Small Business Credit in a Deep Recession

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Executive Summary

- Many policymakers misidentify the fundamental bases of small business problems, leading to promotion of faulty policy. The principal immediate economic problem for 51 percent of small employers remains slow or declining sales, six percentage points more citing the problem than one year ago. Uncertainty was identified by over one-fifth (22%) as theirs, followed by access to credit (8%) and falling real estate values (8%), virtually the same as last year. Even among owners who report they cannot get credit, twice as many cite poor sales as cite credit access.

- The percentage of small business owners holding a business loan or credit line each fell almost 20 percent in the last year, though the number of loans and lines outstanding per owner with at least one loan or line remained almost constant. The percentage holding a business credit card(s) fell by about 10 percent. Sixty-two (62) percent pay off their card balances monthly, leaving 38 percent using business cards as a source of credit.

- The financial institution extending a line of credit changed the terms/conditions of the line(s) during 2009 for 29 percent of small employers having at least one. About 10 percent with a business loan had the same experience as did 22 percent with a business credit card. The most frequent change was increased interest rates.

- Fifty-five (55) percent of small employers attempted to borrow in 2009; 45 percent did not, although five percent of owners, so-called discouraged borrowers, did not try because they did not think they could obtain credit.

- Forty (40) percent of small business owners attempting to borrow in 2009 had all of their credit needs met; 10 percent had most of their needs met; 21 percent had some of their needs met; and, 23 percent had none of their credit needs met. The current level of borrowing success is significantly lower than in the mid-2000s when up to 90 percent had their most recent credit request approved.

- In 2009, about 20 percent of small employers attempted to obtain each of the following types of credit: vendor loans, credit lines, renewal of credit lines, business loans, and business credit cards. The least difficult to obtain was a credit card (73% successful); the most difficult was a new line of credit (38% successful).

- The best predictors of success in meeting credit needs were: higher credit scores, customers of banks with less than $100 billion in assets, more properties collateralized for business purposes, and fewer second mortgages held. Owners of larger small firms, older businesses, and businesses located in states with relatively few home foreclosures are also frequently good predictors of success in obtaining certain types of credit.

- Overwhelmingly, the most common planned purpose of credit rejected was to fill cash flow needs. Though many prospective borrowers had multiple planned purposes for rejected credit, about one in three sought at least some money to replace plant, equipment and vehicles with a non-mutually exclusive third intending to invest in additional plant, etc.

- Falling real estate values (residential and commercial) severely limit small business owner capacity to borrow and strains currently outstanding credit relationships. Ninety-five (95) percent of small employers own real estate, including a primary residence, the business premises (commercial), or investment real estate that is neither of the two. Twenty (20) percent hold one or more mortgages on real estate that finances other business assets and 11 percent use real estate as collateral for business purposes. A non-mutually exclusive 20 percent hold a second mortgage on a property. Thirteen (13) percent report at least one property upside down.

- Broad and deep real estate ownership is a major reason why small businesses have not yet begun to recover, why larger businesses have been able to recover more quickly than small businesses, and why this recession is different, at least for small business owners, from recent ones.

Small Business Credit in a Deep Recession

Unquestionably, 2009 was a most unpleasant year for small employers. NFIB's *Small Business Economic Trends* monthly documented their economic struggles and the resulting picture was consistently grim.[1] Yet, fundamental questions remain about the small business condition, questions that require informed answers prior to formation of appropriate policy response. Credit access occupies a central position in this regard. Yet, the focus on credit does not stem from data, for there is a near vacuum of that, but from anecdote, speculation, and the lack of policy alternatives to address an immediate, pressing situation. The following is an attempt to contribute to the discussion by adding relevant data to it, thereby hopefully improving the policy response to at least some of small business's current challenges.

The Current Climate

The current recession officially began in December 2007, and small business owners were clearly in the process of retrenching as the new year (2008) began.[2] Still, money was plentiful, though by spring credit was tightening. The number of small business loans and their dollar volume rose 11 percent and 4 percent respectively between June 2007 and June 2008.[3] General small business conditions, though deteriorating by the summer of 2008, were still more reminiscent of 2001 than of 1982.[4] But the gradual decline ended abruptly in September 2008, when the world began to crash in on many. Economic conditions on Main Street swiftly deteriorated from that point, reaching their nadir in the late winter/early spring of 2009. Sales stabilized throughout the remainder of the year, at a terribly low level, the worst on a sustained basis in at least 35 years and probably much longer. Yet, despite the U-shaped course that now leaves more than a few green shoots peeking out from the Wall Street pavement, Main Street reports virtually no change in its economic condition today compared to one year ago.[5]

A modest chorus complained about small business credit access in late 2008 and early in 2009, much of it associated with frozen secondary markets for government-backed securitized loans. The amount of credit accessed by small business did fall. Yet, sticky credit markets were not so much the problem as the steep slide in sales and the collapse of real estate values.[6] Poor sales and tumbling real estate values that had often supported small business borrowing conspired to virtually destroy numerous balance sheets. One immediate result was a drop in demand for credit from previously credit-worthy borrowers accompanied by a decrease in their numbers.[7] Between June 2008 and June 2009, the number and dollar volume of small business loans fell 16 percent and 4 percent respectively.[8] It appears little has changed in that regard during the latter half of the year. Moreover, accelerating net declines in commercial mortgage lending to small businesses will further constrict their capacity to borrow into the immediate future.

In good times and bad, there is a core of firms that buck prevailing trends. That percentage of firms is relatively small today. Eight percent of small business owners see themselves as immune, essentially unaffected by what has happened in the last year. Ninety-two (92) percent, in contrast, feel the impact from changes in the nation's economy over the past year (2009) (Q#1). Forty-seven (47) percent of those impacted indicate the year's economic changes affected them significantly and another 18 percent indicate they were affected considerably. Eighteen (18) percent more say they were affected somewhat and 10 percent say they were affected modestly.

The Sales and Credit Problems

The principal problem associated with the current economic condition for a majority (51%) of small business owners impacted by the year's economic changes remains slowing and/or lost sales (Q#2). That 51 percent figure is six percentage points higher than one year ago.[9] While the bottom for poor sales was likely reached in the summer, they continue to slide, hovering just above those lows.[10] In fact, 60 percent report lower real sales (34% "much lower") this year (2009) compared to last; just 15 percent report them higher (Q#19). Profit figures mirror sales numbers. Sixty-one (61) percent report lower earnings figures this year than last while 15 percent report them higher (Q#20). Poor sales and profits have consequences beyond immediate

owner(s) fortunes, of course, the most prominent being dampened investment in people (employment) and goods.

Industry is associated with small employers who identify the sales problem as their most critical. All major industry groups except health and social services have experienced notable sales impacts from the current economy. However, manufacturers, wholesalers (together 66%), and those in the hospitality industries (63%) are comparatively likely to identify poor sales. Professional services accounting for 10 percent of firms are more likely to point elsewhere (43% cite sales).

The second most cited immediate problem (21%) is the unpredictability of business conditions. Virtually the same level (23%) of concern with predictability was expressed one year ago.[11] Data produced elsewhere suggest that the nature of unpredictability (certainty) may be shifting somewhat from economic to political concerns, such as new taxes.[12] Regardless of its cause however, the risk to investment rises during periods of unpredictability, making investment less likely to occur at that time. Confidence matters. *Small Business Economic Trends*, for example, shows capital investment over the last several months bouncing around record low levels and staying there.[13]

Obtaining credit (8%) and falling real estate values (8%) were the third most frequently cited immediate problem associated with the current economic condition. Both received one percentage point fewer mentions in 2009 than in 2008, indicating no change in their relative importance over the last 12 months.[14] In fact, twice as many who attempted to obtain credit and could not get any call their most important economic problem sales rather than an inability to obtain credit. The relatively small number citing credit, however, is not tantamount to saying that small employers with more pressing matters do not have concerns over credit access, if not today, then as they begin to recover. Yet, at this point, recovery has not begun on Main Street, let alone taken hold.

The current comparatively modest concern with credit access should not be interpreted to mean that credit flows the same way today that it did just a few years ago. Quite the contrary! The situation is very different.[15] Thirty-four (34) percent of respondents say that they cannot judge the ease/difficulty accessing credit today compared to three years ago (Q#3). But of those who can judge, 32 percent claim credit availability has not changed in the last three years while 23 percent claim credit is more difficult to obtain than three years ago and 38 percent assert it is *much* more difficult. The verdict is virtually unanimous. Less than five years ago, 90 percent of small employers were able to fill their most recent credit request.[16] That level of lending may have been unduly high by traditional credit standards, but offers a sharp contrast to the present condition nonetheless.

Even considering the relative ease that small business owners enjoyed in obtaining credit during the mid-2000s, the turn-around is remarkable. Moreover, the problem does not appear to be relenting. Those who evaluated credit access compared to three years ago were asked to make the same evaluation compared to three months ago. Of that group, 31 percent indicate that they cannot judge (Q#3a). But of those who can, 60 percent assert that credit is tighter in early winter of 2009 than it was in early autumn. Another 36 percent sense no change. Credit questions in NFIB's monthly *Small Business Economic Trends* survey yields similar results. Overall, there is little doubt that small business owners think credit remains difficult to obtain by recent standards and the situation is getting worse rather than better. The extent to which the latter reflects new demand for credit is not known.

The continuing negative impact of real estate values on small business is generally not appreciated. Eight percent think real estate values are their most important economic problem. That concern is not confined to a specific industry or a specific region of the country. Still, differences exist by both industry and location. Twenty-three (23) percent of small employers in the combined construction and real estate industries identify it. And, 11 percent of small employer firms in the five states, Arizona, California, Florida, Michigan, and Nevada, where the most frequent mortgage foreclosure problems appear, identified real estate values. Falling real estate values elicited the only real difference in assessment of economic problems between small employers in this group of states and those in the rest of the country.

The fifth and most infrequent response at 4 percent was the cost and/or terms of credit. The survey collected little data on the cost, terms, or conditions of credit. However, as will be subsequently demonstrated, a non-mutually exclusive 7 percent rejected a type of credit due to its terms/conditions and another non-mutually exclusive 10 percent accepted a type of credit while expressing dissatisfaction with its terms/conditions.

Four percent also volunteered none or no specific issue and 4 percent more did not know. Since the question provided only five possible responses, potential responses, such as tax increases, were not part of the evaluation.

The Policy Response

Small business owner responses make it clear that the Administration and Congress never understood and still do not understand Main Street's problem. The problem is sales and to a lesser extent uncertainty. Real estate is also a major issue as will be shown because it is a prime reason that many small employers either do not want to borrow or cannot do so. Access to credit is down the list, though it obviously is of deep concern to many.

Both ends of Pennsylvania Avenue[17] have done little to stimulate sales, knowingly initiated major destabilizing

policy changes in a deep, destabilizing recession, lost interest in working out real estate issues, and chose instead the ineffective route to increase small business access to credit by increasing the number and size of Small Business Administration (SBA) loans, the latter being a bit like using a garden hose to put out a house fire.[18] Yet, with sales conditions likely to improve at some point accompanied by new demand for credit, the relative importance of credit availability could increase significantly, making the focus on credit at last an appropriate policy for smaller firms. When that does occur, the critical point will be to first understand why small business lending is limited and to address that problem, rather than to first devise solutions for some undefined or secondary issue.

Having spent hundreds of billions already with little visible effect, the policy dilemma now is whether to stimulate sales and further undermine confidence, or to reestablish confidence and let it build into sales. Small business owners are likely divided on the question.

In the interim, the consequences of the earlier failure to recognize the small business problem and address it wisely are a rapidly diverging economy with large firms recovering and small firms not. It is no coincidence that the GDP growth rate for the third quarter was twice revised sharply downward as additional data came in.

Preliminaries

The following pages prominently mention three factors that need prior explanation. The first is the primary financial institution patronized by each small employer in the sample, particularly the size of that institution and therefore the amount of Troubled Asset Relief Program (TARP) funds they were likely to have received. The second is the Dun & Bradstreet credit score for each sample firm (owner), a measure of a business's creditworthiness. The third is the respondent's position in the business, either as owner or employee-manager.

Financial Institutions Small Businesses Patronize

Small business owners typically patronize more than one financial institution. Though 37 percent use a single institution, a majority use two (34%) or three (17%) (Q#8). Comparatively few (9%) use four or more. Owners of the smallest businesses on average use about as many institutions as do owners of the largest. Those owning firms in the financial services and scientific, professional and technical services use somewhat more institutions than others, but the differences are not stark. Distinct from those respondents not answering the question, 2 percent operating employing small businesses report not using a financial institution at all. Almost all of these are among the very smallest employers.

The primary financial institution of small employers is almost always a commercial bank. Ninety-four (94) percent identify a bank compared to just 3 percent whose primary institution is a credit union (Q#8a). Less than 1 percent identify a savings and loan. The remainder of respondents list "other". All but one respondent claimed a primary institution.

Since financial services deregulation began in the early 1980s, competition for small business's banking business has been growing steadily to the point where airport billboards advertise for small business customers and mail and in-person solicitations of individual small businesses have become common.[19] Large banks compete for small business customers as vigorously as small banks do. By November/December 2009, 46 percent of small business owners indicate that one of the largest 18 commercial retail banks was their primary financial institution (Q#8b, Q#8c).[20] Another 18 percent of the population term a regional bank as theirs (Q#8d). The primary institution of 34 percent more is a local bank. No respondent claims an Internet bank as their primary institution.

Small businesses do not often change principal banks. Despite the recent upheaval in the banking industry, just 5 percent say that they have changed their primary financial institution in 2008 or 2009, not including the predecessor of a merged institution (Q#8e). A comparable figure was recorded in the mid-2000s, a period of greater stability and small business credit access.[21] Typically, there are two reasons small business owners do not switch financial institutions as frequently as they might other suppliers, the cost of changing and the relationships that are built. Relationships presumably are more important when the business needs help.

Credit Scores

Credit scores are typically critical when extending credit to a business or to the owner of a business, particularly when the borrower is either unknown to the lender or not known very well. The most recognized organization providing commercial credit scores is the Dun & Bradstreet Corporation (D&B), though lenders commonly use personal credit scores from the three major national credit agencies to assess the personal creditworthiness of small business owners as well.

D&B's PAYDEX values are the outcomes of a commercial credit scoring system, developed from firm-specific data such as prior repayment history, that forecast the amount of time from a due date that it will take a business customer to complete the payment terms of a credit agreement.[22] The higher the score in D&B's PAYDEX system, the shorter the time a customer typically takes to complete payment terms; the shorter the time it takes a customer to pay (the full terms/conditions of the payment agreement), the more likely the seller/vendor is to extend credit and vice versa. The most recent PAYDEX values for each surveyed firm were appended to the survey data file. Scores were obtained for 741 of the 751 firms in the

sample. They range from 1 to 100, with an 80 meaning to expect payment in line with terms of the agreement. Thirty-seven (37) percent of the sample scored 80 or above. Still, according to Experein, a major credit agency, small businesses are better paying on time than large ones.[23]

Owner and Employee-Manager Respondents

The third preliminary is the respondent's position in the business. When initiating the survey, the interviewer first asks to speak with the owner. The owner is not always available. He/She may be out for an extended period, quasi-retired living elsewhere, managing another business they own, on vacation, and so forth. Therefore, in a typical survey of small employers about 12 percent of respondents will be managers but not owners (employee-managers), as in this one (Q#D1).[24]

Employee-managers can respond authoritatively to most questions posed in most small business surveys, sometimes better than an owner, particularly an absentee owner. However, employee-managers either cannot answer some questions in this survey or the answer they can provide is not relevant. For example, a series of questions address home ownership and the home's use in financing the business. The house is relevant to many small business owners financing their firms, but an employee-manager's house is irrelevant to financing the boss's business. Information collected about the manager's house, therefore, is not useful. Hence, the following analysis, notably the portions involving real estate, typically includes owner responses only.

No systematic, authoritative study presents the profile of owners who do not manage their firms.[25] We do know that managed businesses tend to be somewhat larger than owner-managed businesses and females are more likely to manage small businesses than own them.[26] As a result, variables (survey questions) which have a strong firm size relationship, such as, commercial real estate ownership, underestimate the extent of the phenomenon measured. The underestimate will be small however because larger small firms, those most likely to have employee-managers, represent a relatively small proportion of the small business population. If the survey were to measure volumes, such as, size of loans, which it does not, rather than frequencies, such as, numbers of loans, which it does, a serious measurement issue could arise. Without compelling evidence to the contrary, it is assumed that female and male employee-managers perform the same.

Changing Conditions for Small Businesses Credit

Since the beginning of the year some small employers have complained about the terms and conditions of credit extensions being changed unilaterally by lenders, including their revocation. Lenders frequently have done so, with changes on credit cards more common than changes on loans. Changes in credit lines fall between. The data at times contain too few cases to present results. But where the numbers are adequate to present, the changes often prove more irritating than harmful, though many report negative impacts.

Loans

Thirty-six (36) percent of small business owners currently have one or more business loans outstanding, not including credit lines or credit cards (Q#10). That figure is eight percentage points less than one year ago, constituting a decline of roughly 18 percent.[27] Owners of larger small businesses are 14 percentage points more likely to have a business loan outstanding than owners of smaller ones. A year ago the gap was 21 percentage points, indicating that over the past year the owners of larger, small firms were those most likely to have rid themselves of a business loan payment. Among major industries, manufacturers are most likely to have a business loan (49%), partially because of their comparatively large average size. Those in the professional, scientific and technical services fall at the other end with just 19 percent having one.

A majority (55%) of small employers with a business loan have just one (Q#10a). Yet, 22 percent have two, 14 percent three, and 7 percent have four or more. These figures changed little over the past year. One year ago, the percentages were 58 percent, 25 percent, 9 percent and 7 percent respectively.[28] Thus, while the number of firms with a loan has fallen sharply, the average number of loans per small employer with a loan has not.

If credit lines were to be included in the loan count, the number would rise considerably. Fifty-eight (58) percent of those with a loan also have at least one line.

A small firm's primary financial institution typically made the business loan the owner currently has (69%), or the largest loan if the owner has more than one (Q#10b). Still, 30 percent found their business loan elsewhere. "Elsewhere" more likely than not means a finance company. Finance companies according to the Survey of Small Business Finances (SSBF) were used by nearly one-fourth of small employers for a loan or line, whereas banks were used by a non-mutually exclusive 46 percent of them.[29]

Relatively few lenders changed the terms/conditions of loans to their small business customers over the last year. Ten (10) percent with a loan or about 2 percent of the population experienced a change (Q#10c). The survey requested the nature of any changes and their impact on the affected firm. The number of cases (N = 30) proved too few to report totals or make assessments, though the consequences for changes in loans appears more serious than changes in lines and credit cards.

Credit Lines

The proportion of firms with at least one line of credit fell by 19 percent between late 2008 and late 2009. Forty-six

(46) percent of small employers possessed at least one line of credit in late 2009 (Q#9) compared to 57 percent in late 2008.[30] That, in turn, was down from 62 percent in the prior summer.[31] (Credit lines do not include credit cards and respondents were instructed to differentiate between them.) Firm size was associated with possessing lines. Just 41 percent of those employing fewer than 10 people currently have a credit line while 68 percent of those employing 20 or more people do. The reduction in lines from the prior year was centered on the smallest firm size category. In late 2008, 54 percent of those employing fewer than 10 people reported a credit line.

Most (73%) possessing credit lines have a single line (Q#9a). However, 18 percent have two and another 8 percent have three or more. One year ago the comparable figures were 63 percent, 28 percent, and 8 percent respectively.[32] The comparison suggests that, among owners with lines, there was only a modest change in the number of lines. And, that is exactly the impression small business owners have of their situation. Eighty-eight (88) percent of those with a line indicate that they have the same number of credit lines now that they had at the beginning of the year (Q#9b). Five percent indicate that they have more lines now and 7 percent fewer. Since those currently without a line were not asked the question, the calculation of the average number of lines per owner with a line compared to last year is biased on the upside.

Eighty-seven (87) percent of those lines (the largest line for those possessing more than one) were extended by the firm's primary financial institution (Q#9c). Small business customers were about equally likely to have credit lines regardless of their primary institution's size.

Twenty-nine (29) percent of small employers with a line or 13 percent of all small employers assert that the financial institution extending the line has changed terms/conditions of their line/largest line within the last year (Q#9d). That is almost triple the rate of changes on conventional loans. The most common change (42%) was an increase in the interest rate (Q#9e). A required personal guarantee (18%), increased collateral requirements (13%), and a cut in line's size (8%) were also reasonably common actions. A withdrawal of the line occurred in only 2 percent of cases, but again the question was not asked of those without a line. The good news is that 10 percent saw a lower interest rate.

Scattered responses indicated more than one action was taken. The effect of these second responses adds to the percentages identifying each of the four actions above, thereby magnifying their impact. Five percentage points more indicated a need to increase collateral (18% total); four points more had the size of their lines cut (12% total); three points more required a guarantee (21% total); and, two points more had increased rates (44% total).

The change in credit line terms/conditions usually did not impact the business adversely. The most common description of the changes (43%) was that they were more irritating than harmful (Q#9f). Another quarter found them having no impact (15%) or actually helpful (10%). Yet, 13 percent evaluated the changes as very harmful and 19 percent as harmful. Further evidence of the often modest impact of changes in credit lines was the relatively few who explored replacing them with lines from another source. Just 25 percent of those with changed terms/conditions tried to replace their line, 10 percent successfully and 15 percent unsuccessfully (Q#9g). The remainder (76%) did not try.

Credit Cards[33]

The questionnaire differentiated personal and business credit cards for respondents by defining the former as having the person's name on the card and the later as having the business's name on the card.

a. Personal Credit Cards

Personal credit cards often have an important role in small business finances, particularly in the smallest firms. But to analyze their role and significance, a distinction must be made between the personal credit card(s) of owners and the personal credit card(s) of employee-managers. Theoretically, employee-managers should not use personal credit cards for business purposes. The practical consequence of such use is equivalent to an employee extending a loan to the business owner. However, this practice is common under certain conditions. For example, the employee may be required to use a personal credit card to pay for lodging and/or meals on a business trip to be reimbursed later by the owner/business. Or, the employee may charge supplies to a personal credit card to be repaid from petty cash. In all, one-third of employee-managers used their personal credit card(s) for business purposes. But the survey did not determine the purpose of card use. Since we could not distinguish between the common use of employee credit cards for business purposes as outlined above compared to use as a traditional source of credit, the following analysis and data on which it is based excludes employee-managers and focuses exclusively on owners' personal credit cards.

Forty-two (42) percent of small employers use a personal credit card for business purposes (Q#11). That is three percentage points higher than in early 2008.[34] A majority (54%) using a personal card(s) employed a single card while another 24 percent used two of them (Q#11a). Twenty (20) percent used more than two. The number of cards used near the end of 2009 and their distribution across firms was approximately the same as at the beginning of the year. Eight percent indicated using more at the end of the year than the beginning and 9 percent indicated fewer; 82 percent did not change (Q#11b).

The amount of business expenses typically charged to personal credit cards varies substantially. Twenty-eight

(28) percent charge less than $500 a month on average while 9 percent charge $10,000 or more (Q#11c). The median is about $1,250. However, the critical point is not so much the amount charged as the amount that incurs interest when balances are not paid in full at the end of the month. Credit card interest is very high and other charges are common. That makes credit cards a very expensive source of credit. Seventy (70) percent pay off the business expenses on their personal credit cards every month (Q#11d); 79 percent of those owning businesses employing 20 or more people do. These small employers will incur no charges for the items charged to their card(s), other than perhaps an annual card fee. But the remaining 30 percent, those who use personal credit cards as a source of finance, face a much different situation. They incur interest charges and those appear to be substantial in many instances, not just in the rate of interest paid, but also in the actual amount paid. The majority have outstanding balances of over $5,000 on their personal cards, half of that number have more than $10,000 (Q#11e). That translates into about 6 - 7 percent of small employers who carry balances of $5,000 or more on their personal credit cards for business purposes.

b. Business Credit Cards

Almost two-thirds (64%) of small firms employ business credit cards (Q#12).[35] That number is about 10 percentage points lower than in early 2008.[36] Larger, small firms are more likely to have them than smaller, small firms, about 10 percentage points more likely. While 59 percent use just one business credit card, another 29 percent use two, 6 percent three and 4 percent four cards or more (Q#12a).

Small firms appeared to have somewhat more business cards at the beginning of the year than at the end, though the change was small. Four percent had more cards while 7 percent had less (Q#12b). The number of cards held by most did not change (89%).

Credit cards are often a high-cost substitute for smaller credit lines. But cards also work as a convenient payment system. Activity of business cards display characteristics of each. For example, small businesses using a business card(s) charge a median of about $2,500 per month of business expenditures on the card(s); about one in five charge less than $500 per month while 10 percent charge $10,000 or more (Q#12c).

Eighty (80) percent pay their balances every month (payment convenience function) while 20 percent do not (credit function) (Q#12d). Owners of the largest firms are more than 10 percentage points more likely to pay them off monthly than others. Balances remaining, particularly large balances, suggest a card's primary use as credit rather than convenience. One-third (33%) carry balances over $5,000, with 20 percentage points on those over $10,000 (Q#12e).

c. Preferred Card

Employee-managers do not/should not regularly use personal cards for business purposes as outlined above. Only owners, therefore, qualify to answer whether personal or business cards are more important in conduct of their business. Seventy-two (72) percent of owners consider a business card more important while 27 percent consider a personal card more important (Q#13). Owners of the smallest firms are particularly likely to rely on personal cards.

Twenty-four (24) percent of small employers using credit cards had the terms/conditions of their most important card unilaterally changed by the issuer (Q#13a). Another 3 percent did not know. The most frequent change experienced by those having involuntary changes made to their credit card was higher interest rates (56%) (Q#13b). Seven percent mentioned higher interest rates as a second answer for a total of 59 percent. Fifteen (15) percent had their limit lowered with another 8 percent offering the action as a second one taken for a total of 26 percent. The most serious blow came to 11 percent who had their card cancelled, but 4 percentage points more gave cancellation as a second action, meaning that 15 percent lost the card. That translates into somewhat over 3 percent of the total population who lost their card (most important card). How many of these cancellations came from card issuers withdrawing from the market, such as Advanta, and how many were singled out because of payment history, credit score, etc., cannot be determined from the data.

The mode reaction of small employers to the unilateral changes made by credit card issuers was that they were more irritating than harmful (47%) (Q#13c). However, almost as many, 42 percent, found them harmful, including 16 percent who found them very harmful. Notably, changes in interest rates and the more irritating than harmful responses were not correlated; nor were limits cut and cards cancelled with the harmful response. One percent reported the changes actually helpful.

Credit Availability in 2009: Overview

Table 1 presents the proportions of small employers attempting to borrow in roughly the first 11 months of 2009 and their success (or lack of) doing so. Fifty-five (55) percent attempted to borrow at least once during that period; 45 percent made no attempts. These figures do not include owners whose businesses did not survive the year, though it is unclear whether their inclusion would change the figures, let alone in which direction they would have changed. These figures also do not count the persistence of attempts.

Small business owners who attempted to borrow during the year were slightly more likely to obtain credit than not. Forty (40) percent obtained all the credit they wanted (Q#5). When the 10 percent who obtained most

of what they wanted are included, just over half of the small employers who attempted to borrow were generally satisfied. That leaves 45 percent who were not. (The remaining 5 percent who attempted to obtain credit did not provide an evaluation.) About half (21%) in the latter category were only able to fill "some" of their needs. However, 23 percent could not obtain any of the credit they sought.

Comparative data collected one year ago, but covering only the prior month and one-half rather than the prior 11 months, are similar with the exception of 11 percentage points more in the 2008 survey who could not get any credit. At that time, small employer firms reported that 34 percent could not get any credit.[37] The extra 11 points (34% compared to 23% in 2009) came from the "most," "some," and "don't know" categories. The "all" category was similar in both years. The short period covering the height of the financial crisis did not allow owners time to search for their financing needs, implying that more time may have allowed more needs to have been at least partially filled. However, additional time during that difficult period may have meant turn-downs for those who had experienced nothing but success.

A second comparison comes from data collected in 2006 and covers the prior three years. Like the three-year comparison discussed in the *Current Conditions* section above, these data show a much friendlier borrowing atmosphere. They indicate that 61 percent of small employers got all the credit they wanted in the prior three years and another 28 percent got most of the credit they wanted.[38] Just 8 percent obtained none of what they wanted. This comparison shows credit much tighter today than just a few years ago.

A third comparison can be made to the Survey of Small Business Finances. It shows that 23 percent applied for a loan in the three years prior to the 2003 survey with just 16 percent of them rejected.[39] These data demonstrate there has been a substantial change, much of it in the last year (2009). How much of this change is due to recessionary conditions, including the real estate collapse, and how much is due to systemic change in the financial system is an unanswered question.

Predictors of Credit Access

Several logical predictors of small employer success in accessing desired credit (or not) appear in the data set. However, after applying the appropriate mathematical techniques to quantify the contribution selected predictors make toward explaining the varying access within the small employer population (see, Appendix Table A for regressions), it appears that combined, they do not do a very good job of explaining access. In other words, much of the differing outcomes individuals experienced cannot be explained by the available data, though notable relationships appear between certain predictors and small business access to credit that deserve comment.

Four predictors contain the bulk of explanatory power for small employer satisfaction with credit outcomes in 2009.

a. Size of Small Employer's Principal Bank

The size of the bank a small business owner considers his/her primary financial institution and credit satisfaction are highly related. Customers of the largest commercial retail banks, defined here as the 18 with over $100 billion in assets (in 2008), are less likely to have achieved favorable credit outcomes in 2009 than those whose primary banking relationship is with a smaller institution. For example, just under 30 percent of small business customers of the largest institutions who attempted to borrow at some point in the year, obtained all the credit they wanted. Meanwhile, half (50%) of small business customers of the remaining commercial banks who attempted to borrow at some point in the year, obtained all the credit they wanted, a 20 percentage point difference. Those who could not get any credit were also more likely to be a customer of the largest 18 banks. Caveats accompany this relationship.

Table 1
Success Obtaining Credit for the Total Population, and Small Business Owners Attempting to Borrow and Not Attempting to Borrow — 2009

Success Obtaining Credit	Attempting to Borrow and Not	Total Population
Outcome of Attempt(s)		
Obtained all credit wanted	40%	22%
Obtained most credit wanted	10	6
Obtained some credit wanted	21	12
Obtained none of the credit wanted	23	13
DK/Refused	5	3
Total	100%	55%
N	447	
No Attempts		
Didn't want to borrow	88%	39
Didn't think could borrow, i.e., Discouraged Borrower	11	5
DK/Refused	1	*
Total	100%	45%
N	304	
Total		100%
N		751

The first caveat is that being a customer at an institution does not necessarily mean that rejected individuals attempted to access credit there. They could have attempted elsewhere. Still, most small employers obtain lines and loans from their primary institution as shown in the *Loans and Credit Lines* sections above, making it highly likely that rejected applicants tried at their principal institution, if not first, then at some point. In addition, the number of financial institutions patronized is not associated with credit outcomes, though the sign is positive, meaning a small employer apparently secures no advantage by balancing a series of banking relationships in obtaining credit. Another caveat is that customers of larger institutions may be poorer risks. Yet, credit score controls for risk, voiding the poor risk possibility as a mitigating factor. A third possibility is that customers of the largest banks are more likely to apply for credit and given the current credit climate, less likely to receive at least all of it they want. But the evidence on this question is, if anything, the opposite. Minimal differences exist in the propensity to make a borrowing attempt by size of primary bank and to the extent they do, they rebut the caveat. Thus, it appears that the nation's largest banks have not filled the credit needs of their small business customers nearly as well as smaller institutions have filled the needs of theirs.

Subsequently, five types of credit extensions will be examined, specifically the predictors of acceptance/rejection for each. Small business customers of large banks are also rejected more frequently for lines, renewal of lines, and business loans from financial institutions, other factors equal. As a result, the body of data from the survey supports the "small business customers of largest banks/less small business credit" relationship.[40]

The data do not distinguish among the 18 banks classified here as the largest. It is likely their relative performance on the small business credit issue varies significantly from institution to institution. Researchers can compare separate institutions in this regard, at least annually, through careful examination of the FDIC's Call Report data. But time does not permit such a large undertaking for present purposes nor is it the idea here to compare institutions.

Before community banks take a public relations victory lap, however, a non-existent relationship must be mentioned. Small business customers of local banks, defined as local and having a few branches at most, did not fare better than the small business customers of regional

banks, banks that are effectively the middle tier and some of which are quite large. The small employer credit satisfaction/bank size relationship is not linear therefore, that is, as banks get progressively smaller customers are increasingly satisfied; rather the relationship is inclusive/exclusive, very large banks and everyone else.

b. Second Mortgages, Credit Scores, Collateralized Properties

The number of second mortgages held typically has about the same explanatory power as customers of the largest banks. Second mortgages appear to signal financial distress or, at least, financial stretch. The more second mortgages held, the more likely credit needs will not have been met (and hence satisfaction low). Twenty (20) percent hold a second mortgage as will be discussed later.

Credit score is also a predictor of satisfaction with the year's credit outcomes. The higher (better) the credit score, the more likely the small business owner was to report all credit needs met and so on. Since credit scores are typically part of a lender's credit decision, in the case of large lenders almost the sole determinant, the relationship between score and credit outcomes should prominently appear as it does.

Another significant predictor of credit satisfaction is the number of properties (real estate) collateralized for business purposes. The greater the number of properties collateralized for business purposes, the greater the satisfaction with credit outcomes. This result at first seems counter-intuitive. Collateralized property appears to signify outstanding liabilities, thereby making the small employer less bankable, other factors equal. But a positive relationship with credit access occurs repeatedly in this data set and can be found elsewhere.[41] Collateralized property for business purposes, therefore, appears to indicate available (untapped) borrowing capacity, successful on-going repayment performance, and, with respect to "business purposes", reinvestment of borrowed capital in the business rather than for personal or family aggrandizement.

The last predictor, significant at only the 10 percent level, is the perceived impact of economic change in the prior year on the business. Owners of businesses who felt a greater impact tended to be less satisfied with credit outcomes. Since it should be assumed that part of an owner's assessment of the economy's impact is the ability, or change in ability, to access credit markets, the relationship is not revelatory. Any surprise is the modesty of the relationship. But the predictor was included here because its presence in explaining discouraged borrowers is necessary later and the use of parallel predictors in both examination of borrowing and non-borrowing is preferable.

c. Other Predictors

Other predictors that might be assumed a priori to be related to satisfaction with credit outcomes were included in the models for theoretical reasons (see, Appendix Table A). Though not significant in the credit outcomes model, these variables are significant in explaining other credit-related phenomena. Such predictors included in the set: employee size of the business, newness of the business defined as less than four years old compared to more seasoned firms, the five states most affected by housing foreclosures compared to all others, and sales in the last two years defined as the loss of at least 10 percent of sales over the last two years compared to those with more favorable sales levels.

Discouraged Borrowers

Not everyone tried to borrow during the year. Of the 45 percent who did not make an attempt, 88 percent, or 40 percent of the entire population, did not try because they simply did not want to borrow (Q#7) (Table 1). But another 11 percent did not try to borrow because they did not think they could get credit. Previous studies have argued these so-called "discouraged borrowers" have the same profile as successful borrowers.[42] Presumably, if they applied, they would quite likely get credit. The data presented here point in a different direction.

a. Predictors of Non-Borrowers

Predictors that differentiate the two groups of non-borrowers diverge sharply from the predictors of borrowing outcomes (Appendix Table B). Only one predictor, credit score, is common to both. But the theme in the predictors that separate small employers who do not try to get credit because they do not want it and because they do not think they can get it is creditworthiness. Discouraged-borrowers on balance appear less creditworthy, but the lack of strong relationships supporting that view makes it more suggestive than conclusive.

The owner's self-assessment of the impact of economic changes on the business in the last year is significant. The more serious the perceived impact, the more likely a small employer is to fall in the group of non-borrowers who think they cannot get credit. This assessment likely reflects the financial condition of the business. But, it is the owner's perception and therefore, like discouragement itself, may or may not square with objective conditions of creditworthiness.

Business age is also a significant predictor distinguishing non-borrowers and discouraged borrowers. Owners of firms three years old and less are more likely to be among those who did not try to get credit because they expected to be rejected. Other measures of business age, such as the number of years in business or even over/under five years in business, have no relationship with discouraged-borrowers. The critical divide is owners of very young businesses and everyone else. Young firms typically are more vulnerable than older ones[43] and, other factors equal, are less likely to access credit. The problem

of newness should be reflected in the credit score, and perhaps it is, but the credit score and new business appear to be independent of one another.

Credit score is the final important predictor of the different reasons for non-borrowing. Small employers with higher scores are more likely not to borrow because they do not want to borrow; small employers with lower scores are more likely not to borrow because they do not think they can. Since credit score is a prime indicator of creditworthiness, creditworthiness becomes a prime differentiator of the reasons for non-borrowing.

b. Discouraged-Borrowers Revisited

The discouraged-borrower phenomenon is not confined to those who do not attempt to borrow. Successful borrowers can also be discouraged if they fail to apply for more credit than they have already obtained due to the fear of likely rejection. The survey asked those who obtained at least some of the credit they wanted whether they desired additional credit, but did not apply because they did not think they would get it. One-third (35%) of successful borrowers, more often owning smaller, small firms, answered in the affirmative (Q#6). In others words, about one in three successful borrowers applied for less credit than they really wanted because they thought they could not get any more credit than they did. Adding this discouraged-borrower group to the traditional discouraged-borrower group more than doubles the number of discouraged-borrowers.

The question becomes why successful borrowers should also sometimes be discouraged-borrowers. A likely answer is recent experience. The two groups of discouraged-borrowers are differentiated by first-hand intelligence about their credit status in current credit markets. While no studies contrast these two groups of discouraged small-employer borrowers, at least a study of which the author is aware, the latter group with its more recent market experience presumably is likely to assess its prospects more accurately. This more realistic assessment may lead them to apply only when prospects for success are reasonable, thereby not risking the credit record "black mark" in over-applying.

The issues for each deserve development elsewhere. But for present purposes, the point to note is that the discouraged-borrower phenomenon is much more pervasive than it appears in traditional questioning.

Credit Attempts: Acceptances and Rejections

The survey assessed five different types of credit: formal vendor loans (such as auto finance company loans, contrasted to traditional trade credit), new lines of credit, renewal of existing lines of credit, business loans from financial institutions, and credit cards used for business purposes. While these do not exhaust the potential sources of credit supply for small employers, they represent the overwhelming portion of it (by volume).[44] Other well-known potential sources include family and government among others, but these sources provide comparatively little financing in the aggregate.

Since the beginning of the year, the majority of those attempting to borrow (54%) sought only a single type of credit from among the five examined. Another 28 percent sought two types, 12 percent three, 5 percent four, and 1 percent all five. The more types sought does not appear strongly related to credit outcomes (success obtaining credit). However, these data do not count the number of attempts to obtain credit, a question that is addressed subsequently.

The survey asked each respondent applying for a particular type of credit about the outcome of their latest attempt. Respondents could answer in one of four ways: 1. credit was extended and accepted with satisfactory terms/conditions; 2. credit was extended and accepted with unsatisfactory terms/conditions; 3. credit was extended, but the applicant rejected the offer due to unsatisfactory terms/conditions; and 4. the applicant was rejected. Responses are consolidated into two categories, accepted and rejected, and a series of predictors are assigned to attempt to determine the factors associated with each. A problem arises at this point. Are those who select answer 3 – credit approved but declined – accepted or rejected? The lending institution did extend credit, meaning the application was approved. But the applicant considered the terms/conditions so unsatisfactory that he could not accept them, meaning the prospective borrower did not get the money. Unsatisfactory terms/conditions, therefore, might be termed a "polite" rejection. Both situations are examined. For each credit type, two binary dependent variables are defined: (l) Credit extended by the lender is accepted by the small employer whether or not terms/conditions are satisfactory (conditions 1 and 2 above) and (2) credit extended by lender whether the small employer accepts or not (conditions 1, 2, and 3 above).

The formal results for each of the 10 (five credit types times two possible definitions of accept/reject) appear in Appendix Table C. The table shows that some predictors are significant more often than others. However, no predictor was significantly associated (positively or negatively) with every type of credit extension. Nor was a predictor necessarily associated with a type of credit when small employer's rejection of a credit offer was classified as an acceptance or as a rejection. The classification of those cases sometimes mattered. It is fair to summarize results of Appendix Table C as similar to Appendix Table A, that is, the predictors associated with the most recent attempt, with notable exceptions, were also those that were associated with credit outcome satisfaction. The relevant predictors will be addressed as a part of the discussion of individual credit types.

Vendor Loans (Not Trade Credit)

Business loans provided through vendors to sell their products frequently originate from captive finance companies, such as GMAC, though now technically a bank, the vehicle financing arm of General Motors and Chrysler. However, it is not uncommon for vendors to have arrangements with banks to provide customer financing.[45] In purpose, these loans are like trade credit; they finance a specific sale. They differ from trade credit in the sense that they are term loans funded by a financial institution rather than payment due in 30 or 60 days directly financed by the seller. The survey described this type of loan to respondents as an attempt to finance a vehicle or equipment for the business through a seller of that vehicle or equipment.

Eighteen (18) percent of small employers tried to get such a loan in the last year (Q#4A) (Table 2). Owners of young businesses, those in the construction, scientific, professional and technical services and the personal services industries were the most interested in procuring this type of loan. Sixty (60) percent of those who attempted to obtain credit via this manner had their most recent attempt accepted with satisfactory terms and conditions (Q#4A1). Another 8 percent took the loan though they were dissatisfied with its terms/conditions, leaving 68 percent of applicants funded. Twelve (12) percent who tried were offered credit, but they rejected it on the grounds of unsatisfactory terms/conditions, meaning 80 percent were offered a loan. Twenty-one (21) percent of applicants were rejected.

Credit score and new businesses were the predictors most strongly associated with the outcome of a small employer's credit application, though the number of second mortgages and hardest hit states were as well (Appendix Table C). As for the credit score, the higher the score, the more likely the application was accepted and the owner obtained the money.

Owners of new businesses, defined as less than four years old, struggled. The chances that they obtained a vendor loan were substantially lower than others, all factors equal. Lenders fear losses from owners of these businesses more than they fear them from others and with reason. Higher rejection rate for the owners of these firms involves the instability of new businesses. New businesses are geometrically much more likely to fold than are older ones.[46] But whether the rejection rate should be the multiples that it is raises questions.

The number of second mortgages, which as previously discussed, represents a small business owner's financial weakness and perhaps over-extension, is also associated with acceptance/rejection of a vendor loan for the purchase of business equipment or vehicles. The greater the number of second mortgages a small business owner holds, the less likely the owner is to obtain credit.

Small employers in the states hardest hit by housing foreclosures (AZ, CA, FL, MI, and NV) were also less likely to obtain vendor credit than firms in the other states. Since the author controlled for credit score, the issue is not the creditworthiness of individual small business owners in those states, at least not directly. Rather, the reason may be the condition of lending institutions in those states. Even with the mobility of capital, weak local savings (deposits) and higher loan defaults mean less money that financial institutions have to lend (though there is also reduced demand for credit) and hence greater difficulty for small employers getting it. More likely are repayment prospects. Despite favorable credit scores, expected business conditions for potential borrowers may be so poor that evaluations of repayment possibilities are generally bleak. Such conditions would be particularly true for small businesses operating exclusively in local markets, which most do.[47]

The relationship between hardest hit states and the acceptance/rejection of vendor loans varies substantially by the classification of potential borrowers who rejected an accepted vendor loan application due to terms/conditions. It became notably weaker when those rejecting the credit were defined as a credit acceptance. That suggests the vendor loan terms/conditions were relatively more severe in the five states, presumably to compensate for greater default rates in the local population.

New Credit Lines

New credit lines were the most difficult type of credit for small business owners to procure in 2009 (Table 2). Twenty (20) percent, one in five, applied for a new line of credit, about the same proportion who applied to renew existing lines (Q#4B). Owners whose sales were increasing were most likely to apply and the more the increase, the more frequent the application. However, just 30 percent of applicants obtained a new credit line with satisfactory terms/conditions; another 7 percent took out a new credit line, but with unsatisfactory terms and/or conditions (Q#4B1). In contrast, half (50%) had their application turned down. Another 9 percent rejected the financial institution's line offer on the grounds that the terms/conditions were unsatisfactory. Thus, an offer was extended to 46 percent of applicants but six of 10 (59%) applicants did not obtain the new line of credit they sought.

The survey inquired into the reasons for dissatisfaction with the terms and/or conditions of new lines, whether or not the small employer applicant took the new line or not. Unfortunately, the number of respondents to those questions proved too small to assess.

Little shopping for new credit lines occurred. Forty-five (45) percent of applicants approached only a single institution (Q#4B2). Another 25 percent approached two and 23 percent approached three or four. The remaining 4 percent approached five or more with 3 percent not responding. Virtually all acceptances, whether the terms

and conditions were satisfactory or not, came at the first and, to a lesser degree, the second institution approached. More shopping typically did not lead to acceptances, though the number of cases involved (Ns) is thin. Whether further shopping would have proven productive is unclear. However, the distribution of shopping (institutions approached) resembles the distribution of financial institutions small employers use. That suggests shopping was confined to institutions with which an owner had a prior banking relationship.

Seven predictors help explain the lender's decision to accept/reject a small employer application for a new line of credit (Appendix Table C). All have the expected relationship. Credit score is the first predictor. The higher the credit score, the greater the chance an application is accepted. A higher number of second mortgages resulted in a greater likelihood of an application's rejection. Properties collateralized for business purposes have the opposite relationship. The more properties collateralized for business purposes, the more likely the small employer's application will be accepted. Owners of new businesses and those located in a hard hit state are less likely to obtain a new line of credit than others. Customers of the largest banks also fare poorly. They are less likely to obtain a new line than others.

The reasons for these relationships described above have been addressed earlier. However, employee size of business has not been mentioned to this point and it is a significant predictor for new credit lines. Owners of larger firms are more likely to have their application for a new credit line accepted than owners of smaller ones. The obvious reason for this relationship is that size and longevity are related. Larger small firms as a rule are more stable. But age has already been controlled for, so the relationship must hold more, and it does. For example, larger firms are more likely to have a person whose primary function is with finance, a more sophisticated set of books, a detailed, written budget, etc., all of which provide advantages to small employers when applying for lines, or other types of credit for that matter. Scale simply allows greater specialization and economies which translate into a better risk for the lender.

Renewal of Credit Lines

More small business owners applied for renewal of credit lines than applied for any other type of credit (21%) though the difference in frequency among the various types discussed in this report is marginal (Q#4C) (Table 2). About one-third of the small business owners trying to renew their line also were trying to obtain a new one. Those most commonly attempting to renew lines tended to be in the production industries, such as manufacturing and construction, with relatively few attempting to do so in the services. Similarly, owners of older firms attempted to renew lines more often. Renewal obviously requires the presence of an existing line which explains the age relationship, at least in part. The industry issue is tied more closely to granting trade credit and the necessity for large inventory purchases.

Small business owners were considerably more successful renewing lines than obtaining new ones. Still, a significant number were turned down. Fifty-five (55) percent were able to renew their line with satisfactory terms/conditions (Q#4C1). Another 15 percent were also able to renew, but with unsatisfactory terms/conditions. Four percent rejected the offer due to unsatisfactory terms/conditions, meaning 74 percent were extended renewal offers. However, adding the 4 percent who refused the offer to the 22 percent of applicants who were rejected, means 26 percent did not get funded. That equates to about 5 percent of the small-employer population whose most recent attempt to renew a credit line was rejected.

Comparatively few predictors were associated with line renewals (Appendix Table C). Credit score was a reasonably good predictor, again with higher scores more likely to have their renewal application accepted. Employee size was also significant. Owners of larger, small businesses were more likely to obtain a renewal than owners of smaller, small businesses, all factors equal. The number of second mortgages is not a predictor here, likely because of an established relationship with the lender evidenced by the presence of an existing line(s). Beyond these relationships, the data presents some unusual twists.

Dissatisfaction with credit terms/conditions average somewhat less than 20 percent of small employer applicants for each of the five types of credit considered and need to be considered, regardless of whether they accept the credit offer or not. To this point, it made little difference whether those refusing the loan due to unsatisfactory terms/conditions were classified as an acceptance or a rejection. But with renewal of credit lines, classification of those applicants yields differences in virtually all predictors, often substantial differences. The best examples are the predictors, large bank customers and properties collateralized for business purposes. When small employer applicants refuse a renewal on the grounds of terms/conditions and that is classified as a lender rejection, both predictors are associated with line renewal in the expected direction. However, if those applicants are classified as an accepted application, the relation to line renewal evaporates in both cases. (A similar phenomenon strikes the predictor, hardest hit states, but the relationship lacks significance.) The question is the phenomenon's interpretation.

Unsatisfactory credit terms/conditions is a subjective phenomenon. Unsatisfactory to one may be satisfactory to another. Unsatisfactory may also prove acceptable to one, but unacceptable to another. The perceived need for

Table 2
Most Recent Attempt To Borrow And Success By Type Of Credit Sought — 2009

Type of Credit Sought

Borrowing Attempts And Outcomes	Vendor Loan*		New Credit Line		Credit Line Renewal		Business Loan		Bus. Credit Card	
	Total	Attempting	Total	Attempting	Total	Attempting	Total	Attempting	Total	Attempting
1. Attempted to get a _______	18%		20%		21%		16%		19%	
A. Got the ______ with acceptable terms/conditions	(11)	60%	(6)	30%	(11)	55%	(6)	39%	(11)	60%
B. Got the ______, but with unsatisfactory terms/conditions	(1)	8	(1)	7	(3)	15	(1)	7	(3)	14
C. Turned down ______ because terms/conditions unsatisfactory	(2)	12	(2)	9	(1)	4	(1)	4	(1)	5
D. Was NOT able to get the ________	(4)	21	(10)	50	(5)	22	(7)	46	(4)	21
E. DK/Refuse	(—)	—	(1)	3	(1)	4	(1)	4	(—)	1
Total		100%		100%		100%		100%		100%
N		141		168		212		129		139
2. Did NOT attempt To get a _______	82		79		78		84		81	
3. DK/Refuse	—		1		1		—		—	
Total	100%		100%		100%		100%		100%	
N	635		635		635		635		635	

* Loans to purchase vehicles, equipment, etc., from vendors. Not trade credit.

credit and alternative sources should play significant roles in that small employer decision to accept/reject a credit offer with unsatisfactory terms/conditions. It follows that more applicant rejections of unsatisfactory terms/conditions are symptomatic of relatively more stringent terms/conditions, other factors equal. However, no clear proof can be marshaled at this point.

Business Loans from Financial Institutions

Sixteen (16) percent of small business owners applied for a conventional business loan from a financial institution within the last year, with owners of larger small firms somewhat more likely to seek that form of credit (Q#4D). Regardless of classification of loans rejected by the applicant due to unsatisfactory terms, about half got the loan and half did not (Table 2). Thirty-nine (39) percent of the applicants obtained the loan with satisfactory terms and/or conditions and another 7 percent took the loan, though it contained unsatisfactory terms and/or conditions (Q#4D1). Four percent rejected an approved loan due to their terms/conditions, while 45 percent of those seeking a loan from a financial institution or 7 percent of all small businesses were not able to get one.

Half (50%) of all small-employer loan applicants approached only one financial institution and another 21 percent just two (Q#4D2). Ninety (90) percent approached three or fewer. Sixty-one (61) percent who approached a single source obtained the money while 37 percent who approached two or three did. Still, 34 percent who approached one institution were rejected and did not approach another. Since a sizeable minority of those who approached two or three institutions did obtain the desired credit, the critical question is why those rejected at the first institution did not approach others.

A particularly powerful predictor appeared when examining attempts to obtain loans from a financial institution. Small business owners, whose principal bank is one of the nation's largest, were substantially less likely to obtain a business loan from a financial institution than owners whose principal bank was smaller. The same caveats hold here as were discussed earlier (see, *Size of Small Employer's Principal Bank*). But the predictor's explanatory power is very strong and should make small employers patronizing these institutions assess whether their specific institution is an exception to this general rule, and take appropriate action.

Other predictors associated with acceptance/rejection of a business loan application at a financial institution were the number of second mortgages, the number of properties collateralized for business purposes, new businesses, and hardest hit states. The relationships were all in the expected direction and their rationale was presented above (see, *Second Mortgages*, *Credit Scores*, *Collateralized Properties*).

The missing predictor is credit score. Credit score is not significantly related to getting a business loan from a financial institution. Too much might be made of this non-relationship because it is marginally insignificant. Still, it is difficult to explain the absence of a credit calculation in a business loan decision, particularly in light of the presence of predictors that typically appear with other credit access measures. Start with the credit score, however. The Dun & Bradstreet PAYDEX was the scoring system used in the current assessment. Yet, others are also commonly used, such as FICO scores for individuals or proprietary systems developed by individual institutions. One issue, therefore, could be the score used. Another possible issue is the difference between past repayment record and projected use of the credit. Lenders may not share the owner's enthusiasm for the investment that the credit is to finance, particularly if the investment involves real estate. Another possible issue is the way very large and smaller financial institutions do business. Smaller banks are more likely to rely on relationship lending and larger ones on scoring models. Small banks appear to offer more loans to their small business customers than large ones do to theirs. Credit scores, therefore, may not be as related to business loan outcomes as they might otherwise be. The issues or possible reasons for credit score's absence as a predictor are speculative. Yet, they fit the evidence available.

Credit Cards

Nineteen (19) percent of small business owners attempted to obtain a credit card for business purposes in the last year (Q#4E) (Table 2). Credit cards and lines of credit, particularly for the smallest businesses, are often used for the same purposes, though only 29 percent who applied for a credit card also applied for a line of credit.

Almost three in four (73%) of those who applied for a credit card in the last year obtained one (Q#4E1). No other type of credit among the five examined proved as readily accessible. Still, 14 percent accepted the card, but were unhappy with its terms and/or conditions and 5 percent rejected an offer due to them. Twenty-one (21) percent did not obtain the card.

The most recent request was typically for a business credit card, defined as having the business name on the card (78%) (Q#4E2). Still, 17 percent applied for a personal credit card to be used for business purposes. Owners of the smallest, those employing fewer than 10 people, were substantially more likely to choose this course than were owners of the largest.

Sixty-nine (69) percent applied to only one institution in their most recent attempt to get a card (Q#4E3). Another 15 percent applied to two institutions. In all, 93 percent applied to four or fewer. Sweeping credit card solicitations in the mail are common, even if declining significantly. The data do not indicate which side to the

transaction took the initiative. However, the number who applied to a single institution suggests a large share were in response to a solicitation.

The predictors of credit card acceptance/rejection leave one with the impression that cards are pretty much distributed at random. Since credit card issuers obviously do have criteria for issuing them, the data presented here obviously did not capture those criteria. That raises the question, what data would have done so?

Planned Purposes of Credit Rejected

Small business owners attempt to borrow for a purpose. When they are rejected for a loan, the purpose is less likely to be realized. Purposes can be more or less critical to a firm. From the outside, it is not really possible to know which purpose is critical and which is not; or to know realistic adjustments that can be made to compensate for the inability to obtain credit. Still, as a general rule, operating funds, cash flow, inventory replacement and replacement investment, are likely the most critical purposes; new investment, inventory expansion, and reserve/cushion the least.

The survey asked those who did not obtain all of the credit they wanted in the last year and those who did not apply for credit because they did not think they could get it, the projected purpose of the credit they wanted, but could not get. Table 3 presents the purpose(s) of the denied credit. The average is almost three purposes per respondent. Since credit is often taken out by small business owners for more than one purpose, the data do not necessarily reflect loan applications or credit attempts.

The most common purpose of denied credit was to cover cash flow. Seventy-one (71) percent reported that they would have used the denied credit for cash flow or day-to-day operating cost purposes (Q#5a1). Sixty-one (61) percent of the group applied for a new credit line, a credit card or both. This raises the obvious questions, did they absolutely need the cash and, if so, where did they get it? The likely answer for those absolutely needing cash is stretching out payments and collecting receivables, though there are limits to both. Another is digging deeper into family income.

The second most frequently intended purpose of denied credit (48%) was for a reserve or cash cushion should problems subsequently arise (Q#5a6). Fifty-five (55) percent of applicants wanting to borrow for this purpose wanted a new credit line, a credit card or both. Those rejected with the purpose of debt repayment (46%) most frequently wanted a new line or to renew a line (Q#5a5). It is not known how many in the group were rolling-over debt to obtain better terms/conditions.

Forty (40) percent would have used the money for inventory investment (Q#5a7) while 35 percent planned to invest in additional plant, equipment, and vehicles (Q#5a4). Replacement of old plant, equipment or vehicles was the denied credit purpose of 34 percent (Q#5a3). The least frequent purpose of denied credit (24%) was to be used for real estate or structures (Q#5a2). Given the state of the current real estate market, it is also likely that credit was least often requested for this purpose.

The planned purposes of loans rejected varied somewhat by firm size. Owners of larger, small firms were generally more inclined to replace old plant, equipment, etc., and invest in new than owners of smaller, small firms. Since the former are likely to make larger investments than the latter, the loss to the economy is substantially greater than if plans were randomly distributed by size. In contrast, owners of smaller, small firms were more interested in borrowing for debt repayment purposes.

Three purposes, new investment, repayment of debt, and reserve/cushion, produced noteworthy differences between those who obtained most of the credit they wanted and those who obtained none of it (Table 3). Three purposes, cash flow, inventory, and real estate/structure, did not differ by the ability to obtain credit. Replacement investment fell in the middle. If one assumes that better and worse risks generally want credit for the same purposes, a questionable assumption at best, lenders showed more discrimination among borrowers when the purpose of the credit was from among the first three purposes than the next three.

Trade Credit

Most analysts spend the overwhelming amount of their time assessing formal credit markets, including loans and lines from financial institutions and credit cards. Yet, trade credit is the life's blood of many small firms, both on the giving and receiving ends. Most small business owners extend trade credit and most receive it even when the amounts are relatively small. Technically, trade credit is extended only among businesses, meaning trade credit extensions are heavily reliant on the customer base. If the customer base is the public, such as in the typical retail business, then credit extensions are of another kind. They stretch from the more formal arrangements as covered by Truth-in-Lending (confined to only the largest small firms) to the old-fashioned running a tab.

Sixty-five (65) percent of small business owners usually extend credit to customers, 33 percent to most customers, 24 percent to select customers, and 8 percent to customers who ask for it (Q#14). Thirty-five (35) percent do not extend credit to any customer. That distribution appears to have changed modestly from the prior year.[48]

Trade credit extensions vary enormously by industry. For example, 72 percent of manufacturers extend trade credit at least to most customers as do 62 percent of wholesalers. Those dealing directly with the public are less likely to do so.

Table 3
Projected Purposes Of Rejected Credit By Amount Of Credit Needs Filled — 2009

Purpose	Amount of Credit Needs Filled			Total*
	Most	Some	None	
Cash flow	69%	70%	74%	71%
Real estate/Structures	19	26	22	24
Replacement – plant, equipment, vehicles	29	31	35	34
Investment – additional plant, equipment, vehicles	21	34	43	35
Repayment of debt	19	53	43	46
Reserve/Cushion	30	50	53	48
Inventory	40	40	39	40

* N = 266, including 32 cases of "discouraged borrowers," that is, small employers who did not apply for credit because they did not think they could obtain it.

Small business owners can tighten and loosen their trade credit policies as they see fit and conditions warrant. Since the beginning of the year, 29 percent of small employers admit that they have tightened the trade credit they extend, 13 percent tightening it a lot (Q#14a). Just 5 percent loosened trade credit. However, 65 percent report no change in their credit policies. It appears that about 7 percent eliminated trade credit or are in the process of doing so.

The financial problems many firms are experiencing suggest that trade credit should be curbed by extending owners more often than it has been. But poor sales counter the impulse to tighten. Tighter trade credit may mean lost sales, implying critical trade-offs for many small business owners. In fact, tighter trade credit policies are at best marginally more associated with poorer sales than better sales, evidence of the difficult financial choices small business owners encounter.

Careful control of credit extended is not only the potential loss from a customer's defaulting, but also from a customer paying late. At this point, almost half (45%) have no receivables or no receivables more than 60 days delinquent (Q#14b). Given that 35 percent claim to give no trade credit, remarkably few have all accounts current, or reasonably so. Forty (40) percent of small business owners who have receivables have up to one-third of them (in dollar terms) more than 60 days delinquent and another 8 percent have between one-third and two-thirds of their receivables in this condition. Delinquent payments put enormous stress of cash flow, which requires a small business owner to have a strong cash flow, a line of credit, tolerant vendors that allow delinquencies themselves, and/or lots of sleepless nights.

Seventy-one (71) percent claim that their receivables today are about in the same condition that they were one year ago (Q#14c). But of those who experienced change, about three times as many saw delinquencies grow as saw them shrink. Twenty-one (21) percent report delinquencies higher today, 7 percentage points or about one-third of them much higher. Seven percent report fewer delinquencies. Small employers with the most serious delinquency issues are also the ones more likely to have tightened their credit policies.

Small business owners not only extend trade credit, they receive it. Twenty-five (25) percent always pay at the time of purchase, avoiding trade credit all together (Q#14d). Though owners of the very smallest businesses are more likely to always pay at the time of purchase than owners of larger ones, the major differences are across industry, with manufacturers, wholesalers and contractors less often doing so. Retailers approximated the population average.

Forty-four (44) percent think their suppliers have not changed the terms/conditions of their credit policies since the beginning of the year, and 1 percent say that they have loosened credit policy. But 27 percent report their suppliers have tightened their credit policies, 12 percent tightened them a lot. Reports about tightening trade credit extension and trade credit receipt are similar.

Tightening trade credit, as has occurred over the last year, can force small businesses to the formal credit markets, particularly in search of credit lines. Recall that cash flow was the principal projected purpose of rejected small employer credit applications. Credit cards can substitute for credit lines, but they are relatively costly and may not work profitably if balances cannot be repaid

immediately. Thus, when trade credit is stretched to the limit and lines are not available, small business owners may have no choice other than to operate off high cost credit cards, a most unpleasant prospect.

Real Estate Holdings and Their Implications

Collapse of the real estate market provided a catalyst for the nation's current economic difficulties. Unappreciated is the fact that small business owners hold substantial real estate. As a result, when housing and, more broadly, real estate values tumbled, many small business balance sheets followed. The consequences of these losses, if only on paper, were severe, one immediate consequence being a reduced interest in and capacity to borrow. Small business owners often found themselves squeezed. The recession depressed sales which drove them to lenders to cover short-term financing (cash flow) needs just when depressed balance sheets and collateral values made borrowing both difficult and unattractive. Those who had bona fide investment opportunities were frequently caught in the small business version of the mark-to-market issue, the market value of real estate assets (the [potential] loan collateral) having fallen so far that they could not finance their opportunities. In fact, it was this combination of recession-induced poor sales and falling real estate values which has made the current recession so difficult for so many smaller firms. It is also the reason that the ability of many small employers to borrow will be constrained precisely as sales begin to strengthen and new investments are warranted.

The survey addresses real estate in three parts: the owner's residence, the business premises, and investment real estate tied to neither of the other two. Table 4 summarizes the real estate data for each of three types of real estate considered. It presents various measures of real estate and its finance as a percentage of the total small employer population, as a percentage of ownership of at least one property, and as a percentage of holding at least one mortgage on the property.

The term "real estate" for present purposes refers to both land and structures and the term "commercial real estate" refers to land and structures occupied exclusively for business purposes. The commercial term includes industrial as well as the more common commercial category.

The Owner's Residence

Theoretically, the financial worth of an owner's residence has no business implications. A person (with their home) and a business are two separate financial entities, particularly incorporated businesses. Practically, nothing could be farther from the truth. The individual and the business are intimately tied, incorporated or not, meaning that the owner's personal finances, including his home, have implications for the business and vice versa.

Small business owners as a group are well-housed. Ninety-three (93) percent own their residence (Q#17), about 25 percentage points higher than the national average. Moreover, the median value of a primary residence of a family headed by a self-employed person was $213,000 in 2004 compared to the national median of $138,000.[49] Second residences were not considered. Of the primary residences owned by small employers, two-thirds (67%) have a mortgage on them (Q#17a). Twenty-seven (27) percent of those with a first mortgage, or 18 percent of all who own homes, have a second mortgage in addition (Q#17b).

Many home mortgages directly provide resources to finance business activities. Seventeen (17) percent of small employers with a mortgage on their residence took out the mortgage to provide capital for the business (Q#17d). That means approximately one in six small employers (16%) have a mortgage on their residence that helps to finance the business, not necessarily to finance the house. The residence can also help finance the business through its use as collateral to purchase business assets. Seven percent of small employers use their homes for this purpose (Q#17e).

The prevailing assumption moving into the current recession was that housing values continually increased, even if the increase in market values occasionally paused; certainly values never significantly fell for a prolonged period. That truism meant that the net worth of residences was gold for securitizing purchases of business assets or pumping cash into a business's operation. Instead, the value of housing generally did fall, frequently by substantial amounts, leaving some home-owners with an upside-down (under-water) property. The mortgage was worth more than the house. The immediate business implication of the phenomenon for those affected was that their combined personal and business balance sheets contained a liability that formerly was an asset. Other small employers simply watched the value of their property fall. The decline may have left it with a positive net worth, that is, an asset. Perhaps it had been paid off years before. But in either case, the change could have been large enough to require the borrower to post additional collateral or to take steps to improve the balance sheet. But even should remedial activity not have been necessary, the ability of the owner to borrow further from a poorer balance sheet was constrained.

Upside-down residences in many ways are merely emblematic of a larger small business problem. Nine percent of small employers currently own a primary residence that is upside-down. That figure rises to 15 percent, almost one in seven, of those with a mortgage on their homes and marginally higher than one year ago (Q#17c). However, the distribution of small employers in this condition is not spread uniformly across the country. Twenty-eight (28) percent of small employers in the five

states hit hardest by falling housing foreclosures (AZ, CA, FL, MI, NV) own an upside-down home (meaning it is also mortgaged) compared to a 9 percent average in other states. The ability of one in 10 small business owners to borrow is depressed by upside-down housing and for the overwhelming majority by the decline in general real estate values.

The Business Premises

Twenty-four (24) percent of all employing small businesses are located principally in their home or an associated structure (Q#15). While these home-based businesses tend to be firms employing fewer than 10 people, they can be larger. Industry and the "newness" of a firm are also associated with the proportion of home-based businesses. Common examples include construction and professional service firms, both of which have a substantial presence in the small business population. Retail, another large small business sector, is an example of a business not typically located primarily in the home. But for present purposes, these home-based businesses tend to occupy residential real estate and their business premises are classified as residential.

The overwhelming majority (76%) of small businesses occupy commercial real estate, either as owners or renters (leasers). Almost half, 49 percent of small employers whose businesses occupy commercial real estate, own all or part of the building(s) and/or land on which their business is located (Q#16). Two-thirds (67%) employing 20 or more people own such property.

The majority (55%) of small employers owning their business premises have a mortgage on them (Q#16a). Ten (10) percent with a mortgage also have a second mortgage on the property (Q#16b). The prevalence of mortgages on business real property appears substantially smaller when spreading them across the entire small employer population. Still, 27 percent of small employers have a mortgage on their business premises and 3 percent have a second.

As with housing, not all mortgages on the business premises finance the immediate land and/or structures of the business. Sixteen (16) percent of small business owners who own their firm's real estate took out a mortgage to finance other business activities (Q#16d). Eleven (11) percent used the property to collateralize the purchase of other business assets (Q#16e). Real estate used in this manner achieves maximum advantage for the owner when its value is high; the ability to use it, or use it to the extent desired, naturally falls as the value of commercial real estate falls.

Nonfarm noncorporate business data are not always a good proxy for small business, but in this instance they are revealing. They show very large recent increases in mortgage debt, particularly in 2006 and 2007, but by the fourth quarter of 2008 mortgage debt increases had turned negative with each of the three quarters in 2009 increasingly negative.[50] While the action achieving these numbers is to limit new commercial mortgage loans, the broad effect over the last four quarters is that small employers (as a group) are paying off their commercial mortgages. Out of context that general trend is not necessarily bad. But in the current climate, paying off commercial mortgages means another drag on the small business sector of the economy. It also means that the use of commercial real estate for collateral or on which to take out a mortgage to finance other business activities will be constricted.

The good news is that only 5 percent have an upside-down business premises (Q#16c). That level is the lowest proportion of upside-down real estate of the three types of real estate considered.

Investment Real Estate

Almost four in 10 small employers (39%) own investment real estate, that is, land, developed and undeveloped, and/or structures that are neither the owner's home nor the owner's business premises (Q#18). Typically, such investments are not isolated. Two of three (66%) who own at least one own more than a single investment property (Q#18a).

The investment, or largest investment when a respondent owns more than one, carries a mortgage in 56 percent of cases (Q#18b). Thirteen (13) percent with a mortgage also have a second on the property (Q#18c). This investment is also used to support other business activity. Thirteen (13) percent owning investment real estate took out a mortgage to finance such things as additional inventory, repairs and maintenance on business structures, etc. (Q#18e). And, in 9 percent of cases, investment property is used to collateralize the purchase of other business assets (Q#18f).

Eight percent of all those with investment real estate have an upside-down property, equating to 15 percent of those holding a mortgage on the property (Q#18d).

Not all of the investment real estate owned by small employers immediately adversely affects the business (or principal business). Somewhat less than half do not have the property tied up with a mortgage or otherwise collateralized. The businesses of that group should largely be unaffected by declines in real estate values, except to the extent that they would like to borrow against them or sell them to raise capital. The survey offers no data on the intentions questions. Still, it must be assumed that those intentions to raise investment capital will grow as the recession runs its course. Then, they may bump up against the reality of real estate values, especially unencumbered properties.

All Properties

Ninety-five (95) percent of small employers own at least one of the following three types of real estate, a

Table 4
Small Employer Owned Real Estate By Selected Attributes — 2009

Attribute	Residential			Business*			Investment†			All Real Estate		
	Total[1]	Owned[2]	Mortg[3]	Total[1]	Owned[2]	Mortg[3]	Total[1]	Owned[2]	Mortg[3]	Total[1]	Owned[2]	Mortg
Own (at least one)	93%			49%			39%			95%		
1st Mortgage	63	67%		27	55%		21†	56%		71	75%	
2nd Mortgage	17	18	27%	3	6	10%	3†	7	13%	20	21	28%
Mortgaged for Business Purposes	16	17	25	8	16	29	5†	13	23	21	22	29
Used as Collateral	6	7	10	5	11	19	3†	9	16	11	12	16
Upside-Down	9	10	15	1	2	5	3†	8	15	13	14	19
N	635	618	416	533	248	135	635	278	168	635	609	472

* Excludes home-based businesses.
† When more than one owned, refers to the largest investment.
1 Total population; the denominator is the total small employer population.
2 The population owning at least one property; the denominator is the number of small employers owning at least one property.
3 The population with at least one mortgaged property; the denominator is the number of small employers with at least one mortgaged property.

primary residence, their business premises, and investment real estate; 55 percent own two, and 18 percent all three. This count does not include multiple holdings of one type, such as a secondary residence, which as shown earlier in the section on investment real estate occurs often. Nor does the count include the impossibility of the 24 percent who have home-based businesses being unable to own both their home and their business premises. The result is even more real estate holdings than immediately apparent.

Small employer ownership of real estate may be advantageous so long as values are rising faster than can be achieved by reinvestment in the business. But real estate values are not doing that; they are generally declining or at least are lower now than they were just two or three years ago, often substantially so. The result is that most small business owners have lost balance sheet value. Since the data do not contain specific pre- and post-appraisals, the precise number of affected owners and the value of their (paper) losses are not known. And, because real estate is far from the only asset on a balance sheet, real estate losses do not equate to lost value in a business. Still, the impact has been broad and large. That means the small business owners as a population have less capacity to finance new investment, including additional employment, even where potentially profitable opportunities exist. Loan subsidies cannot alleviate the problem under conventional lending standards.

The prior discussion purposefully excludes the sales impact of falling real estate values on the 783,000 small construction firms (less than 100 employees) and 302,000 small firms in the real estate and leasing industries (less than 100 employees), many of which depend on the real estate market.[51] These impacts, though serious for the small business population, lie outside the scope of the current inquiry.

Changes in Real Estate over the Last Year

The amount and use of real estate by small business owners changed little over the prior year.[52] The data appearing on Table 4 could almost be a data table for 2008. The differences in the real data between 2008 and 2009 virtually all hovered in a small range, well within the survey error term.

Two exceptions appear, each moving in a different direction, and indicating that the situation is not static. More small business owners appear to be taking out mortgages on their real property to support business activities. But the additional mortgages are being taken out only on the business premises and investment property; they are not being taken out on the house. For example, the number of small employers who had mortgages on their business premises to support other business activities rose from 20 percent at the end of 2008 to 29 percent at the end of 2009. Similarly, the mortgages for that purpose on investment real estate rose from 11 percent to 23 percent over the same period. The change on the principal residence was a single percentage point. Small business owners are, therefore, using their real estate to support the refinancing of various business activities. The size of the increase in such activity likely signals stress as affected owners must dig deep into their assets to finance present needs. (The data do not address whether there was an attempt to sell the real property before it was mortgaged.) Because these data are derived from two independent samples however, it is not possible to determine which respondents mortgaged assets for business purposes in 2009 and which had done so earlier.

The second possible noteworthy change in the year is that some small employers are seeing deals in real estate markets and are taking advantage of them. Sixty-six (66) percent of those with investment real estate had more than one such property at the end of 2009 compared to 58 percent at the end of 2008. These data are at best an indicator, but suggest that some owners, almost certainly those with healthy businesses and strong cash flows, are opting to pick up cheap assets outside the business's primary activity.

Final Comments

Small business continues to struggle. While Wall Street recovers, Main Street remains in difficult straits and prospects are not bright. Poor sales continue; a real estate hangover remains; and, economic policy simultaneously offers little help while injecting large doses of uncertainty into an already shaken small employer population. Though they take a back seat to sales and real estate, tight credit markets do not help.

The immediate pressing credit issue appears to be credit lines. New lines are the most difficult form of credit to get and one-third of renewal applications are rejected. As trade credit becomes increasingly stretched, both on the giving and receiving ends, pressures on cash flow become intolerable. Lines could alleviate the problem for many. Yet, financing for cash flow purposes is the use of credit most frequently rejected. The problem for small business owners is a lack of alternatives. If a small employer is rejected for a loan to buy a new truck, it may be cost-ineffective to fix the vehicle, but fixing it may still be an alternative. If a small employer is rejected for a loan to purchase new inventory, sales will be hurt, but it is possible to carry on. Cash flow is different. A small employer can stretch paying bills while waiting for customers to pay him, or even dispose of assets. Yet, that can go on only so long. Without backup lines to bridge the temporary imbalance, the alternative is bleak.

Today, half of those small business owners who want to borrow cannot, a much lower success rate than just five years ago. The recession has simultaneously induced a decline in small business owner demand for credit, though perhaps more in volume than in frequency. These

two facts, taken together, cloud the interrelated issues of access and creditworthiness. But while the data presented here do not allow certainty on many critical issues in this regard, they often point in specific directions.

The recent high rates of credit rejection give rise to a question regarding its normality. Is there some historical level of credit access against which to measure the current condition? The short answer is, no. Over the last two or three decades small business access to credit has grown enormously.[53] Small business credit conditions at the turn of the century would have been unthinkable as recently as the 1970s. By the middle of this decade, credit was available to virtually all small employers with a reasonable credit record, collateral, and/or project. That all changed in 2008 and especially in 2009 as shown earlier. Credit access for small business owners now is clearly headed in the opposite direction. Following 30 years of change, there can be no standard; nothing is normal. Small business therefore lies in uncharted territory, contributing to the uncertainty of many small employers and those with whom they associate and do business.

A critical, unresolved question is the creditworthiness of the prospective small business owner borrowers who have been shut out. No one wants a market where credit standards do not seem to matter. But what are the standards and what is creditworthy? The data presented here persistently show a relationship between credit scores and ability to obtain credit (except for new credit cards). Better scores are more likely to produce credit than poorer scores. But that still begs the initial question because the credit score/credit obtained relationship affirmed here is a relative relationship. Credit is dispensed on an absolute basis. One credit applicant, for example, will not obtain credit simply because his credit score is better than the next applicant's. Such data unfortunately are not available here. Without them, an assessment of small business access to credit is incomplete.

Still, it remains highly curious that small employer customers of very large banks appear to have considerably less access to credit than small employer customers of the rest. There is no evidence these two sets of customers differ. So, why does one set of small business customers realize different credit outcomes than the other? One can speculate about the effect of the general approaches toward small businesses employed by these two sets of institutions, relationship lending compared to more mechanical credit scoring methods. But regardless of the reason, the consequences are substantial. If access among the two were similar, at the higher level, considerably more funds would have flowed to small businesses over the year and their problems would have been much less.

The more serious issue affecting creditworthiness is real estate. Small business owner possession of real estate is a major reason why their firms have not yet begun to recover, why larger businesses have been able to recover more quickly than small businesses, and why this recession is different, at least for small business owners, from recent ones. It has damaged balance sheets and they will need to improve before small business can be expected to resume its traditional place in the economy. The planned federal withdrawal from mortgage credit markets will add pressure as will expiration of the new home-buyer tax credit, but that intervention must end at some point. Time will likely prove the best medicine, a cure that politicians hate to prescribe. But, barring acceptable alternatives not yet evident, it may be all that is available.

Endnotes

[1] *Small Business Economic Trends* (series). (eds.) Dunkelberg, WC and H Wade, NFIB Research Foundation Washington, DC.

[2] Economic Downturn (2008). *National Small Business Poll*, (ed.) Dennis, WJ, Jr., NFIB Research Foundation, Vol. 8, Iss. 1, Washington, DC.

[3] Call Report (2008), Federal Deposit Insurance Corporation, Arlington, VA, June.

[4] *Small Business Economic Trends*, op. cit.

[5] Access to Credit (2008). *National Small Business Poll*, (ed.) Dennis, WJ, Jr., NFIB Research Foundation, Vol. 8, Iss. 7, Washington, DC.

[6] Ibid.

[7] Declines in demand for credit by small business owners are difficult to substantiate empirically. The prevailing view is based on anecdote, logic, and the Federal Reserve's quarterly Senior Loan Officer Survey. Decline in demand and decline in applicants are not necessarily the same thing.

[8] Call Report, (2009) op. cit.

[9] Ibid.

[10] *Small Business Economic Trends*, op. cit.

[11] Access to Credit, op. cit.

[12] *Small Business Economic Trends*, op. cit.

[13] Ibid.

[14] Access to Credit, op. cit.

[15] For a description of the prior condition, see, Dennis, WJ, Jr., (2008). Small Business Access to Credit: Yesterday, Today and Tomorrow, prepared for the Swedish Foundation on Small Business Research, mimeo.

[16] Dunkelberg, WC and JA Scott. Evaluating Banks, *National Small Business Poll*, (ed.) Dennis, WJ, Jr., Vol. 5, Iss. 7, Washington, DC. In addition, special tabulations of the Federal Reserve's Survey of Small Business Finances (SSBF) programmed for sample comparability between the SSBF and the current survey shows that 87 percent who applied for a loan in the reference period prior to 2003 got it and 65 percent who applied for multiple loans got them all. For the original table see, Board of Governors of the Federal Reserve System (2007). Report to the Congress on the Availability of Credit to Small Business, October, Table A.9.

[17] The first attempt to address the problem during the Bush Administration occurred in the little-remembered and ineffective stimulus bill in the spring following formal onset of the recession.

[18] Estimates of the proportion of outstanding loans that are guaranteed by the SBA range from 2 to 4 percent of all outstanding small business loans. See, Board of Governors of the Federal Reserve System, op. cit. , Table A.4.

[19] Scott, JA, WC Dunkelberg and WJ Dennis, Jr. (2003). Credit, Banks and Small Business - The New Century. NFIB Research Foundation, Washington, DC.

[20] As a general rule, these 18 retail commercial banks are also the largest recipients of TARP funds.

[21] Bank Competition (2005). JA Scott and WC Dunkelberg, *National Small Business Poll*, (ed.) Dennis, WJ, Jr., Vol. 5, Iss. 8, Washington, DC.

[22] www.dnb.com/us/customer_service/paydex-tables.html. January 4, 2010.

[23] Tozzi, J (posted January 5, 2010). Big Customers Can Be Riskier Than Small Ones. www.businessweek.com. smallbiz/running_small_business/archives/2010/01big_customers_c.html,

[24] Owners and Managers (2008). *National Small Business Poll*, (ed.) Dennis, WJ, Jr., NFIB Research Foundation, Vol. 8, Iss. 8, Washington, DC.

[25] The NFIB Research Foundation's *National Small Business Poll* Owners and Managers compares the demographics of owner-managed and employee-managed firms as well as owner-managers and employee-managers. What is not known is who the owners of employee-managed firms are and how they compare to owner-managers.

[26] Ibid.

[27] Access to Credit, op. cit.

[28] Ibid.

[29] The Survey of Small Business Finances shows finance companies were the second most widely used source for loans and lines of credit, with the vast majority for loans other than lines. Board of Governors of the Federal Reserve System, op. cit., Table A.4.

[30] Access to Credit, op. cit.

[31] Credit Cards (2008). *National Small Business Poll*, (ed.) Dennis, WJ, Jr., NFIB Research Foundation, Vol. 8, Iss. 3, Washington, DC.

[32] Access to Credit, op. cit.

[33] An error in the skip pattern on the original survey required us to reenter the field and capture data missed on personal credit cards the first time through. As a result, the section and tables on personal credit cards are new to the supplemented edition of this volume. The reinterviewing also obtained some changes in business credit card reporting, though the changes are modest.

[34] Credit Cards, op. cit.

[35] Business owners and employee-managers can use business cards. Hence, the numbers cited in the text employ responses from both groups

[36] Credit Cards, op. cit.

[37] Access to Credit, op. cit.

[38] Evaluating Banks, op. cit.

[39] Board of Governors of the Federal Reserve System, op. cit.

[40] Call Report date for the June 2008 – June 2009 suggest the opposite, specifically that the percentage reduction in credit to small business is larger for smaller banks than for larger ones. In this case, larger banks were defined as $10 billion in assets and larger. These data are not pertinent to the present discussion for at least three reasons. First, the number of banks in each size category changes. Some banks enter, some exit; others change category, typically by growing. That usually means fewer small banks exist to extend credit compared to the prior year which by definition means the number and amount of loans fall. For example, the number of banks under $1 billion declined by 273 between the 2008 and 2009 measuring points. Second, the definition in this discussion has been $100 billion and over/under, not $10 billion. The group of banks between $10 billion and $100 billion appeared in the survey data to satisfy their small business customers much better than those over $100 billion. Finally, the Call report presents data for 2008 and 2009, and analysts measure the change between them. But if one group starts at a relatively low satisfaction level and another at a relatively high satisfaction level, a modest percentage change favorable to the lower group does not erase the absolute level of satisfaction advantage enjoyed by the higher. There is no data on start levels, a theoretical construct. Still, it is a potential influence on the data that must be considered.

[41] Board of Governors of the Federal Reserve System, op. cit. , Table A.4.

[42] Cole, RA (2009). Who Needs Credit and Who Gets It? *Small Business in Focus: Finance. A compendium of Research by the Small Business Administration's Office of Advocacy*, pp. 95-132, July.

[43] Nucci, AR (1999). The Demography of Business Closings, *Small Business Economics*, Vol. 12, No. 1, pp. 25-39, February.

[44] Board of Governors of the Federal Reserve System, op. cit.

[45] Ibid.

[46] Nucci, op. cit.

[47] About three of four small businesses acquire 90 percent or more of their sales from customers located less than 50 miles from the business. See, Economic Downturn (2008). *National Small Business Poll*, (ed.) Dennis, WJ, Jr., NFIB Research Foundation, Vol. 8, Iss. 1, Washington, DC.

[48] Access to Credit, op. cit.

[49] Bucks, BK, AB Kennickell and KB Moore (2006). Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances, *Federal Reserve Bulletin*, Vol. 92, March 22, pp. A1 – A38.

[50] Board of Governors of the Federal Reserve System (2009). *Flow of Funds Accounts of the United States*, Third Quarter, 2009. Table F.103.

[51] Access to Credit, op. cit.

[52] http://www.sba.gov/advo/research/data.html

[53] Dennis, op. cit.; Williams, V and Ou, C (series). *Small and Micro-Business Lending in the U.S.*, Office of Advocacy, U.S. Small Business Administration, Washington, DC.

Small Business Credit in a Deep Recession

(Please review notes at the table's end.)

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms
1. Have the changes in the nation's economy over the past year affected your business?				
1. Significantly	47.5%	48.2%	36.8%	46.5%
2. Considerably	16.2	20.5	27.6	17.8
3. Somewhat	17.6	20.5	17.1	17.8
4. Modestly	10.0	6.0	14.5	10.0
5. Not at all	8.4	4.8	3.9	7.6
6. (DK/Ref)	0.3	—	—	0.3
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751
2. For your business, is the most important immediate problem associated with the current economic situation caused by:?				
1. An inability to obtain credit	7.2%	10.1%	8.3%	7.7%
2. Slowing or lost sales	50.6	51.9	48.6	50.5
3. Falling real estate values	7.6	8.9	5.6	7.5
4. The cost and/or terms of credit	3.9	2.5	2.8	3.6
5. The unpredictability of business conditions	21.1	17.7	26.4	21.3
6. (None)	4.1	3.8	4.2	4.1
7. (Other)	4.4	3.8	2.8	4.2
8. (DK/Ref)	1.1	1.3	1.4	1.2
Total	100.0%	100.0%	100.0%	100.0%
N	321	191	192	704
3. Compared to three years ago, has obtaining credit for small businesses like yours become:?				
1. Much less difficult	0.3%	—%	1.3%	0.4%
2. Less difficult	1.3	1.2	2.6	1.5
3. Not changed	20.1	19.5	28.9	20.9
4. More difficult	15.0	20.7	17.1	15.8
5. Much more difficult	24.6	28.1	22.4	24.8
6. Can't really judge	35.6	28.1	27.6	34.0
7. (DK/Ref)	3.0	2.4	—	2.7
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

3a. Over the last three months, has the trend in obtaining credit for small businesses like yours:?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Considerably eased	0.5%	—%	1.9%	0.6%
2. Eased	1.6	1.8	3.8	1.9
3. Not changed	22.3	31.6	35.8	24.9
4. Tightened	20.1	15.8	17.0	19.2
5. Considerably tightened	23.9	21.1	17.0	22.8
6. Can't really judge	31.6	29.8	24.5	30.6
7. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	217	140	146	503

4. Since the beginning of the year, did you ATTEMPT to:?

A. Finance a vehicle or equipment for your business through a seller of that vehicle or equipment?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	17.0%	18.1%	22.7%	17.7%
2. No	83.0	81.9	77.3	82.3
3. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

A1. What was the outcome of your most recent attempt? You:

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Obtained financing with satisfactory terms	58.4%	—%	—%	60.3%
2. Obtained financing, but with unsatisfactory terms	6.9	—	—	7.6
3. Turned down the loan because the terms were UNACCEPTABLE	12.9	—	—	11.5
4. Was not able to obtain financing from sellers	21.8	—	—	20.6
5. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	61	36	44	141

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

B. Get a NEW line of credit for your business, NOT including credit cards and NOT including renewals of an existing line?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	18.7%	26.8%	25.0%	20.2%
2. No	80.4	73.2	75.0	79.1
3. (DK/Ref)	0.8	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

B1. What was the outcome of your most recent attempt? You:

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Obtained the new line with a satisfactory limit AND terms	29.1%	28.6%	—%	30.2%
2. Obtained the new line, but with an unsatisfactory limit OR terms	7.3	9.5	—	7.4
3. Turned down the line because the terms were UNACCEPTABLE	8.2	9.5	—	9.4
4. Was not able to obtain the new line	52.7	42.9	—	49.7
5. (DK/Ref)	2.7	9.5	—	3.4
Total	100.0%	100.0%	100.0%	100.0%
N	65	54	49	168

B2. How many different financial institutions did you approach to try to get the line?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. One	45.9%	42.9%	—%	45.3%
2. Two	23.4	33.3	—	24.7
3. Three – Four	21.6	23.8	—	23.3
4. Five – Nine	5.4	—	—	4.0
5. 10 or more	—	—	—	—
6. (DK/Ref)	3.6	—	—	2.6
Total	100.0%	100.0%	100.0%	100.0%
N	65	54	49	168

C. Extend or renew an existing line of credit for your business, NOT including credit cards?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	17.4%	32.5%	40.8%	21.4%
2. No	81.8	67.5	59.2	77.9
3. DK/Ref)	0.8	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

C1. What was the outcome of your most recent attempt? You:

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Extended or renewed the line with a satisfactory limit AND terms	48.0%	61.5%	71.0%	54.7%
2. Extended or renewed the line, but with an unsatisfactory limit OR terms	14.7	11.5	16.1	14.5
3. Turned down the line because the terms were UNACCEPTABLE	4.9	3.8	3.2	4.4
4. Was not able to extend or renew the line of credit	25.5	23.1	9.7	22.0
5. (DK/Ref)	6.9	—	—	4.4
Total	100.0%	100.0%	100.0%	100.0%
N	65	65	82	212

D. Get a loan for business purposes from a financial institution, NOT including a line of credit or a credit card?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	15.5%	18.1%	20.0%	16.2%
2. No	84.1	81.9	80.0	83.5
3. (DK/Ref)	0.3	—	—	0.3
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D1. What was the outcome of the most recent attempt?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Obtained the loan with a satisfactory account AND terms	36.3%	—%	—%	38.8%
2. Obtained the loan, but with an unsatisfactory account OR terms	6.6	—	—	6.6
3. Turned down the loan because the terms were UNACCEPTABLE	3.3	—	—	4.1
4. Was not able to obtain the loan	49.5	—	—	46.3
5. (DK/Ref)	4.4	—	—	4.1
Total	100.0%	100.0%	100.0%	100.0%
N	53	36	40	129

	1-9 emp	10-19 emp	20+ emp	All Firms
		Employee Size of Firm		
D2. How many different financial institutions did you approach to try to get the loan?				
1. One	52.7%	—%	—%	50.4%
2. Two	17.6	—	—	21.0
3. Three – Four	19.8	—	—	20.2
4. Five – Nine	7.7	—	—	5.9
5. 10 or more	2.2	—	—	2.5
6. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	53	36	49	129

E. Get a credit card or cards for business purposes?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	19.2%	15.9%	20.0%	18.9%
2. No	80.4	84.1	80.0	80.8
3. (DK/Ref)	0.3	—	—	0.3
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

E1. What was the outcome of your most recent request?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Obtained the card with satisfactory limit AND terms	58.8%	—%	—%	59.6%
2. Obtained the card, but with an unsatisfactory limit OR terms	14.0	—	—	13.5
3. Turned down the card because the terms were UNACCEPTABLE	5.3	—	—	5.0
4. Not able to obtain a card	20.2	—	—	20.6
5. (DK/Ref)	1.8	—	—	1.4
Total	100.0%	100.0%	100.0%	100.0%
N	69	31	39	139

E2. Was the most recent request for a business card with the firm's name on it or a personal card with your name on it?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Business	76.3%	—%	—%	78.2%
2. Personal	18.4	—	—	16.9
3. (DK/Ref)	5.3	—	—	4.9
Total	100.0%	100.0%	100.0%	100.0%
N	69	31	39	139

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

E3. To how many different financial institutions did you apply to try to get the most recent card?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. One	67.8%	—%	—%	69.2%
2. Two	14.8	—	—	15.4
3. Three – Four	9.5	—	—	8.4
4. Five – Nine	3.5	—	—	2.8
5. 10 or more	1.7	—	—	1.4
6. (DK/Ref)	2.6	—	—	2.8
Total	100.0%	100.0%	100.0%	100.0%
N	69	31	39	139

5. Since the beginning of the year, has your business been able to get all of the credit you wanted, most of the credit, some of the credit, or none of the credit you wanted? (If applied for credit in Q#4A – Q#4E.)

	1-9 emp	10-19 emp	20+ emp	All Firms
1. All of the credit wanted	38.1%	36.5%	52.0%	39.6%
2. Most of the credit wanted	9.0	15.4	14.0	10.4
3. Some of the credit wanted	21.2	25.0	18.0	21.3
4. None of the credit wanted	25.6	19.2	14.0	23.4
5. (DK/Ref)	6.1	3.8	2.0	5.4
Total	100.0%	100.0%	100.0%	100.0%
N	187	125	135	447

5a. How would you have used the credit you wanted, but could not obtain? Would you have used it for:? (Includes those who did not apply. See Q#7.)

1. Cash flow or operating costs

	1-9 emp	10-19 emp	20+ emp	All Firms
a. Yes	71.8%	73.5%	62.5%	71.2%
b. No	28.2	26.5	37.5	28.8
c. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	117	83	66	266

2. Real estate or structures

	1-9 emp	10-19 emp	20+ emp	All Firms
a. Yes	25.6%	20.0%	20.8%	24.4%
b. No	73.4	80.0	79.2	74.8
c. (DK/Ref)	1.0	—	—	0.8
Total	100.0%	100.0%	100.0%	100.0%
N	117	83	66	266

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms
3. Replacement of old plant, equipment or vehicles				
a. Yes	32.4%	33.3%	45.8%	33.7%
b. No	67.6	66.7	54.2	66.3
c. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	117	83	66	266
4. Investment in additional plant, equipment or vehicles				
a. Yes	32.7%	35.3%	54.2%	35.0%
b. No	65.4	64.7	45.8	63.5
c. (DK/Ref)	2.0	—	—	1.5
Total	100.0%	100.0%	100.0%	100.0%
N	117	83	66	266
5. Repayment of debt				
a. Yes	47.8%	47.1%	25.0%	45.7%
b. No	52.2	52.9	75.0	54.3
c. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	117	83	66	266
6. Reserve or cushion				
a. Yes	48.3%	57.4%	44.0%	48.3%
b. No	48.3	48.6	56.0	49.1
c. (DK/Ref)	3.4	—	—	2.6
Total	100.0%	100.0%	100.0%	100.0%
N	117	83	66	266
7. Inventory				
a. Yes	39.3%	45.7%	37.5%	40.0%
b. No	60.7	54.3	62.5	60.0
c. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	117	83	66	266

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

6. Since the beginning of the year, was there credit you wanted, but did not apply for because you didn't think you could get it? (If applied for credit in Q#4A – Q#4E.)

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes, didn't think you could get credit	35.5%	39.2%	23.5%	34.5%
2. No, didn't want it	63.3	60.8	76.5	64.6
3. (DK/Ref)	1.2	—	—	1.0
Total	100.0%	100.0%	100.0%	100.0%
N	187	125	135	447

7. You indicated that you did not try to get any of these types of credit since the beginning of the year. Was that because you did NOT want any credit or was it because you thought you couldn't get the credit even if you tried? (Had NOT applied for credit.)

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Didn't want credit	87.9%	83.9%	91.7%	87.8%
2. Didn't think you could get credit	11.7	12.9	4.2	11.3
3. (DK/Ref)	0.4	3.2	4.2	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	163	75	66	304

Read: Please think about the firm's financial institutions.

8. How many financial institutions do you use for business purposes?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. None	2.4%	—%	—%	1.9%
2. One	37.9	32.5	32.0	36.7
3. Two	34.5	30.1	36.0	34.2
4. Three	16.8	19.3	18.7	17.3
5. Four	3.0	7.2	5.3	3.7
6. Five or more	4.9	7.2	6.6	5.3
7. (DK/Ref)	0.5	3.6	1.3	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

8a. [Think of your firm's most important financial institution.] Is it a bank, a credit union, savings & loan or another type of financial institution?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Bank	93.8%	97.5%	94.6%	94.2%
2. Credit Union	3.8	1.3	1.4	3.3
3. Savings & Loan	0.3	—	—	0.3
4. Other	1.7	1.3	4.1	1.9
5. (DK/Ref)	0.3	—	—	0.3
Total	100.0%	100.0%	100.0%	100.0%
N	340	193	197	730

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

8b. I am going to read you a list of the large banks in the United States. Please tell me if the PRIMARY financial institution for your business is one of them: Citibank, Bank of America, JP Morgan/Chase, Wachovia, Wells Fargo, HSBC, U.S., Bank of New York/Mellon or Sun Trust.

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	32.8%	36.4%	24.3%	32.4%
2. No	65.7	63.6	74.3	66.3
3. (Don't have a primary institution)	0.2	—	—	0.1
4. (DK/Ref)	1.3	—	1.4	1.2
Total	100.0%	100.0%	100.0%	100.0%
N	320	187	184	691

8c. Is it one of these: Citizens, National City, State Street, Regions, PNC, BB&T, TD Bank, Fifth Third, or Key?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	21.9%	14.3%	19.2%	20.8%
2. No	78.1	85.7	80.8	79.2
3. (Don't have a primary institution)	—	—	—	—
4. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	214	118	136	468

8d. Is your primary financial institution better described as an Internet bank with virtually no locations like ING (pronounced as separate letters, I-N-G), a regional bank with several branches, or a local bank with a few branches at most?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Regional	30.7%	40.5%	46.3%	33.6%
2. Local	67.9	59.5	51.2	65.0
3. Internet	—	—	—	—
4. (Don't have a primary institution)	—	—	—	—
5. (DK/Ref)	1.5	—	2.4	1.4
Total	100.0%	100.0%	100.0%	100.0%
N	167	101	109	377

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

8e. About how many years have you been a customer of your primary financial institution or a predecessor if it has been merged? An estimate is fine.

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Less than one year	1.6%	1.4%	—%	1.4%
2. One year	3.2	1.4	5.6	3.2
3. Two – four years	12.0	15.0	11.2	12.2
4. Five – nine years	21.9	19.1	20.9	21.5
5. 10 – 19 years	35.6	27.4	34.8	34.3
6. 20 or more years	25.0	35.7	30.7	26.2
7. (DK/Ref)	1.3	—	—	1.0
Total	100.0%	100.0%	100.0%	100.0%
N	336	192	195	723

9. Does your business currently have a line of credit, NOT including credit cards, with one or more financial institutions?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	41.1%	57.3%	68.0%	45.6%
2. No	56.7	42.7	30.7	52.5
3. (DK/Ref)	2.2	—	1.3	1.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

9a. How many different lines of credit do you have?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. None	—%	—%	—%	—%
2. One	76.2	61.7	68.0	73.0
3. Two	15.6	27.7	20.0	17.9
4. Three	4.9	4.3	6.0	5.0
5. Four	0.8	—	4.0	1.2
6. Five or more	1.6	2.1	—	1.5
7. (DK/Ref)	0.8	4.3	2.0	1.5
Total	100.0%	100.0%	100.0%	100.0%
N	154	115	136	405

9b. Is that more, less or the same number that you had at the beginning of the year?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. More	5.3%	4.3%	5.9%	5.3%
2. Less	5.8	10.6	5.9	6.5
3. Same	88.9	83.0	86.3	87.7
4. (DK/Ref)	—	2.1	2.0	0.6
Total	100.0%	100.0%	100.0%	100.0%
N	154	115	136	405

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

9c. [Think of your largest line.] Is that line held at the PRIMARY financial institution?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	86.9%	89.4%	88.2%	87.4%
2. No	12.3	8.5	11.8	11.7
3. (DK/Ref)	0.8	2.1	—	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	154	115	136	405

9d. [Again, think of your largest credit line.] Since the beginning of the year, has the financial institution changed the size, interest rate, collateral requirements, OR other terms of the line, such as requiring a personal guarantee?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	29.9%	27.1%	29.4%	29.4%
2. No	67.2	64.6	68.6	67.1
3. (DK/Ref)	2.9	8.3	2.0	3.5
Total	100.0%	100.0%	100.0%	100.0%
N	154	115	136	405

9e. What did the institution do?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Cut line size	—%	—%	—%	8.2%
2. Increased line size	—	—	—	2.0
3. Raised interest rate	—	—	—	41.8
4. Lowered interest rate	—	—	—	10.2
5. Increased collateral requirements	—	—	—	13.3
6. Required personal guarantee	—	—	—	18.4
7. Decided not to extend line, cut it off, cancelled it entirely	—	—	—	2.0
8. Other	—	—	—	3.1
9. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	45	31	43	119

9f. How did that decision impact your business? Was it:?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Very harmful	—%	—%	—%	13.0%
2. Harmful	—	—	—	19.0
3. More irritating than harmful	—	—	—	43.0
4. No impact	—	—	—	15.0
5. Helpful	—	—	—	10.0
6. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	45	31	43	119

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

9g. Did you try successfully to replace it on more favorable terms at a different institution, try unsuccessfully to replace it, or not try to replace it?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Try successfully to replace it	—%	—%	—%	9.5%
2. Try unsuccessfully to replace it	—	—	—	14.9
3. Not try to replace it	—	—	—	75.7
4. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	29	27	37	93

10. Does your business currently have a loan, NOT including credit cards or credit lines, with one or more financial institutions?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	33.2%	45.1%	46.7%	35.9%
2. No	65.9	51.2	50.7	62.8
3. (DK/Ref)	0.8	3.7	2.7	1.3
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

10a. How many different business loans with financial institutions do you have?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. One	60.4%	38.9%	42.9%	55.2%
2. Two	21.3	27.8	22.9	22.4
3. Three – Five	15.2	30.6	31.4	19.5
4. > Five	1.5	—	—	1.1
5. (DK/Ref)	1.5	2.8	2.9	1.9
Total	100.0%	100.0%	100.0%	100.0%
N	126	90	96	312

10b. [Think of the largest loan.] Is that business loan held at your primary financial institution?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	67.5%	71.1%	77.1%	69.3%
2. No	32.0	28.9	22.9	30.4
3. (DK/Ref)	0.5	—	—	0.4
Total	100.0%	100.0%	100.0%	100.0%
N	126	90	96	312

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

10c. [Again, think of your largest business loan.] Since the beginning of the year, has the lending institution changed any aspect of the loan, including calling it in?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	10.6%	13.5%	5.7%	10.4%
2. No	89.4	86.5	91.4	89.3
3. (DK/Ref)	—	—	2.9	0.4
Total	100.0%	100.0%	100.0%	100.0%
N	126	90	96	312

A personal credit card has an individual's name on it. A business credit card has a business name on it. Credit cards do NOT include check cards or cards that are EXCLUSIVELY debit cards.

11. Do you use a personal credit card or cards to pay business expenses?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	41.3%	49.0%	43.5%	42.3%
2. No	58.3	51.0	54.3	59.1
3. (DK/Ref)	0.5	—	2.2	0.6
Total	100.0%	100.0%	100.0%	100.0%
N	238	127	125	490

11a. How many personal credit cards do you use for business purposes?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. One	56.6%	37.5%	52.6%	53.8%
2. Two	23.0	29.2	26.3	24.0
3. Three	9.1	29.2	10.5	11.5
4. Four or more	9.1	4.1	5.3	8.2
5.(DK/Ref)	2.4	—	5.3	2.4
Total	100.0%	100.0%	100.0%	100.0%
N	101	60	54	215

11b. Is that more, less, or the same number you used at the beginning of the year?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. More	8.1%	8.3%	10.0%	8.3%
2. Less	9.3	8.3	10.0	9.3
3. Same	82.6	83.3	80.0	82.4
4. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	100	60	54	214

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

11c. On average, about how much per month in new business expenditures does the firm charge to personal credit cards?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. < $500	28.8%	20.8%	27.8%	27.7%
2. $500 – $999	12.3	20.8	5.6	12.6
3. $1,000 – $2,499	18.4	33.3	16.7	20.0
4. $2,500 – $4,999	11.0	4.2	16.7	10.7
5. $5,000 – $9,999	9.8	12.5	11.1	10.2
6. $10,000 or more	8.6	4.9	11.1	8.7
7. (DK/Ref)	11.0	—	11.1	9.7
Total	100.0%	100.0%	100.0%	100.0%
N	101	60	54	215

11d. Are the business expenses charged to personal credit cards generally paid in full each month or do balances typically remain?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Paid in full	69.1%	68.0%	78.9%	69.9%
2. Balances remain	30.9	32.0	21.1	30.1
3. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	101	60	54	215

11e. On average, what is the balance of business charges on personal credit cards after payments are made?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. < $500	—%	—%	—%	8.8%
2. $500 – $999	—	—	—	3.5
3. $1,000 – $2,499	—	—	—	14.0
4. $2,500 – $4,999	—	—	—	15.8
5. $5,000 – $9,999	—	—	—	24.6
6. $10,000 or more	—	—	—	24.6
7. (DK/Ref)	—	—	—	8.8
Total	100.0%	100.0%	100.0%	100.0%
N	31	19	11	61

12. Do you use a business credit card or cards to pay business expenses?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	62.1%	73.2%	71.1%	64.2%
2. No	36.4	26.8	27.6	34.5
3. (DK/Ref)	1.5	—	1.3	1.3
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	200	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

12a. How many business credit cards do you use for business purposes?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. One	61.7%	45.0%	48.1%	58.5%
2. Two	25.1	28.3	30.8	29.0
3. Three	7.9	15.0	5.7	6.2
4. Four or more	3.3	10.0	11.6	4.3
5. (DK/Ref)	1.9	1.7	3.8	1.0
Total	100.0%	100.0%	100.0%	100.0%
N	220	144	145	508

12b. Is that more, less, or the same number you used at the beginning of the year?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. More	4.2%	—%	7.7%	4.0%
2. Less	7.5	6.9	5.8	7.2
3. Same	87.4	93.1	86.5	88.7
4.(DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	220	144	144	508

12c. On average, about how much per month in new business expenditures does the firm charge to business credit cards?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. < $500	20.6%	11.7%	7.5%	18.0%
2. $500 – $999	13.0	15.0	5.7	12.4
3. $1,000 – $2,499	22.8	20.0	17.0	21.8
4. $2,500 – $4,999	16.3	18.3	15.1	16.4
5. $5,000 – $9,999	7.9	11.7	17.0	9.3
6. $10,000 or more	7.3	16.7	24.5	10.4
7. (DK/Ref)	12.2	6.7	13.2	11.6
Total	100.0%	100.0%	100.0%	100.0%
N	220	144	144	508

12d. Are the business expenses charged to business credit cards generally paid in full each month or do balances typically remain?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Paid in Full	78.0%	79.3%	90.4%	79.5%
2. Balances Remain	20.7	20.7	9.6	19.5
3.(DK/Ref)	1.4	—	—	1.0
Total	100.0%	100.0%	100.0%	100.0%
N	220	144	144	508

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

12e. On average, what is the balance of charges on business credit cards after payments are made?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. < $500	—%	—%	—%	10.9%
2. $500 – $999	—	—	—	8.7
3. $1,000 – $2,499	—	—	—	15.2
4. $2,500 – $4,999	—	—	—	26.1
5. $5,000 – $9,999	—	—	—	13.0
6. $10,000 or more	—	—	—	19.6
7. (DK/Ref)	—	—	—	6.5
Total	100.0%	100.0%	100.0%	100.0%
N	43	30	14	87

13. Think of the credit card that since the beginning of the year has been most important in conducting your business. Is that card a business credit card or a personal credit card?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Business	69.5%	76.7%	83.7%	71.9%
2. Personal	28.8	21.7	16.3	26.6
3. (DK/Ref)	1.7	0.7	—	1.5
Total	100.0%	100.0%	100.0%	100.0%
N	244	145	133	522

13a. Thinking about the most important card, since the beginning of the year, has the institution that issued that most important card changed any aspect of it, including cancelling it?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	25.2%	21.3%	19.1%	24.2%
2. No	72.2	78.7	76.6	73.3
3.(DK/Ref)	2.6	—	4.2	2.5
Total	100.0%	100.0%	100.0%	100.0%
N	244	145	133	522

13b. What did the card issuer do?

	1-9 emp	10-19 emp	20+ emp	All Firms
1.Raised minimum monthly payment	6.7%	—%	—%	5.7%
2.Raised interest rate	56.7%	—	—	56.1
3.Lowered interest rate	1.9	—	—	1.6
4.Lowered credit limit	12.5	—	—	14.6
5.Changed type (or rewards) of card	2.9	—	—	2.4
6.Cancelled card	11.5	—	—	11.4
7.Other	1.9	—	—	3.3
8.(DK/Ref)	5.8	—	—	4.9
Total	100.0%	100.0%	100.0%	100.0%
N	61	30	25	116

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

13c. How did that decision impact your business? Was it:?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Very harmful	19.8%	—%	—%	16.2%
2. Harmful	24.0	—	—	5.6
3. More irritating than harmful	45.8	—	—	47.0
4. No impact	9.4	—	—	10.3
5. Helpful	1.0	—	—	0.9
6.(DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	58	29	23	110

For the next questions, please remember that billing or invoicing customers is extending them credit.

14. Does your business currently extend credit to most customers, to select customers, to customers who ask for it, OR to no customers?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Most customers	31.3%	32.9%	45.3%	32.9%
2. Select customers	23.7	29.3	21.3	24.1
3. Customers who ask for it	7.9	7.3	5.3	7.6
4. Don't extend credit	36.7	30.5	26.7	35.0
5. (DK/Ref)	0.3	—	1.3	0.4
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

14a. Since the beginning of the year, have you tightened your credit policy a lot, tightened it a little, loosened it a little, loosened it a lot, or have you not changed it?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Tightened a lot	12.8%	15.7%	7.9%	12.6%
2. Tightened a little	14.9	21.7	25.0	16.6
3. No change	66.0	59.0	61.8	64.8
4. Loosened a little	4.2	2.4	2.6	3.9
5. Loosened a lot	0.8	—	—	0.7
6. (DK/Ref)	1.2	1.2	2.6	1.3
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

14b. Receivables are the amount of money owed a firm. Roughly, what percent of your receivables in dollar terms, is 60 days or more delinquent?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. No receivables	4.5%	4.9%	5.3%	4.7%
2. None	43.3	30.5	28.9	40.4
3. 1 – 33%	38.2	47.6	48.7	40.3
4. 34 – 67%	8.1	8.5	9.2	8.2
5. 68 – 100%	2.2	2.4	2.6	2.3
6. (DK/Ref)	3.7	6.1	5.3	4.1
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

14c. How does that compare to last year at this time? Are delinquencies?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Much higher	7.2%	8.3%	4.4%	7.0%
2. Higher	13.6	16.7	16.2	14.2
3. About the same	71.5	70.8	66.2	70.9
4. Lower	4.8	4.2	8.8	5.1
5. Much lower	1.7	—	2.9	1.6
6. DK/Ref)	1.3	—	1.5	1.1
Total	100.0%	100.0%	100.0%	100.0%
N	320	178	179	677

14d. Since the beginning of the year, have your SUPPLIERS as a group tightened their credit policy a lot, tightened it a little, loosened it a little, loosened it a lot, have not changed it, OR do you always pay at the time of purchase?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Tightened a lot	11.5%	17.3%	14.5%	12.4%
2. Tightened a little	13.5	18.5	17.1	14.4
3. No change	43.7	42.0	51.3	44.3
4. Loosened a little	1.0	1.2	1.3	1.1
5. Loosened a lot	0.3	—	—	0.3
6. Always pay at the time of purchase	27.3	18.5	15.8	25.2
7. (DK/Ref)	2.7	2.4	—	2.4
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

15. Is this business operated primarily from the home, including any associated structures, such as a garage or a barn?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	28.7%	9.8%	2.6%	24.0%
2. No	71.0	90.2	97.4	75.8
3. (DK/Ref)	0.3	—	—	0.3
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

16. Do you own all or part of the building or land on which your business is located?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	45.6%	57.4%	68.4%	49.7%
2. No	54.4	42.6	31.6	50.3
3. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	230	150	153	533

16a. Do you have a mortgage on that property?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	54.7%	57.1%	53.8%	54.9%
2. No	45.3	42.9	46.2	45.1
3. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	111	85	105	301

16b. Do you have a second mortgage on that property?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	10.6%	—%	15.0%	9.7%
2. No	89.4	—	85.0	90.3
3. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	65	48	58	171

16c. Is the property upside-down, that is, is this property worth LESS on the open market today than the mortgage or mortgages on it?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	3.2%	—%	5.0%	4.5%
2. No	90.4	—	85.0	89.6
3. (DK/Ref)	6.4	—	10.0	5.9
Total	100.0%	100.0%	100.0%	100.0%
N	65	48	58	171

16d. Was one or more of the mortgages taken out on this property to finance other business activities?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	15.2%	22.2%	13.2%	15.9%
2. No	81.3	72.2	86.8	80.8
3. (DK/Ref)	3.5	5.6	—	3.2
Total	100.0%	100.0%	100.0%	100.0%
N	111	85	105	301

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

16e. Is this property being used to collateralize the purchase of other business assets?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	8.1%	11.1%	20.5%	10.5%
2. No	91.3	88.9	79.5	89.1
3. (DK/Ref)	0.6	—	—	0.4
Total	100.0%	100.0%	100.0%	100.0%
N	111	85	105	301

17. Do you own your residence?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	92.5%	95.7%	96.6%	93.2%
2. No	7.5	4.3	1.7	6.6
3. (DK/Ref)	—	—	1.7	0.2
Total	100.0%	100.0%	100.0%	100.0%
N	310	167	158	663

17a. Do you have a mortgage on that property?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	67.4%	72.7%	61.4%	67.4%
2. No	31.8	27.3	38.6	31.9
3. (DK/Ref)	0.8	—	—	0.6
Total	100.0%	100.0%	100.0%	100.0%
N	285	159	154	598

17b. Do you have a second mortgage on that property?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	27.3%	29.2%	25.7%	27.4%
2. No	72.1	70.8	74.3	72.1
3. (DK/Ref)	0.6	—	—	0.5
Total	100.0%	100.0%	100.0%	100.0%
N	198	116	96	410

17c. Is the property upside-down, that is, is this property worth LESS on the open market today than the mortgage or mortgages on it?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	15.9%	10.6%	11.4%	14.9%
2. No	82.3	89.4	85.7	83.4
3. (DK/Ref)	1.8	—	2.9	1.7
Total	100.0%	100.0%	100.0%	100.0%
N	198	116	96	410

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

17d. Was one or more of the mortgages taken out on this property used to provide capital for your business?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	16.3%	18.2%	19.6%	16.8%
2. No	80.2	80.3	80.4	80.3
3. (DK/Ref)	3.4	1.5	—	2.9
Total	100.0%	100.0%	100.0%	100.0%
N	285	159	154	598

17e. Is this property being used to collateralize the purchase of other business assets?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	6.5%	9.2%	8.8%	7.0%
2. No	91.9	90.8	89.5	91.6
3. (DK/Ref)	1.6	—	1.8	1.4
Total	100.0%	100.0%	100.0%	100.0%
N	285	159	154	598

18. Do you own investment real estate property, including undeveloped land, commercial or residential buildings, or other real estate assets, NOT including your business or your home?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	35.4%	52.9%	50.8%	38.6%
2. No	63.2	47.1	47.5	60.2
3. (DK/Ref)	1.3	—	1.7	1.2
Total	100.0%	100.0%	100.0%	100.0%
N	310	167	158	635

18a. Do you have one such investment or more than one?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. One	30.7%	47.2%	30.0%	32.9%
2. More than one	68.3	52.8	70.0	66.3
3. (DK/Ref)	1.1	—	—	0.8
Total	100.0%	100.0%	100.0%	100.0%
N	110	87	81	278

18b. [Think of the largest single real estate investment you have.] Do you have a mortgage on that property?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	52.1%	66.7%	63.3%	55.5%
2. No	46.8	33.3	36.7	43.8
3. (DK/Ref)	1.1	—	—	0.8
Total	100.0%	100.0%	100.0%	100.0%
N	110	87	81	278

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

18c. Do you have a second mortgage on that property?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	14.1%	8.3%	10.5%	12.7%
2. No	85.9	91.7	89.5	87.3
3. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	58	58	52	168

18d. Is the property upside-down, that is, is this property worth LESS on the open market today than the mortgage or mortgages on it?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	14.1%	13.0%	21.1%	14.9%
2. No	84.8	87.0	78.9	84.4
3. (DK/Ref)	1.0	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%
N	58	58	52	168

18e. Was one or more of the mortgages taken out on this property used to finance other business activities?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	12.6%	14.3%	10.3%	12.6%
2. No	84.7	85.7	89.7	85.4
3. (DK/Ref)	2.7	—	—	2.0
Total	100.0%	100.0%	100.0%	100.0%
N	110	87	81	278

18f. Is this property being used to collateralize the purchase of other business assets?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Yes	8.5%	8.3%	13.3%	9.0%
2. No	89.4	91.7	86.7	89.4
3. (DK/Ref)	2.2	—	—	1.6
Total	100.0%	100.0%	100.0%	100.0%
N	110	87	81	278

19. How have your business's real sales been since the beginning of the year compared to the same time last year?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Much higher	4.9%	1.2%	5.4%	4.5%
2. Somewhat higher	10.5	10.8	9.5	10.4
3. About the same	23.0	19.3	23.0	22.6
4. Somewhat lower	24.2	32.5	35.1	26.2
5. Much lower	35.1	36.1	25.7	34.3
6. (DK/Ref)	2.3	—	1.4	2.0
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

20. How have your business's profits been since the beginning of the year compared to the same time last year?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Much higher	3.7%	—%	6.6%	3.6%
2. Somewhat higher	10.0	13.6	11.8	10.5
3. About the same	25.3	22.2	15.8	24.0
4. Somewhat lower	28.0	29.6	40.8	29.5
5. Much lower	31.8	34.6	22.4	31.1
6. (DK/Ref)	1.2	—	2.6	1.2
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

Demographics

D1. Which best describes your position in the business?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Owner/Manager	86.0%	77.1%	70.7%	83.5%
2. Owner, but not manager	4.2	6.0	6.7	4.7
3. Manager, but not owner	9.8	16.9	22.7	11.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D2. Is your primary business activity:? (NAICs code)

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Agriculture, forestry, fishing	1.5%	1.2%	1.3%	1.5%
2. Construction	9.6	9.8	10.4	9.7
3. Manufacturing, mining	9.0	13.4	19.5	10.5
4. Wholesale trade	6.9	7.3	3.9	6.6
5. Retail trade	17.4	19.5	7.8	16.6
6. Transportation and warehousing	2.4	2.4	3.9	2.5
7. Information	1.5	—	1.3	1.3
8. Finance and insurance	4.4	4.9	3.9	4.4
9. Real estate and rental/leasing	5.9	4.9	3.9	5.6
10. Professional/scientific/ technical services	10.5	6.1	6.5	9.6
11. Admin. support/waste management svcs.	6.6	3.7	5.2	6.1
12. Educational services	0.8	1.2	—	0.8
13. Health care and social assistance	8.1	6.1	11.7	8.2
14. Arts, entertainment or recreation	1.5	1.2	2.6	1.6
15. Accommodations or food service	3.7	11.0	13.0	5.5
16. Other service, incl. repair, personal svc.	9.9	7.3	5.2	9.2
17. Other	0.3	—	—	0.3
18. (DK/Ref)	2.0	1.2	3.9	2.2
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

D3. Over the last two years, have your real volume sales:?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Increased by 30 percent or more	6.7%	2.4%	6.6%	6.3%
2. Increased by 20 to 29 percent	4.2	4.9	2.6	4.1
3. Increased by 10 to 19 percent	11.8	11.0	13.2	11.8
4. Increased by < 10 percent	13.3	13.4	18.4	13.8
5. (No change)	3.5	2.4	1.3	3.2
6. Decreased by < 10 percent	9.4	13.4	17.1	10.6
7. Decreased by more than 10 percent	49.0	51.2	36.8	48.0
8. (DK/Ref)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D4. How long have you operated this business?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. < 6 years	22.4%	9.6%	9.3%	19.7%
2. 6 – 10 years	19.7	19.3	14.7	19.2
3. 11 – 20 years	28.8	27.7	29.3	28.8
4. 21 – 30 years	19.6	24.1	22.7	20.4
5. 31+ years	8.3	19.3	22.7	10.9
6. (DK/Ref)	1.2	—	1.3	1.1
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D5. What is your highest level of formal education?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. < H.S.	2.9%	2.4%	—%	2.5%
2. H.S. diploma/GED	21.9	13.4	13.3	20.1
3. Some college or associate's degree	24.1	23.2	21.3	23.7
4. Vocational or technical school degree	3.5	3.7	4.0	3.6
5. College diploma	29.5	37.8	41.3	31.6
6. Advanced or professional degree	16.7	19.5	20.0	17.3
7. (DK/Ref)	1.5	—	—	1.2
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20+ emp	All Firms

D6. Please tell me your age.

	1-9 emp	10-19 emp	20+ emp	All Firms
1. < 25 years	0.5%	1.2%	1.3%	0.7%
2. 25 – 34 years	6.7	6.1	1.3	6.1
3. 35 – 44 years	15.2	13.4	14.5	14.9
4. 45 – 54 years	34.1	29.3	31.6	33.3
5. 55 – 64 years	30.2	35.4	30.3	30.8
6. 65+ years	11.5	14.6	18.4	12.5
7. (Refuse)	1.9	—	2.6	1.7
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D7. What is the zip code of your business?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. East (zips 010-219)	20.9%	17.1%	22.4%	20.6%
2. South (zips 220-427)	21.6	17.1	14.5	20.4
3. Mid-West (zips 430-567, 600-658)	21.6	24.4	27.6	22.5
4. Central (zips 570-599, 660-898)	22.1	25.6	23.7	22.6
5. West (zips 900-999)	12.3	14.6	10.5	12.4
6. (DK/Ref)	1.5	1.2	1.3	1.5
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D8. Compared to your competitors over the last three years, do you think the overall performance of your business in terms of sales and net profits makes it a:?

	1-9 emp	10-19 emp	20+ emp	All Firms
1. High performer	17.4%	18.3%	33.3%	19.1%
2. Somewhat high performer	20.1	30.5	26.7	21.9
3. Moderate performer	41.0	35.4	32.0	39.5
4. Somewhat low performer	5.6	6.1	2.7	5.3
5. Low performer	8.8	6.1	2.7	7.9
6. (Haven't been in business three years)	0.7	—	—	0.5
7. (DK/Ref)	6.5	3.6	2.6	5.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D9. Sex

	1-9 emp	10-19 emp	20+ emp	All Firms
1. Male	64.9%	80.5%	77.3%	67.9%
2. Female	35.1	19.5	22.7	32.1
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

Table Notes

1. All percentages appearing are based on **weighted** data.
2. All "Ns" appearing are based on **unweighted** data.
3. Data are not presented where there are fewer than 50 unweighted cases.
4. ( )s around an answer indicate a volunteered response.

WARNING – When reviewing the table, care should be taken to distinguish between the percentage of the population and the percentage of those asked a particular question. Not every respondent was asked every question. All percentages appearing on the table use the number asked the question as the denominator.

Appendix Tables

Variables Defined

# of Properties Collateralized	Number of properties used as collateral for other business assets, 0 to 3.
# of Second Mortgages	Number of mortgages on any property taken out to finance business activities, 0 to 3.
Credit Card (0,1 dummy)	0 = lender accepted small employer application; 1 = lender rejected small employer application (see Table C for variations).
Credit Score	D&B's PAYDEX Index score. 1 = lowest score; 100 = highest score.
Economy's Impact	Perceived economic impact on one's business from economic changes in 2009. 1 = severe impact to 5 = no impact.
Employment Size ln(1 + Empl)	The natural log of one plus the number of employees (full- and part-time) in the business.
Hardest Hit States (0,1 dummy)	States hit hardest by mortgage foreclosures; 0 = all other states; 1 = Arizona, California, Florida, Michigan, and Nevada.
Large Bank Customers (0,1 dummy)	0 = principal bank of all other small business owner customers; 1 = principal bank has $100 billion or more (excluding Taunus and Capital One) in 2008.
Line of Credit (0,1 dummy)	0 = lender accepted small employer application; 1 = lender rejected small employer application (see Table C for variations).
New Businesses (0,1 dummy)	Business age in years of the respondents ownership/operation. 0 = four or more years, 1 = three or fewer years.
Non-Borrowing (0,1 dummy)	0 = non-borrowers because small employer does not want money, 1 = non-borrowers because small employer does not think he can get money.
Sales (0,1 dummy)	0 = sales greater than a minus 10 percent over the last two years; 1 = sales a negative 10 percent or less over the last two years.
Outcomes	1 to 4 with 1 = all credit needs met and 4 = no credit needs met.
Renewal of Line (0,1 dummy)	0 = lender accepted small employer application; 1 = lender rejected small employer application (see Table C for variations).
Vendor loan (0,1 dummy)	0 = lender accepted small employer application; 1 = lender rejected small employer application (see Table C for variations).

Appendix Table A

Summary Regression Results for Predictors of Credit Access (Outcomes) (Q#5). (1 = all credit needs met to 4 = no credit needs met)

Predictors	B	Std. Err.	Beta	t	Sig.
(Constant)	2.965	.309		9.662	.000
Credit Score	-.006	.002	-.125	-2.569	.011
Largest Bank Customers	.581	.150	.203	3.873	.011
# Second Mortgages Held	.563	.147	.203	3.832	.000
# Properties Collateralized	-.359	.155	-.125	-2.313	.021
Employee Size ln(1 + Empl)	-.128	.080	-.085	-1.588	.113
New Businesses	-.016	.225	-.004	-.070	.944
Hardest Hit States	.170	.185	.049	.918	.360
Economy's Impact	-.112	.068	-.096	-1.650	.100
Sales — Last Two Years	.058	.166	.020	.352	.725

R^2 = .140
SEE = 1.344
F = 5.775
N = 349

Appendix Table B

Summary Logistic Regression Results for Predictors of the Reason for Non-Borrowing (Q#7) (0 = don't want to borrow, 1= don't think able to borrow)

Predictors	B	Std. Err.	Wald	Sig.	Exp(B)
Credit Score	-.017	.008	4.098	.043	.983
Largest Bank Customers	.031	.471	.004	.948	1.031
# Second Mortgages Held	.209	.671	.097	.755	1.233
# Properties Collateralized	-1.451	1.241	1.366	.243	.234
Employee Size ln(1 + Empl)	.267	.290	.851	.356	1.307
New Businesses	1.944	.619	9.850	.002	6.987
Hardest Hit States	-.586	.733	.639	.424	.556
Economy's Impact	-.878	.271	10.526	.001	.416
Sales — Last Two Years	-.853	.490	3.029	.082	.426
(Constant)	.215	.926	.054	.817	1.239

-2 Log likelihood = 137.795
Cox & Snell R^2 = .118
Nagelkerke R^2 = .243
N = 246

Appendix Table C

Logistic Regression Results Of Accepted/Rejected Attempts To Obtain Different Types Of Credit By Selected Predictors Of Success

	Type of Credit Extension									
Predictors	**Vendor Loan (1)**	**Vendor Loan (2)**	**New Line (1)**	**New Line (2)**	**Line Renewal (1)**	**Line Renewal (2)**	**Loan (1)**	**Loan (2)**	**Credit Card (1)**	**Credit Card (2)**
Credit Score										
B	-.028	-0.018	-0.030	-0.024	-0.015	-0.020	-0.013	-0.010	-0.001	0.006
Wald	12.975	5.229	9.704	8.830	4.587	8.047	2.603	1.553	0.012	0.427
Exp(B)	0.973	0.982	0.971	0.976	0.985	0.980	0.988	0.990	0.999	1.006
Sig.	0.000	0.022	0.002	0.003	0.032	0.005	0.107	0.213	0.914	0.513
Large Bank Customers (dummy)										
B	*	*	0.944	0.836	0.905	0.638	2.290	2.210	*	*
Wald			3.603	3.425	3.919	1.803	17.152	15.919		
Exp(B)			2.571	2.307	2.472	1.894	9.874	9.115		
Sig.			0.058	0.064	0.048	0.179	0.000	0.000		
# of Second Mortgages										
B	1.131	1.103	1.255	1.129	0.621	0.401	0.730	0.775	0.063	0.087
Wald	7.779	7.381	5.709	6.149	1.497	0.623	3.102	3.504	0.019	0.030
Exp(B)	3.100	3.014	3.508	3.092	1.860	1.494	2.076	2.170	1.065	1.091
Sig.	0.005	0.007	0.017	0.013	0.221	0.430	0.078	0.061	0.892	0.863
# of Properties Collateralized										
B	-0.826	-0.928	-1.252	-0.909	-1.278	-0.740	-0.905	-1.467	0.136	0.406
Wald	2.587	2.416	6.788	4.048	3.942	1.508	4.196	9.153	0.061	0.503
Exp(B)	0.438	0.395	0.286	0.403	0.279	0.477	0.405	0.231	1.145	1.501
Sig.	0.108	0.120	0.009	0.044	0.047	0.219	0.041	0.002	0.805	0.478
Employee Size ln(1 + Empl)										
B	0.091	0.075	-0.518	-0.442	-0.595	-0.566	-0.142	-0.327	0.346	0.265
Wald	0.106	0.055	3.689	2.991	5.310	4.409	0.340	1.568	2.416	1.236
Exp(B)	1.095	1.077	0.596	0.643	0.552	0.568	0.868	0.721	1.414	1.303
Sig.	0.744	0.814	0.055	0.084	0.021	0.036	0.560	0.211	0.120	0.216

Appendix Table C continued

Logistic Regression Results Of Accepted/Rejected Attempts To Obtain Different Types Of Credit By Selected Predictors Of Success

	Type of Credit Extension									
Predictors	**Vendor Loan (1)**	**Vendor Loan (2)**	**New Line (1)**	**New Line (2)**	**Line Renewal (1)**	**Line Renewal (2)**	**Loan (1)**	**Loan (2)**	**Credit Card (1)**	**Credit Card (2)**
New Businesses (dummy)										
B	1.790	1.743	-1.711	-1.371	0.774	0.549	-1.776	-1.376	-0.804	-0.646
Wald	9.069	8.495	7.932	6.078	0.699	0.402	5.096	3.097	1.764	0.896
Exp(B)	5.990	5.716	0.181	0.254	2.168	1.732	0.169	0.253	0.421	0.524
Sig.	0.003	0.004	0.005	0.014	0.403	0.526	0.024	0.078	0.184	0.347
Hardest Hit States										
B	1.210	1.119	1.232	1.481	0.874	0.564	2.206	2.153	0.058	-0.765
Wald	4.012	2.849	3.874	6.430	2.478	1.050	7.439	7.879	0.014	1.596
Exp(B)	3.352	3.062	3.427	4.397	2.398	1.758	9.077	8.608	1.059	0.466
Sig.	0.045	0.091	0.049	0.011	0.115	0.305	0.006	0.005	0.905	0.207
Constant										
B	-0.350	-1.459	3.404	2.206	0.754	0.929	0.160	0.161	-1.495	-2.068
Wald	0.287	3.971	12.479	7.417	1.128	1.612	0.047	0.046	4.316	6.169
Exp(B)	0.705	0.232	30.095	9.084	2.126	2.532	1.173	1.174	0.224	0.126
Sig.	0.592	0.046	0	0.006	0.288	0.204	0.829	0.830	0.038	0.013
-2 Log likelihood	111.248	97.366	113.203	125.760	131.485	127.334	113.831	113.373	130.604	115.639
Cox & Snell R^2	0.256	0.183	0.260	0.251	0.216	0.174	0.287	0.293	0.062	0.044
Nagelkerke R^2	0.362	0.285	0.363	0.339	0.301	0.251	0.383	0.391	0.091	0.070
N	127	127	143	143	175	175	118	118	113	113

(1) = Credit extended by lender accepted by small employer whether or not terms/conditions are satisfactory classified as accepted borrower.
(2) = Credit extended by lender but rejected by small employer due to unsatisfactory terms/conditions classified as rejected borrower.
*No theoretical or logical rationale to include in this analysis.

Data Collection Methods

The data for this survey report were collected for the NFIB Research Foundation by the executive interviewing group of The Gallup Organization. The interviews for this edition of the *Poll* were conducted between mid-November and mid-December 2009 from a sample of small employers. “Small employer” was defined for purposes of this survey as a business owner employing no fewer than one individual in addition to the owner(s) and no more than 250.

The sampling frame used for the survey was drawn at the Foundation’s direction from the files of the Dun & Bradstreet Corporation, an imperfect file but the best currently available for public use. A random stratified sample design is typically employed to compensate for the highly skewed distribution of small business owners by employee size of firm (Table A1). Almost 60 percent of employers in the United States employ just one to four people meaning that a random sample would yield comparatively few larger, small employers to interview. Since size within the small business population is often an important differentiating variable, it is important that an adequate number of interviews be conducted among those employing more than 10 people. The interview quotas established to achieve these added interviews from larger, small business owners are arbitrary but adequate to allow independent examination of the 10-19 and 20-250 employee size classes as well as the 1-9 employee size group.

Table A1
Sample Composition Under Varying Scenarios

	Expected from Random Sample*		Obtained from Stratified Random Sample			
Employee Size of Firm	**Interviews Expected**	**Percent Distribution**	**Interview Quotas**	**Percent Distribution**	**Completed Interviews**	**Percent Distribution**
1-9	593	79	350	47	350	46
10-19	82	11	200	27	200	27
20+	75	10	200	27	201	27
All Firms	750	100	750	101	751	100

* Sample universe developed from the Bureau of the Census (2002 data) and published by the Office of Advocacy at the Small Business Administration.

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