National Small Business Association

SMALL BUSINESS ACCESS TO CAPITAL SURVEY

FOREWORD

In the last four years, small businesses have struggled to find reasonable, affordable capital. According to NSBA data from as far back as 1993, there is a clear correlation to a small-business owner's ability to hire and his/her ability to get financing. When small businesses can access adequate financing, they create jobs—an important footnote given the persistent economic challenges facing the U.S. In addition to our biannual Economic Reports, NSBA's new Small Business Access to Capital Survey aims to address the issue by providing detailed insight on how small businesses utilize financing and how cash-flow issues impact their business.

Amid all the noise about the importance of small business and claims that lending is improving—or was never really the issue—NSBA has continued to call for a better understanding of small-business lending and the support of policies that promote greater access to capital. The prospect of getting financed as a small business—even in a growing economy—is very difficult simply due to the fact that many small businesses lack the assets necessary for a traditional bank loan, making them a riskier lending option for banks.

Unfortunately that challenge has only been exacerbated in recent years. According to the survey, nearly half (43 percent) of small-business respondents said that, in the last four years, they needed funds and were unable to find any willing sources, be it loans, credit cards or investors. This failure to secure financing has caused 32 percent to reduce their number of employees, 20 percent to reduce employee benefits and 17 percent were unable to meet existing demand.

Nearly one in three (29 percent) small-business respondents report that, in the last four years, their loans or lines of credit were reduced. Perhaps even more concerning - nearly one in 10 had their loans or lines of credit called in early by the bank. Among those whose loan or line of credit was called in early, 19 percent were given less than 15 days.

Given that the average balance on a loan or line of credit is $256,060, 15 days is a death sentence for most small businesses. Adding insult to injury, 60 percent of those who reported changes to their loans or lines of credit stated that the reason was due to the bank's internal risk assessment, and 15 percent weren't even given a reason.

While the majority of small-business respondents (60 percent) say they use a large bank, only small community banks (73 percent total positive rating) and credit unions were (60 percent total positive rating) received a majority overall positive rating by respondents. Large banks came in third with a 47 percent total positive rating.

Cash-flow problems for small companies don't just stem from difficulties with outside financing. Small businesses also are getting pinched when it comes to client payments. Twenty-one percent of respondents reported longer payment times by their clients with a notable jump in terms of net 60 to 90 days. Furthermore, federal contractors also are getting squeezed, with 55 percent of small subcontractors reporting late payments from a prime contractor.

Despite the relatively gloomy outlook on small-business financing, there are a few bright spots--namely the recently-passed JOBS Act has made 19 percent of small-business respondents more likely to seek outside investors. Yet more must be done to improve finance options for small business, from increasing the lending cap on credit unions to strengthening SBA lending programs to reforming the way the banking industry treats small-business loans.

We hope you find this survey—which was conducted on-line among 300 small-business members of NSBA for three weeks in May 2012—informative.

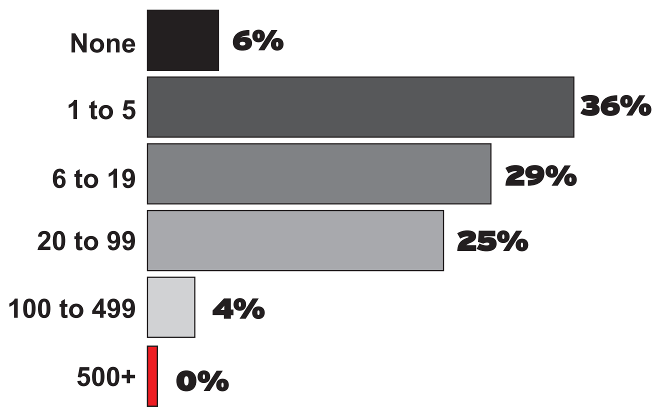
Sincerely,

Chris Holman
NSBA Chair
Michigan Business Network

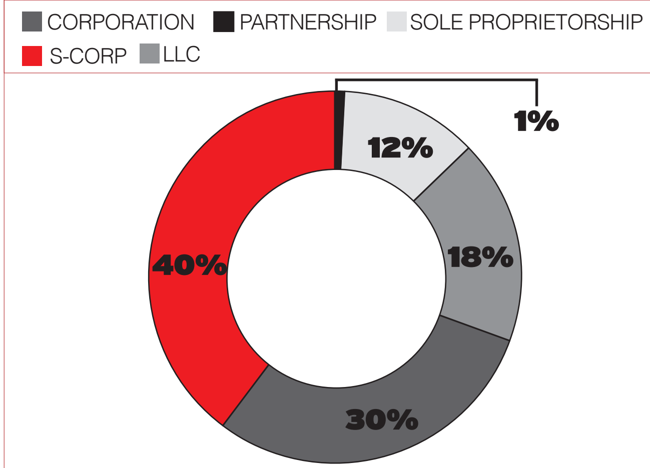
Todd McCracken
NSBA President and CEO

DEMOGRAPHICS

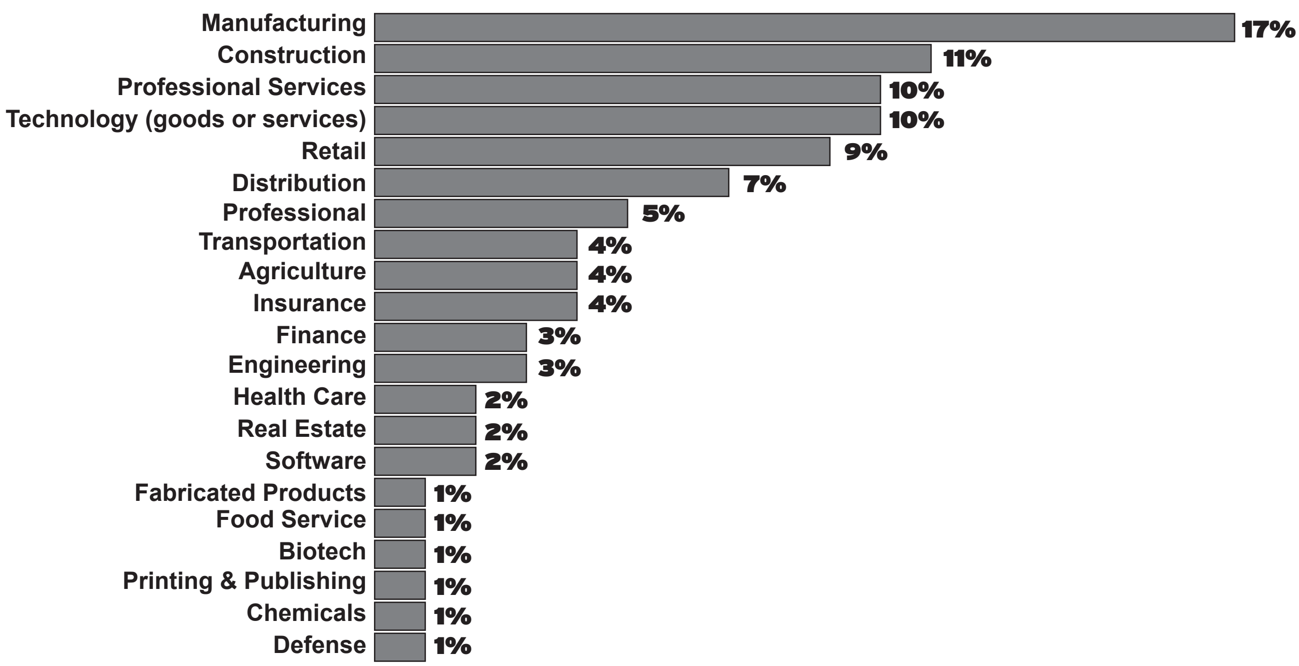
How many total full-time personnel are currently employed by your business?



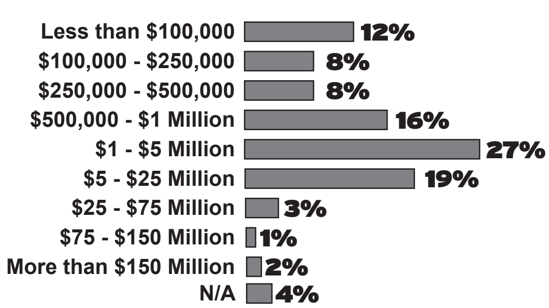
Which of the following best describes the structure of your business?



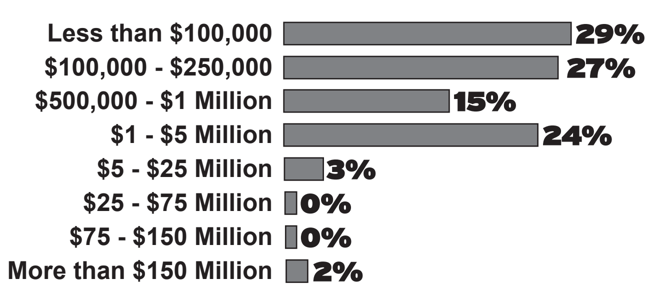
Which of the following best describes the industry or sector in which your business operates?



What were your gross sales or revenues for your most recent fiscal year?



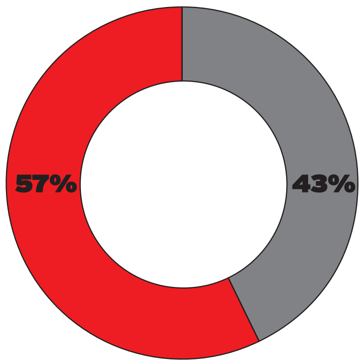
What was your total payroll for the most recent fiscal year?



AVAILABILITY OF CAPITAL

Have you needed funds for your business and been unable to find anyone to lend to you in the last four years?

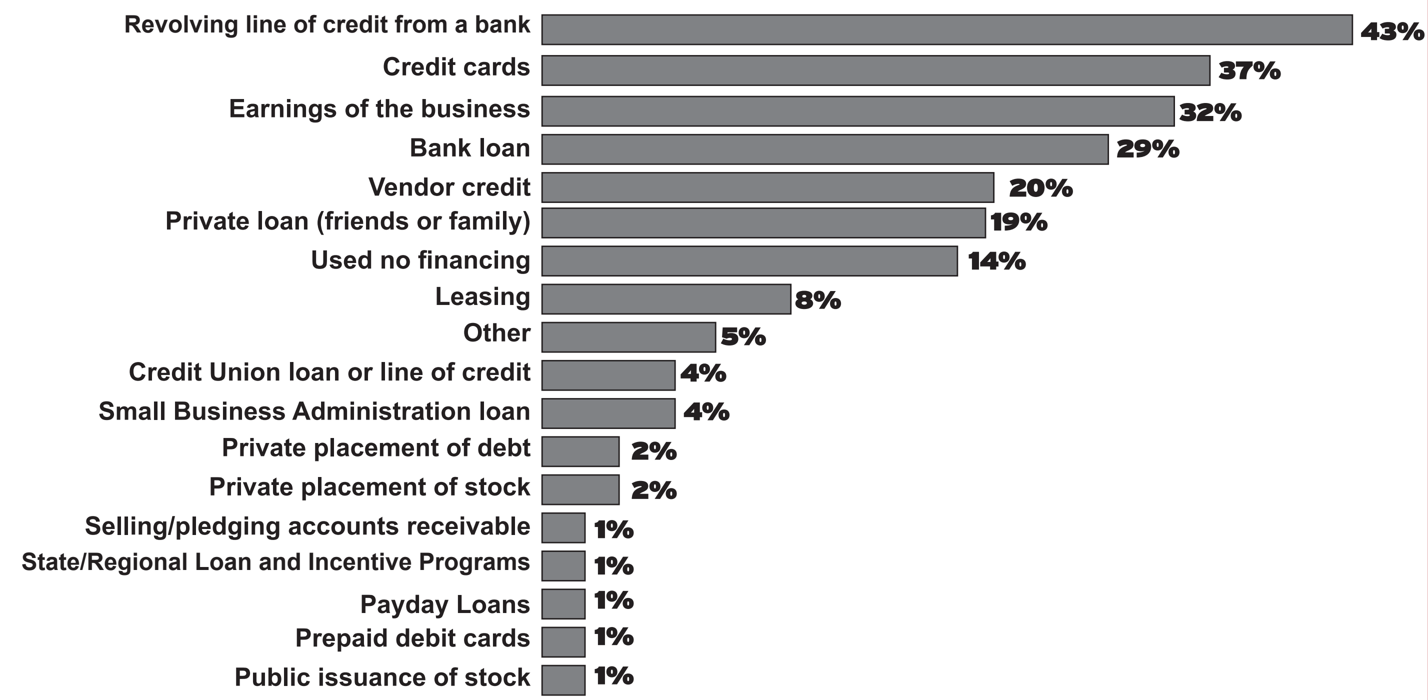
YES NO



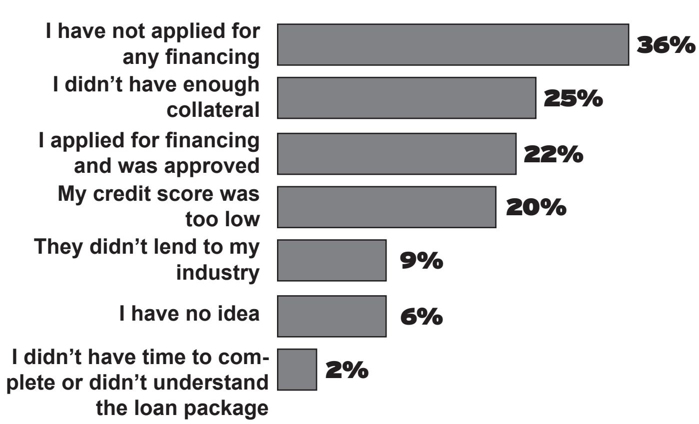
If capital availability is a problem for your business, what is the effect on your operations? (Check all that apply)

Unable to grow business or expand operations	53%
Not a problem / No effects	37%
Reduced the number of employees	32%
Unable to finance increased sales	25%
Reduced benefits to employees	20%
Unable to increase inventory to meet demand	17%
Closed stores or branches	4%
Other	6%

What types of financing has your company used within the last 12 twelve months to meet your capital needs? (Check all that apply)



If you have been turned down for a loan or line of credit in the last two years, what were the reasons given? (Check all that apply)

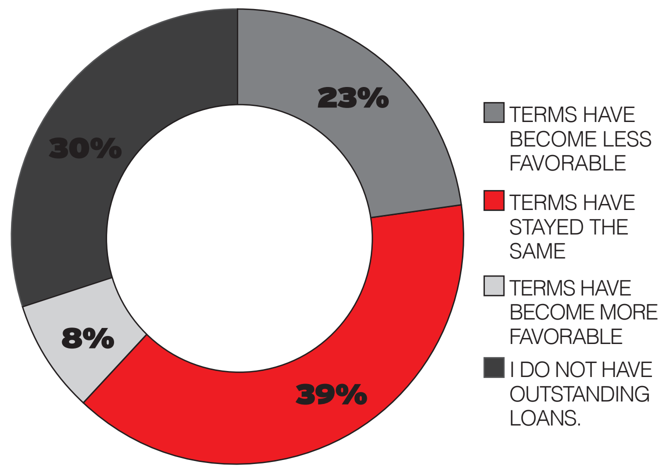


What kind of assets/equity do you use to secure your business loans and financing? (Check all that apply)

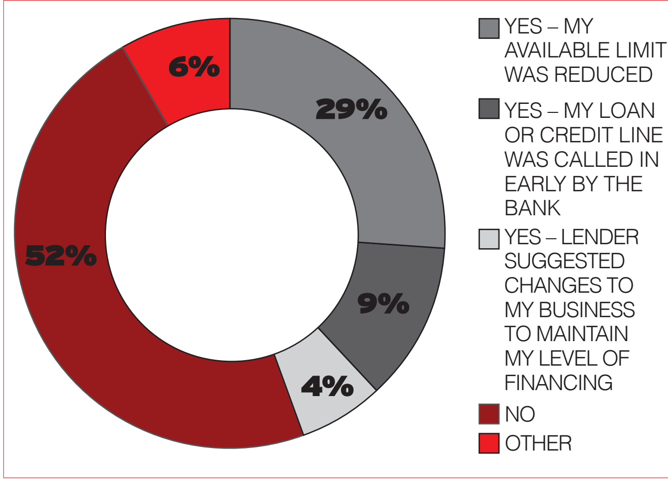
Business property	40%
Accounts Receivable	37%
Inventory/Assets	33%
Personal savings	33%
Personal property (such as a second mortgage)	29%
Personal or business credit cards	25%
Business savings	20%
Other	9%

SMALL BUSINESS LENDING

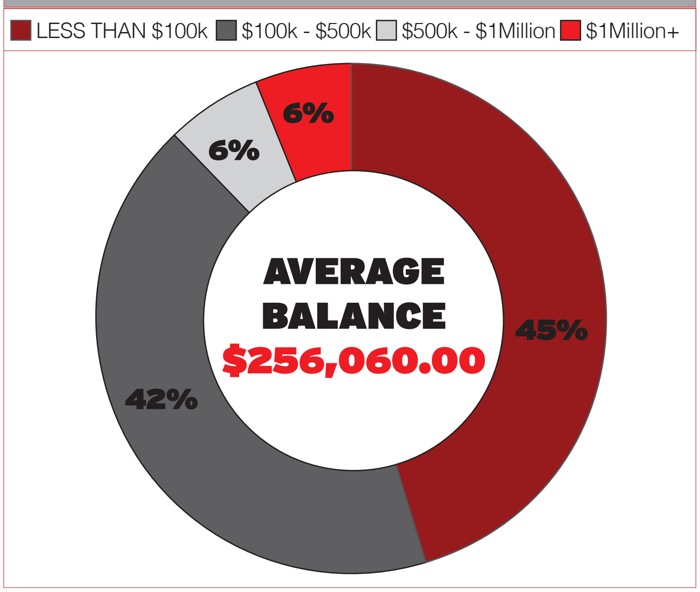
For bank or credit union loans that are currently outstanding, which of the following has occurred in the last twelve months?



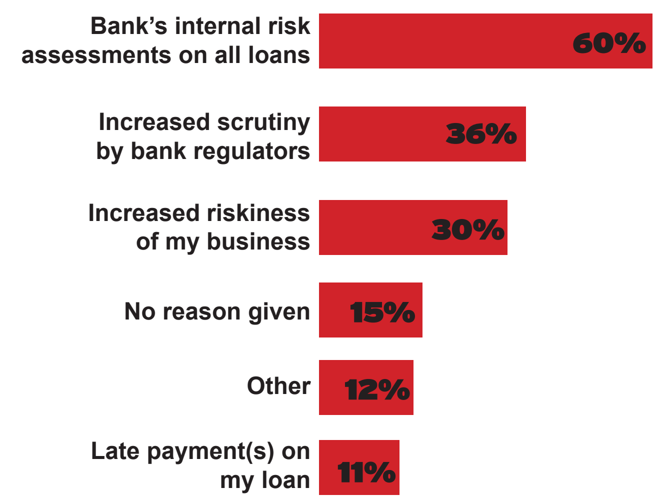
Have your loans or lines of credit been threatened in the last 4 years?



What was the balance on your loan/line of credit?



What was the reason you were given for the changes to your loan terms or suggesting changes to your business? (Check all that apply)

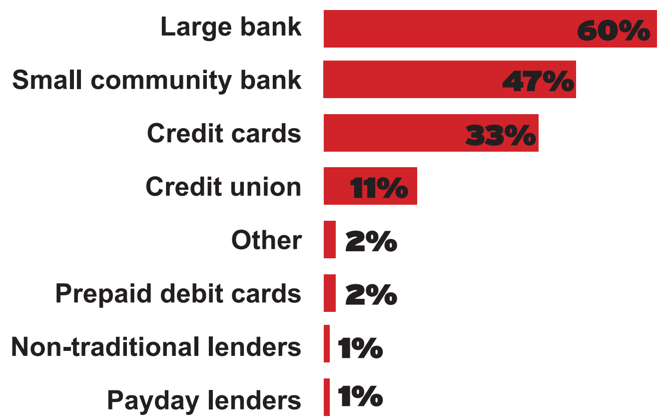


> **"Twenty-nine percent report having their loans or lines of credit reduced in the last four years and nearly one in 10 had their loan or line of credit called in early by the bank."**

If your loan was called in early, how many days did the lender give you?

BANKING INSTITUTIONS

Which of the following kinds of banking institutions do you use? (Check all that apply)

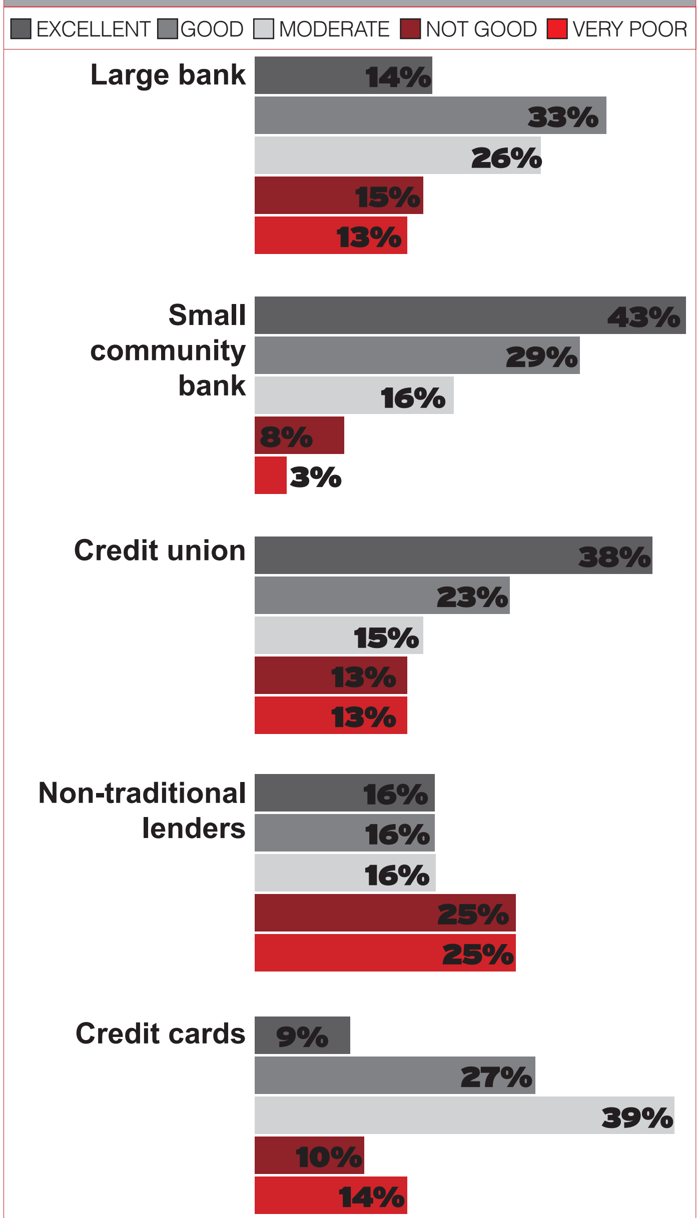


Please rank the following lending institutions in terms of which you think best serves the small-business community.

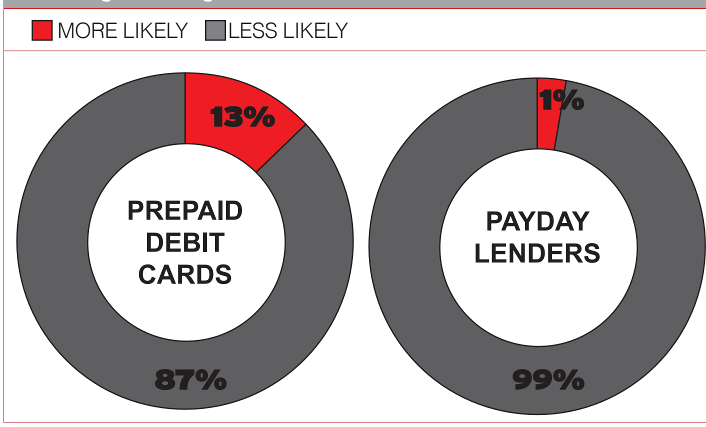
1 = BEST 5 = WORST

INSTITUTION TYPE	SCORE
Small community banks	1.75
Credit unions	2.46
Large banks	2.98
Credit cards	3.61
Non-traditional lenders	3.84

Please rate the services and finance offerings you have received from following lending institutions.



In the last two years, have you been more or less likely to use the following financing sources?



In the last four years, have you changed banking institutions? If so, why?

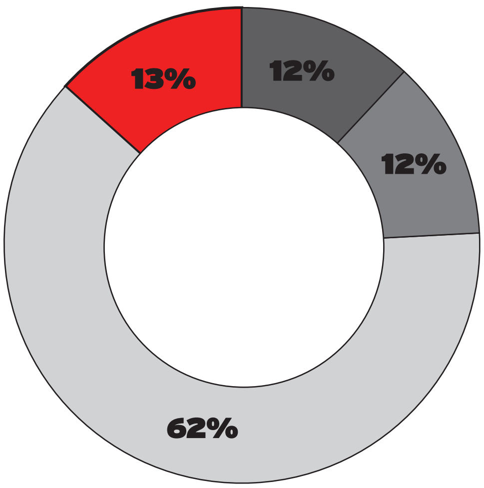
CHANGED BANKS

I felt mistreated by my bank	38%
I got better financing terms from another bank	36%
I wanted to bank at a smaller bank	24%
Other	21%
I moved	5%
I wanted to bank at a larger bank	2%

CREDIT CARDS

Have you experienced any of the following changes on any of your credit cards in the last six months? (On the actual account limits, not interest rates or fees)

INCREASE | DECREASE | NO CHANGE | DON'T USE CREDIT CARDS



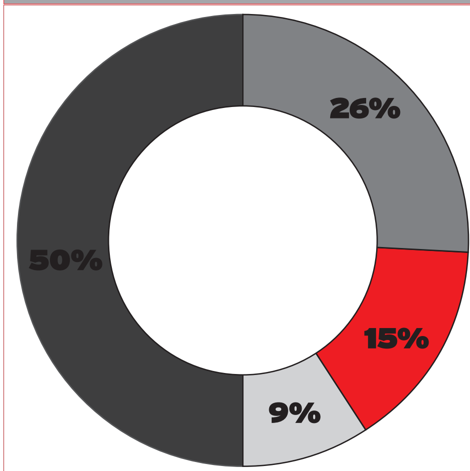
Do you believe that the terms of the credit cards you use for business, including interest rates, late fees, time to pay in full, etc., have improved or gotten worse over the last year?

IMPROVED - 7%

GOTTEN WORSE - 44%

NOT SURE - 48%

Thinking about the credit cards you use for business... Do you...



CARRY A BALANCE OF LESS THAN $10,000

CARRY A BALANCE OF $10,000-$25,000

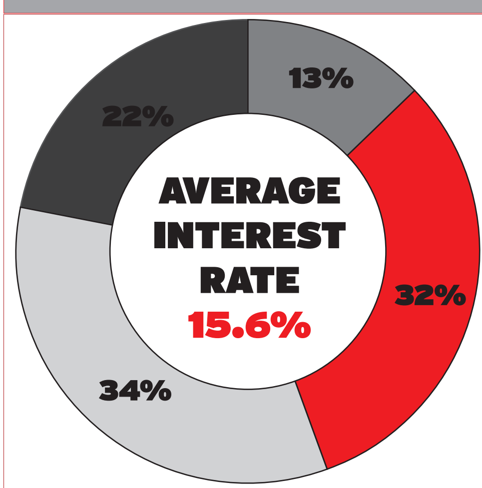
CARRY A BALANCE OF MORE THAN $25,000

PAY OFF YOUR CREDIT CARD BILL EACH MONTH

In the last four years, have you closed any of your credit card accounts and used debit cards?

Yes – I use debit cards exclusively now	5%
Yes – I closed some of my credit cards and use some debit cards	12%
No – have not closed any credit cards but also use debit cards	14%
No – I only use credit cards	63%
No – I didn't use credit cards at any point in the last four years	7%

What is the approximate interest rate you charged on your primary credit card?



LESS THAN 10%

10% - 14%

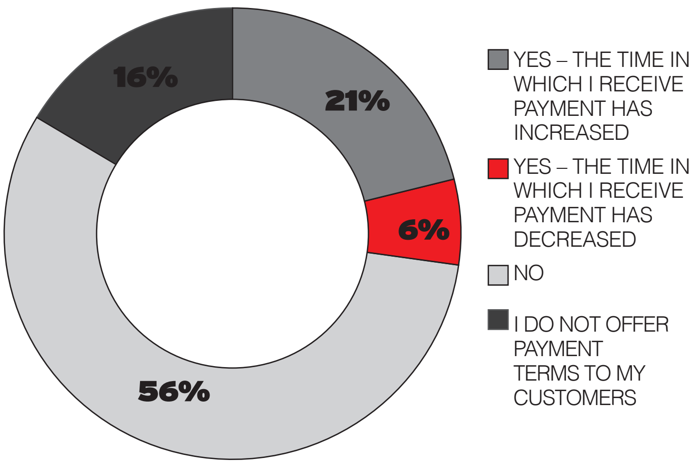
15% - 19%

20% OR MORE

> **"Forty-four percent of respondents report worsening terms–interest rates, late fees, etc.–on their credit cards in the last year.**
>
> **The average interest rate charged on credit cards is 15.6 percent.**
>
> **Twenty-two percent pay credit card interest rates of 20 percent or more."**

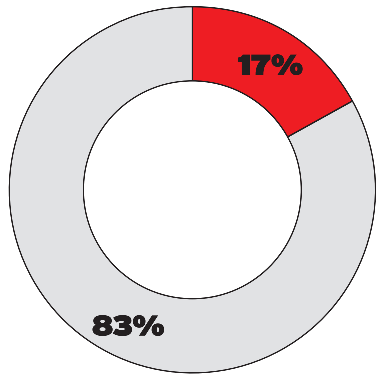
PAYMENTS & COLLECTIONS

Have the payment terms you offer your clients changed in the last 2 years?



Do you report non-payments by your clients to any collection agencies?

YES NO



Top Reasons For Not Reporting	
I don't have enough non-payments to report	70%
It is too expensive to report	12%
Other	22%

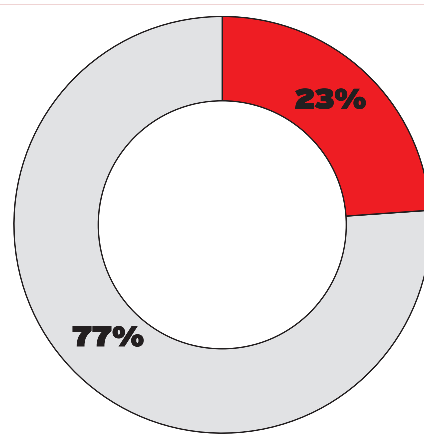
Changes in payment terms - Before vs. After

Before Terms Changed		After Terms Changed	
NET 15 DAYS	17%	NET 15 DAYS	22%
NET 30 DAYS	70%	NET 30 DAYS	49%
NET 60 DAYS	3%	NET 60 DAYS	21%
NET 90 DAYS	3%	NET 90 DAYS	8%

> **"Before changing payment terms for their clients, just 6 percent reported terms of net 60 to 90 days. Today, 29 percent report payment terms of net 60 to 90 days, posing a significant cash-flow issue."**

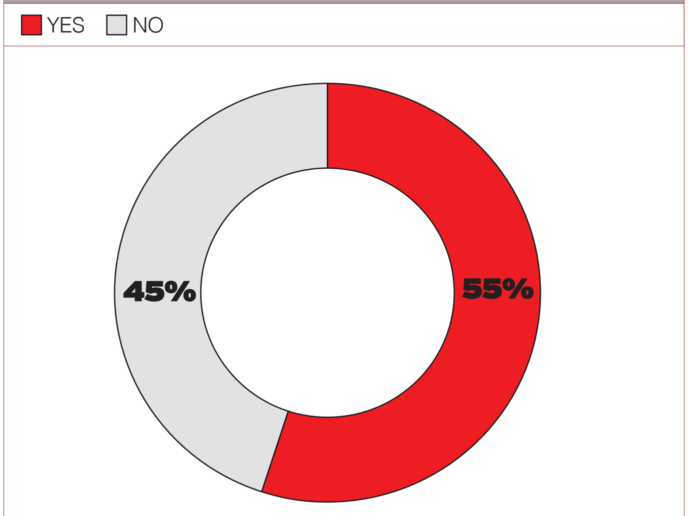
Have you ever had difficulty disputing an error or correcting a mistake with a debt collection or credit reporting agency?

YES NO



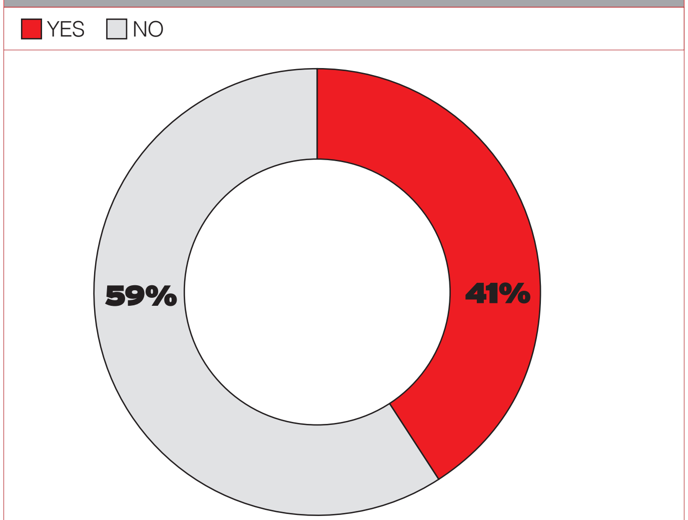
FEDERAL CONTRACTING

If you are a subcontractor, have you ever failed to receive prompt payment from a prime contractor for work performed (goods or services) on a government contract?

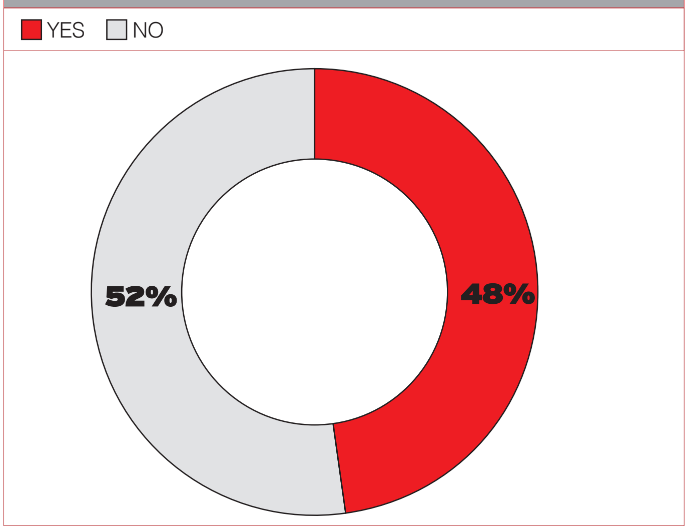


> **"Among small-business subcontractors, 55 percent report they have received late payments from a prime contractor."**

If you are a prime contractor, have you ever failed to receive prompt payment from a government agency for work performed (goods or services) on a government contract?



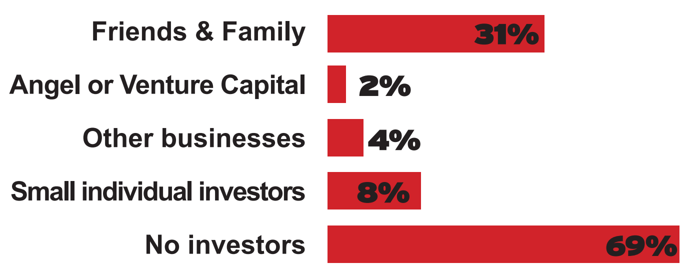
If you have failed to receive a prompt payment for federal contracting work, did it affect your ability to expand your business or hire new employees?



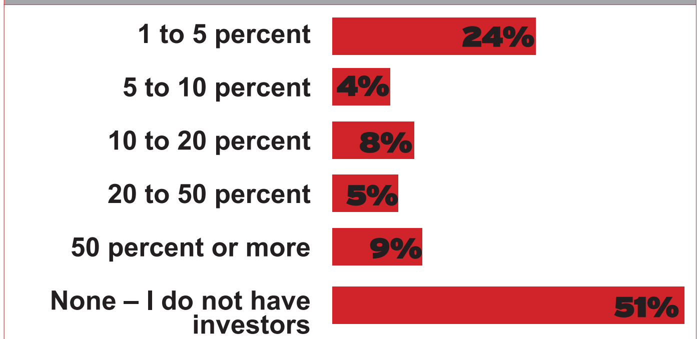
> **"Cash-flow problems for small companies don't just stem from a shortage of outside financing - late and non-payments can be catastrophic for some small businesses. Financing shortages and cash-flow problems have forced 20 percent of small-business respondents to reduce employee benefits, and 17 percent were unable to increase inventory to meet demand.**
> **-Todd McCracken, NSBA President and CEO"**

INVESTORS

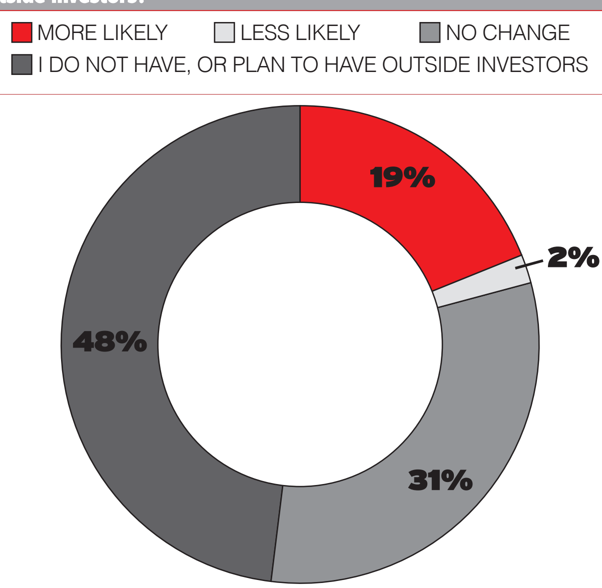
Do you currently have, or have you ever had, any of the following investors in your company? (Check all that apply)



Approximately how much of your company is owned by outside investors?



Congress recently passed legislation creating a "crowdfunding" exception to securities registration requirements that would allow businesses to raise up to $1 million in any 12 month period over the internet from individual investors, generally $10,000 or less per investor. Does this make you more or less likely to consider seeking outside investors?



> "One in five (19 percent) report they are more likely to seek outside investors due to the recently-passed JOBS Act which will ease restrictions on crowdfunding and solicitation of investors."

SERIES
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