SMALL BUSINESS CREDIT SURVEY, MAY 2013
KEY FINDINGS

National evidence of a more positive small business lending environment is slowly emerging. In Q4 2012, small business loan volumes—defined as loans of $1 million or less—increased for the first time in ten quarters; growth was in all small business loan sizes including frequently requested loans under $100,000. An easing of lending standards and declining credit costs for small companies, especially for borrowers with strong credit histories, was also reported in the Federal Reserve's most recent Senior Loan Officer Opinion Surveys in Q4 2012 and Q1 2013.

As part of its regional and community outreach, the New York Fed asks small businesses in our region about their credit needs and experiences. In the May 2013 survey, we heard from 812 small businesses in New York, New Jersey, and Connecticut. Most business owners we polled cite access to capital as a top growth concern, but only a third of firms actually report applying for credit in 2012. Credit applicants were mostly experienced and higher performing small businesses and more of them received full funding than in past surveys. Among the non-applicants, fewer firms self-identified as being discouraged or not applying because they anticipated being declined. Looking to future credit use, there are clear distinctions between applicants and non-applicants. A majority of firms that are planning to apply for credit in the next two quarters of 2013 will be re-applicants. In contrast, the majority of non-applicants finance their operations primarily through retained earnings rather than relying on credit in the near term.

Here are the key findings:

Capital is a frequent growth challenge; firms continue to seek small amounts

- Ability to access capital was among the top growth challenges for both profitable and unprofitable firms.
- Half of all firms report needing small amounts of capital ($100k or less), mostly for operating expenses, and are using real estate collateral to secure loans.

Applicant quality higher than in August 2012 survey

- Applicants have prior borrowing experience and report positive sales growth.
- Successful applicants are more profitable, seeking higher loan amounts.

More firms receiving full funding and fewer report being discouraged

- Overall success rate is steady at 63% (August 2012-62%), but more firms received full credit and much desired lines of credit.
- Percent of firms saying they did not apply because they did not think they would be approved has gone down from 29% to 18% between the August 2012 and May 2013 surveys.

Future credit demand comes from returning borrowers; many qualified firms not seeking credit

- Future credit demand was reported by firms who applied in the year but received only partial funding because they had insufficient collateral or had been in business only a few years.
- While two-thirds of non-applicant firms are as high performing as applicants, most do not plan to apply for credit in the next six months. These non-applicants don't plan to seek credit because they either don't need credit or are debt averse.