Finance Companies and Small Business Borrowers: Evidence from the 1993 and 1998 Surveys of Small Business Finances

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Finance companies play an important role in providing short- and medium-term financial capital to small business borrowers. They are the most important institutional providers of capital to small businesses after banks. This study examines whether finance companies' importance in providing financial capital to small business borrowers changed during the 1990s. This is interesting because the 1990s were a decade of rapid growth in financial markets, including expansion in interstate banking and lending by both finance companies and commercial banks. This study uses the most recent data on small business finances to evaluate the importance of finance companies to small business borrowers in 1993 and 1998; to assess what types of borrowers were attracted to finance companies; and to determine if these finance company borrowers paid higher loan prices.

Overall Findings

The analysis of the 1998 Survey of Small Business Finances (SSBF) confirmed the importance of finance companies as the second most important institutional supplier of credit to small business borrowers—they remained important providers of credit for vehicle loans, equipment loans, and lease financing. While on the surface, small business borrowers were more likely to utilize finance companies for traditional loans in 1998 than 1993, this result held only for capital leases and mortgage loans, which were not major sources of financing to small firms. (Fewer than 3 percent of small business borrowers held a lease or mortgage loan from a finance company in 1998.) Small businesses' use of the major products marketed by finance companies—vehicle and equipment loans—remained important but unchanged during 1993 and 1998. In addition, this study suggests that small businesses' relationships with finance companies remained virtually unchanged from 1993 to 1998; finance companies continued to attract good quality clients with low credit risk, similar to those who utilized commercial banks.

Highlights

- Finance companies are the second most important institutional lenders to small businesses, especially for vehicle and equipment loans and capital leases. The probability of using a finance company in 1998 was 13.3 percent; finance companies' share of the total aggregate value of traditional loans was 12.3 percent in 1998.
- Finance companies are especially important lenders for vehicle loans, where they supplied roughly 40 percent of all vehicle loans in 1998. In addition, finance companies provided over 20 percent of all equipment loans and over 18 percent of all capital

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leases during this period of time.

• The probability of using a finance company has remained relatively constant from 1993 to 1998 for all types of loans except leases and mortgages. Borrowers were more likely to utilize both finance company leases and mortgages in 1998 than 1993.

• The share of total aggregate value of traditional loans held by finance companies has remained relatively constant from 1993 to 1998 for all types of loans, except leases and mortgages. Borrowers held higher inflation-adjusted balances for both finance company leases and mortgages in 1998 than 1993.

• Low-risk borrowers were more likely to be attracted to finance companies than high-risk ones.

• Finance companies may charge higher interest rates on lines of credit and asset-backed loans than commercial banks. However, this result should be used with caution because it is based on a very small sample of line of credit and vehicle loans held by finance companies.

Methodology

This study utilizes the 1993 and 1998 versions of the Survey of Small Business Finances (SSBF). The SSBF is the national survey conducted by the Federal Reserve Board of Governors for information on small businesses' use of different financing sources. The 1993 survey has 4,638 observations representing nearly 5 million small businesses; the 1998 survey has 3,561 observations representing 5.2 million small businesses.

This study utilizes descriptive statistics and other linear and non-linear statistics to test its proposed hypotheses. Descriptive tables summarizing the probability of using all financial (credit union, savings and loan, commercial bank, finance company, brokerage, leasing company, and other non-depository institutions) and non-financial (family, other business, government, and other individuals) lenders for each type of traditional loan (lines of credit, capital leases, mortgages, vehicle, equipment, and other loans) and the shares of aggregate value of traditional loans held by financial and non-financial lenders are reported.

This descriptive analysis is supported by non-linear and linear regression analyses examining changes in lending patterns from 1993 to 1998, assessing the types of borrowers attracted to finance companies, and evaluating the prices charged by finance companies for lines of credit and asset-backed loans. Logit models are employed to examine changes in the probability of using a finance company over time; and to assess the types of borrowers attracted to finance companies in 1998 only. Tobit models are used to examine changes in the shares of the value of traditional loans held by finance companies over time. An ordinary least squares (linear regression) model was employed to evaluate prices charged by finance companies.

The final report was peer reviewed consistent with the Office of Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research at *advocacy@sba.gov* or (202) 205-6533.

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Introduction

Finance companies play an important role in providing short- and medium-term financial capital to small business borrowers. Finance companies had roughly $1 trillion in financial assets in 2000, which positioned them between commercial banks and credit unions in their amount of lending (Dynan et al, 2002). About 1,000 companies make up the finance company sector, which is about twice as large as the credit union sector, but only about 20 percent of the size of the commercial banking sector (Dynan et al, 2002). The purpose of this study is to use the most recent data on small business finances to evaluate the importance of finance companies to small business borrowers in 1993 and 1998; assess what types of borrowers are attracted to finance companies; and determine if these finance company borrowers pay higher loan prices than borrowers from other institutions.

Literature Review and Public Policy Relevance

Finance companies are a major supplier of financial capital to businesses; they had over $500 billion of business receivables outstanding in 2000 (Dynan et al, 2002). Finance companies are an important source of capital (primarily for vehicle loans, capital leases and other asset-backed credit) for small business borrowers. Recent research suggests that finance companies are especially important to riskier borrowers, especially highly leveraged borrowers (Carey et al, 1998). While finance company business credit grew throughout the 1990s, finance company receivables to small business appear to have been very stable (to slightly declining) over this period of time (Dynan et al, 2002 and Carey, et al, 1998). Even though a higher percentage of small businesses were using finance companies in 1998 than in 1993 (Bitler et al, 2001), the share of total small business debt held by finance companies appears to have declined.

Evidence reported by Carey et al (1998) suggests that finance companies are important to riskier borrowers. Finance companies have been important lending organizations for small businesses because they have been more likely to assist riskier borrowers in preparing their loan packages and monitoring their loans. If finance companies are less likely to supply financial capital to small businesses (and especially to riskier small businesses) then these businesses must find other lenders. These riskier borrowers will likely find other lenders in this competitive market, however these lenders may be more likely to charge higher prices and be less likely to engage in business planning and monitoring efforts that decrease the default rate of these riskier businesses. If these riskier borrowers are more likely to fail, then the taxpayer cost of subsidizing SBA loan guarantees and other loans increases.

Finance companies are the second most important institutional lender for small businesses, however only limited information is available about their lending to small businesses. This study will describe what types of small firms utilize finance companies, evaluate whether their share of small business lending has in fact declined (and if so, explore the causes of this decline), and assess their current contribution to the small business sector. In addition, this study will assess the loan prices (specifically, interest rates) paid by finance company borrowers.

Empirical Considerations

Data

This study utilizes the 1993 and 1998 Surveys of Small Business Finances (SSBF). The SSBF is the national survey conducted by the Federal Reserve Board of Governors for information on small businesses' use of different financing sources.[1] The surveys collect extensive information on each type of loan held by the small business, including the type of institution holding the loan, interest rate charged, loan amount, and collateral and guarantee requirements. In addition, the SSBF has critical information on the financial and non-financial characteristics of the firm, including extensive balance sheet and income statement information. The 1993 survey has 4,638 observations representing nearly 5 million small businesses while the 1998 survey has 3,561 observations representing 5.2 million small businesses. All analyses in this study utilize the population weights provided in the data set. All loan amounts were adjusted for inflation from 1992 to 1998 using the Producer Price Index as reported by the U.S. Department of Labor (Bureau of Labor Statistics, 2004). The loan pricing analyses utilize the 713 respondents who have acquired additional financing in the past three years.

Models

This study utilizes descriptive statistics and other linear and non-linear statistics to test the hypotheses proposed by this study. This section briefly discusses the justification for each study objective and the empirical models employed.

The first objective of this study is to determine if finance companies were more significant sources of financial capital in 1998 than in 1993. Previous research on finance companies suggested that finance companies were significant sources of financial capital for small business borrowers (Haynes, 1995). Informal interviews with finance company officers indicated that the market share growth of finance companies was dependent upon the regulatory environment facing commercial banks and thrifts (Haynes, 1995). Over the period of time from 1987 to 1998, commercial banks and thrifts have experienced a less stringent regulatory environment and unprecedented merger and acquisition activity. This environment should allow commercial banks and thrifts to be more competitive and enable them to capture a higher percentage of the financial capital market. Therefore, one would expect finance companies in 1998 to serve a smaller

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[1] See Wolken and Cole, "Financial Services Used by Small Businesses: Evidence from 1993 Survey" (FR Bulletin 1995) and Wolken, Bitler, and Robb, "Financial Services Used by Small Businesses: Evidence from the 1998 Survey of Small Business Finances" (FR Bulletin, April 2001).

percentage of all firms and supply a smaller percentage of the total financial capital borrowed by small businesses than in 1993.

This segment of the study will be analyzed by comparing descriptive statistics on the percentage of firms using finance companies for at least one loan or lease and the market share held by finance companies and other lenders for 1993 and 1998. The variable of interest in this model is the data collection year. If finance companies are expected to reach a smaller percentage of firms in 1998 than 1993, then the sign on the dummy variable for year (1993) would be positive. These analyses employ two sets of regression models and the merged data from the 1993 and 1998 Surveys of Small Business Finances. The first set of models utilizes a logistic regression algorithm to assess whether small businesses are more likely to hold a finance company loan or lease in 1998 than 1993. The first set of models is specified as follows:

$FINC_i$ = f(**year**; risk, relation, age, size, legal, industry, urban, woman, minority)

where $FINC_i$ = borrower holds a loan or lease from a finance company (dummy variable for all finance company held line of credit, leases, mortgage, vehicle, equipment and other loans);
year = dummy variable for 1993 SSBF data;
risk = firm quality or credit risk of the business measured by the Altman Z statistic;
relation = commercial bank loan or lease held by the firm;
age = age of the firm;
size = number of employees in the firm;
legal = legal organization of the firm (dummy variables for sole proprietorship, partnership, subchapter s corporation and regular corporation);
industry = standard industrial classification dummy variables for mining/construction, manufacturing, transportation, wholesale, retail, finance, insurance and services;
urban = urban location (dummy variable);
woman = woman-owned business (dummy variable); and
minority = minority-owned business (dummy variable).

This study examined all loans or leases held by finance companies for the following types of firms in 1993 and 1998: all firms, traditional borrowers, minority-owned, Black-owned, Hispanic-owned, minority and Hispanic-owned, woman-owned, high growth (greater than 10 percent sales growth per year), young (less than four year old) and corporations owned by more than two individuals. Results for all firms, minority-owned and women-owned firms are discussed in this report. Tables describing the other types of firms are included in Appendix A. Descriptive tables reporting the percentage of small businesses utilizing each lender (credit union, savings and loan, commercial bank, finance company, brokerage, leasing company, other non-depository, family, other business, government and other individuals) are included to support the regression analysis.

The second set of models utilizes a Tobit regression algorithm to assess whether small businesses held larger shares of their loans and leases with finance companies in 1998 than in 1993. About one-third of the sample holds no loans or leases, therefore loan shares are clustered around zero. A Tobit analysis addresses the problem of ordinary least squares estimates that are inconsistent (biased toward zero). The second set of models is very similar to the first set, except for a redefined dependent variable, and is specified as follows:

FSH_i = f(**year**; risk, relation, age, size, legal, industry, urban, woman, minority)

where FSH_i = share of total outstanding balances of lines of credit, leases, mortgage, vehicle, equipment and other loans) held by finance companies; and
All other variables are defined above.

Descriptive tables reporting the share of total loans held by each lender (credit union, savings and loan, commercial bank, finance company, brokerage, leasing company, other non-depository, family, other business, government and other individuals) are included to support the Tobit regression analyses. Owner loans and personal and business credit loans outstanding are not included in this analysis.

The second objective of this study is to determine if finance companies continue to attract relatively low-risk borrowers and charge them competitive loan prices. Previous research has indicated that finance companies attract relatively low-risk borrowers and charge them competitive loan prices. If commercial banks and thrifts have gained efficiencies because of the less stringent regulatory environment and the merger and acquisition activity, the financial services market is likely to become more competitive. Therefore, one would expect finance companies to attract riskier borrowers than commercial banks, but charge these borrowers similar loan prices. This section of the study utilizes only the 1998 Survey of Small Business Finances.

This segment of the study will be assessed using two regression models to determine what types of borrowers are attracted to finance companies and if finance company borrowers pay higher prices in 1998. The first model employs a logistic regression model using a dichotomous dependent variable (whether the borrower holds a lease or loan from a finance company) and the variable of interest is the Dun and Bradstreet credit score, which measures the credit risk of the firm. A measure of the financial market concentration (Herfindahl index) is added to the control variables utilized in this model for objective one. This model examines the characteristics of borrowers attracted to finance companies and is specified as follows:

$FINC_i$ = f(**risk_db**; relation, age, size, legal, industry, urban, concentrate, woman, minority)

where risk_db = Dun and Bradstreet Credit Score (1=low risk, 5=high risk); and
concentrate = Herfindahl index (dummy variable for high concentration).

All other variables are defined above.

A second model employs ordinary least squares in a pricing model for lines of credit and asset-backed loans only. This regression model uses the interest rate as the dependent variable and financial and non-financial characteristics of the firm, characteristics of the loan or lease and lender types as the dependent variables. The model is specified as follows:

$PRICE_i$ = f(year_i, risk_db, relation, age, size, legal, industry, urban, woman, minority, concentrate, fixed, collateral, guarantee, term, amount, **finc**, thrift, lease_co, other, lease, mortgage, vehicle)

where $PRICE_i$ = interest rate of the i^{th} lines of credit or asset-backed loan;
year_i = year the loan was initiated;
fixed = dummy variable for fixed interest rate;
collateral = dummy variable for collateral required;
guarantee = dummy variable for guarantee required;
term = term of the loan or lease;
amount = log transformed amount of the loan or lease;
finc = dummy variable for finance company lender;
thrift = dummy variable for thrift lender
lease_co = dummy variable for leasing company;
other = dummy variable for other lenders;
lease = type of loan dummy for lease;
mortgage = type of loan dummy variable for mortgage; and
vehicle = type of loan dummy for vehicle loan.
All other variables are defined above.

The most important left-out variable for this analysis is commercial banks. Therefore, all prices can be compared between other lenders and commercial banks. Based on the previous study by Carey et al, 1998, the sign on the finance company dummy variable is expected to be positive, indicating that finance companies charge higher loan prices than other lenders, including commercial banks. Other evidence from previous studies suggests that the finance company dummy variable will not be significant, indicating that finance companies charge interest rates similar to commercial banks (Haynes, 1995).

Results

This study utilizes the Surveys of Small Business Finances (SSBF) for two years, 1993 and 1998, to examine who uses finance companies and what prices they are charged. This section examines the probability of holding a finance company loan in 1993 and 1998, share of aggregate value of finance company loans in 1993 and 1998, types of small businesses attracted to finance companies, and the prices they face.

The two installments of the SSBF utilized similar sampling frames, but the characteristics of the small businesses differed substantially (Table 1). Utilizing the population weights, the 1998 SSBF small businesses surveyed were somewhat younger (14.3 years old in 1993 versus 13.3 years old in 1998); more likely to be sole proprietors or subchapter s corporations and less likely to be regular corporations; more likely to be engaged in the transportation or services industries; less likely to be engaged in mining/construction, wholesale or retail trade; and more likely to be owned by a woman or minority.

Table 1

Finance companies are critically important lenders to small businesses, especially for vehicle and equipment loans and capital leases (Table 2). The probability of using a finance company increased from 12.4 to 13.3 percent, while the share of total aggregate value of traditional loans held by finance companies declined from 13.0 to 12.3 percent from 1993 to 1998. Small businesses were somewhat less likely to utilize a commercial bank in 1998 than 1993, however the share of total aggregate value of traditional loans held by commercial banks increased. Finance companies are especially important lenders for vehicle loans; they supplied roughly 40 percent of all vehicle loans in 1993 and 1998. In addition, finance companies provide over 20 percent of all equipment loans and over 18 percent of all capital leases during this period of time. The most substantial area of growth for finance companies has been in equipment loans to small businesses. Commercial banks have realized substantial market share growth in lines of credit, mortgage, vehicle, equipment and other loans from 1993 to 1998. Commercial banks continued to dominate the market for line of credit loans with over 70 percent of the aggregate value of line of credit loan held by them. They are much less dominant lenders for leases, vehicle and equipment loans, which constitute the largest market shares held by finance companies.

Table 2

Probability of holding a finance company loan

The first objective in this study examines whether finance companies were more significant sources of financial capital in 1998 than in 1993. This examination of the significance of finance companies assesses the probability that a small business borrower would utilize a finance company for any loan or lease and assesses the share of total finance capital borrowed from a finance company. Table 3 indicates that a higher percentage of all small businesses indicated that they had utilized a finance company in 1998 than in 1993 (12.4 percent in 1993 versus 13.3 percent in 1998). The likelihood of holding any particular type of loan was remarkably constant over the two years, where these small businesses were most likely to hold vehicle or equipment loans or leases from a finance company. The percentage of traditional borrowers using finance companies increased from just over 21 percent in 1993 to over 24 percent in 1998 (Appendix A Table 3.4). Over 60 percent of these borrowers utilized finance companies for vehicle loans with equipment loans and leases comprising the second and third most widely used types of financial capital supplied by finance companies. Minority owners as a group saw minimal changes in the probability of using finance companies with the percentage of users being very similar to the general population of small businesses (Appendix A Tables 3.2). Women owners remained fairly constant with around 10 percent of these businesses using finance companies in both years (Appendix A Table 3.3). Other tables addressing traditional borrowers, Black, Hispanic, Hispanic and minority, high growth (greater than 10 percent sales growth per year), young (less than four years old) and more than two corporate owners are included in Appendix A.

Table 3

The regression analysis provides evidence of minor changes in the use of finance companies from 1993 to 1998. When examining all small businesses, small business borrowers were somewhat more likely to hold a finance company loan in 1998 than 1993 with the most significant positive changes occurring in mortgage loans and leases (Table 4). Even with the substantial differences in the population of firms from 1993 to 1998, this result generally supports the univariate analysis, where mortgages, leases and other loans realized the highest percentage changes among traditional loans.

An examination of the control variables used for this analysis suggests that higher-risk (lower-quality), commercial bank borrowers, younger, larger, corporate and men-owned firms were more likely to use finance company lenders (Table 4). In addition, firms engaged in manufacturing, wholesale or retail trade, FIRE (financial, insurance and real estate) and services were less likely to use a finance company than firms engaged in construction or mining. These same characteristics were generally found in firms holding vehicle and equipment loans from finance companies. Line of credit loans from finance companies were more likely to be held by higher-risk, younger, larger, transportation, retail trade and men-owned firms. Finance company leases are more likely to be held by higher-risk, commercial bank borrowers, larger, corporate and transportation firms; and were less likely to held by service firms. Finance company mortgages were more likely to be held by higher-risk, larger, regular corporations and women-owned firms. Other loans held by finance companies were more likely to held by higher-risk firms.

Table 4

Share of aggregate value of finance company loans

Finance companies held over 12 percent of the aggregate value of all traditional loans held by small business borrowers in 1993 and 1998 (Charts 1 and 2). In addition, finance companies are major lenders in vehicle and equipment loans, holding a 31 percent share of the market as compared with 56 percent for commercial banks in 1998. (Chart 5). While the share of traditional loans remained constant for finance companies between 1993 and 1998, the share of traditional loans held by commercial banks rose significantly from 54 percent in 1993 to 65 percent in 1998. A similar trend was revealed for leases and mortgages (Charts 3 and 4). The share of leases and mortgages held by finances companies was very stable at around 10 percent between 1993 and 1998, while commercial banks realized a significant increase in the share of leases and mortgages from 42 percent in 1993 to 53 percent in 1998. And finally, finance companies and commercial banks had similar experiences from 1993 to 1998 with their shares of vehicle and equipment loans increasing (Charts 5 and 6). The share of vehicle and equipment loans held by finance companies increased slightly from 29 percent in 1993 to 31 percent in 1998. Commercial banks realized a slight increase in the share of the value of traditional vehicle and equipment loans from 53 percent in 1993 to 56 percent in 1998.[2]

Charts 1 through 6

Minority borrowers realized a substantial increase in the share of all loans held by finance companies, while the share of finance company financing remained stable for women borrowers. The value of aggregate shares increased substantially for minority groups with shares increasing from 5.9 to 9.8 percent for minority borrowers in general. The most substantial changes occurred in vehicle and equipment loans. Minority borrowers realized over a two fold increase in the share of vehicle (28.5 percent in 1993 to 65.2 percent in 1998) and equipment (7.0 percent in 1993 to 19.2 percent in 1998) loans held by finance companies (Appendix A Table 5.2). Just over 11.6 percent of allloans held by women borrowers were with finance companies in 1993 and 1998 (Appendix A Table 5.3). They appeared to realize an increase in the shares of line of credit and equipment loans and a decrease in the shares of leases and mortgages held by finance companies. Other tables addressing traditional borrowers, Black, Hispanic, Hispanic and minority, high growth (greater than 10 percent sales growth per year), young (less than four years old) and more than two corporate owners are included in Appendix A.

A Tobit regression analysis was employed to examine the share of loans held by finance companies in 1993 and 1998 (Table 5). This analysis supports the previous logistic regression analysis by suggesting finance company loans comprised a larger share of outstanding traditional loan balances held by small businesses in 1998 than 1993. The increases in the share of finance company financing occurred in leases and mortgage loans.

[2] While the univariate results show substantial changes in the share of loans held by finance companies and commercial banks from 1993 to 1998, the multivariate analysis indicates that none these changes in the share of loans from 1993 to 1998 are statistically significant.

Table 5

The control variables provide a glimpse of firms holding a larger share of loan or lease balances with finance companies for all of the observations in the two surveys. Overall, finance companies held larger shares of loans or leases for higher-risk, younger, larger, corporate, mining/construction, urban and men-owned firms (Table 5). Once again, firms with higher shares of vehicle and equipment loan held by finance companies were very similar to this overall group. Higher line of credit shares were held by finance companies for higher-risk, younger, larger, transportation, retail trade and men-owned firms. Higher lease shares were held by finance companies for higher-risk, commercial bank borrower, larger, corporate, transportation and service firms. Higher mortgage shares were held by finance companies for higher-risk, larger and women-owned firms. Only the higher-risk variable was significant for other loan shares held by finance companies.

This analysis of 1993 and 1998 Surveys of Small Business Finances suggests the following:

1. The probability of using a finance company has remained relatively constant from 1993 to 1998 for all types of loans except leases and mortgages. Borrowers were more likely to utilize both finance company leases and mortgages in 1998 than 1993; and,
2. The share of total aggregate value of traditional loans held by finance companies has remained relatively constant from 1993 to 1998 for all types of loans, except leases and mortgages. Borrowers held higher inflation adjusted balances for both finance company leases and mortgages in 1998 than 1993.

Small Businesses Attracted to Finance Companies and the Prices They Face

The second objective of this study was to determine if finance companies continued to attract relatively low-risk borrowers and charge them competitive loan prices, as they did in 1993. This section of the study required using information on the small businesses' most recent loan only. Loan prices are addressed by examining the interest rate only. This analysis is based on the 713 most recent loans from all lenders in 1998. A vast majority of these loans were from commercial banks (507 or 71 percent) with finance companies accounting for 82 loans (or 11.4 percent). While there is some very thin evidence that finance companies charge somewhat higher rates of interest for line of credit and vehicle loans, the conclusions are based on only 14 line of credit and 37 vehicle loans.

An earlier survey of captive and non-captive finance companies suggested that the credit risk of the business (or firm quality measured by an Altman Z score) was not a significant determinant of using a finance company (Haynes, 1995). This result provided evidence that finance companies were not the pawn shops of the financial services industry supplying high cost loans to low quality borrowers. This result was supported by the current study, where the firm's Dun and Bradstreet credit score was used to measure the credit risk of the firm.

Table 6 examines the importance of credit risk in using any finance company loan and for each type of finance company loan. Credit risk is a significant determinant for vehicle loans only. The vehicle loan regression suggests that high-risk borrowers are less likely to hold a vehicle loan from a finance company than low-risk borrowers. Firms currently utilizing a commercial bank for a loan or lease were more likely to utilize finance companies than other firms. Older firms were less likely to have vehicle or equipment loans from finance company. Larger firms were more likely to hold a mortgage or vehicle loan from a finance company than small firms. Firms organized as corporations were more likely to have leases and vehicle loans from finance companies. Manufacturing firms were more likely to have vehicle and equipment loans from finance companies than mining/construction firms. FIRE (finance, insurance and real estate) firms were more likely to have line of credit loans and less likely to have leases from a finance company than mining/construction firms. Women-owned businesses appeared to be more likely to have a mortgage loan and less likely to have a vehicle loan from a finance company than men-owned businesses. Most importantly, this analysis lends no support to the claim that finance companies are more likely to attract high-risk borrowers.

Table 6

Because finance companies attract high-risk borrowers and charge higher prices than other lenders, they are sometimes labeled the "pawn shops" of the financial services sector. In this study, higher price was measured by examining the interest rate charged for line of credit and asset-backed loans acquired most recently. The previous study of finance company loan prices suggested that finance companies charged lower interest rates, especially on vehicle loans, than commercial banks (Haynes, 1995). Table 7 suggests that finance companies charged higher rates of interest on the most recent line of credit and asset-backed loan than commercial lenders. Firms with existing commercial bank relationships (specifically, if they held a lease or loan from a commercial bank) paid lower interest rates on asset-backed loans than other firms. Older firms faced somewhat lower rates of interest on asset-backed loans than younger firms. Partnerships appeared to pay somewhat lower rates of interest for asset-backed loans than sole proprietorships did. Line of credit loans with collateral requirements had lower rates of interest. Higher loan balances were associated with lower rates of interest for asset-backed loans. And, vehicle loans had lower rates of interest than equipment loans. These results should be used with caution because of the small sample size of the most recent loans held by finance companies in 1998.

Table 7

In summary, this analysis of the most recent loan data from the 1998 Surveys of Small Business Finances suggests the following:

1. High-risk borrowers were less likely to be attracted to finance companies than low-risk borrowers; and
2. Finance companies may charge higher interest rates on line of credit and asset-backed loans than commercial banks. However, this result is based on only a small sample of finance company vehicle loans.

Conclusions

A previous study of finance companies suggested that finance companies were not the "pawn shops" of the financial capital business, attracting high-risk borrowers and charging high prices; but, lenders attracting borrowers with similar risk profiles to commercial banks and charging them competitive prices for their loans (Haynes, 1995). This current study suggests that small businesses' relationships with finance companies have remained virtually unchanged from 1993 through 1998.

The univariate analysis suggests that small businesses were somewhat more likely to utilize a finance company in 1998 than 1993 (12.4 percent in 1993 versus 13.3 percent in 1998), however the share of aggregate loans actually declined slightly from nearly 13 percent in 1993 to 12.3 percent in 1998. Given the substantial differences in the weighted samples for 1993 and 1998, a multivariate assessment of these changes from 1993 to 1998 was conducted. The logistic regression analysis suggests that small business borrowers were more likely to utilize a finance company in 1998, but only for leases and mortgage loans. Less than 3 percent of small business borrowers held a lease or mortgage loan from a finance company. The Tobit regression analysis supported the claim that small business borrowers were not only more likely to utilize a finance company loan, but they were likely to hold a larger share of their total financing in finance company loans. Once again, this result was significant for only leases, which comprise about 18 percent of all leases, and mortgage loans, which comprise around 8 percent of all mortgage loans. Small business use of the major products marketed by finance companies, vehicle and equipment loans, remained unchanged.

The continued deregulation of commercial banks in interstate banking, as well as the relaxation of regulations on national banks and bank holding companies, has enabled commercial banks to consolidate and expand. As a result, banking assets have increased significantly during the past decade and have been concentrated in the hands of giant banks and especially bank holding companies. Many of these bank holding companies own subsidiaries in all types of financial services, including finance companies. While finance companies have successfully increased their market share of asset-backed loans, they appeared to have made no progress in encroaching into the market for lines of credit. (It is also possible that they expended no effort to do so.) Commercial banks have gained additional market share in line of credit lending, and have the potential to gain additional market share in asset-backed lending by forming finance company subsidiaries. While finance companies appear to have gained some market share for equipment loans, there appears to be no evidence of finance company encroachment into the market share held by commercial banks. The most substantial decreases in market share were realized by leasing companies and other businesses loaning money to small businesses.

Both finance companies and commercial banks have increased their share of the financial capital market for minority borrowers with substantial changes in the shares of vehicle and equipment loans. The univariate analysis shows a substantial increase in the shares of Black-owned business debt extended by finance companies and commercial banks. Hispanic-owned businesses have realized a substantial increase in the share of loans held by finance companies, but a substantial decrease in the share of loans held by commercial banks. The multivariate analysis of Black- and Hispanic-owned small businesses does not support the notion that the probability or share of money borrowed from a finance company has changed for these firms from 1993 to 1998. However, further research is needed to explore these changes in market share.

Finance companies appeared to attract small business borrowers with similar profiles as those attracted by commercial banks in 1998, and they charged competitive prices. This result is especially important for leases and equipment loans, where firms with commercial bank relationships are more likely to utilize finance companies and hold a larger share of their loans with them. There is limited evidence of finance companies attracting lower-risk borrowers and charging higher prices for vehicle loans, however this result was based on a very small sample of finance company borrowers. The evidence of finance companies attracting lower-risk borrowers is inconclusive. Finance companies appear to attract lower-quality borrowers when using the Altman Z statistic to measure firm quality; however, they do not appear to attract lower-quality borrowers when using the Dun and Bradstreet credit score. In addition, the sign and significance of the borrower quality variable is very sensitive to changes in model specification and therefore is not robust.

In general, finance companies appear to be very similar to commercial banks in providing financial capital to small business borrowers. These two groups of lenders seem to attract relatively low-risk borrowers and charge them competitive prices. The probability of borrowing from these two lenders has remained remarkably constant from 1993 to 1998, while commercial banks appear to have substantially increased their share of the financial market. Apparently, commercial banks provided larger amounts of money to about the same percentage of all small businesses in 1998 as they had in 1993. In contrast, finance companies appeared to be providing about the same amount of money to about the same percentage of all small businesses. While the total business debt held by finance companies has increased substantially during this time (Dynan et al, 2002), it appears that this increase in business debt held by finance companies is for large businesses (assuming that the number of small businesses has remained relatively constant, around 5 million small businesses). Other sectors, especially real estate, seem to have captured the attention of finance companies. While finance companies clearly are important to small business borrowers, they appear to be satisfied with the status quo (attracting about 12 to 14 percent of small businesses and providing about 12 to 13 percent of their financial capital).

The less stringent regulatory environment for finance companies would seem to offer them the opportunity to reach out to higher-risk small businesses: assisting them with loan applications and closely monitoring their loans. However, finance companies appear to be very similar to commercial banks in the market for financial capital to small business borrowers. Unfortunately, this analysis does not explore the relationship between commercial banks and finance companies. While this analysis has proceeded under the assumption that commercial banks and finance companies are essentially competing with substitute products, the complementary relationships between commercial banks and finance companies may be more important. Further research is needed to explore this critically important relationship between the number one and two institutional lenders of financial capital to small business borrowers.

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Table 1 Comparison of Business Characteristics, 1993 and 1998

	1993		1998	
Variable	Mean	S.D.	Mean	S.D.[1]
Age of the firm	14.284	398.12	13.342	427.27 *
Number of employees	8.017	755.33	8.038	899.60
Legal organization, sole proprietorship	0.432	16.26	0.494	19.27 *
Legal organization, partnership	0.080	8.91	0.070	9.81
Legal organization, sub s corporation	0.203	13.21	0.239	16.43 *
Legal organization, corporation	0.284	14.81	0.198	15.37 *
Mining and construction	0.142	11.45	0.119	12.47 *
Manufacturing	0.081	8.93	0.083	10.66
Transportation	0.028	5.38	0.037	7.30 *
Wholesale trade	0.085	9.13	0.071	9.93 *
Retail trade	0.217	13.53	0.189	15.11 *
Finance, insurance and real estate	0.071	8.42	0.065	9.49
Services	0.377	15.91	0.435	19.11 *
Urban	0.789	13.40	0.799	15.45
Woman-owned (>50 percent)	0.206	13.28	0.243	17.31 *
Minority-owned (>50 percent)	0.075	8.64	0.093	11.31 *
Number of observations		4,638		3,651
Population (million)		4.99		5.29

[1] Significant at the 5 percent level, using two-sample t-tests and chi-square tests.

Table 2 Probability and Share of the Aggregate Value by Loan Type for Finance Companies and Commercial Banks

	Finance Company				Commercial Bank			
	Probability		Share		Probability		Share	
Type	1993	1998	1993	1998	1993	1998	1993	1998
				(percentages)				
Lines of credit	1.3	1.1	14.5	9.7	22.0	23.9	70.2	86.6
Leases	2.3	2.8	18.9	18.1	2.0	2.6	29.8	27.1
Mortgage	0.3	0.7	8.0	8.5	5.3	8.8	44.6	57.4
Vehicle	8.0	8.3	43.7	39.6	13.9	11.0	43.4	49.8
Equipment	2.2	2.2	21.0	26.4	8.0	5.4	58.3	59.1
Other loans	0.3	0.5	2.3	2.5	5.1	4.0	33.9	51.1
Total	12.4	13.3	13.0	12.3	40.6	38.2	54.0	64.7

Table 3 Proportion of Small Businesses Borrowing from Each Credit Source by Loan Type in 1993 and 1998, All Firms

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finance, 1998 (3,561 observations)				
Credit union	0.34	0.10	0.20	1.59	0.27	0.13	2.33
Savings and loan	1.27	0.07	1.38	0.65	0.13	0.24	3.31
Commercial bank	23.86	2.58	8.76	11.04	5.40	4.00	38.23
Finance company	**1.13**	**2.75**	**0.72**	**8.25**	**2.21**	**0.50**	**13.27**
Brokerage	0.22	0.12	0.05	0.05	0.00	0.01	0.41
Leasing	0.25	5.24	0.01	0.41	1.22	0.02	6.80
Other non-depository	0.04	0.02	1.18	0.05	0.03	0.22	1.52
Family	0.01	0.27	1.23	0.20	0.46	4.08	5.95
Other business	0.52	0.95	0.15	0.07	0.94	0.54	2.90
Government	0.01	0.03	0.33	0.00	0.12	0.53	1.00
Other individual	0.05	0.02	0.10	0.00	0.00	0.08	0.24
Not classified	0.00	0.00	0.03	0.08	0.00	0.10	0.20
All	27.71	10.59	13.19	20.49	9.90	9.84	55.04
			Survey of Small Business Finance, 1993 (4,637 observations)				
Credit union	0.61	0.02	0.08	1.30	0.25	0.16	2.28
Savings and loan	1.57	0.17	1.15	0.98	0.37	0.53	4.22
Commercial bank	21.98	1.95	5.30	13.90	8.02	5.12	40.65
Finance company	**1.34**	**2.26**	**0.33**	**8.01**	**2.18**	**0.30**	**12.43**
Brokerage	0.09	0.07	0.02	0.05	0.01	0.19	0.42
Leasing	0.30	5.43	0.01	1.83	1.84	0.06	8.35
Other non-depository	0.02	0.07	0.63	0.01	0.03	0.18	0.95
Family	0.35	0.45	0.63	0.67	0.88	6.21	8.61
Other business	0.99	1.22	0.14	0.53	2.48	0.48	5.31
Government	0.04	0.00	0.07	0.01	0.18	0.35	0.62
Other individual	0.01	0.01	0.00	0.04	0.04	0.08	0.17
Not classified	0.00	0.00	0.00	0.00	0.00	0.00	0.00
All	25.71	10.25	7.83	25.28	14.84	12.74	59.13

Table 4 Logisitic Regression Summary

Dependent Variable	Any Finance Company Loan		Line of Credit		Lease		Mortgage		Vehicle		Equipment		Other	
Variable[1]	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value
Intercept	-0.8716	0.0001	-3.7832	0.0001	-3.6424	0.0001	-3.1521	0.0002	-1.4492	0.0001	-2.3810	0.0001	-8.5841	0.0148
Year dummy (1993)	-0.1886	0.0063	0.0472	0.8208	-0.3146	0.0308	-0.8467	0.0104	-0.1295	0.1220	-0.1319	0.3984	-0.5769	0.1151
Firm quality (Altman Z)	-0.1420	0.0001	-0.1786	0.0001	-0.1464	0.0001	-0.3061	0.0001	-0.1080	0.0001	-0.1511	0.0001	-0.2503	0.0028
Commercial bank relationship	0.2290	0.0013	0.0543	0.7966	0.3817	0.0119	-0.0664	0.8463	0.1473	0.0889	0.4289	0.0084	0.3635	0.3368
Age of the firm	-0.0126	0.0002	-0.0275	0.0167	-0.0102	0.1453	-0.0323	0.1123	-0.0078	0.0490	-0.0188	0.0196	-0.0035	0.8421
Number of employee	0.0045	0.0001	0.0069	0.0008	0.0049	0.0030	0.0088	0.0138	0.0030	0.0269	0.0040	0.0338	0.0042	0.2972
Legal organization: partnership	-0.1277	0.4013	0.6213	0.0776	-0.0760	0.8400	-0.9270	0.2184	-0.2294	0.2376	0.3109	0.3292	-2.8647	0.2797
Legal organization: sub s corporation	0.3394	0.0002	0.1886	0.4906	0.6995	0.0006	-0.2925	0.4562	0.3411	0.0018	0.3314	0.1289	-0.0073	0.9871
Legal organization: corporation	0.4196	0.0001	0.0961	0.7294	0.8981	0.0001	-1.0376	0.0422	0.3719	0.0006	0.6114	0.0031	-0.5012	0.3196
Manufacturing	-0.3406	0.0146	0.2444	0.6343	0.4718	0.1405	-1.5570	0.1819	-0.5441	0.0009	0.0517	0.8457	4.5706	0.1837
Transportation	0.1172	0.5034	1.2297	0.0164	0.9556	0.0084	-0.3126	0.7457	-0.2071	0.3246	0.9160	0.0011	5.0020	0.1473
Wholesale trade	-0.3246	0.0213	0.5324	0.2802	0.4782	0.1418	-2.1875	0.2245	-0.4343	0.0072	-0.5076	0.1106	4.0309	0.2444
Retail trade	-0.4034	0.0004	1.2688	0.0011	0.1070	0.7201	-0.2437	0.6788	-0.6316	0.0001	-0.8066	0.0026	4.2906	0.2107
Finance, insurance & real estate	-0.8892	0.0001	-0.7909	0.3164	0.2001	0.5989	0.8975	0.1410	-1.3506	0.0001	-0.8379	0.0332	-10.8408	0.9920
Services	-0.4278	0.0001	0.1870	0.6462	0.5445	0.0386	-0.0123	0.9811	-0.6992	0.0001	-0.7009	0.0024	3.4558	0.3138
Urban	0.2484	0.0059	0.2736	0.3033	0.1790	0.3606	0.6561	0.1814	0.2680	0.0157	-0.2405	0.1896	1.0858	0.0821
Woman-owned business	-0.2450	0.0056	-0.8749	0.0057	-0.2490	0.1952	0.8476	0.0100	-0.1847	0.0852	-0.6638	0.0055	0.3559	0.3698
Minority-owned business	0.0370	0.7660	-0.3472	0.4127	-0.1387	0.6317	0.3909	0.4011	0.0266	0.8609	-0.2940	0.3880	0.3262	0.5668
-2 log likelihood		5,947		1,011		1,777		456		4,432		1,583		367
Number of Observations		8,198												

[1] The left out categories are sole proprietorship in the legal organization classification and mining/construction in the industrial classification.

Table 5 Tobit Regression Summary, All Owners

Dependent Variable	Any Finance Company Loans		Line of Credit		Lease		Mortgage		Vehicle		Equipment		Other	
Variables[1]	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value
Intercept	-0.5464	0.0001	-4.1449	0.0001	-3.7401	0.0001	-3.8512	0.0001	-1.4959	0.0001	-2.9008	0.0001	-8.3063	0.0012
Year dummy (1993)	-0.0911	0.0132	0.0314	0.8629	-0.2993	0.0165	-0.8238	0.0071	-0.0985	0.1551	-0.1113	0.3977	-0.4948	0.1238
Firm quality (Altman Z)	-0.0719	0.0001	-0.1636	0.0001	-0.1217	0.0001	-0.2719	0.0001	-0.0924	0.0001	-0.1252	0.0001	-0.2056	0.0088
Commercial bank relationship	-0.0069	0.8570	0.0252	0.8913	0.2716	0.0344	-0.2412	0.4104	0.0887	0.2183	0.3286	0.0164	0.3392	0.2982
Age of the firm	-0.0064	0.0003	-0.0270	0.0073	-0.0087	0.1367	-0.0169	0.2800	-0.0063	0.0515	-0.0150	0.0198	0.0006	0.9659
Number of employee	0.0022	0.0010	0.0071	0.0032	0.0051	0.0039	0.0084	0.0227	0.0026	0.0449	0.0039	0.0457	0.0037	0.3869
Legal organization: partnership	-0.0774	0.3171	0.4639	0.1426	-0.1240	0.6738	-0.5789	0.3369	-0.1814	0.2299	0.2856	0.2695	-11.6812	0.9997
Legal organization: sub s corporation	0.1443	0.0027	0.0901	0.7030	0.5470	0.0012	-0.2997	0.3814	0.2722	0.0026	0.2704	0.1308	-0.0063	0.9868
Legal organization: corporation	0.1917	0.0001	0.0068	0.9773	0.7051	0.0001	-0.7449	0.0754	0.2955	0.0009	0.5121	0.0031	-0.4292	0.3106
Manufacturing	-0.2176	0.0041	0.1404	0.7415	0.3739	0.1642	-1.1472	0.1818	-0.4458	0.0014	0.1020	0.6639	3.2754	0.1239
Transportation	0.0825	0.3978	1.0241	0.0261	0.8665	0.0067	-0.2095	0.7893	-0.2037	0.2719	0.9226	0.0007	3.8090	0.0796
Wholesale trade	-0.1940	0.0113	0.4227	0.3025	0.3703	0.1760	-1.4503	0.2125	-0.3548	0.0104	-0.3874	0.1506	2.9010	0.1746
Retail trade	-0.2301	0.0002	1.0374	0.0018	0.1055	0.6593	-0.2913	0.5538	-0.5285	0.0001	-0.6443	0.0046	3.0041	0.1539
Finance, insurance & real estate	-0.5285	0.0001	-0.4763	0.4046	0.2013	0.5105	0.4623	0.4037	-1.0989	0.0001	-0.6064	0.0541	-8.6365	0.9998
Services	-0.2537	0.0001	0.1207	0.7124	0.4298	0.0451	0.0076	0.9857	-0.5937	0.0001	-0.5058	0.0099	2.3565	0.2584
Urban	0.1545	0.0011	0.2066	0.3679	0.1201	0.4519	0.4557	0.2420	0.2431	0.0072	-0.1466	0.3539	0.8592	0.0892
Woman-owned business	-0.1326	0.0039	-0.8420	0.0026	-0.2295	0.1488	0.8046	0.0079	-0.1593	0.0667	-0.5267	0.0058	0.3270	0.3442
Minority-owned business	0.0003	0.9964	-0.2894	0.4193	-0.1393	0.5590	0.3910	0.3316	0.0340	0.7842	-0.2141	0.4260	0.3421	0.4837
-log likelihood		3,365		562		1,046		246		2,756		934		207
Number of Observations		8,198												

[1] The left out categories are sole proprietorship in the legal organization classification and mining/construction in the industrial classification.

Table 6 Determinants of Using a Finance Company by Loan Type, 1998

Logistic Regression

Dependent Variable	All Loans		Line of credit		Leases		Mortgages		Vehicle		Equipment		Other	
Variables[1]	Parameter Estimate	p-value	Parameter Estimate	p-value	Parameter Estimate	p-value	Parameter Estimate	p-value	Parameter Estimate	p-value	Parameter Estimate	p-value	Parameter Estimate	p-value
Intercept	-1.9482	0.0001	-4.8956	0.0001	-3.9321	0.0001	-4.4177	0.0001	-2.1882	0.0001	-3.8809	0.0001	-5.7772	0.0001
Credit risk (db_score)	-0.0822	0.1048	0.0509	0.7576	-0.0626	0.5405	-0.0835	0.7031	-0.2311	0.0002	0.0571	0.6144	-0.1189	0.6377
Commercial bank relationship	0.3521	0.0009	-0.7982	0.0373	0.5240	0.0166	-0.0016	0.9972	0.3307	0.0113	0.7480	0.0026	0.6273	0.2168
Age of firm	-0.0166	0.0012	-0.0104	0.4992	-0.0018	0.8468	-0.0465	0.0872	-0.0192	0.0031	-0.0393	0.0051	-0.0205	0.4587
Number of employees	0.0058	0.0008	0.0069	0.0846	0.0048	0.0557	0.0108	0.0224	0.0044	0.0258	0.0046	0.1273	0.0051	0.4123
Legal organization: partnership	0.1342	0.5268	0.8893	0.0724	-0.0146	0.9764	-2.9146	0.2197	-0.0559	0.8449	0.4873	0.2486	-15.5997	0.9930
Legal organization: sub s corporation	0.3928	0.0022	0.3112	0.4386	0.5357	0.0471	-0.5042	0.3137	0.4603	0.0034	0.0516	0.8685	-0.0734	0.8944
Legal organization: corporation	0.5112	0.0002	-0.2592	0.6157	0.7753	0.0045	-1.5265	0.0634	0.5844	0.0004	0.4163	0.1824	-1.1274	0.1884
Manufacturing	0.3784	0.0127	-0.2219	0.7486	-0.1198	0.7067	0.7947	0.1812	0.5574	0.0021	0.8292	0.0129	-3.0541	0.3740
Transportation	-0.2028	0.3011	-0.5559	0.5403	-0.3941	0.3059	-2.2659	0.3394	0.0277	0.9049	0.8487	0.0199	1.1244	0.0856
Wholesale trade	0.3156	0.1831	1.4419	0.0101	-0.0138	0.9768	0.3023	0.7745	0.2997	0.3092	1.6124	0.0001	1.4456	0.0572
Retail trade	-0.0607	0.7593	0.8103	0.1504	-0.6460	0.1485	-1.1720	0.5100	0.0607	0.7990	0.1404	0.7757	-15.4994	0.9946
Finance, insurance & real estate	-0.2701	0.0709	0.8781	0.0327	-0.9926	0.0075	0.3811	0.4557	-0.0953	0.6059	-0.9881	0.0576	0.2938	0.6356
Services	-0.2528	0.2673	0.1199	0.8753	-0.3776	0.4009	1.0599	0.1142	-0.3042	0.3102	0.1788	0.7311	-15.5424	0.9950
Urban	0.1844	0.1895	0.2429	0.5917	0.2392	0.4251	0.1473	0.7830	0.2945	0.1006	-0.4541	0.1061	0.8216	0.3004
Concentrated market (Herfindahl)	0.3509	0.1653	0.8095	0.2130	0.3116	0.5624	-14.3544	0.9909	0.4326	0.1585	-0.0667	0.9136	0.5928	0.6487
Woman-owned business	-0.2151	0.0712	-0.3812	0.3227	0.0054	0.9821	0.8937	0.0314	-0.3838	0.0127	-0.2592	0.3732	0.4738	0.3385
Minority-owned business	0.0580	0.7388	-0.6680	0.3243	-0.2594	0.5291	-0.7368	0.3832	0.1903	0.3645	-0.5817	0.2863	0.4623	0.5050
-2 log likelihood		2,695		413		860		278		1,939		686		201
Number of Observations		3,561												

[1] The left out categories are sole proprietorship in the legal organization classification and mining/construction in the industrial classification.

Table 7 Determinants of the Rate of Interest Paid by Borrowers for Each Type of Loan, 1998

Dependent variable = interest rate

Variables[1]	Line of credit Parameter Estimate	Line of credit p-value	Asset-Backed Loans[2] Parameter Estimate	Asset-Backed Loans[2] p-value
Intercept	156.4450	0.7001	-441.3221	0.0659
Year of the loan	-0.0726	0.7207	0.2280	0.0576
Risk (db_score)	-0.2243	0.2731	0.1036	0.3264
Commercial bank relationship	-0.8018	0.0862	-0.5353	0.0448
Age of firm	0.0390	0.1249	-0.0285	0.0157
Number of employees	0.0001	0.9857	-0.0020	0.6000
Legal organization: partnership	0.7384	0.3921	-0.9373	0.0326
Legal organization: sub s corporation	0.1679	0.7335	-0.1750	0.5659
Legal organization: corporation	0.0326	0.9576	0.2556	0.3971
Manufacturing	-0.3847	0.5935	0.2019	0.5451
Transportation	0.8421	0.3238	0.1322	0.7395
Wholesale trade	1.3052	0.1907	0.0627	0.8906
Retail trade	0.4339	0.4835	-0.2727	0.5303
Finance, insurance & real estate	0.7318	0.1482	0.2335	0.4981
Services	0.3330	0.6835	-0.6596	0.1484
Urban	0.0568	0.9211	-0.2298	0.4149
Woman-owned business	-0.8149	0.0581	-0.2881	0.2594
Minority-owned business	1.1706	0.0869	0.6099	0.2175
Concentrated market (Herfindahl)	-0.1574	0.8690	-0.9377	0.0934
Fixed interest rate (y/n)	0.6660	0.1214	-0.4281	0.1625
Collateral required (y/n)	-1.1888	0.0085	-0.0735	0.7673
Guarantee required (y/n)	0.6310	0.1188	-0.4098	0.0790
Term of the loan	0.0036	0.4122	-0.0020	0.2551
Log of loan amount	-0.1802	0.1848	-0.3404	0.0011
Finance company lender (y/n)	2.1841	0.0029	0.8230	0.0123
Thrift lender (y/n)	-0.3484	0.7414	-0.5565	0.2832
Leasing company lender (y/n)	-0.0215	0.9933	1.0948	0.0547
Other lenders (y/n)	-0.79466	0.212	-0.1714	0.6272
Type of financing: lease			-0.1174	0.7829
Type of financing: mortgage			0.0008	0.9984
Type of financing: vehicle			-0.8198	0.0037
Adjusted R-square		11.5		20.5
Number of Observations		218		386

[1] The left-out categories are as follows: sole proprietorship for legal organization categories; mining/construction for industry; commercial banks for lenders; and equipment for loan type

[2] Asset-backed loans include leases, mortgage, vehicle and equipment loans.

Chart 1 Share of Aggregate Value of All Traditional Debt by Major Suppliers, 1998

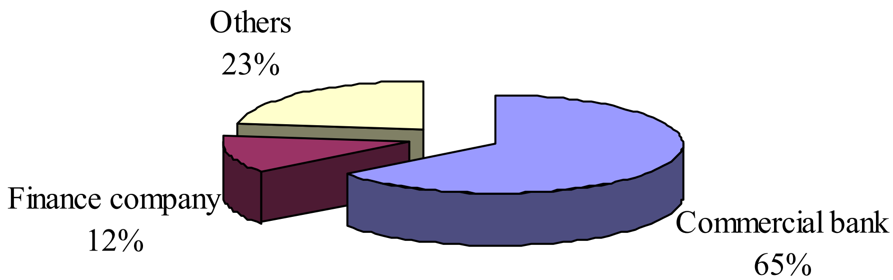


Chart 2 Share of Aggregate Value of All Traditional Debt by Major Suppliers, 1993

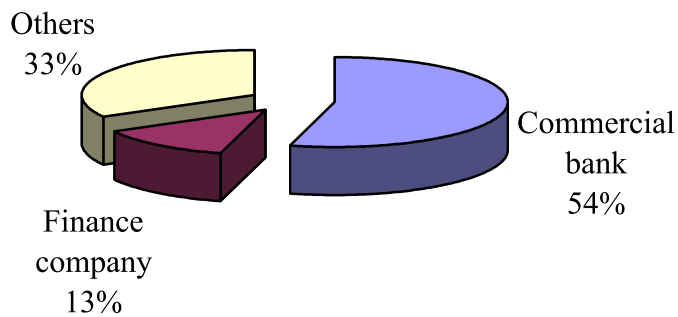


Chart 3 Share of Aggregate Value of Leases and Mortgages by Major Suppliers, 1998

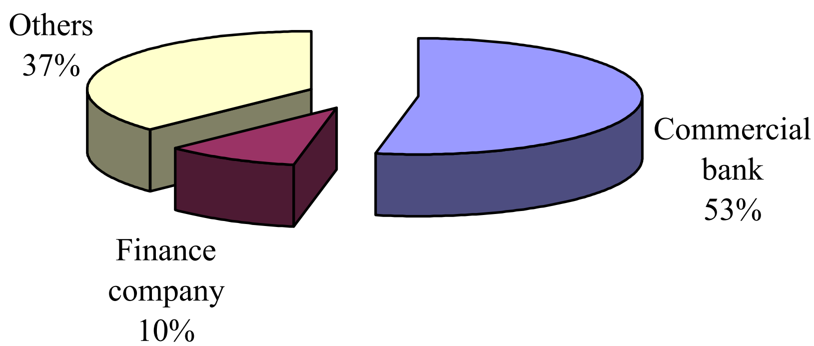


Chart 4 Share of Aggregate Value of Leases and Mortgages by Major Suppliers, 1993

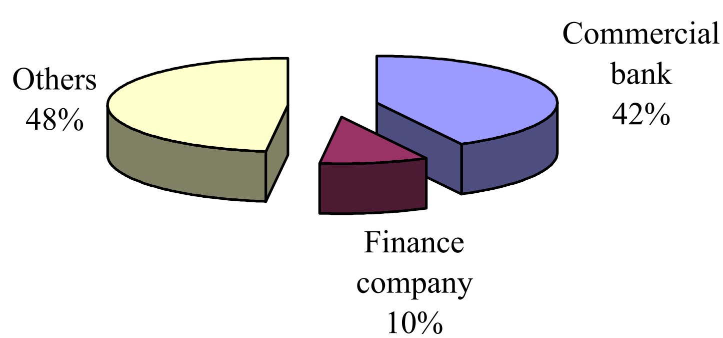


Chart 5 Share of Aggregate Value of Vehicle and Equipment Loans by Major Suppliers, 1998

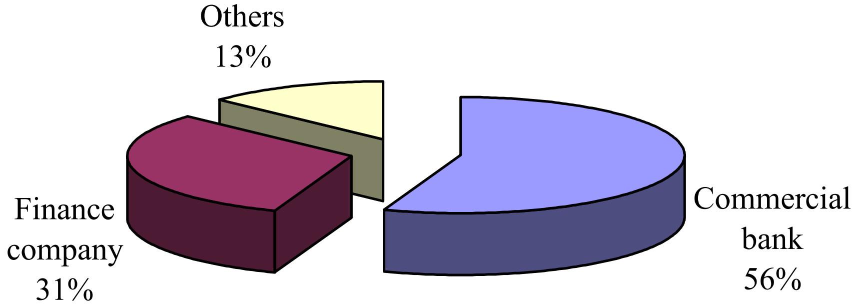
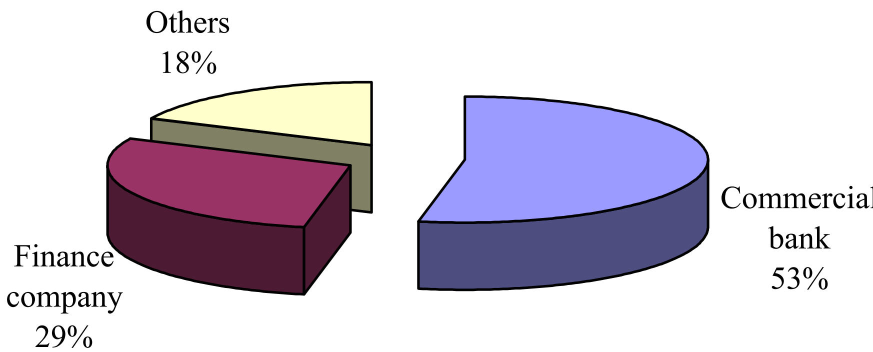


Chart 6 Share of Aggregate Value of Vehicle and Equipment Loans by Major Suppliers, 1993



Appendix A

Descriptive Tables

Tables 3.2 – 3.10

Tables 5.1 – 5.10

Table 3.2 Proportion of Small Businesses Borrowing from Each Credit Source by Loan Type in 1993 and 1998, Minority

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finance, 1998 (511 observations)				
Credit union	0.79	0.00	0.55	1.91	0.25	0.00	3.04
Savings and loan	0.88	0.00	0.83	0.44	0.00	0.14	2.19
Commercial bank	17.11	1.83	6.92	6.08	2.15	2.92	27.13
Finance company	**0.72**	**1.96**	**0.46**	**8.08**	**1.10**	**0.77**	**12.52**
Brokerage	0.01	0.53	0.11	0.00	0.00	0.00	0.65
Leasing	0.28	5.70	0.00	0.93	1.10	0.04	7.02
Other non-depository	0.21	0.21	2.06	0.00	0.00	0.04	2.52
Family	0.00	0.51	1.19	0.22	0.00	6.05	7.98
Other business	0.31	1.50	0.00	0.00	1.00	0.00	2.80
Government	0.00	0.00	0.48	0.00	0.03	0.20	0.71
Other individual	0.00	0.03	0.24	0.00	0.00	0.58	0.85
Not classified	0.00	0.00	0.21	0.00	0.00	0.32	0.53
All	20.31	11.08	12.36	17.00	5.60	9.70	47.63
			Survey of Small Business Finance, 1993 (777 observations)				
Credit union	0.44	0.10	0.18	2.36	0.11	0.32	3.44
Savings and loan	0.30	0.00	1.20	0.19	0.00	0.23	1.92
Commercial bank	13.92	1.49	4.07	12.05	5.67	3.73	29.68
Finance company	**1.08**	**2.00**	**1.18**	**7.64**	**1.68**	**0.31**	**12.49**
Brokerage	0.50	0.08	0.00	0.00	0.05	0.28	0.91
Leasing	0.80	5.39	0.14	1.20	2.53	0.03	9.03
Other non-depository	0.00	0.00	0.12	0.11	0.24	0.32	0.79
Family	0.13	0.14	0.87	0.08	0.20	8.58	9.88
Other business	0.58	1.17	0.09	0.46	3.96	0.51	6.04
Government	0.26	0.00	0.20	0.08	0.29	0.39	0.97
Other individual	0.12	0.08	0.02	0.00	0.02	0.15	0.35
Not classified	0.00	0.00	0.00	0.00	0.00	0.00	0.00
All	17.33	9.41	7.70	21.89	13.97	13.93	52.08

Table 3.3 Proportion of Small Businesses Borrowing from Each Credit Source by Loan Type in 1993 and 1998, Woman-owned

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finance, 1998 (796 observations)				
Credit union	0.17	0.40	0.06	1.45	0.03	0.41	2.16
Savings and loan	0.61	0.00	1.55	0.22	0.28	0.07	2.62
Commercial bank	15.48	1.48	7.24	6.59	2.51	3.28	28.44
Finance company	**0.81**	**2.24**	**1.36**	**5.25**	**1.24**	**0.74**	**9.78**
Brokerage	0.23	0.03	0.17	0.00	0.00	0.01	0.44
Leasing	0.63	4.99	0.00	0.47	0.59	0.00	6.49
Other non-depository	0.00	0.00	1.93	0.00	0.00	0.13	2.05
Family	0.00	0.26	1.07	0.23	0.52	4.26	6.10
Other business	0.48	0.32	0.00	0.00	0.94	0.49	1.90
Government	0.00	0.00	0.09	0.00	0.08	0.89	1.05
Other individual	0.00	0.03	0.13	0.00	0.00	0.05	0.17
Not classified	0.00	0.00	0.00	0.10	0.00	0.00	0.10
All	18.42	8.07	12.76	13.56	5.79	9.72	46.13
			Survey of Small Business Finance, 1993 (840 observations)				
Credit union	0.82	0.01	0.17	1.37	0.21	0.17	2.37
Savings and loan	0.88	0.01	0.88	0.85	0.12	0.42	2.46
Commercial bank	17.39	1.93	5.39	11.84	5.65	5.69	35.37
Finance company	**0.48**	**1.59**	**0.63**	**7.79**	**1.05**	**0.34**	**10.68**
Brokerage	0.09	0.00	0.00	0.04	0.00	0.14	0.28
Leasing	0.69	4.53	0.05	2.36	1.21	0.00	7.95
Other non-depository	0.04	0.16	0.83	0.02	0.04	0.25	1.30
Family	0.32	1.12	0.57	0.61	0.85	7.95	10.94
Other business	0.57	1.21	0.19	0.41	2.79	0.30	5.00
Government	0.04	0.00	0.03	0.00	0.55	0.36	0.95
Other individual	0.00	0.00	0.00	0.00	0.00	0.05	0.05
Not classified	0.00	0.00	0.00	0.00	0.00	0.00	0.00
All	20.52	8.52	8.07	23.89	11.61	14.42	55.05

Table 3.4 Proportion of Small Businesses Borrowing from Each Credit Source by Loan Type in 1993 and 1998, Traditional Borrowers

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finance, 1998 (2,202 observations)				
Credit union	0.62	0.18	0.36	2.89	0.49	0.24	4.23
Savings and loan	2.31	0.12	2.51	1.19	0.23	0.43	6.01
Commercial bank	43.34	4.69	15.91	20.06	9.80	7.26	69.46
Finance company	**2.04**	**5.00**	**1.32**	**14.99**	**4.01**	**0.91**	**24.12**
Brokerage	0.41	0.21	0.10	0.08	0.01	0.02	0.75
Leasing	0.46	9.52	0.02	0.74	2.21	0.04	12.36
Other non-depository	0.07	0.04	2.15	0.08	0.05	0.40	2.75
Family	0.03	0.50	2.24	0.36	0.83	7.42	10.82
Other business	0.95	1.73	0.27	0.13	1.71	0.98	5.27
Government	0.01	0.06	0.59	0.00	0.22	0.96	1.81
Other individual	0.09	0.04	0.18	0.00	0.00	0.14	0.43
Not classified	0.00	0.00	0.05	0.14	0.00	0.18	0.37
All	50.33	19.25	23.96	37.22	17.99	17.88	100.00
			Survey of Small Business Finance, 1993 (3,121 observations)				
Credit union	1.03	0.03	0.14	2.20	0.43	0.28	3.86
Savings and loan	2.66	0.29	1.95	1.65	0.63	0.89	7.13
Commercial bank	37.18	3.30	8.96	23.50	13.56	8.66	68.74
Finance company	**2.26**	**3.82**	**0.55**	**13.55**	**3.69**	**0.50**	**21.02**
Brokerage	0.15	0.11	0.03	0.08	0.01	0.32	0.71
Leasing	0.50	9.18	0.02	3.10	3.11	0.10	14.13
Other non-depository	0.04	0.12	1.07	0.02	0.05	0.31	1.61
Family	0.59	0.76	1.06	1.14	1.49	10.51	14.56
Other business	1.67	2.06	0.24	0.89	4.20	0.81	8.98
Government	0.07	0.00	0.13	0.01	0.31	0.59	1.05
Other individual	0.02	0.01	0.01	0.07	0.07	0.13	0.30
Not classified	0.00	0.00	0.00	0.00	0.00	0.00	0.00
All	43.48	17.33	13.23	42.75	25.10	21.54	100.00

Table 3.5 Proportion of Small Businesses Borrowing from Each Credit Source by Loan Type in 1993 and 1998, Black

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finance, 1998 (274 observations)				
Credit union	1.78	0.00	1.24	2.56	0.56	0.00	5.10
Savings and loan	1.68	0.00	1.37	0.00	0.00	0.32	3.37
Commercial bank	14.43	1.82	5.52	6.06	2.90	2.38	21.53
Finance company	**1.01**	**2.92**	**0.61**	**6.75**	**1.22**	**0.34**	**12.02**
Brokerage	0.00	0.36	0.00	0.00	0.00	0.00	0.36
Leasing	0.00	6.23	0.00	0.82	1.11	0.00	7.83
Other non-depository	0.46	0.48	2.51	0.00	0.00	0.00	3.45
Family	0.00	0.54	0.89	0.50	0.00	7.57	9.50
Other business	0.00	3.32	0.00	0.00	0.64	0.00	3.96
Government	0.00	0.00	1.07	0.00	0.00	0.21	1.28
Other individual	0.00	0.00	0.00	0.00	0.00	1.29	1.29
Not classified	0.00	0.00	0.46	0.00	0.00	0.73	1.19
All	19.37	13.65	12.40	15.32	6.43	11.34	48.71
			Survey of Small Business Finance, 1993 (437 observations)				
Credit union	1.13	0.00	0.13	2.35	0.00	0.83	4.23
Savings and loan	0.44	0.00	1.97	0.21	0.00	0.30	2.92
Commercial bank	15.97	1.14	2.12	10.55	6.66	3.83	29.78
Finance company	**1.16**	**1.69**	**1.28**	**10.65**	**2.82**	**0.52**	**15.65**
Brokerage	0.95	0.21	0.00	0.00	0.12	0.42	1.70
Leasing	0.35	6.56	0.00	1.69	2.66	0.08	10.13
Other non-depository	0.00	0.00	0.03	0.00	0.29	0.81	1.13
Family	0.33	0.35	0.65	0.21	0.50	7.94	9.68
Other business	1.48	2.09	0.00	1.18	3.96	0.47	7.62
Government	0.42	0.00	0.52	0.21	0.49	0.65	1.86
Other individual	0.04	0.21	0.04	0.00	0.04	0.39	0.64
Not classified	0.00	0.00	0.00	0.00	0.00	0.00	0.00
All	21.06	11.05	6.71	25.44	16.17	14.42	58.25

Table 3.6 Proportion of Small Businesses Borrowing from Each Credit Source by Loan Type in 1993 and 1998, Hispanic

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finance, 1998 (260 observations)				
Credit union	0.55	0.00	0.55	2.22	0.00	0.96	2.82
Savings and loan	0.50	0.00	1.60	1.10	0.00	0.00	3.20
Commercial bank	17.08	1.11	6.08	4.81	2.37	1.69	27.45
Finance company	**0.64**	**2.25**	**0.99**	**8.74**	**4.14**	**0.86**	**14.56**
Brokerage	0.04	0.00	0.00	0.00	0.00	0.00	0.04
Leasing	0.41	4.66	0.00	0.00	1.75	0.00	6.82
Other non-depository	0.31	0.00	2.11	0.00	0.00	0.00	2.11
Family	0.00	1.19	2.24	0.00	0.00	4.83	7.84
Other business	1.44	1.33	0.00	0.00	2.31	0.09	4.67
Government	0.00	0.00	0.68	0.00	0.00	0.88	1.55
Other individual	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Not classified	0.00	0.00	0.00	0.45	0.00	0.00	0.45
All	20.98	8.92	13.53	16.30	10.31	8.82	52.74
			Survey of Small Business Finance, 1993 (303 observations)				
Credit union	0.49	0.00	0.23	2.84	0.54	0.19	4.11
Savings and loan	0.00	0.00	0.85	1.11	0.81	0.06	2.83
Commercial bank	23.87	2.10	2.88	10.82	6.14	3.07	34.89
Finance company	**1.11**	**2.74**	**0.25**	**13.06**	**0.99**	**0.00**	**17.15**
Brokerage	0.34	0.00	0.00	1.13	0.00	0.00	1.47
Leasing	0.97	3.02	0.00	3.31	1.31	1.02	8.96
Other non-depository	0.27	0.00	0.00	0.00	0.00	0.00	0.27
Family	0.60	1.32	1.30	0.40	0.44	7.09	8.52
Other business	0.69	0.20	0.00	0.00	4.39	0.11	5.18
Government	0.21	0.00	0.00	0.00	0.18	0.33	0.72
Other individual	0.00	0.00	0.00	0.00	0.00	0.56	0.56
Not classified	0.00	0.00	0.00	0.00	0.00	0.00	0.00
All	26.79	7.82	5.50	30.05	13.95	12.20	59.59

Table 3.7 Proportion of Small Businesses Borrowing from Each Credit Source by Loan Type in 1993 and 1998, Minority and Hispanic

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finance, 1998 (756 observations)				
Credit union	0.72	0.00	0.56	2.07	0.16	0.37	3.02
Savings and loan	0.76	0.00	1.14	0.70	0.00	0.09	2.62
Commercial bank	17.25	1.59	6.57	5.67	2.28	2.38	27.27
Finance company	**0.55**	**2.11**	**0.67**	**8.30**	**2.29**	**0.82**	**13.21**
Brokerage	0.03	0.34	0.07	0.00	0.00	0.00	0.43
Leasing	0.34	5.42	0.00	0.59	1.37	0.02	7.09
Other non-depository	0.25	0.14	2.12	0.00	0.00	0.02	2.41
Family	0.00	0.78	1.40	0.14	0.00	5.51	7.68
Other business	0.55	1.46	0.00	0.00	1.52	0.03	3.38
Government	0.00	0.00	0.56	0.00	0.02	0.46	1.05
Other individual	0.00	0.02	0.15	0.00	0.00	0.37	0.54
Not classified	0.00	0.00	0.13	0.17	0.00	0.21	0.51
All	20.43	10.48	12.67	16.83	7.52	9.23	49.45
			Survey of Small Business Finance, 1993 (1,068 observations)				
Credit union	0.39	0.07	0.12	2.48	0.27	0.28	3.47
Savings and loan	0.19	0.00	1.03	0.53	0.30	0.17	2.22
Commercial bank	17.73	1.73	3.68	11.74	5.89	3.48	31.87
Finance company	**1.11**	**2.29**	**0.85**	**9.47**	**1.45**	**0.20**	**14.10**
Brokerage	0.45	0.05	0.00	0.41	0.03	0.18	1.13
Leasing	0.88	4.58	0.09	1.99	2.11	0.39	9.11
Other non-depository	0.10	0.00	0.07	0.07	0.16	0.20	0.61
Family	0.30	0.57	1.04	0.20	0.29	8.05	9.41
Other business	0.62	0.83	0.06	0.29	4.16	0.37	5.79
Government	0.25	0.00	0.13	0.05	0.26	0.37	0.89
Other individual	0.08	0.05	0.01	0.00	0.01	0.30	0.43
Not classified	0.00	0.00	0.00	0.00	0.00	0.00	0.00
All	20.92	8.93	6.84	24.89	14.10	13.32	55.01

Table 3.8 Proportion of Small Businesses Borrowing from Each Credit Source by Loan Type in 1993 and 1998, High Growth (>10%/year)

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finance, 1998 (1,380 observations)				
Credit union	0.27	0.21	0.16	2.28	0.11	0.29	2.95
Savings and loan	1.53	0.17	0.89	0.41	0.00	0.32	2.90
Commercial bank	26.57	2.55	9.04	11.39	6.16	4.19	39.91
Finance company	**0.79**	**3.07**	**0.74**	**10.38**	**2.68**	**0.62**	**15.29**
Brokerage	0.28	0.05	0.11	0.10	0.00	0.02	0.45
Leasing	0.39	5.87	0.03	0.62	1.74	0.05	8.19
Other non-depository	0.09	0.00	1.11	0.11	0.00	0.25	1.53
Family	0.00	0.32	0.93	0.35	0.59	3.58	5.43
Other business	0.76	0.97	0.19	0.16	1.17	0.35	3.04
Government	0.00	0.00	0.14	0.00	0.02	0.62	0.76
Other individual	0.13	0.00	0.00	0.00	0.00	0.09	0.22
Not classified	0.00	0.00	0.05	0.00	0.00	0.11	0.16
All	30.82	11.49	12.56	22.93	11.36	9.69	57.92
			Survey of Small Business Finance, 1993 (1,302 observations)				
Credit union	0.66	0.02	0.05	2.07	0.34	0.27	3.10
Savings and loan	1.53	0.01	0.61	1.10	0.60	0.29	3.71
Commercial bank	25.58	2.18	5.29	15.33	9.95	4.92	44.15
Finance company	**1.54**	**2.37**	**0.21**	**10.80**	**2.73**	**0.27**	**15.32**
Brokerage	0.14	0.01	0.04	0.18	0.01	0.12	0.50
Leasing	0.65	6.74	0.01	2.52	2.35	0.20	10.35
Other non-depository	0.01	0.00	0.89	0.05	0.00	0.24	1.18
Family	0.21	0.52	0.69	0.74	1.44	6.53	9.55
Other business	1.12	1.74	0.03	0.51	2.39	0.54	6.11
Government	0.00	0.01	0.04	0.00	0.22	0.27	0.49
Other individual	0.00	0.02	0.00	0.00	0.00	0.14	0.17
Not classified	0.00	0.00	0.00	0.00	0.00	0.00	0.00
All	30.04	12.93	7.20	29.43	18.12	12.66	65.37

Table 3.9 Proportion of Small Businesses Borrowing from Each Credit Source by Loan Type in 1993 and 1998, Young (< 4 years old)

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finance, 1998 (730 observations)				
Credit union	0.49	0.00	0.43	1.90	0.39	0.45	3.34
Savings and loan	1.59	0.00	1.71	0.86	0.00	0.56	3.93
Commercial bank	14.50	1.68	7.21	7.55	4.42	3.72	28.04
Finance company	**1.06**	**1.56**	**0.98**	**8.35**	**2.98**	**0.43**	**13.27**
Brokerage	0.27	0.36	0.00	0.18	0.00	0.00	0.63
Leasing	0.35	4.41	0.00	0.49	1.19	0.00	5.96
Other non-depository	0.09	0.00	1.00	0.00	0.00	0.54	1.62
Family	0.07	0.56	0.87	0.11	0.69	5.38	7.46
Other business	1.01	0.87	0.00	0.13	1.06	0.55	3.12
Government	0.00	0.14	0.31	0.00	0.23	0.27	0.94
Other individual	0.22	0.00	0.29	0.00	0.00	0.00	0.52
Not classified	0.00	0.00	0.00	0.00	0.00	0.31	0.31
All	19.63	8.90	11.95	18.51	10.16	11.18	51.14
			Survey of Small Business Finance, 1993 (673 observations)				
Credit union	1.12	0.00	0.22	0.92	0.05	0.26	2.56
Savings and loan	1.31	0.30	1.20	0.84	0.38	0.55	3.92
Commercial bank	20.45	3.38	6.67	11.80	7.68	5.68	39.76
Finance company	**3.41**	**4.14**	**0.19**	**8.24**	**2.08**	**0.52**	**15.19**
Brokerage	0.00	0.02	0.01	0.00	0.00	0.00	0.03
Leasing	0.21	7.26	0.07	0.95	2.20	0.00	9.64
Other non-depository	0.08	0.03	0.25	0.03	0.07	0.47	0.92
Family	0.87	1.20	1.42	0.63	1.40	9.71	14.28
Other business	1.48	1.61	0.24	0.53	3.27	0.49	7.15
Government	0.09	0.00	0.04	0.04	0.52	0.79	1.34
Other individual	0.05	0.00	0.00	0.30	0.00	0.00	0.35
Not classified	0.00	0.00	0.00	0.00	0.00	0.00	0.00
All	25.94	14.90	9.80	22.32	15.41	17.15	62.26

Table 3.10 Proportion of Small Businesses Borrowing from Each Credit Source by Loan Type in 1993 and 1998, > 2 corporate owners

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finance, 1998 (1,158 observations)				
Credit union	0.49	0.18	0.23	1.36	0.18	0.09	1.96
Savings and loan	0.69	0.08	0.93	0.77	0.13	0.51	2.51
Commercial bank	37.04	2.82	12.01	14.62	9.33	5.93	53.16
Finance company	**1.56**	**3.96**	**0.81**	**11.55**	**3.47**	**0.60**	**18.26**
Brokerage	0.33	0.23	0.18	0.19	0.02	0.05	0.83
Leasing	0.26	8.49	0.06	0.52	1.40	0.06	10.33
Other non-depository	0.00	0.02	0.91	0.19	0.00	0.07	1.19
Family	0.00	0.12	1.10	0.39	0.23	4.94	6.60
Other business	0.11	1.24	0.26	0.16	1.05	0.94	3.30
Government	0.02	0.03	0.45	0.00	0.30	0.84	1.59
Other individual	0.00	0.09	0.13	0.01	0.00	0.04	0.22
Not classified	0.00	0.00	0.00	0.00	0.00	0.02	0.02
All	40.51	15.26	15.85	26.03	14.43	13.06	67.89
			Survey of Small Business Finance, 1993 (1,956 observations)				
Credit union	0.27	0.05	0.04	0.84	0.09	0.01	1.27
Savings and loan	1.49	0.26	1.24	0.78	0.63	0.48	4.40
Commercial bank	30.55	3.14	5.04	16.49	10.23	5.45	48.68
Finance company	**1.74**	**3.91**	**0.39**	**9.92**	**3.23**	**0.48**	**15.97**
Brokerage	0.14	0.03	0.01	0.15	0.01	0.28	0.62
Leasing	0.16	7.31	0.01	2.20	2.83	0.04	10.82
Other non-depository	0.01	0.11	0.28	0.02	0.02	0.15	0.59
Family	0.54	0.76	0.52	0.80	0.98	6.12	9.23
Other business	1.07	1.50	0.17	0.85	2.77	0.91	6.44
Government	0.09	0.01	0.09	0.02	0.11	0.60	0.79
Other individual	0.03	0.02	0.00	0.14	0.00	0.09	0.28
Not classified	0.00	0.00	0.00	0.00	0.00	0.00	0.00
All	34.34	14.81	7.47	28.53	18.60	13.28	66.01

Table 5.1 Share of aggregate value of all firm traditional debt held by finance companies, by source of credit, 1998 and 1993

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finances, 1998				
Credit union	0.15	0.28	0.72	3.39	0.22	0.37	0.57
Savings and loan	1.00	0.59	7.69	1.23	0.11	1.70	3.32
Commercial bank	86.60	27.06	57.36	49.83	59.05	51.09	64.68
Finance company	**9.74**	**18.15**	**8.46**	**39.65**	**26.44**	**2.49**	**12.32**
Brokerage	0.31	0.94	0.09	0.03	0.07	0.75	0.27
Leasing	0.05	39.30	0.03	2.08	3.65	0.08	2.79
Other non-depository	0.16	0.07	17.06	0.11	0.04	0.65	6.11
Family	0.00	0.99	3.86	0.85	0.39	31.27	4.58
Other business	0.15	10.32	0.30	0.31	1.62	7.16	1.64
Government	0.20	0.06	1.24	0.00	1.59	3.47	1.00
Other individual	0.05	0.06	0.75	0.11	0.00	0.26	0.32
Not classified	1.60	2.18	2.45	2.42	6.82	0.71	2.39
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00
			Survey of Small Business Finances, 1993				
Credit union	0.09	1.97	0.52	2.43	0.09	0.24	0.41
Savings and loan	1.30	0.96	9.29	1.12	1.18	3.38	3.59
Commercial bank	70.25	29.85	44.59	43.45	58.26	33.91	54.03
Finance company	**14.51**	**18.87**	**8.03**	**43.74**	**21.05**	**2.31**	**12.96**
Brokerage	1.78	0.14	3.43	0.14	0.02	1.32	1.82
Leasing	0.81	36.48	0.07	5.42	5.37	1.06	2.84
Other non-depository	0.58	0.22	24.86	0.05	0.08	4.18	7.11
Family	0.86	3.01	2.97	1.16	2.14	21.93	5.00
Other business	0.42	5.04	3.12	1.75	6.33	16.21	4.39
Government	0.08	0.05	1.10	0.13	1.75	3.44	1.01
Other individual	0.10	0.01	0.02	0.04	0.05	4.47	0.77
Not classified	9.23	3.40	2.00	0.58	3.68	7.55	6.07
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 5.2 Share of aggregate value of minority owner traditional debt held by finance companies, by source of credit, 1998 and 1993

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finances, 1998				
Credit union	0.26	0.00	0.36	6.51	0.85	0.00	0.70
Savings and loan	0.52	0.00	15.47	2.48	0.00	0.72	8.67
Commercial bank	96.52	19.82	57.85	21.13	62.79	41.21	62.91
Finance company	**1.95**	**25.97**	**6.06**	**65.15**	**19.19**	**2.76**	**9.84**
Brokerage	0.12	0.91	0.73	0.00	0.00	0.00	0.46
Leasing	0.29	32.59	0.00	2.07	9.40	1.98	2.12
Other non-depository	0.20	1.60	4.41	0.00	0.00	0.62	2.53
Family	0.00	7.24	6.00	2.66	0.00	44.89	6.48
Other business	0.14	10.56	0.00	0.00	7.75	0.00	0.83
Government	0.00	0.00	0.58	0.00	0.01	1.15	0.38
Other individual	0.00	0.04	8.28	0.00	0.00	6.14	4.85
Not classified	0.00	1.25	0.25	0.00	0.00	0.52	0.22
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00
			Survey of Small Business Finances, 1993				
Credit union	0.15	28.45	0.12	6.64	0.02	0.20	2.79
Savings and loan	0.01	0.00	5.11	0.47	0.00	2.25	2.24
Commercial bank	91.72	7.39	67.14	37.61	42.08	31.94	58.17
Finance company	**2.09**	**28.53**	**2.76**	**28.47**	**7.01**	**0.39**	**5.89**
Brokerage	0.67	0.22	0.00	0.00	0.47	1.85	0.58
Leasing	0.15	21.82	0.49	12.63	20.42	0.61	4.27
Other non-depository	0.00	0.00	15.33	0.33	0.34	0.66	5.48
Family	0.00	0.72	7.47	0.06	0.44	29.50	8.44
Other business	0.21	9.98	0.58	4.02	25.17	17.87	6.62
Government	0.46	0.00	0.86	2.92	3.87	2.58	1.36
Other individual	4.52	0.13	0.14	0.00	0.17	0.13	1.23
Not classified	0.00	2.74	0.00	6.86	0.00	12.01	2.92
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 5.3 Share of aggregate value of woman owner traditional debt held by finance companies, by source of credit, 1998 and 1993

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finances, 1998				
Credit union	0.02	3.60	0.03	5.84	0.08	1.79	0.55
Savings and loan	0.48	0.00	12.92	0.75	0.08	4.77	6.88
Commercial bank	77.44	36.20	59.36	50.32	36.57	55.34	59.87
Finance company	**10.16**	**19.00**	**4.65**	**36.31**	**41.39**	**3.87**	**11.60**
Brokerage	0.03	0.27	0.11	0.00	0.00	0.76	0.14
Leasing	0.00	38.39	0.00	5.82	10.24	0.00	2.42
Other non-depository	0.00	0.00	16.79	0.00	0.00	0.40	8.19
Family	0.00	1.55	2.87	0.72	0.51	24.73	3.87
Other business	0.00	0.51	0.01	0.00	2.83	5.36	0.83
Government	1.64	0.00	0.04	0.00	2.97	2.45	0.97
Other individual	0.00	0.48	3.21	0.00	0.00	0.22	1.59
Not classified	10.25	0.00	0.00	0.24	5.33	0.31	3.09
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00
			Survey of Small Business Finances, 1993				
Credit union	0.09	0.00	0.15	5.56	0.08	2.03	0.77
Savings and loan	2.88	0.77	6.59	1.89	0.49	5.26	3.62
Commercial bank	62.39	15.28	65.13	44.15	51.86	39.76	53.34
Finance company	**6.28**	**29.85**	**15.90**	**37.71**	**10.29**	**2.97**	**11.64**
Brokerage	18.54	0.00	0.00	0.07	0.00	0.38	7.58
Leasing	0.08	35.73	0.33	8.15	9.19	0.00	4.08
Other non-depository	0.00	0.04	6.81	0.21	0.00	2.79	1.86
Family	1.37	9.25	3.81	1.35	1.40	25.07	6.67
Other business	0.04	4.54	1.02	0.91	5.12	3.50	1.66
Government	0.00	0.00	0.26	0.00	4.80	7.93	1.85
Other individual	0.00	0.00	0.00	0.00	0.00	0.91	0.16
Not classified	8.32	4.54	0.00	0.00	16.76	9.40	6.76
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 5.4 Share of aggregate value of traditional borrower debt held by finance companies, by source of credit, 1998 and 1993

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finances, 1998				
Credit union	0.15	0.28	0.72	3.39	0.22	0.37	0.57
Savings and loan	1.00	0.59	7.69	1.23	0.11	1.70	3.32
Commercial bank	86.60	27.06	57.36	49.83	59.05	51.09	64.68
Finance company	**9.74**	**18.15**	**8.46**	**39.65**	**26.44**	**2.49**	**12.32**
Brokerage	0.31	0.94	0.09	0.03	0.07	0.75	0.27
Leasing	0.05	39.30	0.03	2.08	3.65	0.08	2.79
Other non-depository	0.16	0.07	17.06	0.11	0.04	0.65	6.11
Family	0.00	0.99	3.86	0.85	0.39	31.27	4.58
Other business	0.15	10.32	0.30	0.31	1.62	7.16	1.64
Government	0.20	0.06	1.24	0.00	1.59	3.47	1.00
Other individual	0.05	0.06	0.75	0.11	0.00	0.26	0.32
Not classified	1.60	2.18	2.45	2.42	6.82	0.71	2.39
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00
			Survey of Small Business Finances, 1993				
Credit union	0.09	1.97	0.52	2.43	0.09	0.24	0.41
Savings and loan	1.30	0.96	9.29	1.12	1.18	3.38	3.59
Commercial bank	70.25	29.85	44.59	43.45	58.26	33.91	54.03
Finance company	**14.51**	**18.87**	**8.03**	**43.74**	**21.05**	**2.31**	**12.96**
Brokerage	1.78	0.14	3.43	0.14	0.02	1.32	1.82
Leasing	0.81	36.48	0.07	5.42	5.37	1.06	2.84
Other non-depository	0.58	0.22	24.86	0.05	0.08	4.18	7.11
Family	0.86	3.01	2.97	1.16	2.14	21.93	5.00
Other business	0.42	5.04	3.12	1.75	6.33	16.21	4.39
Government	0.08	0.05	1.10	0.13	1.75	3.44	1.01
Other individual	0.10	0.01	0.02	0.04	0.05	4.47	0.77
Not classified	9.23	3.40	2.00	0.58	3.68	7.55	6.06
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 5.5 Share of aggregate value of Black owner traditional debt held by finance companies, by source of credit, 1998 and 1993

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finances, 1998				
Credit union	2.35	0.00	1.04	4.77	2.57	0.00	1.48
Savings and loan	3.62	0.00	4.33	0.00	0.00	1.68	3.04
Commercial bank	80.00	22.54	73.51	16.96	31.39	14.82	57.17
Finance company	**12.22**	**23.43**	**4.58**	**70.92**	**53.82**	**0.10**	**15.95**
Brokerage	0.00	0.35	0.00	0.00	0.00	0.00	0.03
Leasing	0.00	30.82	0.00	2.73	11.49	0.00	3.12
Other non-depository	1.81	2.90	10.35	0.00	0.00	0.00	6.55
Family	0.00	1.20	3.80	4.62	0.00	66.75	8.44
Other business	0.00	18.77	0.00	0.00	0.73	0.00	1.42
Government	0.00	0.00	1.66	0.00	0.00	1.05	1.08
Other individual	0.00	0.00	0.00	0.00	0.00	14.40	1.20
Not classified	0.00	0.00	0.72	0.00	0.00	1.21	0.53
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00
			Survey of Small Business Finances, 1993				
Credit union	0.96	0.00	0.85	3.22	0.00	0.74	0.99
Savings and loan	0.06	0.00	34.23	0.71	0.00	0.21	5.58
Commercial bank	76.23	4.99	26.81	26.86	39.36	21.42	35.45
Finance company	**13.36**	**6.18**	**21.06**	**26.55**	**9.42**	**0.22**	**11.57**
Brokerage	4.29	1.23	0.00	0.00	1.43	6.53	3.04
Leasing	0.22	41.21	0.00	18.83	26.08	2.20	9.94
Other non-depository	0.00	0.00	1.52	0.00	0.62	2.41	1.01
Family	0.02	3.95	3.82	0.12	1.32	11.13	4.30
Other business	1.37	41.21	0.00	8.08	16.52	50.30	21.21
Government	2.19	0.00	10.08	5.85	4.72	3.48	4.47
Other individual	1.30	0.74	1.63	0.00	0.52	0.49	0.79
Not classified	0.00	0.49	0.00	9.77	0.00	0.88	1.65
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 5.6 Share of aggregate value of Hispanic owner traditional debt held by finance companies, by source of credit, 1998 and 1993

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finances, 1998				
Credit union	0.19	0.00	1.90	7.16	0.00	10.85	2.29
Savings and loan	0.00	0.00	7.84	2.32	0.00	0.00	2.43
Commercial bank	51.15	15.40	37.24	33.85	5.14	13.27	30.15
Finance company	**40.46**	**7.71**	**20.83**	**54.91**	**65.54**	**9.80**	**30.81**
Brokerage	0.90	0.00	0.00	0.00	0.00	0.00	0.22
Leasing	0.00	10.77	0.00	0.00	3.62	0.00	2.11
Other non-depository	7.00	0.00	11.88	0.00	0.00	0.00	5.16
Family	0.00	2.32	16.43	0.00	0.00	39.77	9.53
Other business	0.30	63.69	0.00	0.00	2.39	19.29	12.12
Government	0.00	0.00	3.89	0.00	0.00	6.26	1.82
Other individual	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Not classified	0.00	0.10	0.00	1.76	23.31	0.75	3.36
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00
			Survey of Small Business Finances, 1993				
Credit union	0.05	0.00	0.10	10.29	0.67	0.03	0.73
Savings and loan	0.00	0.00	10.86	1.51	0.22	4.49	3.48
Commercial bank	83.21	14.83	80.94	41.79	38.78	27.82	62.27
Finance company	**11.80**	**13.49**	**1.33**	**27.98**	**8.99**	**0.00**	**8.02**
Brokerage	0.49	0.00	0.00	4.31	0.00	0.00	0.43
Leasing	0.00	67.82	0.00	13.23	1.28	0.17	4.48
Other non-depository	0.95	0.00	0.00	0.00	0.00	0.00	0.35
Family	3.36	2.76	6.76	0.88	1.12	16.45	5.98
Other business	0.14	1.10	0.00	0.00	14.58	6.12	2.77
Government	0.00	0.00	0.00	0.00	1.08	2.07	0.47
Other individual	0.00	0.00	0.00	0.00	0.00	42.85	7.31
Not classified	0.00	0.00	0.00	0.00	33.28	0.00	3.70
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 5.7 Share of aggregate value of Hispanic/minority firm traditional debt held by finance companies, by source of credit, 1998 and 199

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finances, 1998				
Credit union	0.24	0.00	0.71	6.83	0.33	5.37	1.25
Savings and loan	0.35	0.00	13.97	2.45	0.00	0.38	6.59
Commercial bank	81.37	16.95	52.96	26.04	27.76	27.52	51.59
Finance company	**14.86**	**14.11**	**9.39**	**61.01**	**47.35**	**6.31**	**17.06**
Brokerage	0.38	0.32	0.57	0.00	0.00	0.00	0.38
Leasing	0.19	18.41	0.00	1.32	5.89	1.05	2.13
Other non-depository	2.51	0.56	6.11	0.00	0.00	0.33	3.46
Family	0.00	4.04	8.23	1.70	0.00	41.89	7.41
Other business	0.10	45.08	0.00	0.00	4.50	9.55	4.71
Government	0.00	0.00	1.32	0.00	0.00	3.71	0.88
Other individual	0.00	0.02	6.55	0.00	0.00	3.25	3.22
Not classified	0.00	0.51	0.20	0.66	14.16	0.64	1.31
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00
			Survey of Small Business Finances, 1993				
Credit union	0.09	20.02	0.08	8.15	0.35	0.14	1.96
Savings and loan	0.00	0.00	6.06	0.92	0.11	3.07	2.46
Commercial bank	87.55	9.59	72.15	39.59	40.40	30.40	59.99
Finance company	**6.87**	**24.07**	**2.33**	**28.01**	**8.00**	**0.25**	**6.74**
Brokerage	0.58	0.16	0.00	1.86	0.24	1.17	0.53
Leasing	0.08	35.45	0.34	12.95	10.88	0.45	4.37
Other non-depository	0.47	0.00	10.62	0.19	0.17	0.42	3.45
Family	1.66	1.32	7.32	0.41	0.78	24.71	7.48
Other business	0.18	7.35	0.40	2.31	19.90	13.57	5.11
Government	0.24	0.00	0.60	1.67	2.48	2.39	1.01
Other individual	2.30	0.09	0.10	0.00	0.09	15.80	3.66
Not classified	0.00	1.93	0.00	3.94	16.61	7.61	3.24
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 5.8 Share of aggregate value of fast growth firm traditional debt held by finance companies, by source of credit, 1998 and 1993

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finances, 1998				
Credit union	0.02	0.53	0.16	4.30	0.05	0.29	0.38
Savings and loan	1.43	1.35	6.89	0.85	0.00	3.52	3.50
Commercial bank	90.67	24.47	51.11	51.88	52.61	44.41	60.84
Finance company	**6.35**	**19.56**	**16.24**	**35.31**	**29.53**	**3.03**	**14.92**
Brokerage	0.49	0.05	0.06	0.05	0.00	0.77	0.24
Leasing	0.13	33.99	0.07	3.68	2.92	0.22	2.78
Other non-depository	0.44	0.00	16.66	0.26	0.00	0.61	6.57
Family	0.00	1.02	2.54	1.15	0.41	33.45	4.09
Other business	0.12	16.88	0.16	0.35	1.44	9.34	2.17
Government	0.00	0.00	0.87	0.00	0.25	2.78	0.60
Other individual	0.14	0.03	0.00	0.26	0.00	0.05	0.07
Not classified	0.21	2.12	5.25	1.91	12.79	1.52	3.85
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00
			Survey of Small Business Finances, 1993				
Credit union	0.05	0.09	0.02	3.28	0.09	0.77	0.31
Savings and loan	1.01	0.54	2.19	1.03	1.93	2.16	1.48
Commercial bank	71.80	40.75	42.85	44.97	56.90	27.80	55.47
Finance company	**15.46**	**14.86**	**1.22**	**41.87**	**20.87**	**2.66**	**12.55**
Brokerage	0.11	0.14	12.22	0.37	0.04	3.36	3.03
Leasing	2.06	34.69	0.18	5.97	5.88	3.50	3.87
Other non-depository	1.16	0.00	25.58	0.11	0.00	5.88	6.56
Family	0.27	2.30	3.23	1.05	1.87	10.39	2.61
Other business	0.43	4.29	10.15	1.26	5.86	3.16	3.52
Government	0.00	0.16	2.36	0.00	1.66	5.11	1.38
Other individual	0.00	0.03	0.00	0.00	0.00	14.08	2.04
Not classified	7.64	2.17	0.00	0.09	4.90	21.12	7.17
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 5.9 Share of aggregate value of young (< 4 years) firm traditional debt held by finance companies, by source of credit, 1998 and 1993

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finances, 1998				
Credit union	0.90	0.00	2.54	6.81	0.70	0.52	1.77
Savings and loan	3.71	0.00	15.50	2.44	0.00	4.41	8.42
Commercial bank	67.28	11.92	57.78	38.01	42.94	49.56	54.44
Finance company	**16.36**	**20.76**	**5.25**	**44.85**	**26.28**	**1.30**	**12.36**
Brokerage	1.21	2.27	0.00	0.13	0.00	0.00	0.44
Leasing	0.28	27.77	0.00	3.11	9.16	0.00	2.72
Other non-depository	0.06	0.00	13.24	0.00	0.00	0.84	6.03
Family	0.01	1.13	4.29	0.93	0.43	39.29	5.90
Other business	0.05	35.51	0.00	0.05	1.92	1.26	2.36
Government	0.00	0.34	1.30	0.00	0.38	2.21	0.85
Other individual	0.35	0.00	0.11	0.00	0.00	0.00	0.14
Not classified	9.79	0.30	0.00	3.67	18.18	0.61	4.57
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00
			Survey of Small Business Finances, 1993				
Credit union	0.18	0.00	0.06	1.27	0.03	0.02	0.14
Savings and loan	1.15	0.86	26.70	2.10	0.48	3.49	7.95
Commercial bank	86.16	17.45	42.11	53.10	57.12	55.54	62.26
Finance company	**9.90**	**17.06**	**1.22**	**28.44**	**19.57**	**1.98**	**8.03**
Brokerage	0.00	0.29	6.95	0.00	0.00	0.00	1.75
Leasing	0.13	42.06	0.19	3.08	6.14	0.00	2.83
Other non-depository	0.16	0.15	2.82	0.25	0.03	0.16	0.82
Family	1.44	9.12	5.86	0.98	1.73	22.87	7.04
Other business	0.07	4.71	0.46	5.24	12.74	7.33	3.00
Government	0.02	0.00	0.16	1.14	1.80	5.73	1.33
Other individual	0.76	0.00	0.00	0.33	0.00	0.00	0.31
Not classified	0.03	8.30	13.48	4.08	0.36	2.88	4.53
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 5.10 Share of aggregate value of 2 + corporate owners traditional debt held by finance companies, by source of credit, 1998 & 1993

Source	Line of credit	Lease	Mortgage	Vehicle	Equipment	Other loans	All
			Survey of Small Business Finances, 1998				
Credit union	0.21	0.14	1.45	1.83	0.07	0.44	0.61
Savings and loan	0.90	0.38	9.66	1.15	0.12	2.14	3.18
Commercial bank	85.83	28.77	66.26	46.44	67.09	53.91	69.19
Finance company	**10.48**	**11.71**	**4.52**	**45.73**	**24.71**	**1.84**	**11.34**
Brokerage	0.27	0.70	0.06	0.06	0.11	1.23	0.33
Leasing	0.00	42.07	0.07	1.33	1.01	0.12	3.31
Other non-depository	0.00	0.00	10.37	0.24	0.00	0.46	2.73
Family	0.00	0.46	3.73	0.63	0.13	27.37	4.00
Other business	0.05	12.55	0.26	0.63	0.74	8.49	2.05
Government	0.30	0.06	1.66	0.00	2.42	3.26	1.18
Other individual	0.00	0.08	1.80	0.24	0.00	0.04	0.48
Not classified	1.95	3.08	0.16	1.72	3.59	0.69	1.61
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00
			Survey of Small Business Finances, 1998				
Credit union	0.06	3.50	0.93	1.71	0.06	0.00	0.40
Savings and loan	0.84	1.53	11.49	0.82	1.46	4.78	3.13
Commercial bank	69.19	29.87	44.30	46.98	59.06	38.58	57.99
Finance company	**12.81**	**15.80**	**19.58**	**38.81**	**22.05**	**3.34**	**14.57**
Brokerage	2.29	0.11	0.17	0.30	0.01	2.66	1.63
Leasing	1.04	35.41	0.13	6.08	4.17	0.10	2.71
Other non-depository	0.74	0.37	16.66	0.07	0.11	3.76	3.58
Family	0.89	3.25	3.49	0.97	1.97	19.09	3.79
Other business	0.45	5.57	0.42	2.85	4.97	10.74	2.43
Government	0.10	0.09	2.82	0.27	2.00	5.10	1.33
Other individual	0.13	0.02	0.02	0.08	0.01	9.39	1.26
Not classified	11.47	4.48	0.00	1.05	4.13	2.46	7.19
All	100.00	100.00	100.00	100.00	100.00	100.00	100.00