

## Third Quarter 2011 Small Business Survey

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Note: Unless otherwise indicated, the charts in this report are created from original data gathered in the Atlanta Fed Small Business Survey.

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## Small Business Survey Overview

### About the survey

The Federal Reserve Bank of Atlanta conducts a quarterly poll of small business contacts in the Southeast to get their perspective on general business and credit conditions. The participants are not a statistically representative sample of the population, the results are not weighted, and the data are not seasonally-adjusted.

The Atlanta Fed conducted the third-quarter survey during the first two weeks in October. The questionnaire for this survey varies slightly from quarter to quarter.

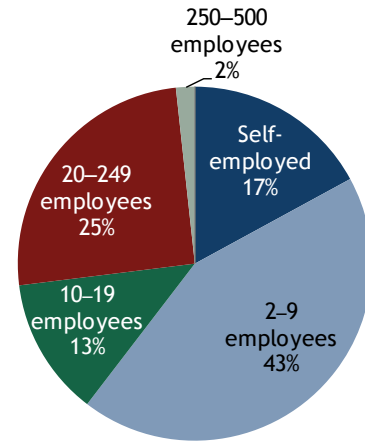
### Characteristics of the survey sample

Participating in the third quarter survey were 293 small businesses. Most firms are in the professional services, real estate, manufacturing, construction, or retail trade industry.

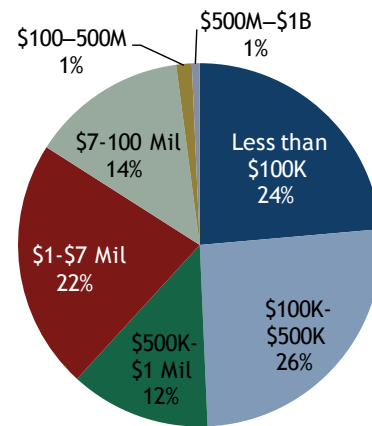
The distribution of industries in the sample is mostly in line with industry distribution within the Southeast, but the sample is overweighted in manufacturing. Manufacturing makes up 2 percent of all small firms in the region, according to data from the U.S. Census Bureau, but is 11 percent of the third quarter survey sample.

The sample is also somewhat skewed towards larger, more mature firms. Excluding self-employed individuals, only 52 percent of the survey sample have fewer than 10 employees, compared to 70 percent of small firms in the Southeast. The median age of firms in the sample is 12 years old. About half of the firms have annual revenues of \$500 thousand or less.

Number of employees



Revenue

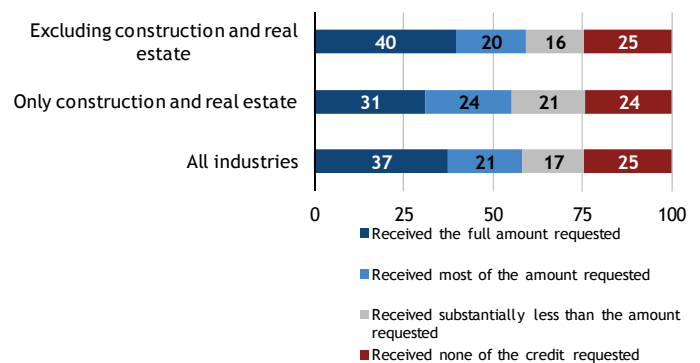


### Credit obtainment for overall sample

Of the 293 businesses in the survey, 110 applied for credit. Applying firms submitted three applications on average, and 37 percent had their overall financing needs met in full. A further 21 percent indicated they received most of the amount requested.

Firms that were five years old or younger and firms in the construction and real estate industry were less likely to have their credit needs met.

Extent to which overall financing needs were met (% of firms)



## Small Business Survey Highlights

Most small businesses in the Southeast continue to anticipate improvements over the next two to four quarters. The net portion of firms anticipating hiring additional staff and expanding capital expenditures increased from the second quarter of 2011 to the third quarter of 2011. The improvement in hiring expectations stemmed primarily from firms in the service, trade, transportation, and utilities industries. Following a sharp reduction in sales expectations in the second quarter of 2011, the optimism for sales growth declined further in the third quarter but with respondents still somewhat optimistic on net. Even with recent declines, young firms maintained a relatively positive outlook. Net of those expecting decreases, 56 percent of firms less than six years old anticipate hiring, and a net 77 percent anticipate greater sales growth over the next 6 to 12 months.

A little more than one-third of small businesses sought credit in the third quarter. About three-quarters of applying firms were able to obtain at least some amount of financing. One major factor associated with credit obtainment was age. While the majority of *mature* firms in the survey reported receiving the full or most of the credit requested, the majority of *young* firms received much less than the amount requested or received no funding at all. The firms that received very little or no funding were not only much younger on average, they were also much more likely to cite multiple credit barriers associated with lower creditworthiness, including level of outstanding debt, less than stellar credit score, and not enough years in operation.

On average, applying firms submitted three applications for credit. Banks were the most common avenue of credit. More applications were submitted to large national banks than community or regional banks, but applicants were more likely to be approved at the community or regional banks. Most of the firms that did not borrow indicated that they did not need credit. However, many were discouraged from applying by the expectation that they would either be denied or offered unfavorable credit terms. Firms younger than six years of age were much more likely fall into this category of “discouraged borrowers.”

### Respondent comments

In addition to checking the applicable factors listed in the survey as potential obstacles to credit, some respondents added comments indicating that bank regulators were affecting their ability to obtain credit.

Most respondents provided additional comments, and many of these comments concerned the factors constraining their businesses. Common themes prevalent in the responses were lack of loans for firms in the construction industry, stricter credit standards, inability to obtain a loan without a personal backing or tangible collateral, uncertainty surrounding the economy, and uncertainty or fear surrounding the cost of the health care mandate. A sampling of typical comments include the following:

“There is too much uncertainty in the market place and we as with others are working closely with our owners tenants clients and vendors to stay the course until consumers return to the market and we see relief from all the regulations. Very concerned that the (added cost) impact to our overhead by virtue of healthcare reform will be a significant burden.”

“The banks (all sizes) have absolutely dismal credit practices right now. They absolutely refuse to consider anything less than a 100% personal guarantee plus excess off 200% hard value assets to loan ratio. This is regardless of your income or loss over the past three years. If you have had a loss they will not even consider you.”

“Uncertainty about Healthcare Future Costs continues to be the biggest deterrent to hiring additional employees.”

“SBA loans require personal guarantee which is not reasonable for a high risk biomedical research startup. Continuation of federal SBIR programs is important for research startups.”

<sup>1</sup> We define small businesses as those with fewer than 500 employees.

## Business Conditions

### Business conditions improve

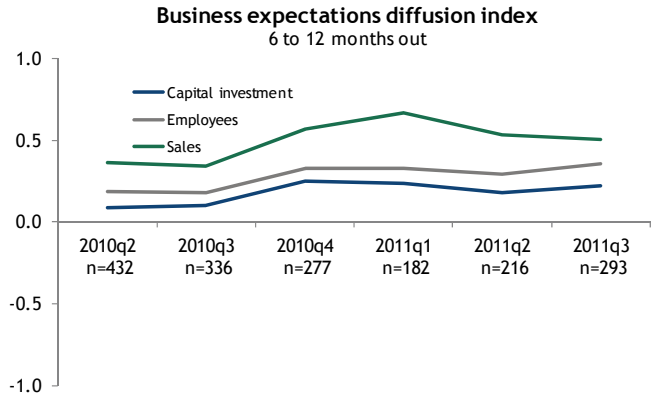
Greater net portions of firms expect to hire over the next 6 to 12 months, according to the third quarter survey. The outlook for capital investment spending also increased.

Despite a more positive outlook for hiring and capital expenditures, the outlook for sales growth worsened. The net percent of firms expecting higher sales decreased from 53 percent in the second quarter of 2011 to 50 percent in the third quarter of 2011.

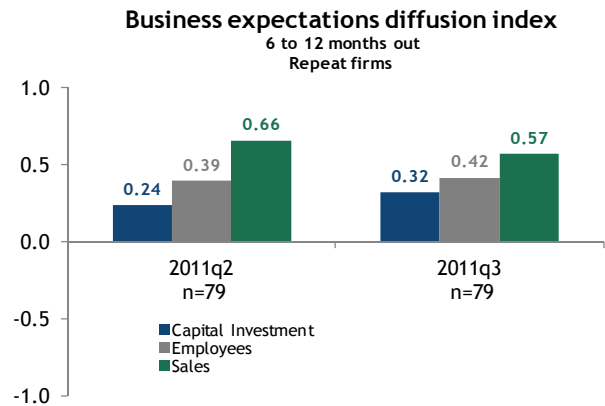
This improvement in expectations for hiring and capital investment has come on the heels of a reduction in sentiment in the second quarter of 2011 across all three dimensions.

### Repeat firms show same results

One-hundred-and-seven firms completed the survey in the second and third quarters of 2011, 79 of which were not in the construction or real estate industry. The expectations for this fixed group of survey participants were similar to the results of the overall group. The net percent of firms anticipating higher sales in the next 6 to 12 months decreased, while the net percent anticipating additional hiring and spending on capital increased.



Note: The business expectations diffusion index is calculated by subtracting the number of firms that said "decrease" from the number of firms that said "increase." The data are not seasonally adjusted.



## Business Conditions (by Industry and Size)

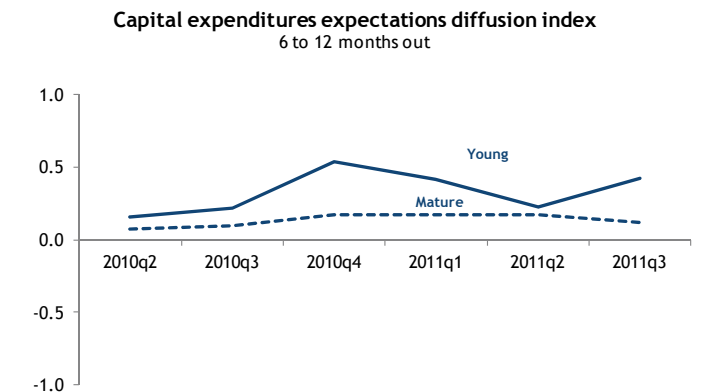
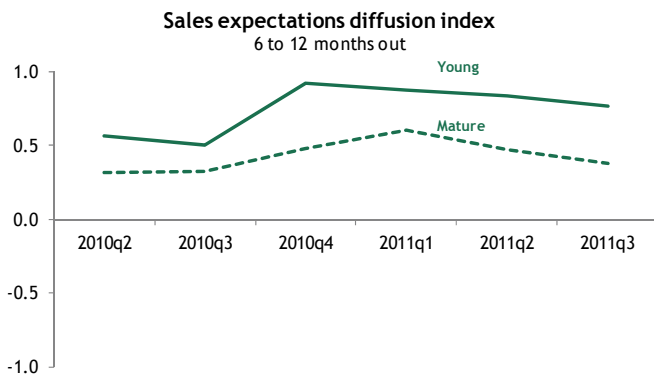
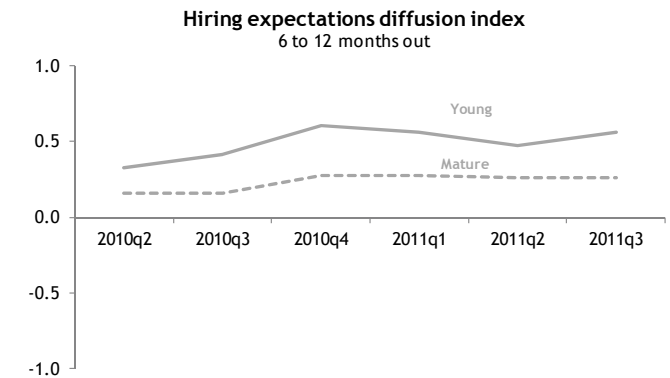
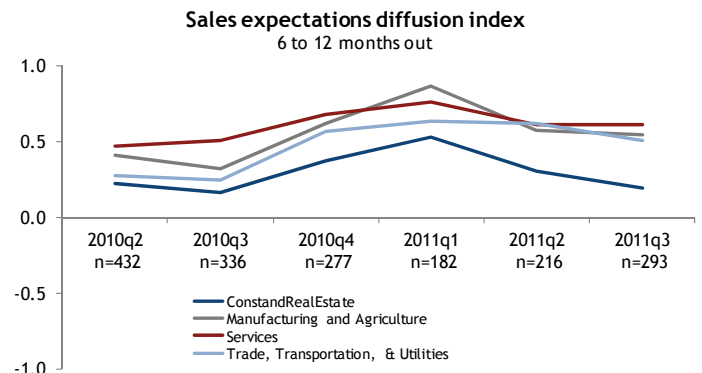
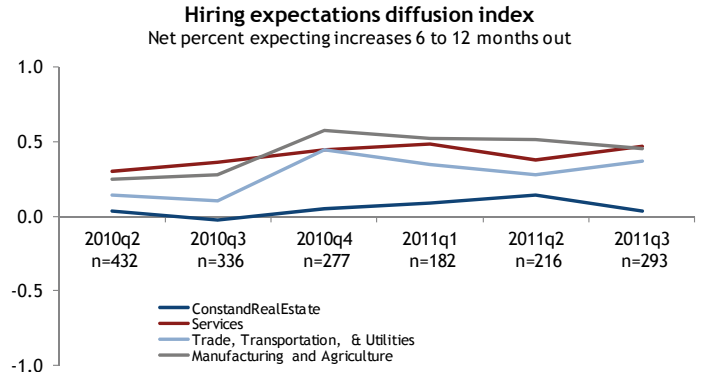
### Some industries more positive than others

The decline in sales expectations was broad-based across industries, while the increase in hiring expectations stemmed primarily from firms in the services and trade, transportation, and utilities industries.

Firms in the construction and real estate industry in particular continue to face tough challenges. In addition to having a more dismal outlook over the past six quarters, firms in these industries lowered their expectations for sales and employment in the third quarter of 2011.

### Younger firms remain more optimistic

Among firms established in the past five years, expectations for hiring and capital investment increased substantially. Conversely, the more mature firms in the sample decreased their expectations for capital investment, and their hiring expectations were unchanged. Expectations for growth in sales worsened among young and mature firms in the sample. Despite a decline from the previous quarter, expectations for sales growth remains very high for young firms. A net 77 percent of young firms expect sales to be higher over the next 6 to 12 months compared to a net 38 percent of mature firms.



## Credit Conditions: Amount of Financing Received

### Amount of financing received improves

Although the majority of mature firms in the survey reported receiving all or most of the credit requested in the third quarter of 2011, credit did not come easily to younger firms. Younger small businesses were more likely to be denied or offered unaffordable credit terms. Despite submitting more applications for credit, firms in the survey less than six years old received less credit overall than did mature firms.

Young firms have received less credit on average for most iterations of the survey. In the third quarter of 2011, the median young firm in the survey reported receiving only some of the credit requested over all their applications for credit, while the median mature firm reported receiving most of the credit requested.

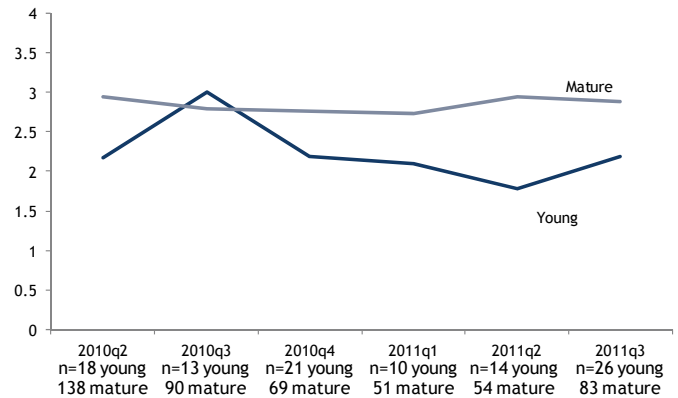
### The gap in financing between construction and real estate and other industries returns

The difference in the amount of financing received for firms in the construction and real estate versus firms in other industries narrowed in the first and second quarter of 2011 but widened again in the third quarter.

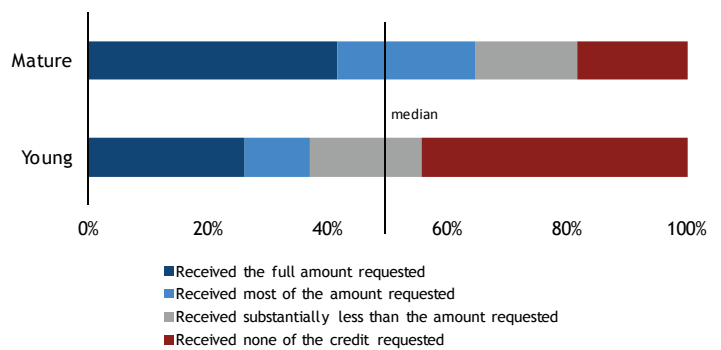
### Fixed sample receives less credit

There were 30 firms that sought credit in the third and second quarters. Among this fixed sample, the amount of credit received edged down slightly from 2.9 to 2.8 on a scale of 1 to 4 (received none to received the full amount).

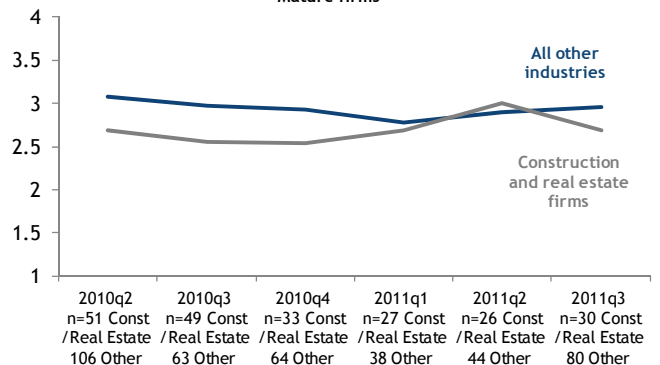
Average amount of financing received  
on a scale of 1 to 4 (received none to received full amount)



Extent to which overall financing needs were met  
(percent of applying firms)



Average amount of financing received  
on a scale of 1 to 4  
(received none to received full amount)  
Mature firms



## Credit Conditions: Amount of Financing Received *continued*

### Young firms cast a broader net

Firms under six years old submitted more applications for credit on average, and applied to a larger variety of lenders. The majority of firms that applied sought credit at a bank. Large national banks were more popular than regional and community banks.

### Regional and community banks approve more applications

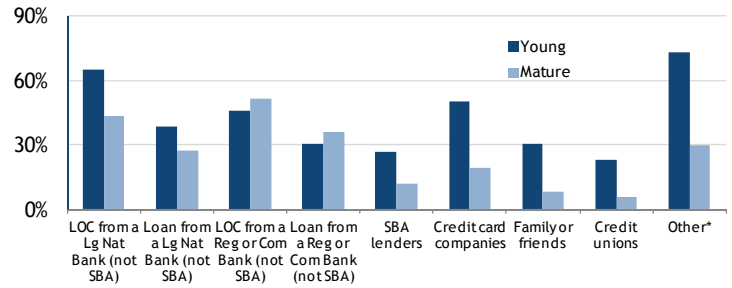
Banks have been the most common avenue for credit throughout the history of the survey. In the third quarter 2011 survey, 89 percent of firms seeking credit sought a loan or a line of credit from a bank. Firms were more likely to apply for credit at a large national bank but were more likely to receive credit from community and regional banks. The overall success rate for applications to regional or community banks has been slightly higher for the duration of the survey, and the spread widened in the third quarter.

### Some firms are shopping around

Borrowers refused 62 percent of applications to large national banks and 37 percent of applications to regional or community banks due to unattractive terms the lenders offered. However, firms that refused credit at one place frequently obtained it somewhere else. This could be an indication that firms are shopping around. Of the 43 firms that turned down credit at least once, about 42 percent ended up receiving credit elsewhere. In total, these 43 firms submitted 193 applications, an average of about five each.

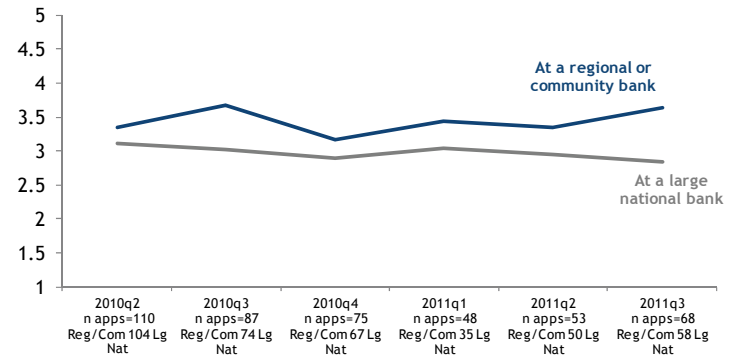
Overall amount of credit obtained among the 43 firms that refused credit at least once		
Overall financing	Number	Percent
Received none of the credit requested	25	58%
Received much less than the amount requested	12	28%
Received most of the credit requested	4	9%
Received the full amount requested	2	5%

**Channels of financing**  
Percent of firms that sought credit

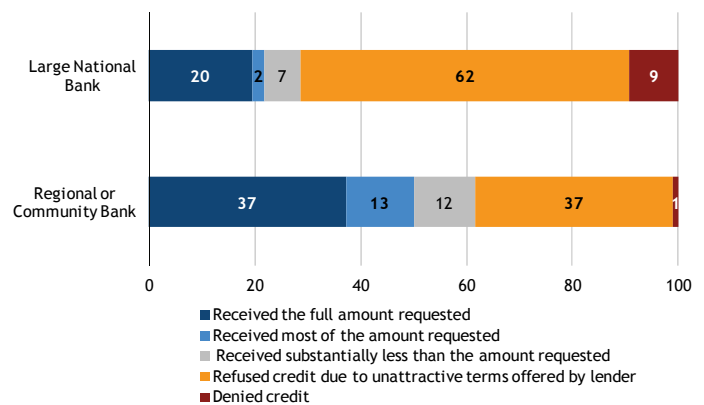


\*Other includes Internet banks, community development financial institutions, merchant cash advances, nonbank financing companies, and other

**Average success of a credit application**  
on a scale of 1=denied, 2=refused, 3=received some, 4=received most, 5=received full amount requested



**Extent to which you were able to meet your financing needs**  
percent of applications



## Credit Conditions: Amount of Financing Received *continued*

### SBA financing is hard to come by

Loans backed by the Small Business Administration have not been a popular form of credit over the life of the survey. In the third quarter of 2011, 17 firms sought loans backed by the Small Business Administration. Of these, 16 were either denied or the borrower refused the loan due to unattractive terms, and one firm received some of the credit requested.

### Firms receiving less financing are likelier to be young

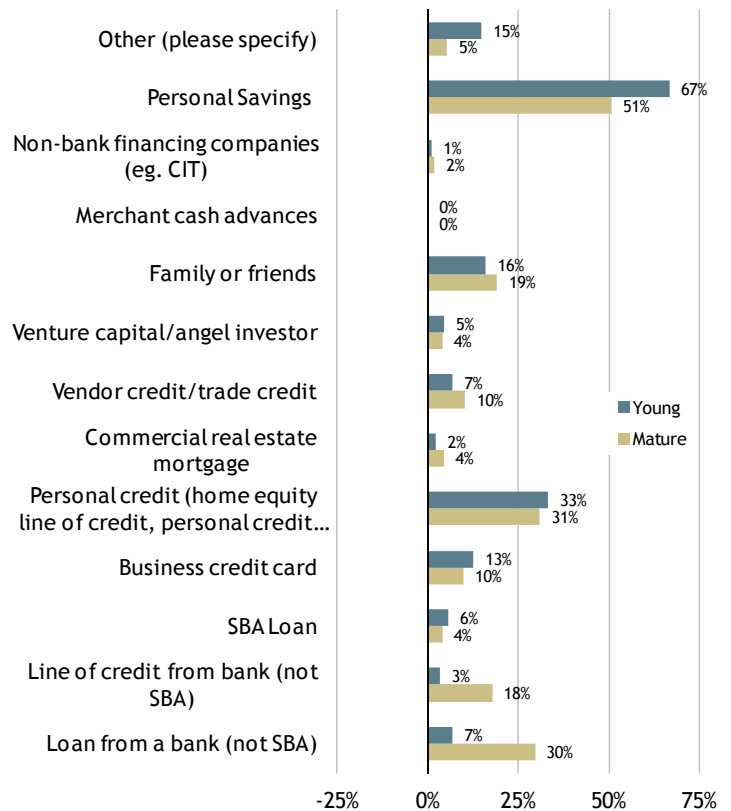
One-fourth of applying firms received no credit, and 17 percent received substantially less than the amount requested over all their applications for credit. Firms in this group were much younger on average than were firms who received most of or the full amount requested. Firms in this group were also likelier to say that their credit score, lack of equity in real estate, personal wealth/investment loss, or too few years in operation was affecting their ability to obtain credit.

### Young firms are likelier to start up with personal savings

The stricter credit standards prevalent in today's lending market appear to be affecting the way start-ups are financed. Using personal savings for initial capital has become a much more common way to start a business in the past few years. Two-thirds of firms less than six years old used personal credit to start their business compared with only half of mature firms. Mature firms were much more likely to report having received a loan or line of credit from a bank to obtain their start-up financing.

Firms who received:	None or much less than the amount requested	Most or the full amount requested
Average age of business	13 years	28 years
Percent of firms citing:		
Credit score	22%	0%
Lack of equity in real estate	37%	14%
Personal wealth/Investment loss	30%	13%
Too few years of operation	26%	5%

### Original source of financing





## Credit Conditions: Amount of Financing Received *continued*

### Firms borrow mostly to manage their cash flow

Thirty-eight percent of firms sought credit in the third quarter of 2011. Most firms borrowed to manage their cash flow. Half of borrowing young firms and 33 percent of mature firms said they were borrowing to increase sales, hire employees, start new locations, or expand their business in some other way. Those that responded “other” borrowed mostly for real estate purchases or to refinance.

### Discouraged borrowers more likely to be young

Seventy-percent of young firms and 58 percent of mature firms did not borrow in the third quarter. When they explained why, most firms indicated they did not need credit. However, many firms were discouraged from applying for credit because they expected they would either be denied or offered unfavorable terms. In the third quarter of 2011, one-third of firms less than six years old and 22 percent of mature firms did not attempt to borrow for this reason.

