



# What are Small Businesses Telling Us About Credit—and Why Do We Care?

Federal Reserve Bank of Atlanta  
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September, 10, 2010



# Why Does the Federal Reserve Care?

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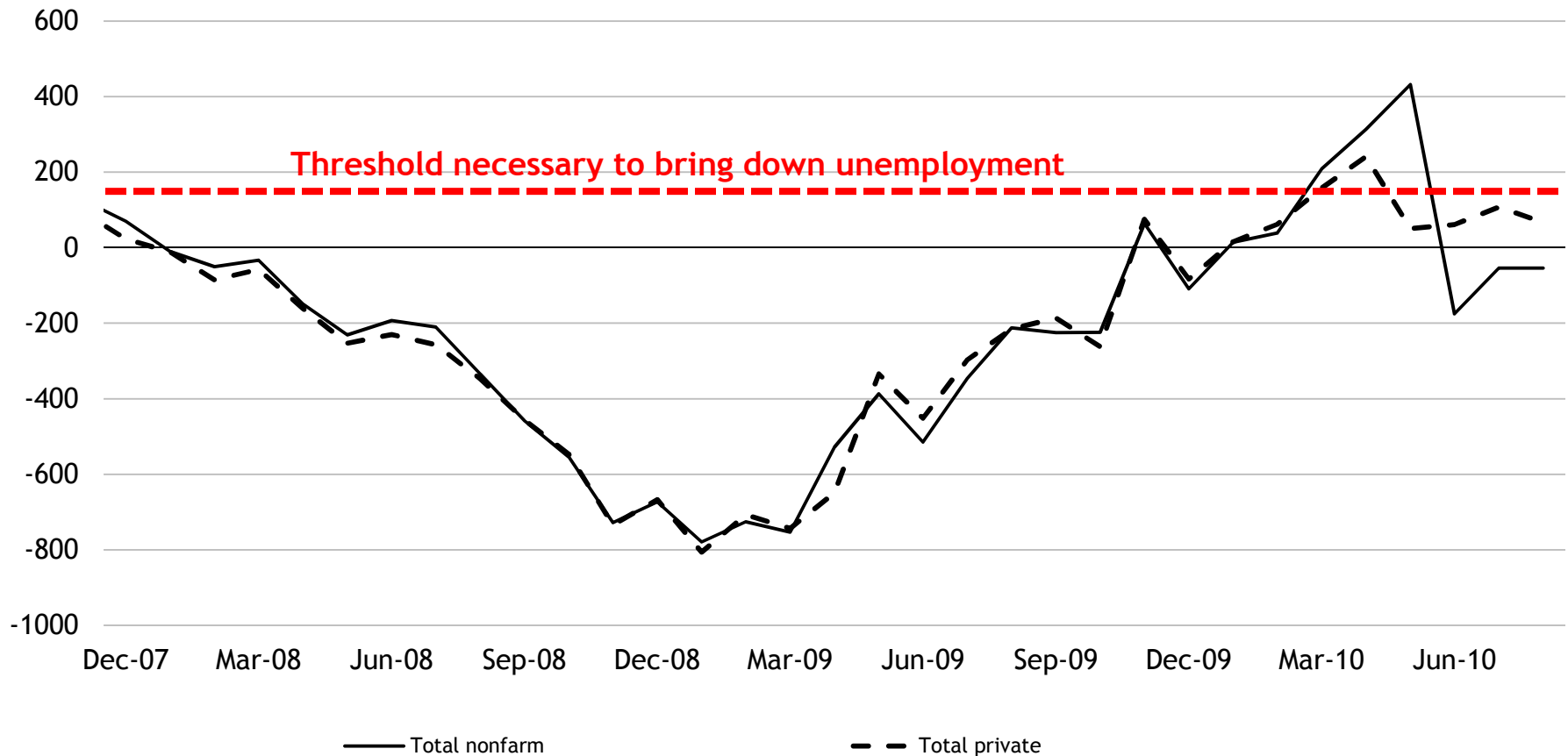
**“to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.”**

*Federal Reserve Act*

# Private payrolls continued to expand in August, though the pace of the expansion remains subdued.

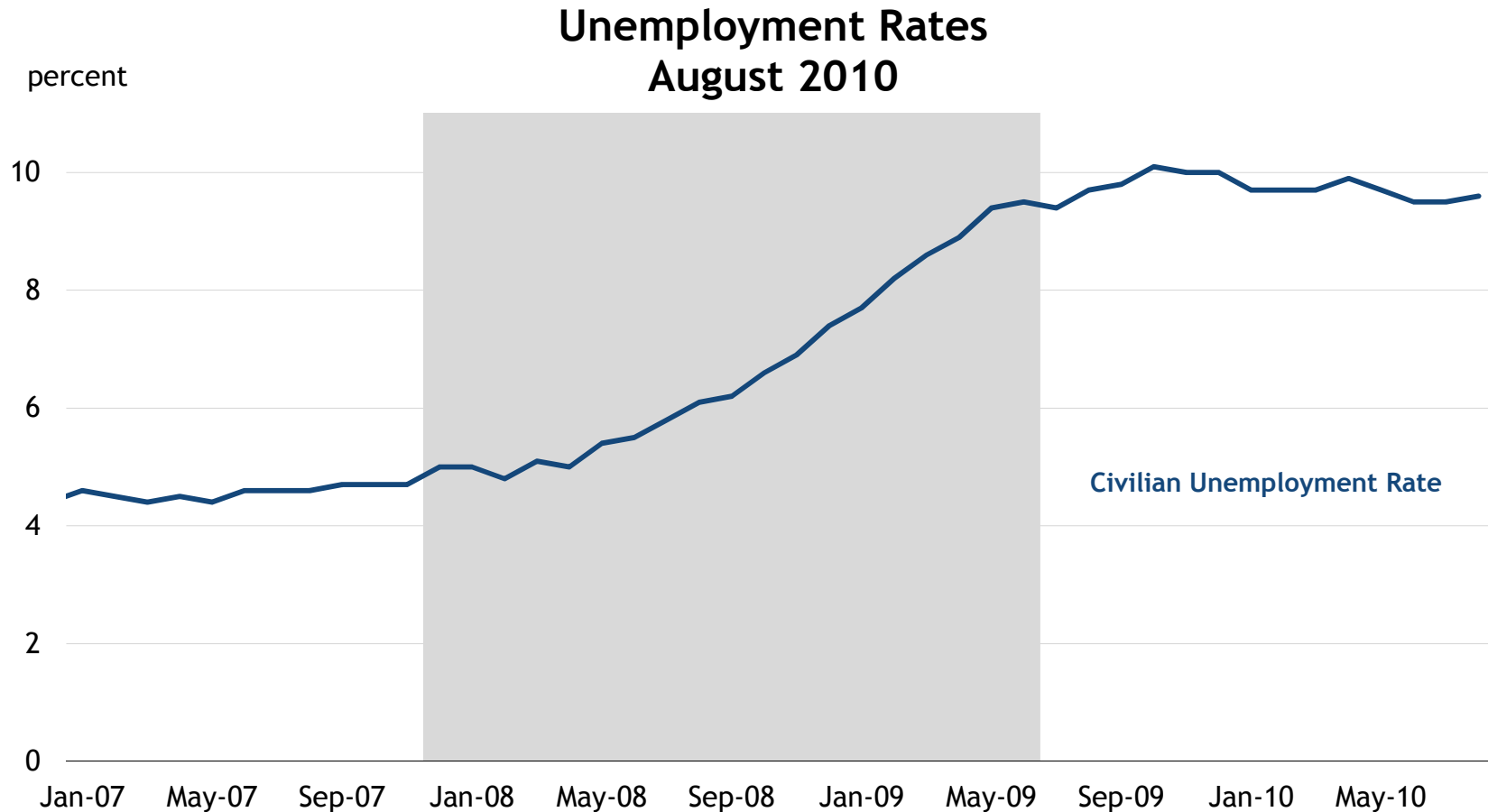
## Change Nonfarm Payroll Employment

August 2010, thousands



Source: U.S. Bureau of Labor Statistics

# With jobs growth subdued, rates of joblessness remain stubbornly high.

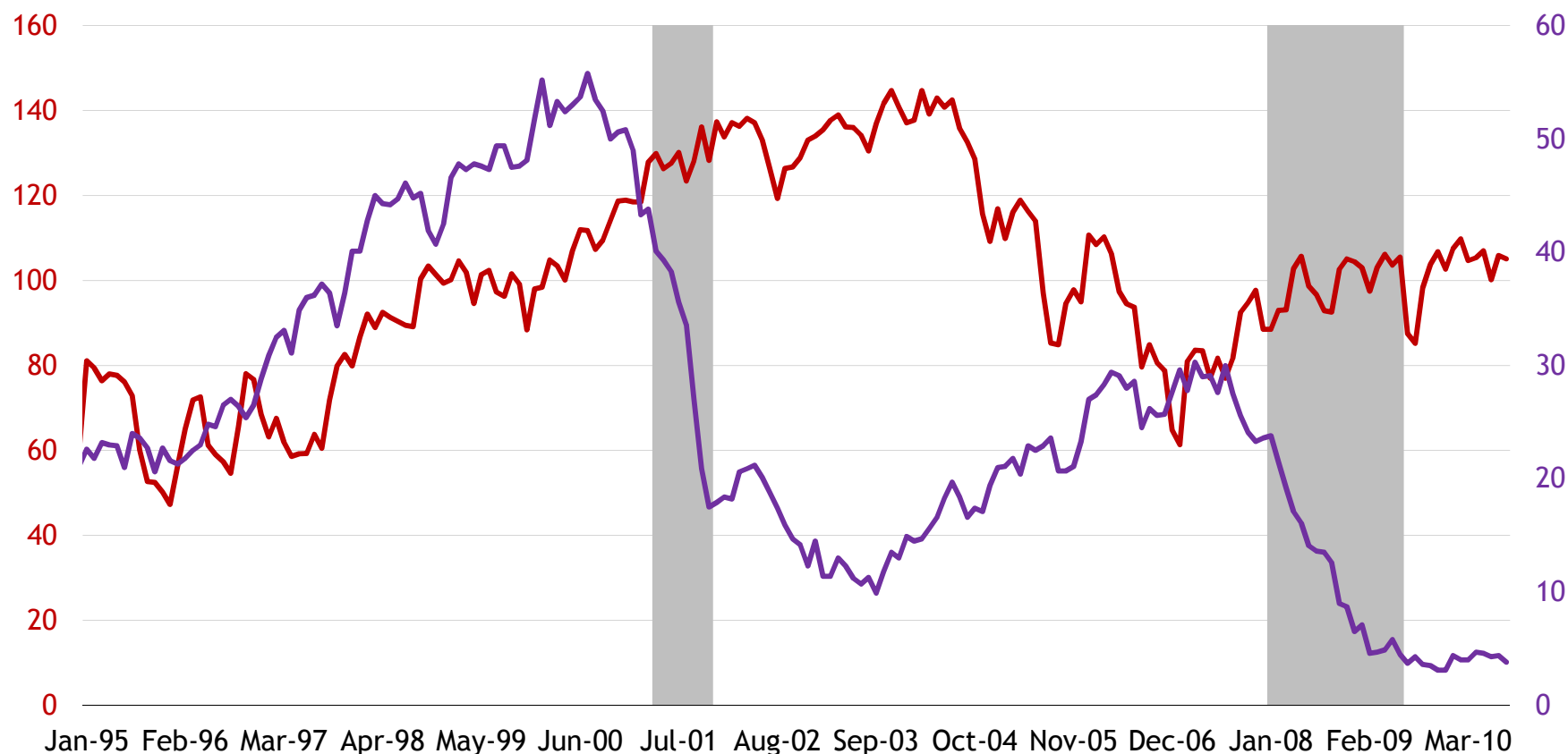


Source: U.S. Bureau of Labor Statistics

Assumes recession ended June 09.

**Measures of consumer confidence are low for a recovery, as household assessment of jobs prospects remain near their recessionary bottom.**

## The Conference Board Consumer Confidence Survey



— Consumer Confidence Index  
Index: 1985=100

— Jobs plentiful  
(percentage of respondents reporting jobs are plentiful)

through August

Assumes recession ended June 09.

Source: Conference Board

# **“Addressing the Financing Needs of Small Business” Bernanke, July 12, 2010**

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*Small businesses are central to creating jobs in our economy; they employ roughly one-half of all Americans and account for about 60 percent of gross job creation.*

*Newer small businesses, those less than two years old, are especially important: Over the past 20 years, these start-up enterprises accounted for roughly one-quarter of gross job creation even though they employed less than 10 percent of the workforce.*

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*The formation and growth of small businesses depends critically on access to credit.*

*Unfortunately, those businesses report that credit conditions remain very difficult.*

*How much of this reduction has been driven by weaker demand for loans from small businesses, how much by a deterioration in the financial condition of small businesses during the economic downturn, and how much by restricted credit availability?*

# Two Small Business Surveys

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## Survey of Small Business Owners

- Distributed to small business owners in the sixth district<sup>1</sup> through the Federal Reserve Bank of Atlanta's REIN network.
- 432 firms filled out the surveys.

## Survey of Small Business Service Providers

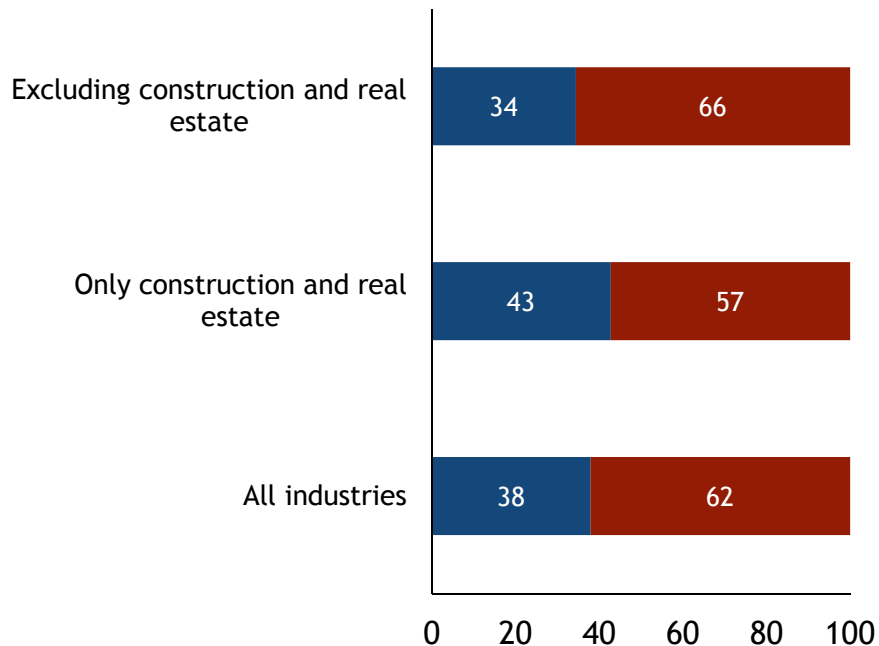
- Distributed to small business service providers in the sixth district.
- Because the survey of small business owners is skewed towards old and large firms, we narrowed the survey of small business service providers to just those whose clients are mostly less than four years old and have less than 20 employees.



# Percent of Firms Accessing Credit: April vs. July

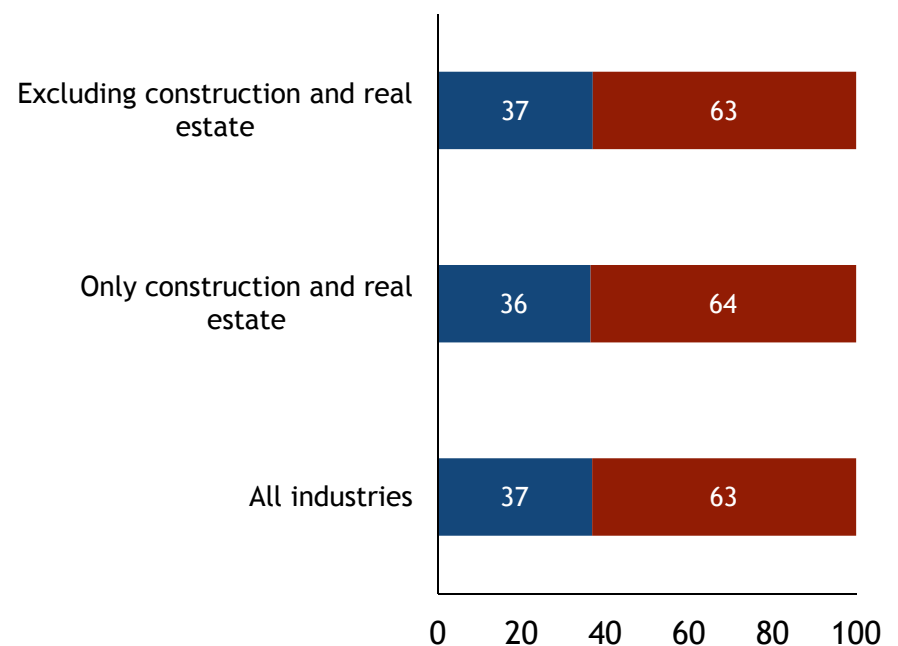
**April: Tried to obtain credit in the past three months**  
% of firms

■ Yes ■ No



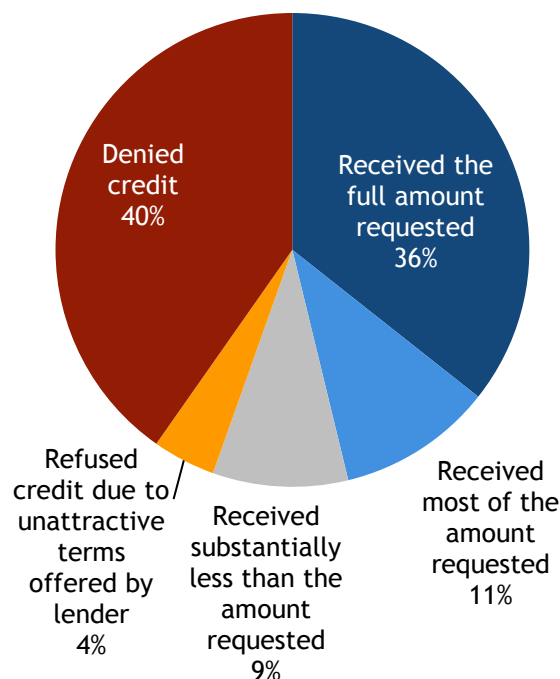
**July: Tried to obtain credit in the past three months**  
% of firms

■ Yes ■ No

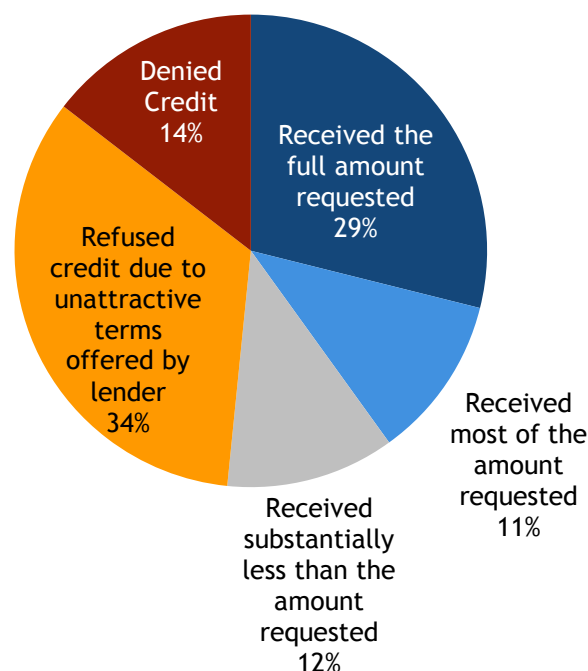


# Applications for Credit: April vs. July

**April: Degree to which credit applications were met**  
(303 applications by 117 Firms)

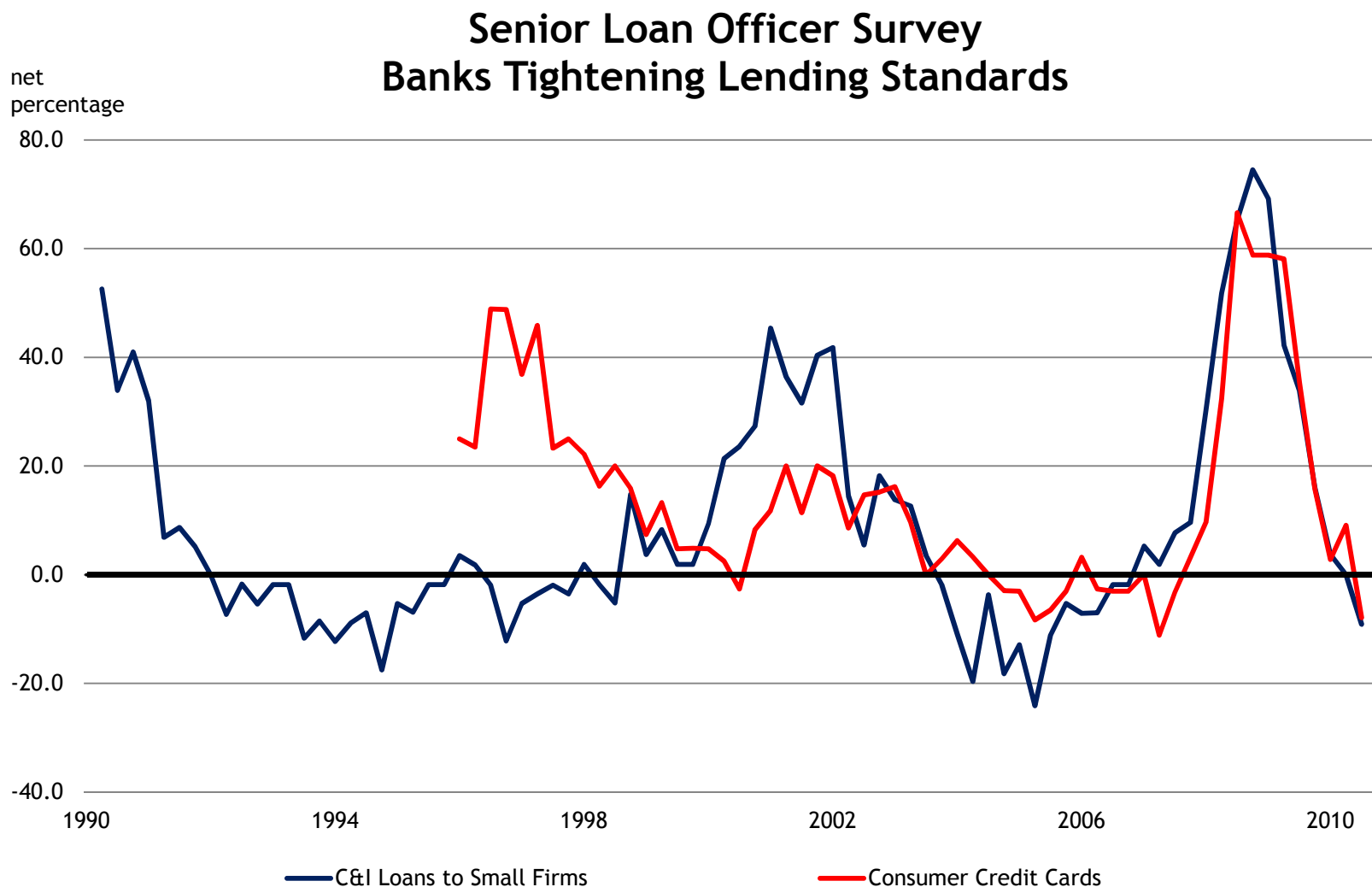


**July: Degree to which credit applications were met**  
(502 applications by 157 firms)

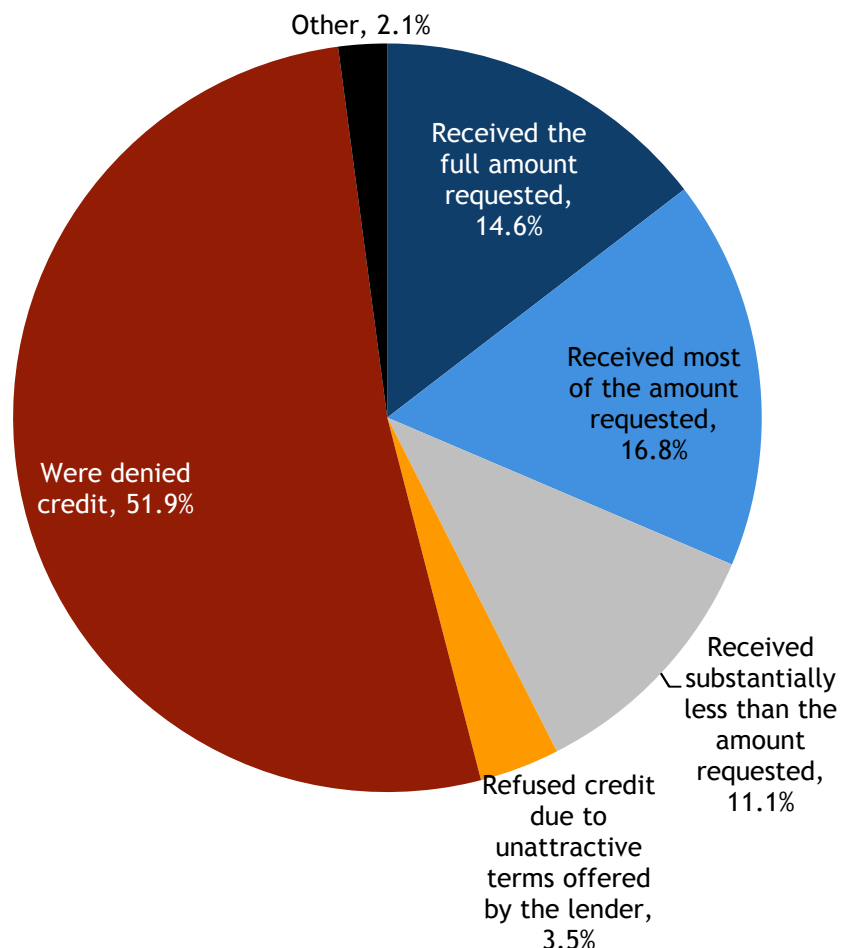


- The denial rate for applications was much lower in July compared to April: 14% versus 40%.
- However, many more offers of credit were refused by the borrower, suggesting more applications were being considered, just not at a price firms were willing to accept.

**The Federal Reserve Board's survey of senior loan officers indicates that bank lending standards have eased some, including lending to small firms.**



# Applications for Credit by Young Firms

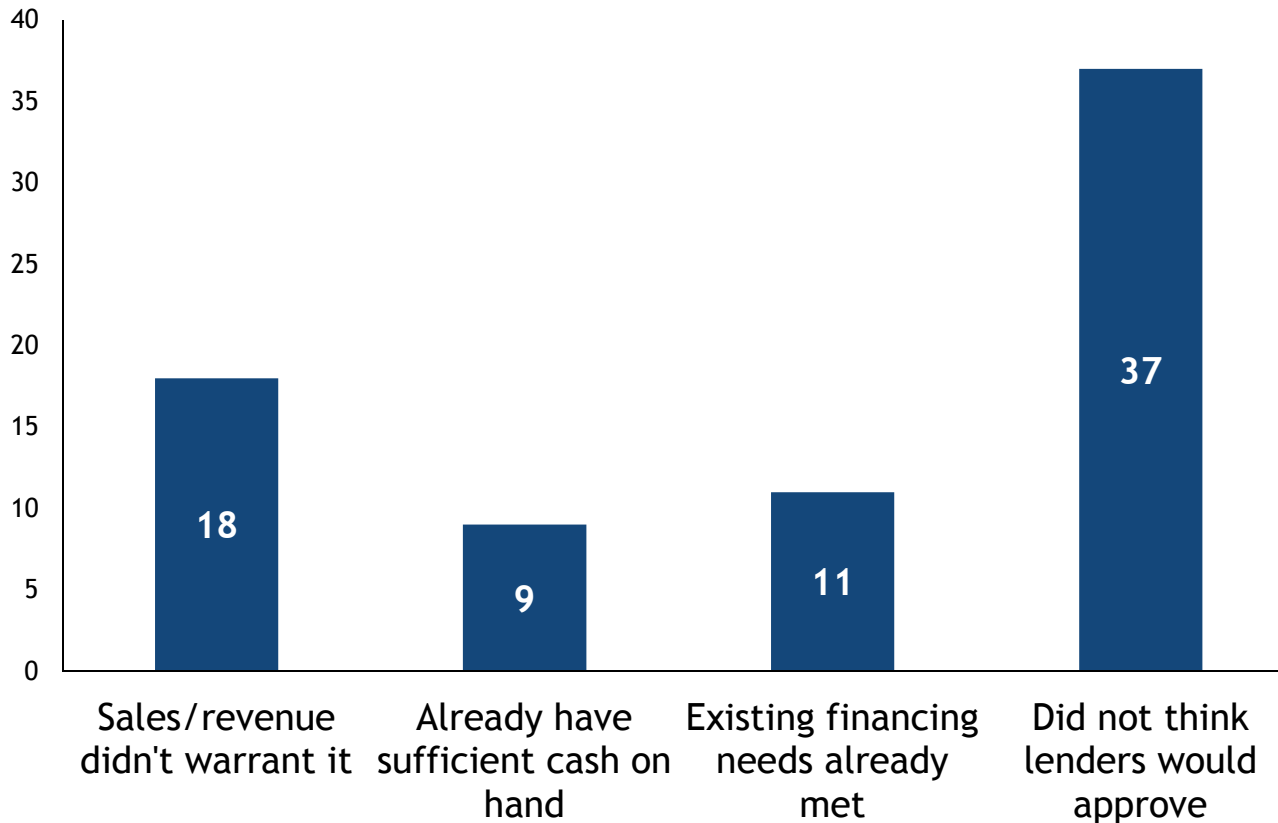


- Responses from service providers suggest that younger firms are experiencing high denial rates, just over 50%.
- However, when combined with loans ultimately refused by the borrower, the percent is similar to that of small business owners. According to service providers, 55% of applications were denied or refused compared to 48% as reported by small business owners.

Source: July Survey of Small Business Service Providers

# Reasons Young Firms are not Seeking Credit

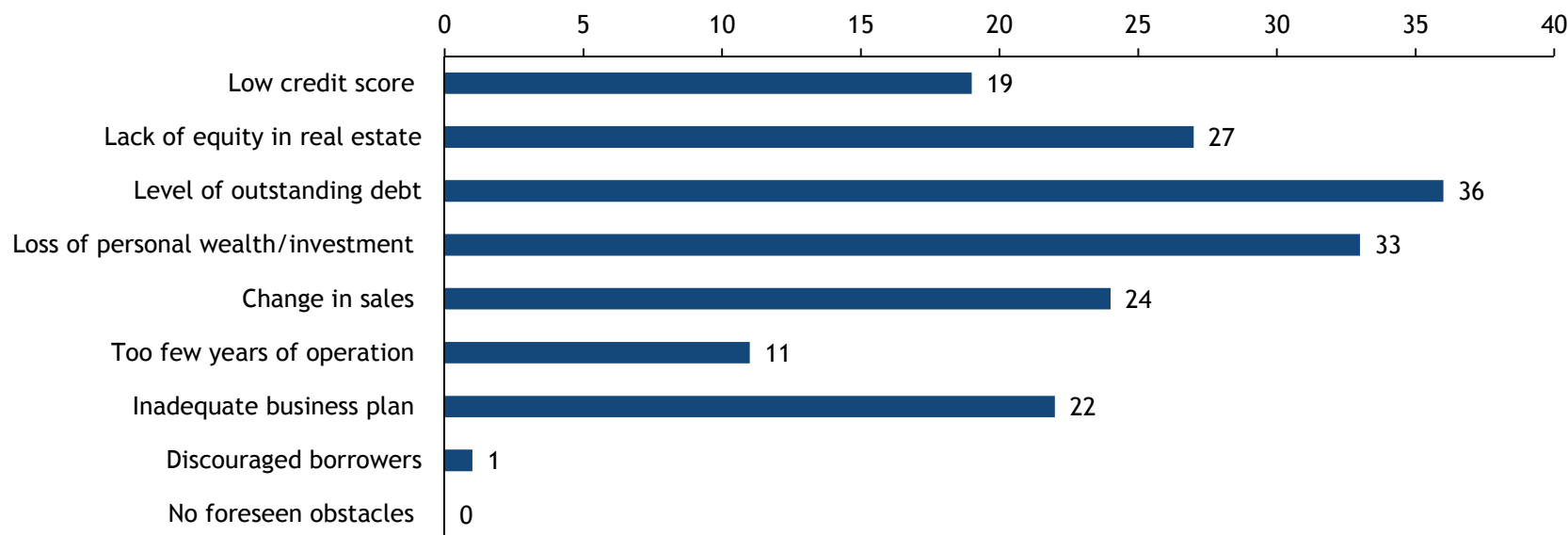
For those firms NOT trying to obtain credit in the last 3 months, what were the main reason(s)?  
(n = 75)



- According to service providers, young firms have a higher tendency to not seek credit due to anticipation of denial.
- Sufficient cash on hand and existing financing meets needs were the least cited reason here but were the most cited reasons among small business owners, possibly a reflection of the fast-growing nature and smaller financial backstops of small businesses.

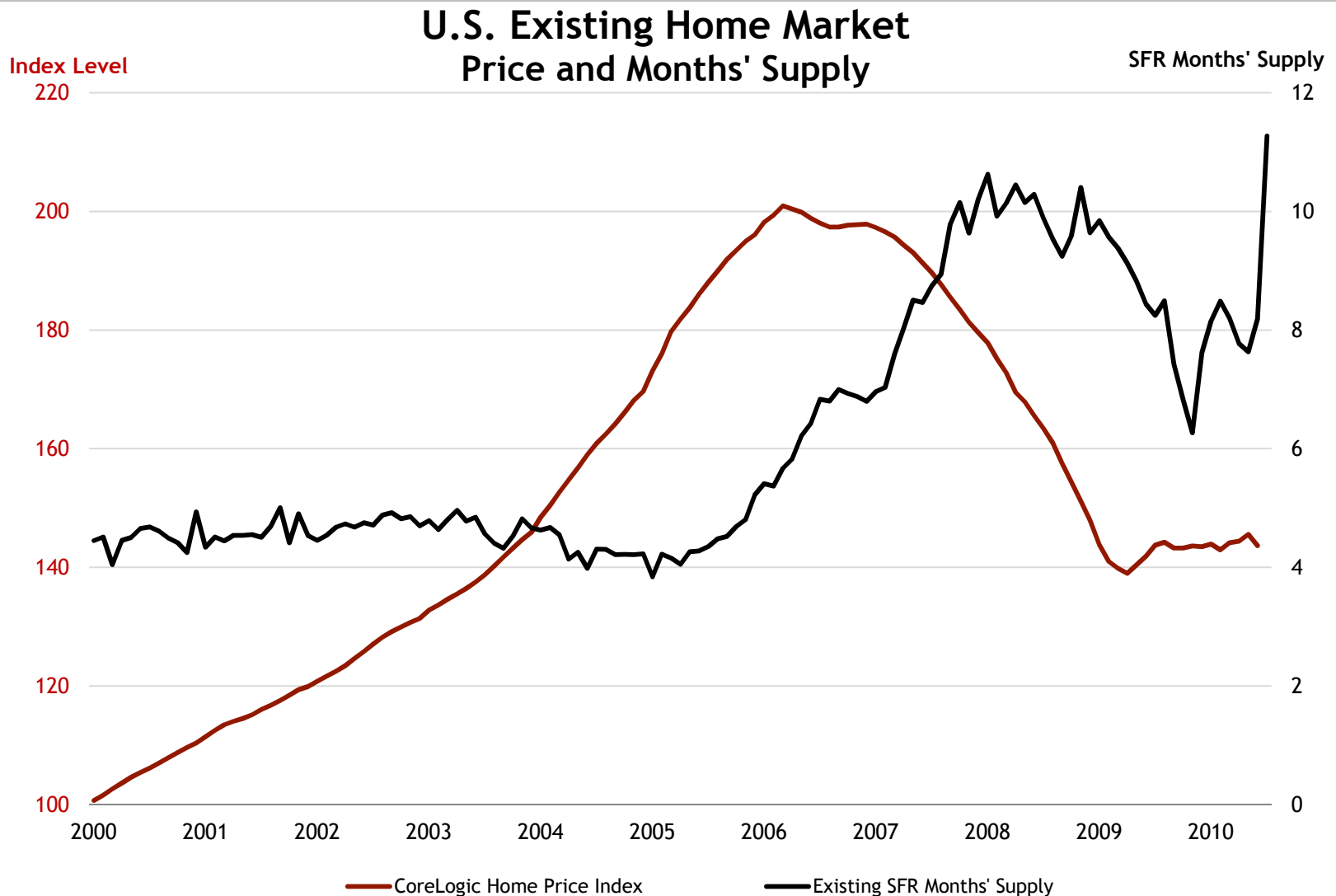
# Obstacles to Credit for Younger Firms

In your opinion, what are the PRIMARY obstacles that may make it difficult for small businesses to access credit and capital today? (n = 173)



- For firms three years and younger, loss of personal wealth (both general wealth and equity in personal real estate) are the primary obstacles to accessing credit.
- This is followed by change in sales, low credit score, inadequate business plans, and level of outstanding business debt.
- The fact that no service providers said ‘no foreseen obstacles’ could be an artifact of the survey, since they are answering on behalf of all of the firms they service.

# Home inventories remain elevated introducing the potential for greater downward price pressure in the housing market.



*Note: Home Price Indices data through June 2010; Months' Supply data through July 2010; CoreLogic index includes distressed properties*

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***“[T]he Federal Reserve and other agencies have made a concerted effort to ..facilitate the flow of credit to viable small businesses. [W]e helped bring capital from the securities markets to small businesses through the Term Asset-Backed Securities Loan Facility--the TALF program.***

***More than 850,000 small business loans were financed in part by securities whose issuance was supported by TALF. We have also been focused on strengthening the nation's banks, so that they can resume normal lending as quickly as possible.”***

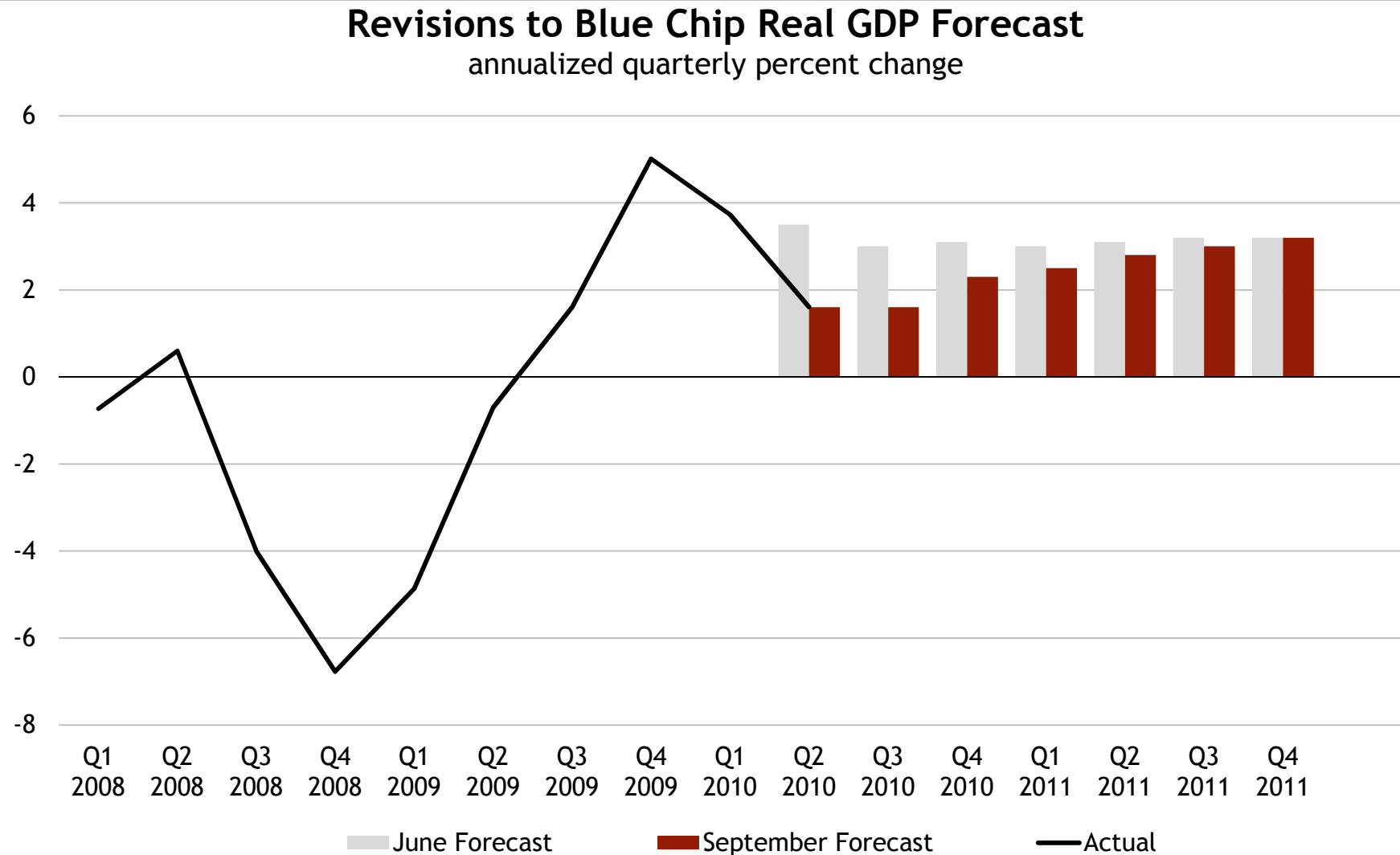


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***“We have heard ...that bank examiners have prevented banks from making good loans. We take this issue very seriously. The Federal Reserve has worked ...with the other banking regulators to develop interagency policy statements on this issue, aimed at banks and examiners. Our message is clear: Consistent with maintaining ...prudent standards, lenders should do all they can to meet the needs of creditworthy borrowers.”***

**As the incoming data have softened, expectations for real GDP growth have been trimmed sharply.**



Source: Blue Chip Panel of Economists, Bureau of Economic Analysis



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