco

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.
- Launched multi Federal Reserve Bank effort in 2014, expanded in 2015. Went national in 2016.
- Self-employed, women-owned firms, and urban & rural firms reports released soon.



How is the information collected?

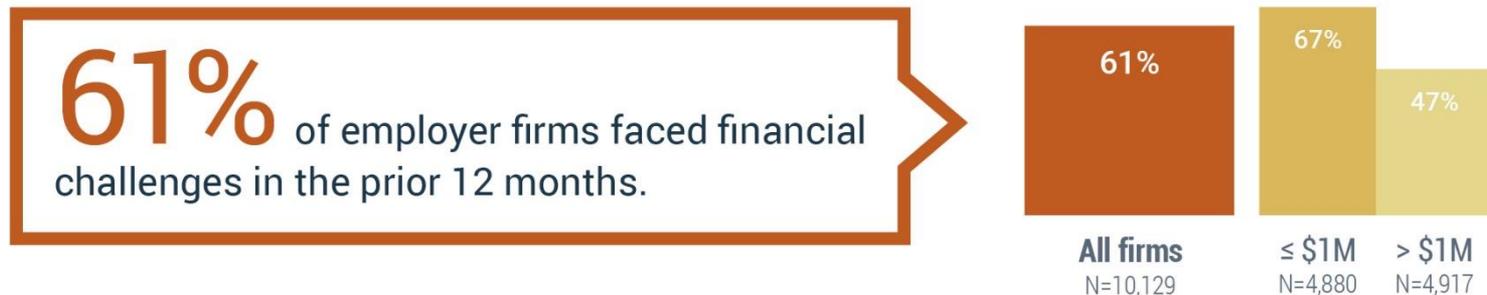
- Created a convenience sample working with over 400 community partners...SBDCs, microenterprise centers, chambers of commerce, and more...who invited their small business contacts to participate.
- The responses are weighted based on number of employees, age, industry, and geographic location to manage 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*

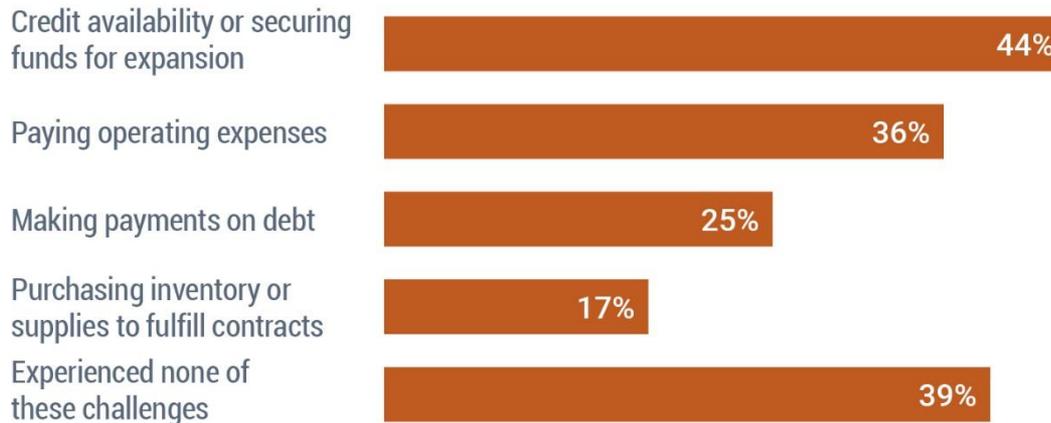
(% of employer firms)



TYPES OF FINANCIAL CHALLENGES, *Prior 12 Months*

(% of employer firms)

N=10,129



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

Across every dimension, minority-owned firms report more challenges

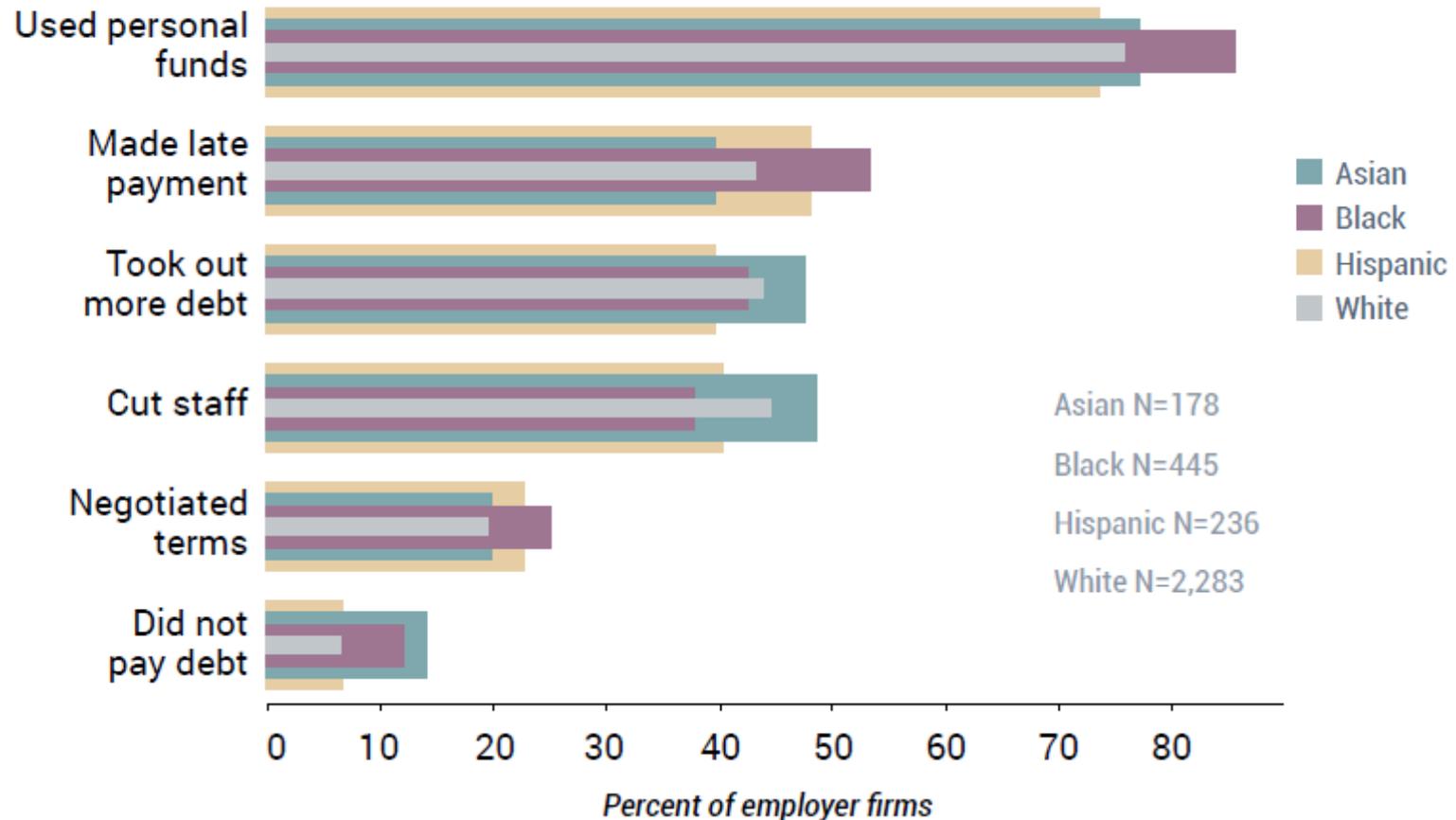
FINANCIAL CHALLENGES BY SIZE OF FIRM (Past 12 Months)

<i>Percent of employer firms <\$1M in revenues</i>	Asian	Black	Hispanic	White
Funds for expansion	45%	62%	47%	31%
Credit availability	42%	58%	45%	32%
Operating expenses	49%	49%	43%	39%
Debt payments	34%	33%	30%	27%
Fulfill contracts	23%	28%	26%	17%
None of these	25%	18%	23%	38%
N	200	570	268	2,727

<i>Percent of employer firms ≥\$1M in revenues</i>	Asian	Black	Hispanic	White
Funds for expansion	31%	53%	28%	23%
Credit availability	38%	49%	34%	24%
Operating expenses	27%	39%	31%	26%
Debt payments	15%	33%	22%	17%
Fulfill contracts	14%	15%	17%	11%
None of these	46%	28%	47%	55%
N	166	172	177	3,077

Personal funds, crutch for financial challenges

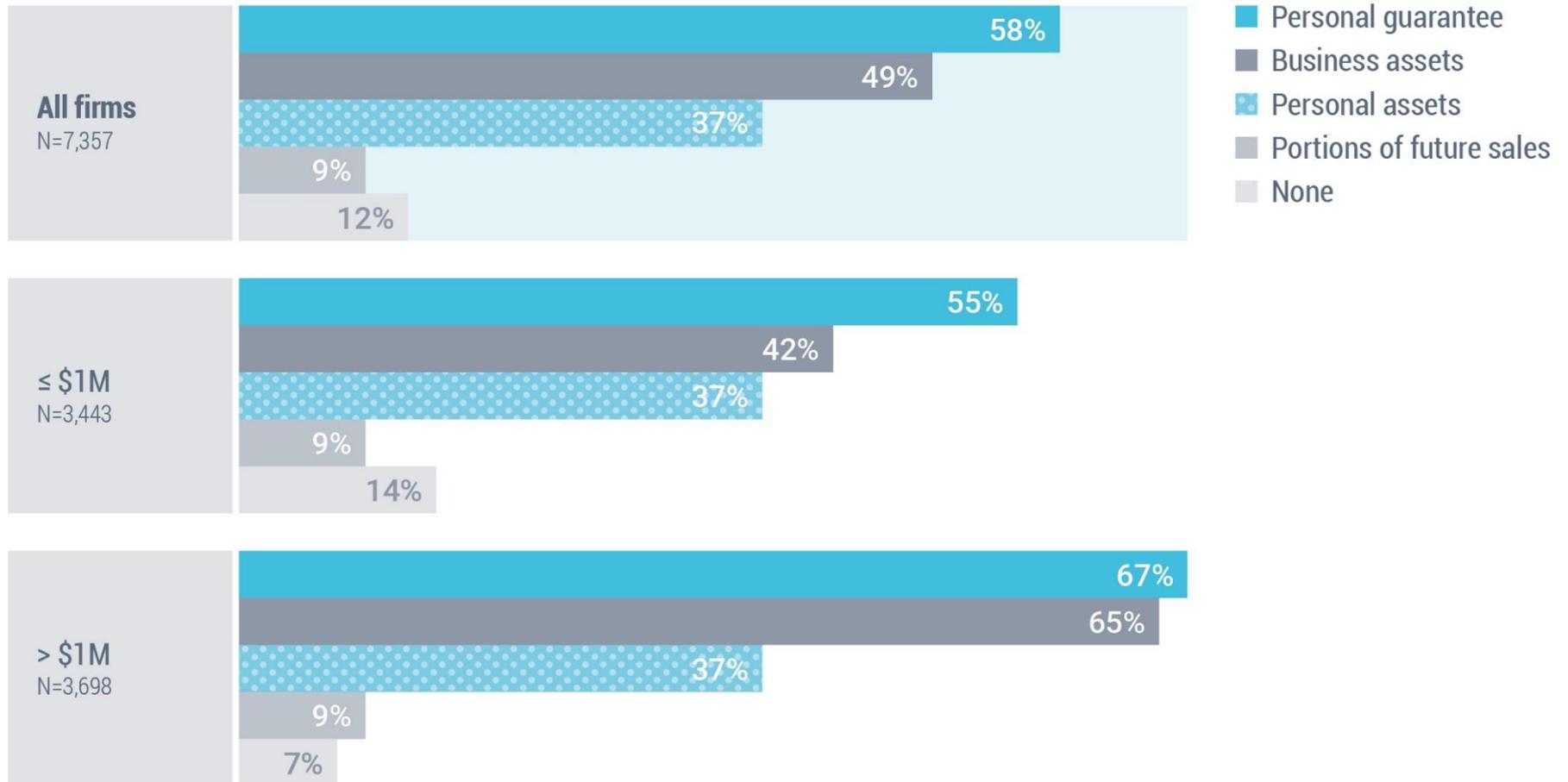
ACTIONS TAKEN AS A RESULT OF CHALLENGES (Past 12 Months)



Personal credit is business credit

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

COLLATERAL USED TO SECURE OUTSTANDING DEBT BY REVENUE SIZE OF FIRM (% of employer firms with debt)



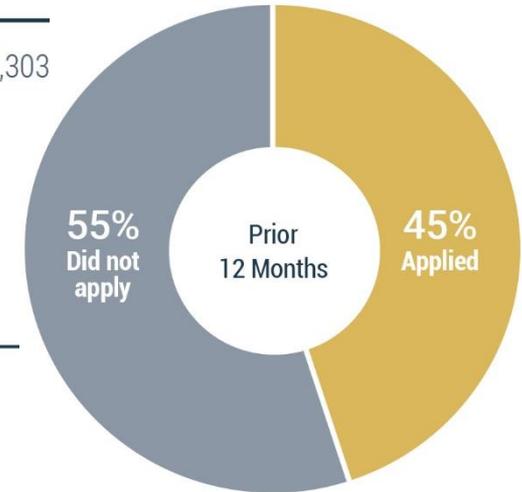
45% sought credit, most for small amount

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

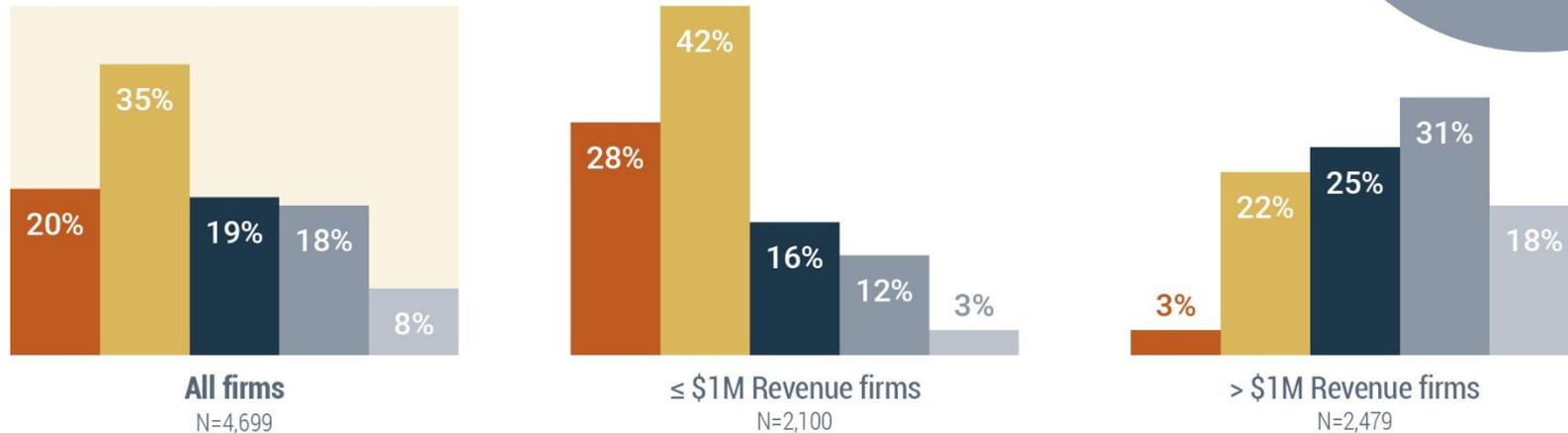
DEMAND FOR FINANCING

(% of employer firms)

N = 10,303



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

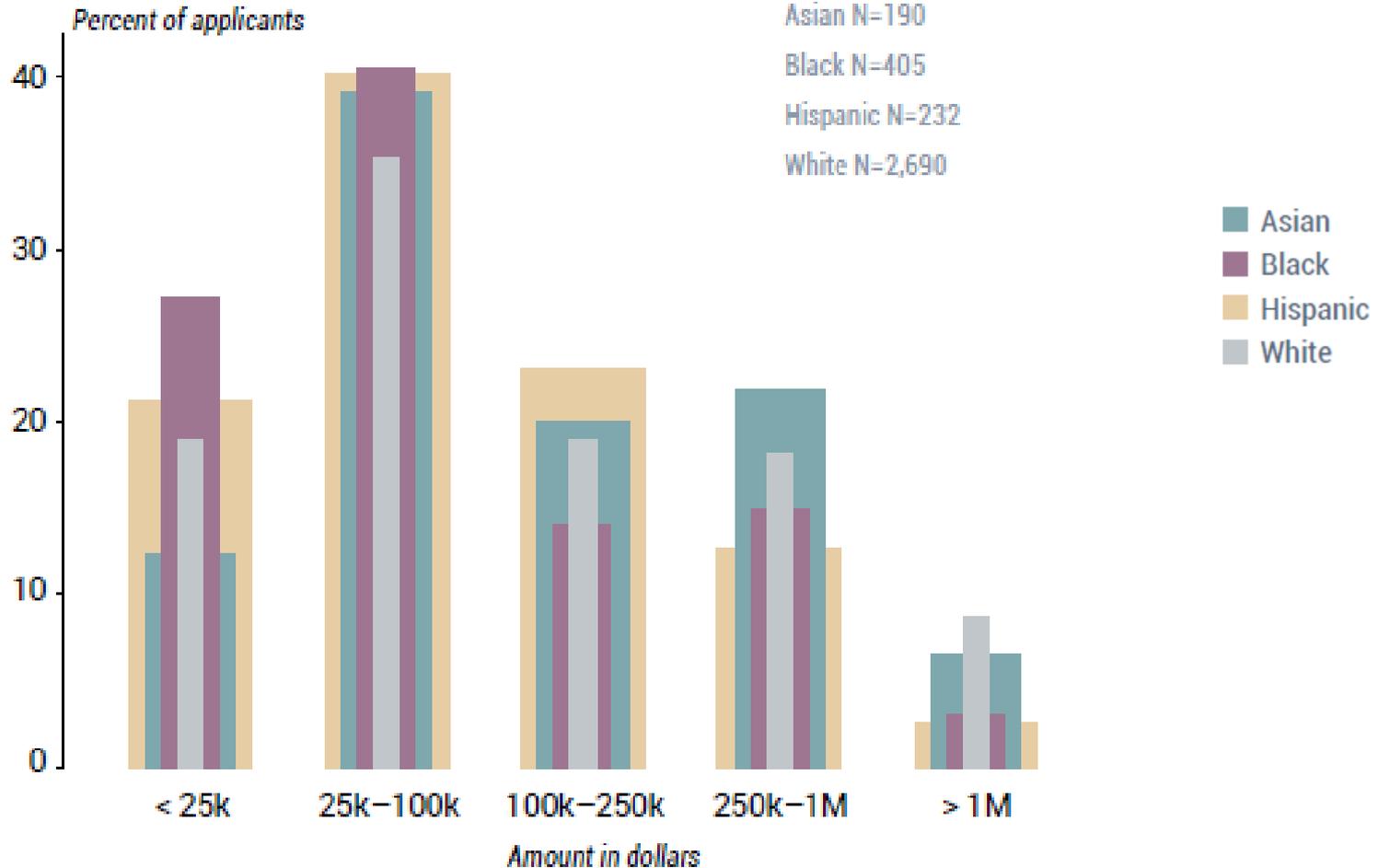


■ ≤ \$25K ■ \$25K-\$100K ■ \$100K-\$250K ■ \$250K-\$1M ■ > \$1M

* Categories have been simplified for readability. Actual categories are: ≤\$25K, \$25,001-\$100K, \$100,001-\$250K, \$250,001-\$1M, >\$1M.

More black-owned firms seek smaller amounts of financing, Asian-owned firms seek larger amounts

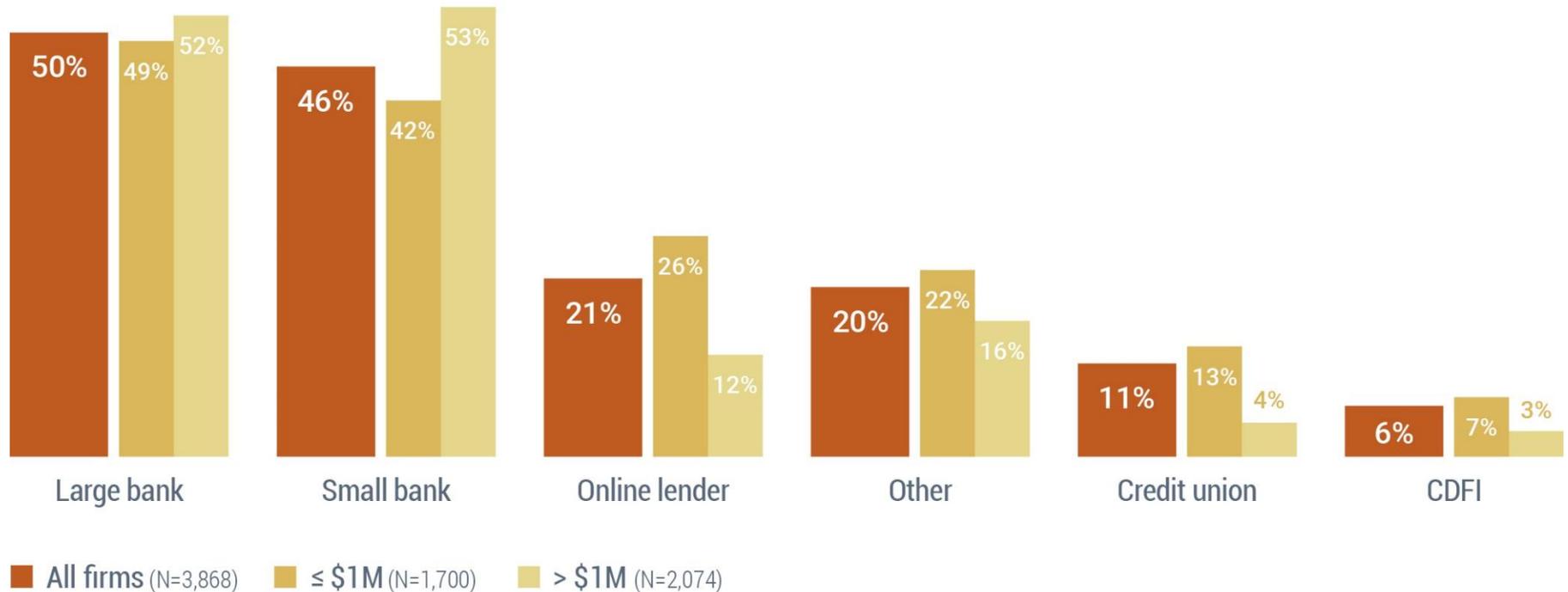
TOTAL AMOUNT OF FINANCING SOUGHT



Where do businesses look for credit?

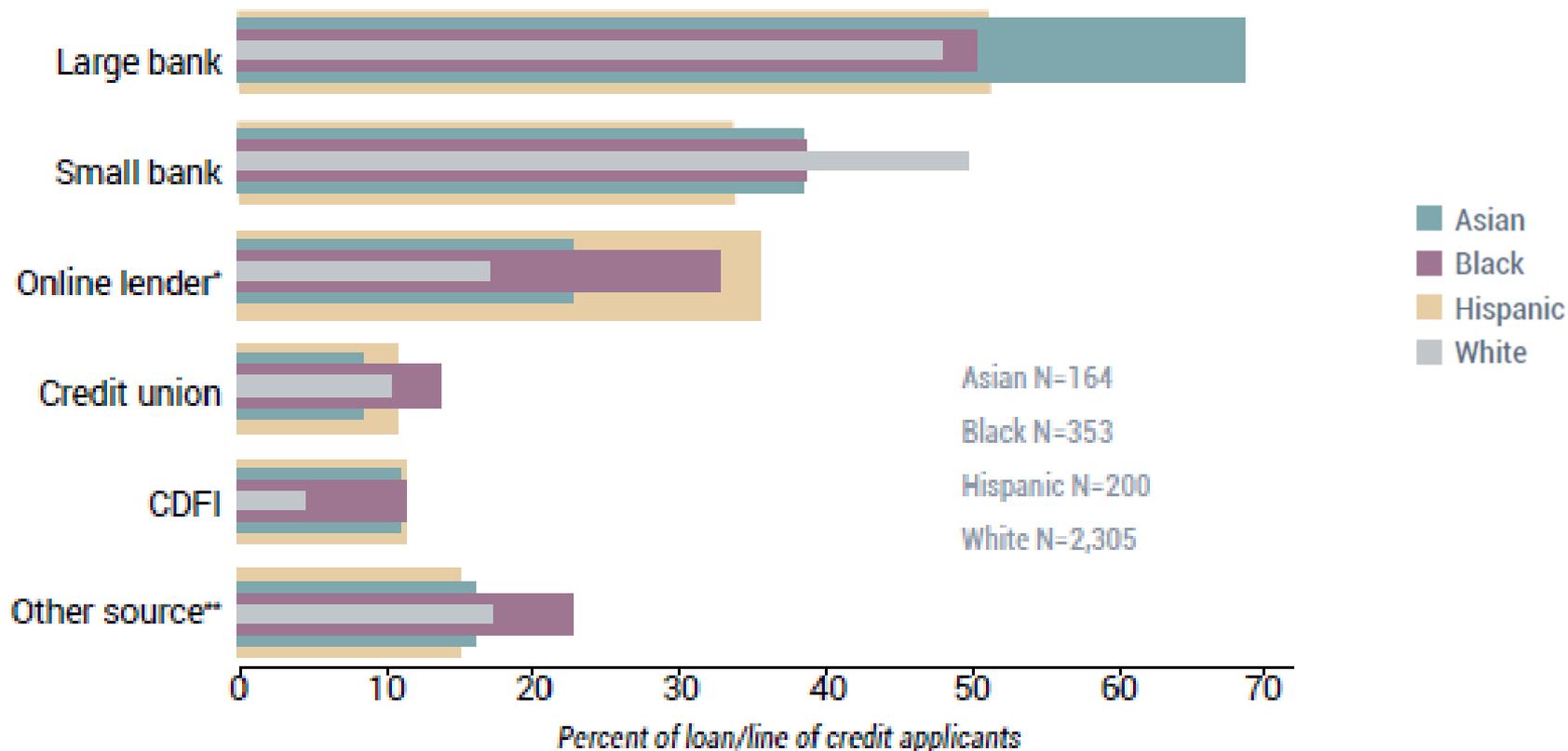
Large banks, closely followed by small banks top list

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



Minority-owned firms choose large banks, online lenders, and CDFI more than white-owned firms

CREDIT SOURCES APPLIED TO BY FIRM TYPE



* "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)



Even minority-owned firms with good credit scores report lower rates of financing approval

SHARE RECEIVING AT LEAST SOME FINANCING

Percent of applicants

73% Asian	N=191
61% Black	N=407
74% Hispanic	N=232
80% White	N=2,653

SHARE RECEIVING AT LEAST SOME FINANCING BY CREDIT RISK

	% of applicants	N
Low Credit Risk		
nonminority	85%	1,689
minority	75%	404
Medium or High Credit Risk		
nonminority	65%	508
minority	59%	352

Approval by source

Greatest success at CDFIs and small banks

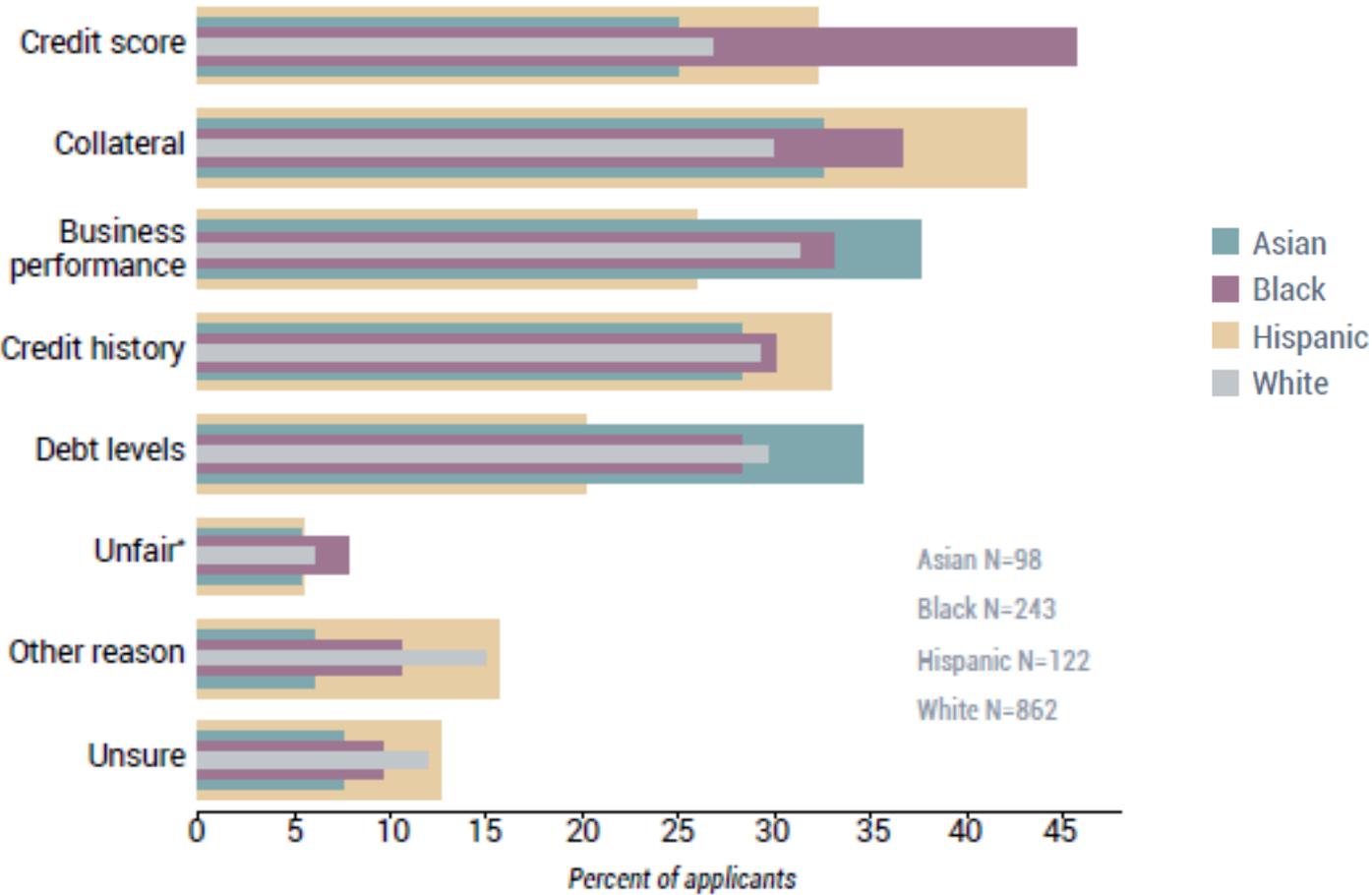
APPROVAL RATE BY SOURCE OF LOAN/LINE OF CREDIT (% of loan/line of credit applications)

ALL FIRMS



For black-owned firms, credit score is top reason for credit denial

REASON FOR CREDIT DENIAL

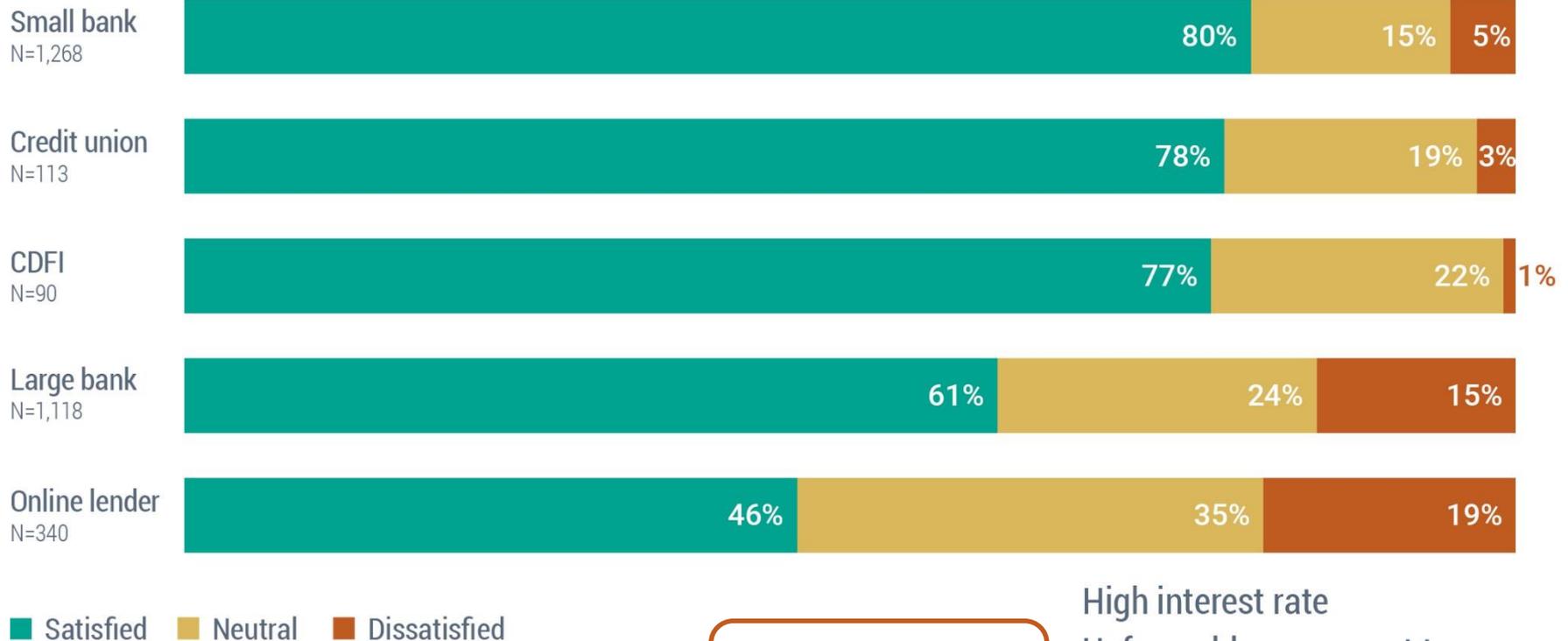


Unfair refers to perceived unfair lending practices.

Borrower satisfaction

Most satisfied with small banks and credit unions

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



Reasons for dissatisfaction

- High interest rate
- Unfavorable repayment terms
- Long wait for credit decision
- Difficult application process
- Lack of transparency

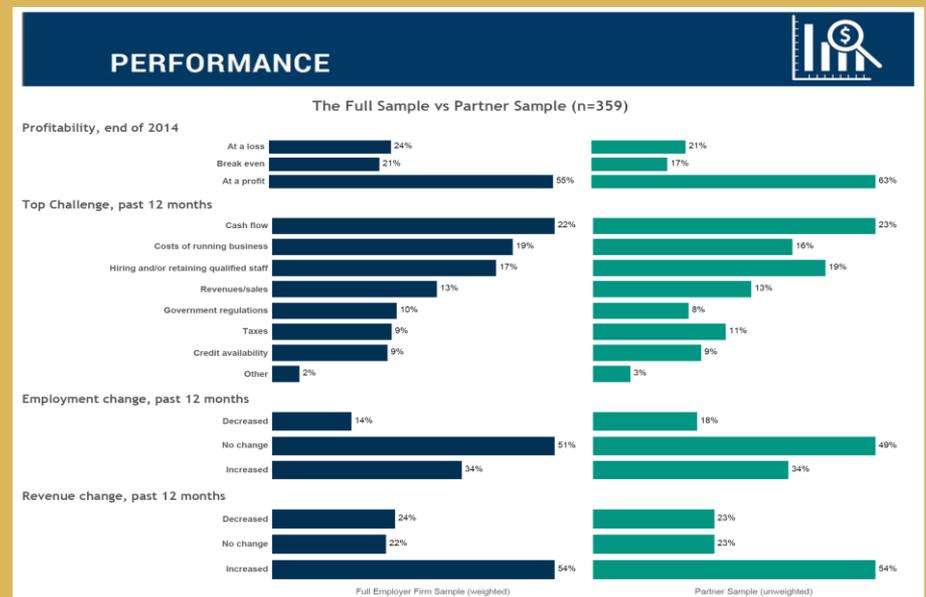
Q&A

Type your question into the GoToWebinar question box

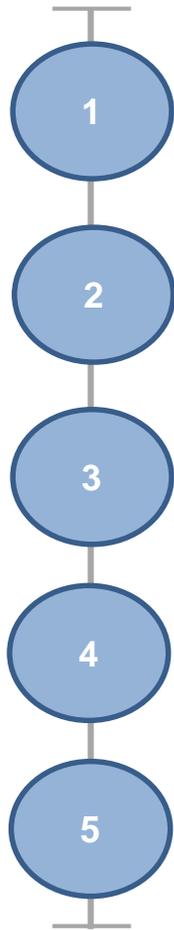
Partners value what the survey offers

- 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.

Sample Partner Report, shows clients compared to the nation



Timeline



SEPTEMBER | Survey launches.

Email survey link to your members, promote through various platforms. We provide all the information needed.

OCTOBER | Send first reminder to small business contacts/members.

Reminders tend to help in generating responses. We encourage you to do two.

NOVEMBER | Send second reminder to small business contacts/members.

Using or customizing language we provide, remind small businesses of the survey opportunity.

DECEMBER 31st | Survey closes.

Congratulate your organization on generating large numbers of responses in your footprint.

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