

First 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.

For questions or more information, send an e-mail to SmallBusinessResearch@atl.frb.org.

Small Business Survey overview

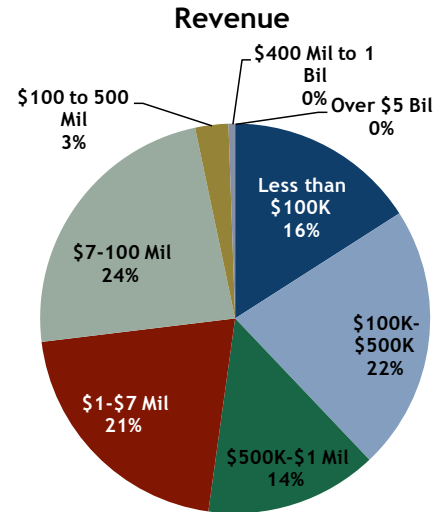
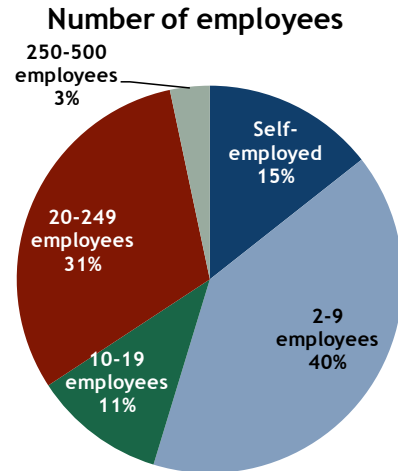
Characteristics of the survey sample

In the first quarter of 2011, 182 firms took the Small Business Survey. The survey sample had a diverse distribution of industries. Most firms are in the construction, real estate, professional services, manufacturing, 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 terms of manufacturing. Manufacturing makes up 2 percent of total small firms in the region, according to data from the U.S. Census, but makes up 12 percent of the first-quarter survey sample.

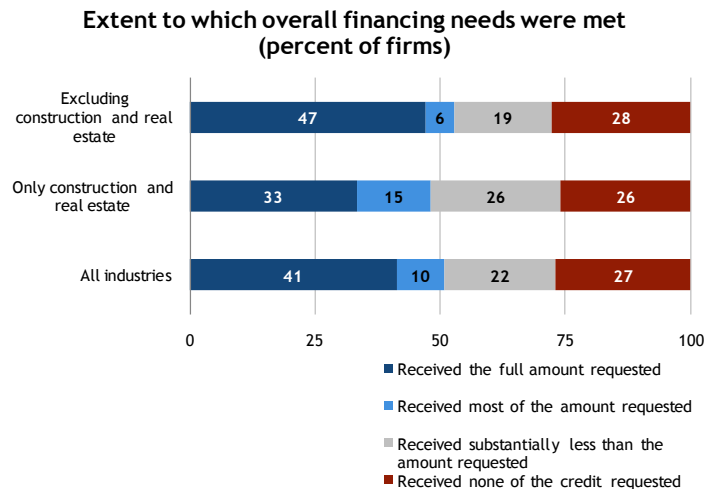
The sample remains skewed towards larger, more mature firms. Excluding self-employed individuals, only 41 percent of the survey sample have fewer than 10 employees, compared to 70 percent of small firms in the Southeast. The median age of firms in the sample is 15 years old.

Two-thirds of the sample have annual revenues of \$7 million or less.



Credit obtainment for overall sample

Of the 182 small firms in the Q1 survey, 65 applied for credit. Applying firms submitted 3.7 applications on average, and 41 percent had their overall financing needs met in full. A further 10 percent indicated they received most of the amount requested.



Small Business Survey highlights

Summary of changes over time

The overall amount of financing received among repeat firms in the survey improved somewhat from the fourth quarter of 2010.

Firms in construction and real estate continue to receive less credit than firms in other industries.

Community and regional banks have consistently extended more credit than large national banks, especially to firms in the construction and real estate industries.

Optimism has improved since the second quarter of 2010. Specifically, the outlook for sales growth over the next 6–12 months has gotten better.

Summary of young firms versus mature firms

Despite submitting more applications for credit, young firms in the survey received less credit overall than mature firms.

Most firms, young and mature, applied at banks. Young firms to some extent favored community banks and regional banks over large national banks and were more likely to receive credit from them. Mature firms however, had about the same success at both types of institutions.

The outlook for business conditions was more positive among the young firms in the sample than among the older firms.

Young firms were likelier to be discouraged borrowers.

Young firms were likelier to cite a variety of credit obstacles likely correlated with lower creditworthiness.

¹ We define small businesses as those with fewer than 500 employees.

Changes over time

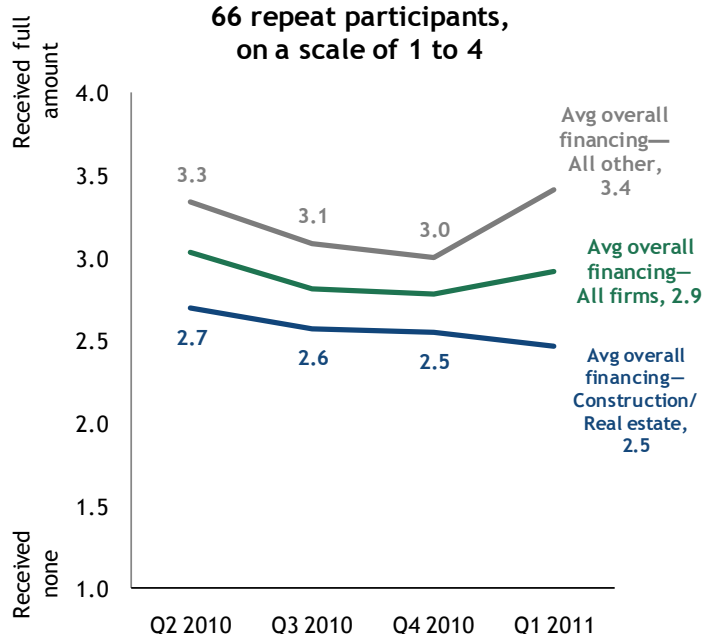
This section of the results focuses on the 66 firms that have completed the past four surveys or the 24 firms that completed the survey **and** applied for credit in the fourth quarter of 2010 and the first quarter of 2011. Comparing the changes over time of a fixed sample of participants allows for control of idiosyncratic differences in survey samples that might otherwise distort the results.

Overall credit fulfillment

In every quarter of the survey, construction and real estate firms have received notably less credit than firms in other industries. The amount of credit the group has received has not improved over time.

Average financing received among the 43 firms **not** in the construction or real estate industries improved from the fourth quarter of 2010 to the first quarter of 2011. On average, the group received 3.0 amounts of credit in the fourth quarter of 2010 and 3.4 amounts of credit in the first quarter of 2011.²

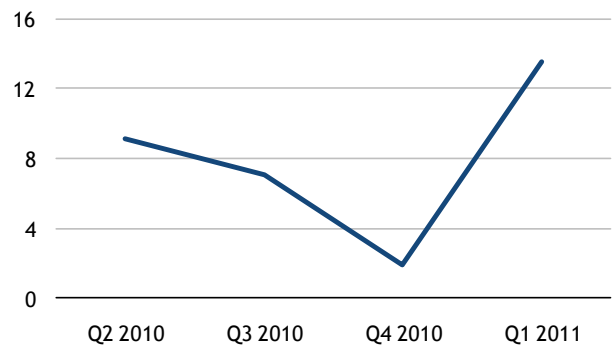
² The averages are computed by assigning a value between 1 to 4, where 1 equals **none** of the credit requested and 4 equals the **full amount** requested.



Comparison to the Senior Loan Officer Survey

The quarter-to-quarter changes in average financing received resemble the quarter-to-quarter changes in senior loan officers that report they are easing credit standards to small firms.

Senior Loan Officer Survey: Net percent easing standards to small firms

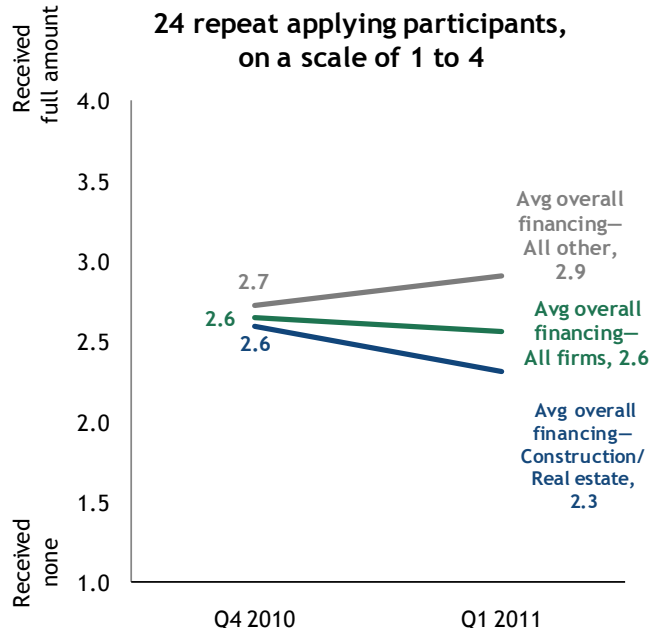


Source: Senior Loan Officer Survey

Changes over time (continued)

Fourth quarter 2010 versus first quarter 2011

Another way to measure the change in overall financing received is to compare the amount of financing received among the 24 firms who applied for credit in the fourth quarter of 2010 and first quarter of 2011. The general trend is the same among this group, with average overall financing increasing from 2.7 amounts of credit in Q4 2010 to 2.9 in Q1 2011 for firms not in the construction and real estate industry. Meanwhile, average financing received for firms in the construction and real estate industry declined.



Changes over time (continued)

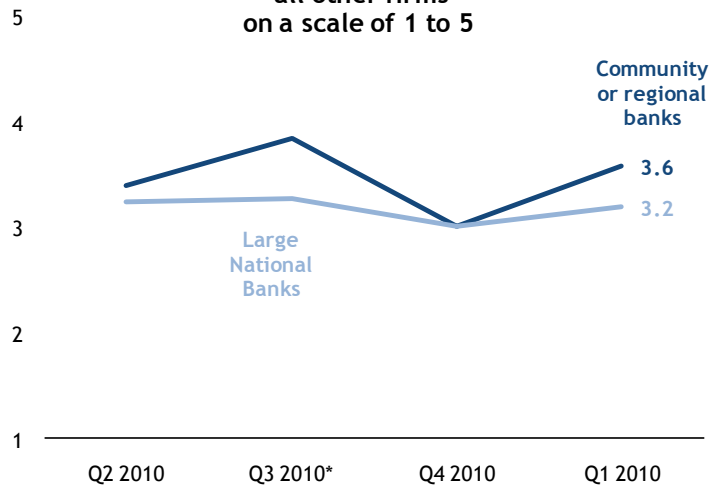
Applications for credit at banks

In every quarter of the sample, most firms seeking credit have applied at banks, seeking loans or lines of credit or both. Further, those that applied for credit at a bank in any given quarter have often sought credit at both community or regional banks and large national banks.

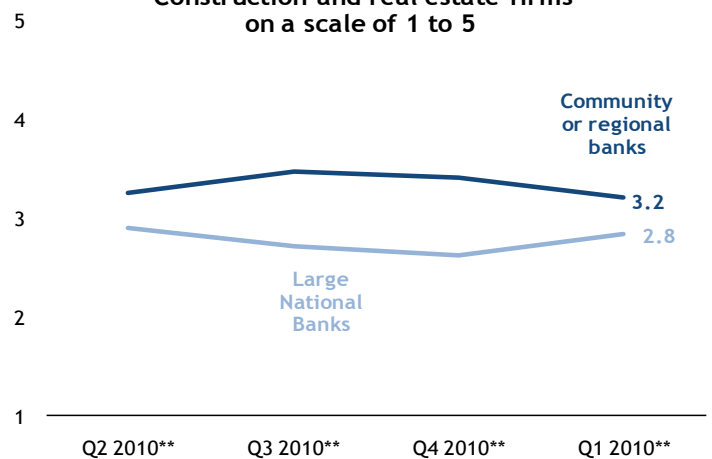
Again using only the results of the 66 firms that participated in the past four surveys, firms in the construction and real estate industries have been much more successful at community and regional banks than at large national banks. In fact, construction and real estate firms that applied at both types of banks received more financing from community and regional banks in all four quarters. The difference was significant at the 5 percent level.

Firms outside of this industry have also received more financing at community and regional banks. However, the difference in the average amount of financing received is statistically significantly different only in the third quarter of 2010.

Average success of a credit application
all other firms
on a scale of 1 to 5



Average success of a credit application:
Construction and real estate firms
on a scale of 1 to 5



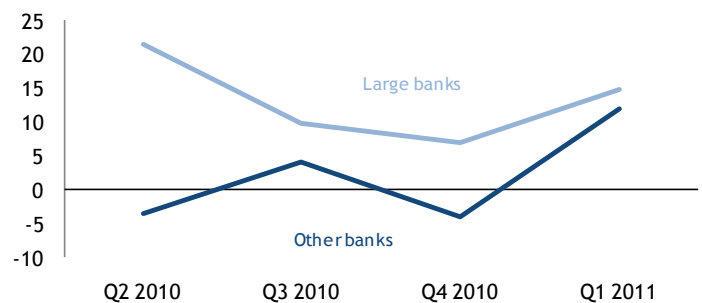
* Group averages are statistically significantly different at the 10 percent level.

** Group averages are statistically significantly different at the 5 percent level.

Comparison to the Senior Loan Officer Survey

The amount of financing received among firms not in the construction or real estate industry that applied at community and regional banks closely resembles trends in lending standards at similar banks surveyed in the Senior Loan Officer Survey.

Senior Loan Officer Survey
Net percent easing standards to small firms



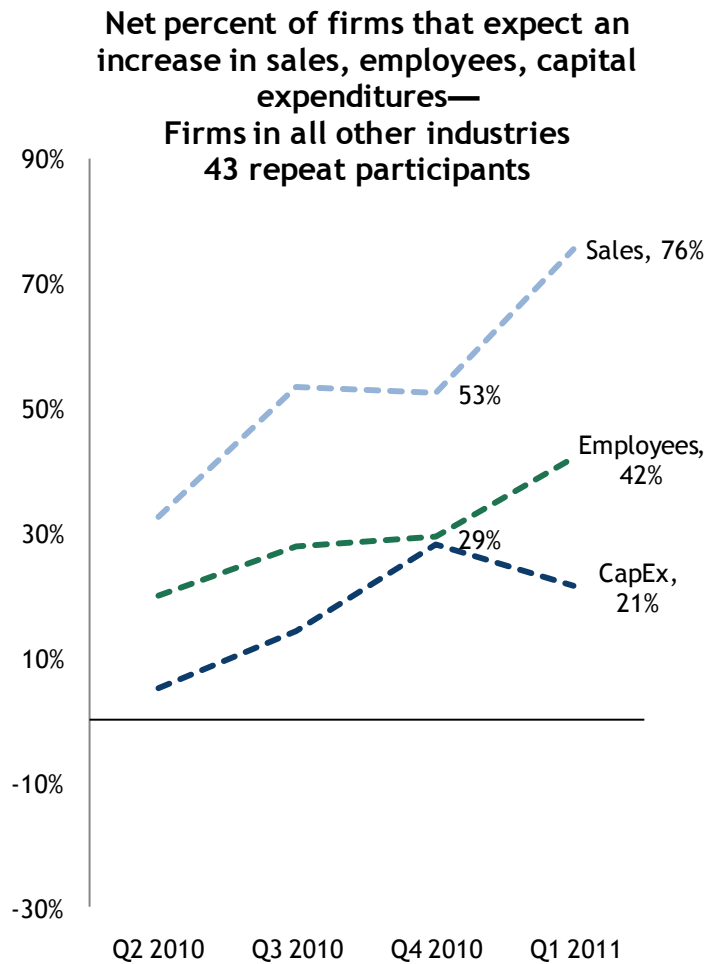
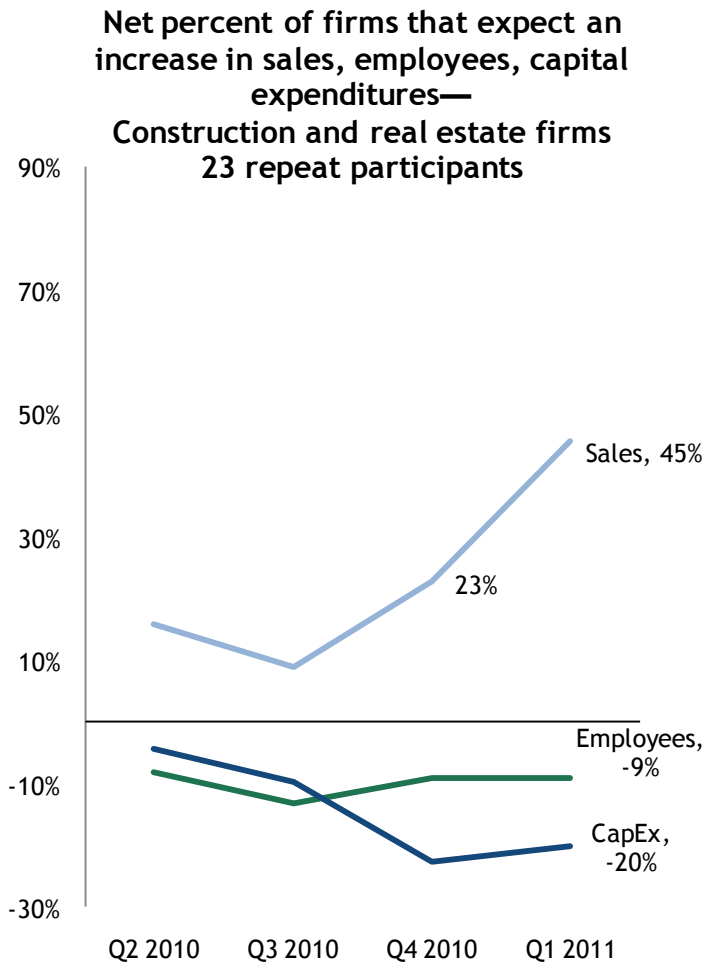
Source: Senior Loan Officer Survey

Changes over time (continued)

Expectations

Expectations for sales rose in the first quarter. A net 76 percent of firms not in the construction and real estate industry expect sales to be higher in the next 6–12 months, up from a net 53 percent in the fourth quarter. The net percent anticipating hiring was also higher among this group.

The increase in sales was statistically significantly different from the prior quarter while the increase in hiring was not. The portion that expected an increase in capital expenditures declined, but this change was insignificant. Firms in construction and real estate also improved their outlook for sales. A net 45 percent indicated sales will be higher in the next 6–12 months compared to a net 23 percent in fourth quarter 2010. Expected changes in the number of employees and capital expenditures did not change much. On net, firms in construction and real estate continue to expect fewer employees and lower capital expenditures over the next 6–12 months.



* Net percent is the percent of firms who said “increase” minus the percent of firms who said “decrease.”

Q4 versus Q1

Fourth quarter 2010 versus first quarter 2011

In all, 101 firms took both the fourth quarter 2010 and first quarter 2011 survey. About one-third of these were in construction and real estate.

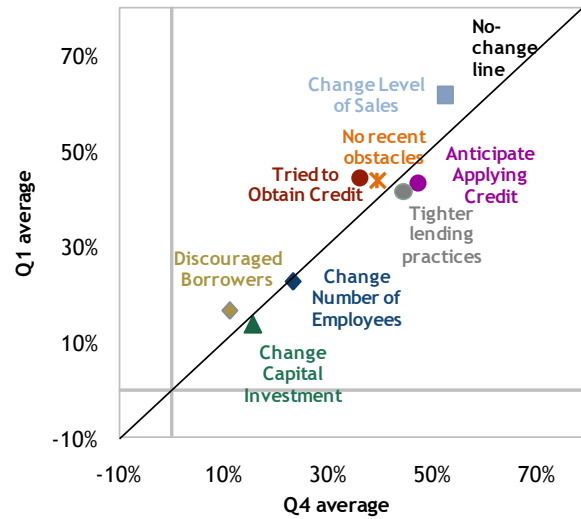
The graph to the right plots various sample averages in each quarter for the group. Any dot appearing above the 45-degree line indicates a higher average in Q1.

The net percent of firms anticipating increases to level of sales rose from Q4 2010 to Q1 2011, but the percent of firms anticipating changes in the number of employees and capital investment remained about the same.

In Q1 2011, more firms reported no obstacles to obtaining credit and fewer reported tighter lending standards, which indicates a possible improvement in lending standards. However, the number of discouraged borrowers increased—that is, there were more firms that did not borrow only because they believed that lenders would offer unfavorable credit terms or would not approve their request.

Q4 versus Q1 responses

101 repeat respondents



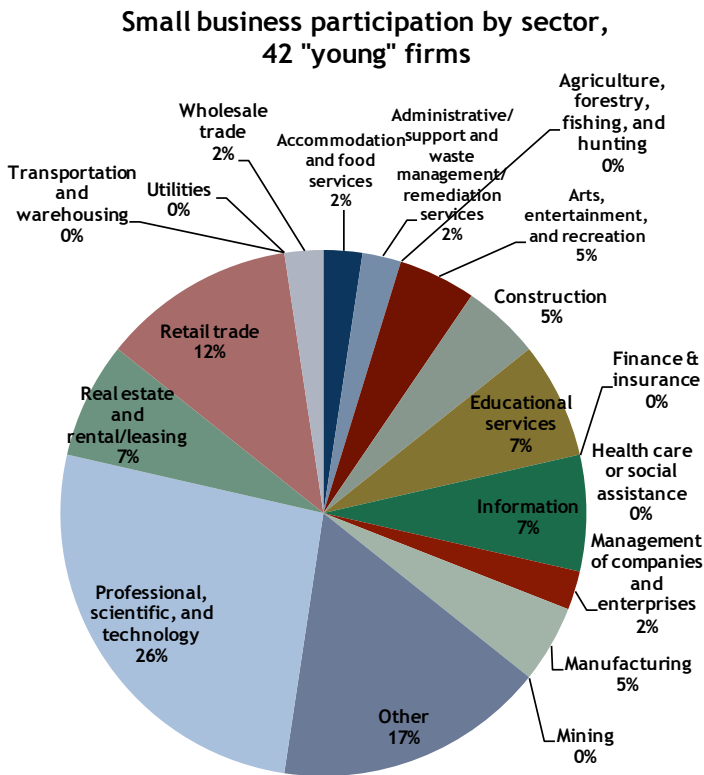
Note: The net increases for sales, employees, and capital expenditure are the percent of firms planning to "increase" net of those planning to "decrease." **Tighter lending practices** and **No recent obstacles** appear as options to the question "What are the obstacles, if any, currently making it difficult to access credit?" and the plotted number is the portion of respondents that marked these choices. **Anticipate applying for credit/tried to obtain credit** are the portion that anticipate applying for credit in the next six months/sought credit in the past three months. **Discouraged borrowers** are the portion of firms that did not borrow ONLY because they believed unfavorable credit terms would be offered or that lenders would not approve their request.

Young firms versus mature firms

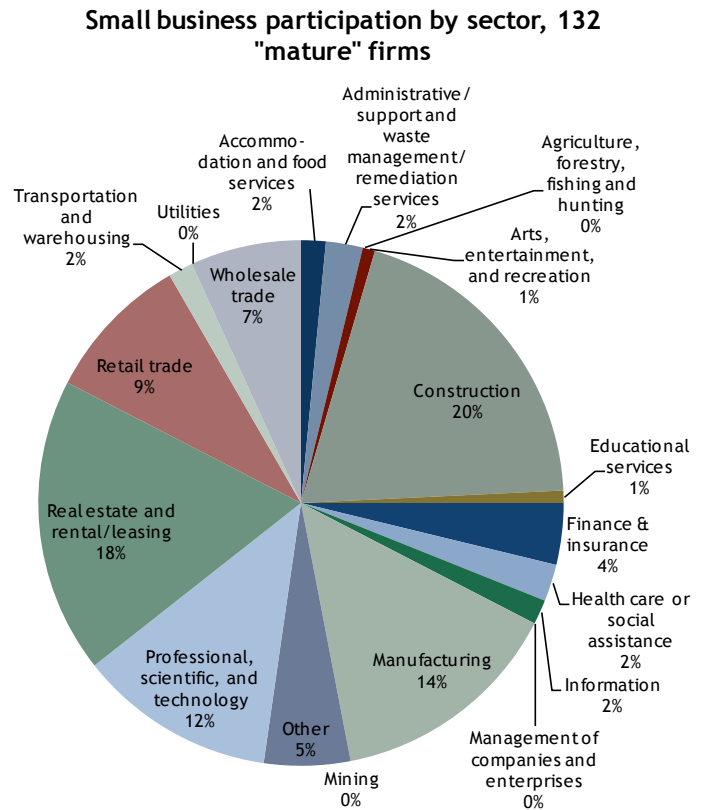
Taking the Q1 2011 survey were 42 businesses under 7 years old, hereafter referred to as “young firms,” and 132 businesses that were 7 years or older, hereafter referred to as “mature firms.”

Industry distribution

The industry distribution is very different between the young and mature firms. More young firms are in professional services, education services, and information services, while real estate and construction and manufacturing make up a much smaller share. Because so few young firms are in construction and real estate industry, and because firms in that industry have indicated very different experiences, they are excluded from all of the comparisons here except when otherwise noted.



Source: Small Business Survey Q1 2011, Firms under 7



Source: Small Business Survey Q1 2011, Firms 7 years and older

Young firms versus mature firms (continued)

Original source of financing

Survey results show that one of the most common ways people obtain credit to start a business was through the use of personal credit, such as a home equity line of credit or personal credit card: 43 percent of young firms and 35 percent of mature firms indicated personal credit as one of their original sources of financing. Bank financing—either in the form of a loan or line of credit—was very popular among mature firms: 40 percent received a bank loan and 28 percent received a line of credit. However, young firms were much more likely to use their personal savings to start their business.

Original source of financing	Young firms (%)	Mature firms (%)
Loan from a bank (not SBA)	19	40
Line of credit from bank (not SBA)	14	28
SBA Loan	2	3
Business credit card	14	20
Personal credit (home equity line of credit, personal credit card)	43	35
Commercial real estate mortgage	2	9
Vendor credit/trade credit*	14	14
Venture capital/angel investor	2	2
Family or friends	31	24
Merchant cash advances**	0	0
Nonbank financing companies (e.g., CIT)	0	2
Personal savings (from "other")	26	14
Other (please specify)	5	7

Note: These percentages are calculated based on the responses of all 42 young and 132 mature firms.

*An arrangement to buy good or services on account—that is, without making immediate cash payment to the supplier

**A lump sum payment in return for a percentage of future sales receipts

Young firms versus mature firms (continued)

Credit sources

Thirty-five percent of young firms and 28 percent of mature firms applied for credit in the three months leading up to the survey. On average, applying young firms submitted 4.5 credit applications, compared to 2.8 among mature firms.

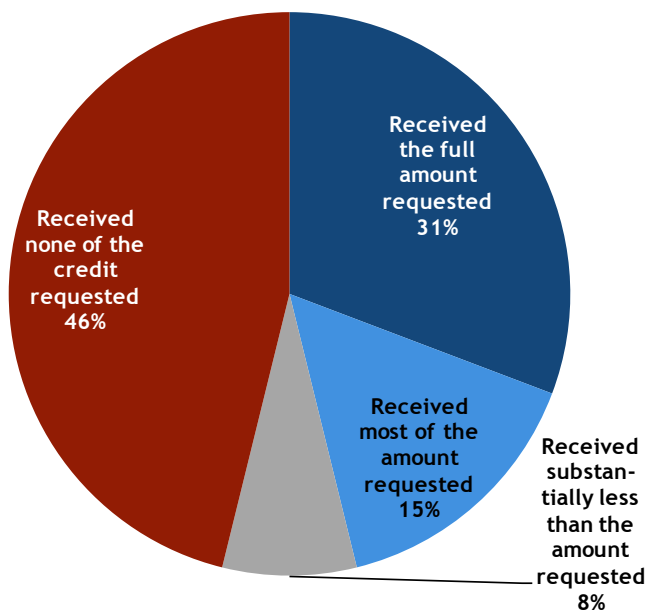
Almost all firms applying for credit, whether young or mature, went to a bank. Eighty-four percent of young firms and 90 percent of mature firms applied for credit at a bank. Young firms were about as likely as mature firms to apply at community and regional banks: 77 percent of applying young firms and 76 percent of applying mature firms. However, mature firms were slightly more likely to go to a large national bank than were young firms: 57 percent of applying mature firms compared to 46 percent of applying young firms.

Young firms used a wider variety of financing channels. They were more likely to seek financing at credit unions, SBA lenders, credit card companies, Internet banks, community development financial institutions, vendors/suppliers, family or friends, and nonbank financing companies. In fact, large national banks were the only resource that young firms used less than mature firms.

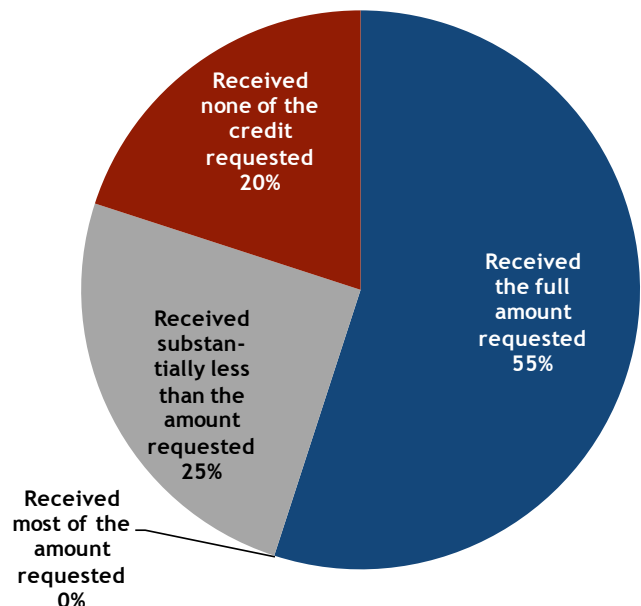
Overall credit fulfillment

Despite submitting more applications on average and applying through a wider variety of credit channels, young firms received less financing than mature firms. Nearly half of young firms received no credit over all their applications for credit compared to one-fifth of the mature firms.

Extent to which overall financing needs were met, excluding construction & real estate firms
13 young firms



Extent to which overall financing needs were met, excluding construction & real estate firms
22 mature firms

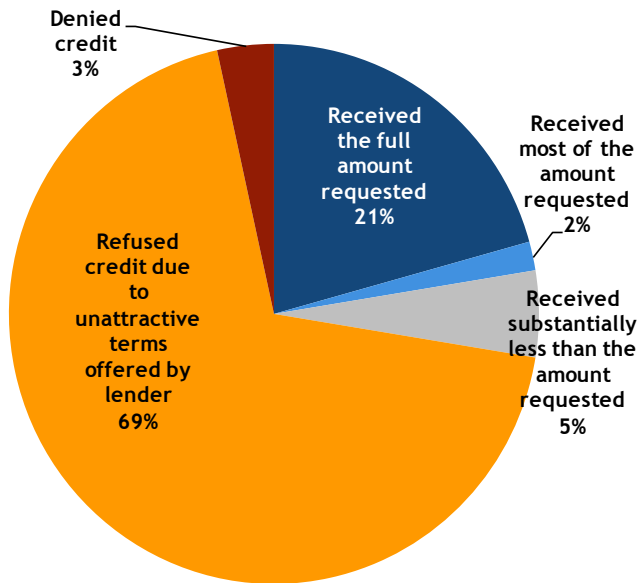


Young firms versus mature firms (continued)

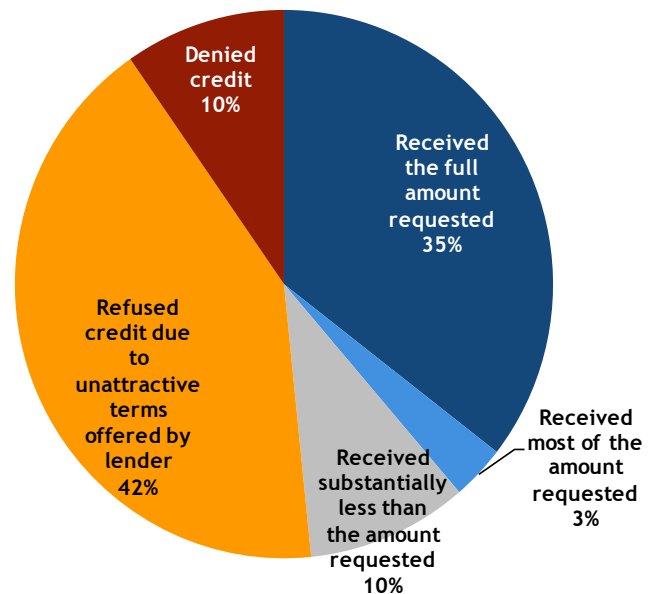
Credit applications

Young firms were very likely to refuse credit due to unattractive terms by the lender: 69 percent of applications submitted by young firms were ultimately turned down by the borrower, compared to 42 percent of applications submitted by mature firms.

Extent to which financing needs were met, percent of ALL applications
58 applications by 13 young firms



Extent to which financing needs were met, percent of ALL applications
62 applications by 22 mature firms



Bank financing

Young firms received less financing from large national banks than from community and regional banks.

The 13 young firms not in the construction and real estate industry that applied for credit submitted nine applications to large national banks (4 applications for lines of credit, 4 for loans) and 14 applications to community and regional banks (8 applications for lines of credit, 6 for loans). Forty-three percent of the applications submitted to community and regional banks were approved for the full amount requested, while only 22 percent of applications submitted to large national banks were approved for the full amount.

By comparison, mature firms in the sample received about the same amount of credit from both locations. As a group, they submitted 20 applications to large national banks and 25 to community and regional banks. Forty percent of applications submitted to large national banks were approved for the full amount requested, and 36 percent of applications submitted to community and regional banks were approved for the full amount.

Young firms versus mature firms (continued)

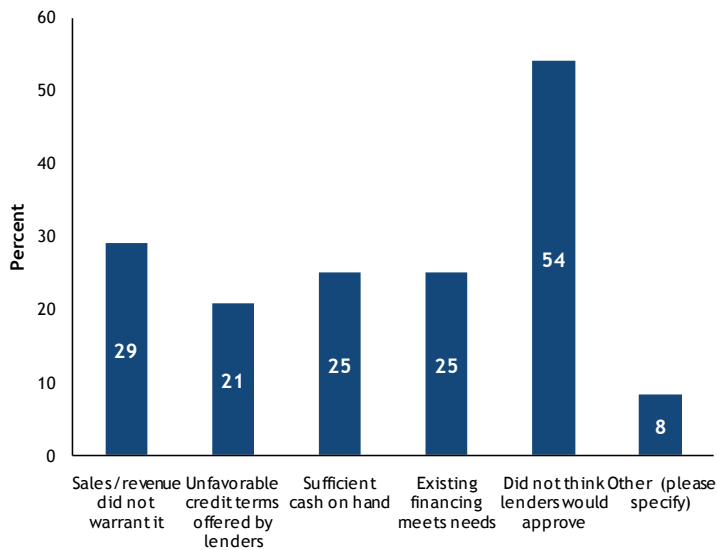
Discouraged borrowers

A much greater portion of young firms did not apply for credit because they expected denial or unfavorable credit terms. Half of young firms not in the construction and real estate industry that did not apply for credit said they did not think lenders would approve them, and one-third expected lenders to offer unfavorable credit terms.

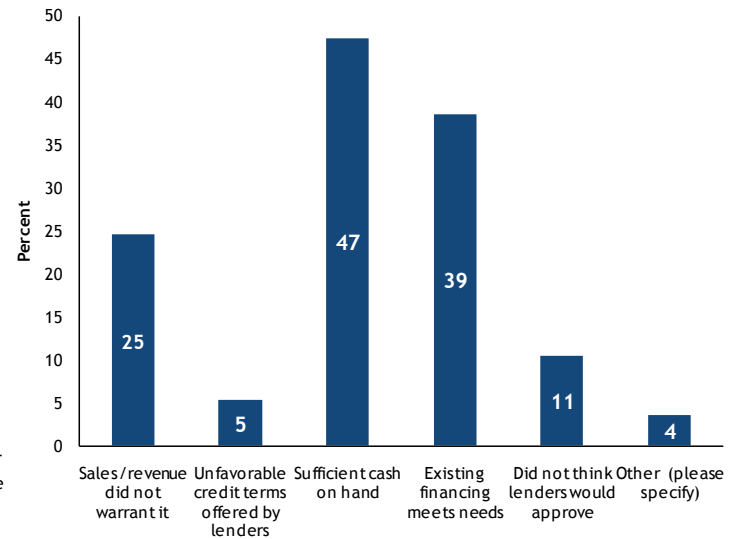
Looking at the firms who cited only these two reasons and no other reason for not borrowing gives us a measure of discouraged borrowers: 33 percent of young firms and 11 percent of mature firms said they did not borrow only for these two supply-side reasons.

When asked about future borrowing, 52 percent of young firms and 4 percent of mature firms responded that they do not anticipate seeking credit in the next six months only because they believe lenders will not approve their request or will offer unfavorable credit terms.

Reasons for not borrowing, young firms
39 responses from 24 firms



Reasons for not borrowing, mature firms
74 responses from 57 firms



Young firms versus mature firms (continued)

Outlook

Young firms had a more positive outlook than mature firms.

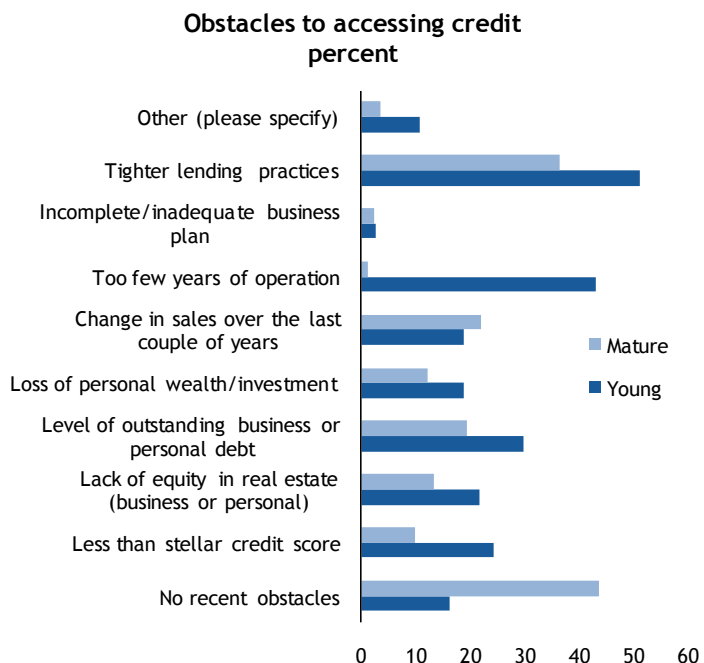
Larger net percents of young firms anticipated increases to employees, sales, and capital expenditures over the next 6–12 months. None of the young firms anticipated decreasing the number of employees in their firms over the next 6–12 months.

The table to the right shows the net increases in employees, sales, and capital expenditures.

Net percent anticipating increases to...	Young firms	Mature firms
Employees	56	36
Sales	81	67
Capital expenditures	40	23

Creditworthiness

The Q4 2010 survey results showed that young firms in the survey were much likelier to cite obstacles to accessing credit associated with lower creditworthiness. This fact could help explain why young firms compared to mature firms received less credit over all their applications for credit. For example, young firms were likelier to cite less-than-stellar credit scores, lack of equity, debt levels, loss of personal wealth/investment, and too few years of operations as obstacles to accessing credit.



By Ellyn Terry, senior economic research analyst in the research department at the Federal Reserve Bank of Atlanta