Credit Experiences of the Smallest of Small Businesses

The Federal Reserve’s 2015 Small Business Credit Survey in fall 2015 polled small business owners in 26 states about their firms’ performance and borrowing experiences. A subsequent report in December 2016 zeroed in on small businesses staffed by only their owner(s)—firms that account for 80% of US businesses and have unique characteristics and challenges. Here are findings gleaned from the responses of 1,576 nonemployer firms.

**non·em·ploy·er firm**
(noun)
A firm that has no paid employees other than the owner(s).

- 75% report annual revenues of LESS THAN $100,000
- 64% are the owners’ PRIMARY SOURCE of income
- 62% operate from a HOME
- Most are SERVICE businesses

Top 5 reasons for starting a business
Flexibility and/or to be own boss (52%)
New good or service to bring to market (42%)
Extra income (28%)
Start or continue family business (22%)
No other employment options (14%)

Borrowing activity
A majority of nonemployers (68%) **DID NOT APPLY** for financing during the survey period.

**WHY?**
- Reluctant to take on debt (33%)
- Sufficient funding in hand for business (30%)
- Believed they’d be turned down (25%)

Of the nonemployers that **DID APPLY** for financing

- 29% were approved for ALL they sought
- 41% were approved for NONE of what they sought

Nonemployer credit applicants were most satisfied with small banks. They reported the highest dissatisfaction with large banks (top reason: difficult application processes) and with online lenders (top reason: high interest rates).

*Includes only those who applied for financing.

The 2015 Small Business Credit Survey was conducted by the Federal Reserve Banks of New York, Atlanta, Boston, Cleveland, Philadelphia, Richmond, and St. Louis and yielded 5,420 total responses. In addition to the 2015 Small Business Credit Survey Report on Nonemployer Firms, two additional reports drawing on the 2015 survey are Click, Submit: New Insights on Online Lender Applicants from the Small Business Credit Survey and the 2015 Small Business Credit Survey Report on Employer Firms. Access all 3 here: ow.ly/YGpp307RmuB.

The views expressed in these reports are those of the authors and do not necessarily represent the views of the Federal Reserve System.