SMALL BUSINESS
RESEARCH BULLETIN

Financing Patterns of Small Firms: Findings from the 1998 Survey of Small Business Finance

This study presents statistical tables that profile the finance patterns of U.S. small businesses and various subcategories. The tables are based on the Federal Reserve Bank's 1998 Survey of Small Business Finance. Using the tables, it is possible to compare the borrowing patterns of one group of small firms with all small firms or other subgroups. These businesses' use of financing is examined from different aspects—in terms of suppliers and kinds of credit; frequency of credit use; value of debt by kind of credit and credit supplier; and balance sheets that show the value and percentage of debt and equity for firms in different employment size categories. Financing patterns for all small firms and small minority-owned, Hispanic-origin, and women-owned firms are discussed in the report. Highlights of the report follow.

Financing Patterns for All Small Firms

• Over 80 percent of the small businesses surveyed used some kind of credit and had outstanding debt on their books at the end of 1998. The most frequently used kinds of credit were personal and business credit cards, lines of credit, and vehicle loans. The most important suppliers of credit to small firms were banks and the firms' owners. Finance companies placed a distant third.

• The percentage of small firms using credit normally increases with firm size. This rising trend is most evident in small firms' use of loans from depository institutions (banks, thrifts, etc.). The incidence of loans from depository institutions rose from 22 percent for firms with no employees to 78 percent for firms with over 100 employees.

• However, the relationship between firm size and the use of owners' loans and personal credit cards is flat or even inverse. Here, the percentage of very small firms using these credit sources was as high as or higher than their use by large small firms.

• In aggregate, small business debt outstanding was valued at approximately $700 billion in 1998. Of this, $609 billion was in the six traditional types of credit; an additional $86.5 billion represented loans from owners; and about $4.8 billion was credit card balances.

• The two most important types of credit used were lines of credit and mortgage loans. Together, these accounted for 61 percent of total debt outstanding. Among suppliers, banks were the most important supplier of credit, accounting for 56 percent or $361 billion.

Financing Patterns of Small Minority-Owned and Hispanic-Origin Firms

• Overall, use of external credit sources was less common for small minority-owned and Hispanic-origin firms than for all small firms—77 percent used some type of credit as compared with 83 percent for all small firms.

• Personal credit cards, business credit cards, and lines of credit were the three most frequently used types of credit. Similar to all firms, commercial banks were the most important supplier of credit.

• Divergent patterns in the use of institutional and non-institutional sources of credit were quite notable—a higher percent of small minority- and Hispanic-owned firms obtained credit from non-financial institutions than did all small business.

• The rising trend between firm size and the use of credit from depository institutions was more pro-

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nounced for minority-owned and Hispanic-origin firms than for all firms, especially, in the use of credit from commercial banks and business credit cards.

• In aggregate, total debt outstanding for small minority-owned businesses captured in the survey amounted to $59 billion—including $51.5 billion in the six traditional loan categories, $6.6 billion in loans from owners, and $990 million in credit card debt. This represents 8.4 percent of debt outstanding for all small firms.

• Mortgage loans accounted for around 40 percent of the total, followed by lines of credit, which accounted for 22 percent. Among credit suppliers, banks were most important, supplying 45 percent.

Financing Patterns of Small Women-Owned Firms

• Overall, the financing patterns of women-owned firms bore more similarity to those of small minority firms than to all small firms. Women-owned firms used less of some types of traditional loans and relied on financial institutions less as compared with all firms. Almost 70 percent used non-traditional sources for their credit needs. By comparison, only 55 percent of minority-owned firms used non-traditional sources.

• Credit cards were the most often used kind of credit, followed by credit lines. As was the pattern for all small firms and small minority firms, women-owned firms' reliance on credit grew along with firm size, especially in the use of traditional kinds of credit and credit from financial institutions.

• In aggregate, some 1.3 million women-owned small businesses had $110.3 billion in debt outstanding in 1998, including $99.6 billion from the six traditional types of credit, $9.5 billion from owners, and $1.2 billion in credit card debt. This represents 15.8 percent of all small business debt outstanding. The most important form of borrowing was mortgage loans, which accounted for 43 percent, and credit lines, which accounted for 22 percent.

• Banks were the dominant supplier of credit, supplying $59.6 billion worth of credit, or 55 percent of total debt outstanding.

For More Small Business Information

For the complete report, *Financing Patterns of Small Firms: Findings from the 1998 Survey of Small Business Finance*, visit the Office of Advocacy website at ***www.sba.gov/advo/stats/#finance***. The statistical database is availabe there as well.

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