Small Business Capital Access

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MERCATUS SURVEY

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INTRODUCTION

The Mercatus Center at George Mason University, in conjunction with Hanover Research, conducted a survey of 445 small businesses in December 2016.

Small businesses are an important part of the American economy and society. They contribute to the unique fabric of the communities in which they operate, act as cradles of innovation, and enable society to draw on the talents of their founders and employees. Small business formation, however, has fallen to historic lows in the wake of the 2007–2008 financial crisis.1 Many factors are likely at play, but market observers have asked whether part of the problem is that small businesses are having difficulty accessing capital. Even if capital is available, it may not be available in the forms that fit small businesses’ diverse needs.

These concerns are driven in part by what is happening to banks. Banks—newly sensitized to risk by their experiences during the crisis, confronted with an expanding rulebook, and facing a new intensity by their regulatory examiners2—may be less willing to make small business loans than they were before the crisis. The continuing downward trend in the number of small banks, a key source of small business financing,3 exacerbates concerns about the state of small business lending.4 The JOBS Act of 2012 responded to concerns about bank lending by opening nonbank financing avenues in the securities markets for small businesses.5 New businesses, including internet-based lenders like OnDeck

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and Square Capital, have also arisen to address the perceived shortage of small business capital.

The Mercatus Center, seeking to explore the status of small business capital access, released a literature review in 2016 where it observed that small-firm financing remains weak in the wake of the financial crisis. The study also noted that debt financing tends to be used for more conventional capital formation, whereas equity financing tends to be used for innovation because ideas cannot generally be used as collateral. Although there are some data available, the literature review also revealed a need for more data on small business financing.

The survey was an opportunity to contribute to the knowledge base on small business financing. We wanted to dig deeper to understand how small businesses finance themselves. We undertook the survey to shed new light on a number of important questions. How do small businesses view the landscape for access to capital? What do they consider important when making decisions on how to access funding? What terms matter most to small businesses: The cost of the funds? The amount they can borrow? The amount of time it takes to get the capital? The obligations and restrictions on which the funding is conditioned? The control they must cede over their own business? What types of innovations are they interested in using in the future? What role does regulation play in enabling firms to access capital or in preventing them from doing so? How do they determine where to look for funds? How easy is it for them to obtain capital now? How has the small business financing landscape changed over time?

The answers to these and other questions help to paint a picture of the small business funding landscape that should help policymakers and the financial services industry as they think about ways to ensure that the market serves small businesses’ needs. The survey results also raise new questions that are potential avenues for future research.

In the pages that follow, I present the results of the survey. The survey team hopes that these data will be useful to policymakers, regulators, academics, journalists, market participants, and small businesses. Probing the drivers of small businesses’ capital access decisions, we seek to facilitate a more effective dialogue about what, if anything, should be done to improve the regulatory framework governing the market for small business capital.

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METHODOLOGY

In December 2016, the Mercatus Center, in conjunction with Hanover Research, surveyed 445 individuals affiliated with small businesses. These businesses represented a diverse group of industries and geographic regions. We used a standard definition for small business—500 or fewer employees—and further limited the sample to firms with $10 million or less in earnings. To qualify for the survey, the individual had to own the business or be its president, vice president, or a C-level executive or equivalent. The individual also had to have decision-making authority over the firm’s accounting or finance. The firms could not be sole proprietorships, had to anticipate having at least one full-time employee in the future, and could not have had more than 500 employees or more than $10 million in revenue in the last fiscal year. The firms also had to have at least considered seeking outside capital in the two years before the administration of the survey.

Respondents were presented with questions regarding whether their firms had recently attempted to access capital or were in the process of accessing capital. Depending on the respondents’ answers, they were asked to answer questions from different sections of the survey. Some sections of the survey were administered to all respondents. Hanover Research weighted the overall topline data by industry, using North American Industry Classification System data from 2014. Subsequent cross-tabulation data for specific segments were not weighted. This weighting, as well as rounding, may result in different numbers of respondents in the topline and cross-tabulation data. Some questions permitted respondents to submit more than one response. The number of responses, as well as respondents are listed in each chart.

Some questions, including those where there was not a statistically significant sample ($N \geq 40$), those where there were process irregularities, and some cross-tabulation results have been omitted. The raw data are available on request.
EXECUTIVE SUMMARY

The survey of small businesses presented insight into how firms viewed the capital access landscape. Among the findings are:

Access to capital is critical:

- A majority of companies consider the ability to access capital to be either their greatest concern (15%) or a major concern (39%), a significant number of companies consider access to capital to be a minor concern (39%), while a small number of companies (8%) are not at all concerned with access to capital.

- Companies were most likely to consider access to capital their greatest or a major concern if they were between three and five years old, had over 50 employees, had recently sought or were seeking to raise between $100,000 and $500,000, and believed that the search for capital had become easier than in the past five years.

A majority of companies do not believe that accessing capital is easier than in the past five years, but there are definite exceptions:

- More companies believe that capital access is either much easier (14%) or somewhat easier (32%) than in the past five years. A relatively small number believe it is somewhat harder (11%) or much harder (3%). A preponderance of companies (40%) believe that the difficulty of accessing capital is about the same as it has been in the past five years.

- Companies with over 50 employees, companies that recently sought or were currently seeking over $500,000, and companies between three and five years old were most likely to believe accessing capital had become easier.

- Companies that had under 10 employees, companies that were over 11 years old, and companies that were seeking over $500,000 were the most likely to believe that accessing capital is harder. (Companies seeking over $500,000 were the least likely to say that capital access is about as difficult as in the past five years).

Aside from capital, company performance, market conditions, regulations, and healthcare are companies’ biggest concerns:

- Among companies that did not view access to capital as their greatest concern, the most pressing concerns were the company’s performance (33%), the market conditions for the company’s industry (29%), and a three-way
tie among the cost of providing healthcare, general market conditions, and the impact and cost of regulation (26%).

Market conditions, regulation, and company performance are all seen as affecting the market for capital access:

- Companies believed that the factors most likely to affect the market for access to capital are general market conditions (49%), the impact and cost of regulation (32%), the company’s performance (28%), and the market conditions for the company’s industry (28%).

Companies tend to prefer debt-based capital:

- Companies tend to seek debt-based financing. Among companies that had recently pursued outside capital, 64% initially pursued a business loan from a bank or credit union, 19% pursued a business loan from a nonbank lender, and 7% pursued a personal loan to use for business purposes. The largest nonloan target was a sale of corporate securities (7%).
- Among companies that were seeking capital at the time the survey was conducted, a plurality (46%) sought business loans from banks and credit unions, 43% sought business loans from nonbank lenders, and 27% sought personal loans to be used for business purposes.

Companies report good, but not universal success:

- Companies that had recently searched for outside capital reported a 94% success rate in obtaining capital from the source they initially targeted. A majority of companies (81%) obtained the amount they had sought, 5% obtained more than they had sought, and 9% obtained 90–99% of what they had sought.
- Results for companies that were seeking capital at the time of the survey were more mixed, though that could be owing in part to the companies' efforts not being complete when they took the survey. Seventy-nine percent of firms reported success obtaining their initial target. Of those firms, 37% reported that they had obtained the amount they were seeking, 8% reported that they had obtained more than they were seeking, and 23% reported that they had obtained 90–99% of what they were seeking.

Relationships matter for companies when deciding where to look for capital, but not as much as you might think:

- Companies that had recently sought capital cited a preexisting business relationship with the source of capital most frequently (74%) as the reason the company initially pursued that source. This was followed by a
preexisting personal relationship (27%), being approached by a representative of the capital source (24%), receiving a referral (17%), and conducting an internet search (10%).

- For companies that were actively seeking capital at the time the survey was administered, the most frequent reason cited for how the firm identified the initial source of capital it targeted was a preexisting business relationship (52%), followed by a preexisting personal relationship (40%) and being approached by a representative of the source of capital (32%). Conducting an internet search for sources of capital (20%) and being approached by a finder or broker (20%) were the next most cited reasons.

Cost of capital is an important factor, but not necessarily the most important one:

- In the abstract, the most cited factors a company considers when deciding what type of capital to seek is the cost of funds (29%), followed by repayment terms that fit the company’s needs (27%) and a willingness on the part of the source to provide capital to the company (14%).

- However, companies that had received capital as part of a recent effort to raise capital, or an effort made at the time the survey was administered reported somewhat different driving factors. Firms that received capital as part of a recent effort reported that a preexisting relationship with the capital source was the most cited main reason (39%), followed by lowest cost (26%), repayment terms (11%), and whether the capital was the most quickly available (8%).

- Among firms that had received some capital as part of an ongoing effort at the time the survey was administered, the most cited reason was that the capital was the most quickly available (29%), followed by the repayment terms (21%), that the capital did not require the company’s management to relinquish control of their business (15%), and that the company had a preexisting relationship with the source of capital (15%).

Companies are open to innovative lending:

- There is significant interest in innovative means of capital access. A majority (55%) of companies said they would consider taking a business loan from a nonbank internet lender, while 24% said they would not consider it.

- Among the firms that would consider it or were uncertain, the most common reason was the potential to access capital at a lower cost (54%), followed by obtaining better repayment terms (43%), an easier process (42%), and a faster process (37%).
• Among firms that would not consider it or were uncertain, the most commonly cited reasons were a lack of information or familiarity (34%), a belief that the capital would be more expensive (24%), concerns about fraud (23%), and concerns about obtaining worse terms (20%).

Innovative means of offering securities, while less popular, still draw significant interest:

• There is significant interest in the prospect of selling corporate securities on the internet. A preponderance (40%) of firms expressed willingness to consider this option, while 34% would not consider it, and 26% were uncertain. Firms that sought between $100,000 and $500,000 in their recent or current effort were the only group where a clear majority (61%) were willing to consider it.

• A desire to expand the company’s investment base was the most cited reason by companies that would consider issuing securities online (46%), while those firms that were uncertain most often cited the potential to access capital at a lower cost as the reason they would consider it (47%).

• A lack of information was the most cited reason (37%) why firms that were uncertain about issuing securities online might be unwilling to do so. The most cited reason for companies unwilling to consider issuing securities online was that the company had no need to try a new method (29%).
SURVEY RESULTS

Demographics
This section contains information on the firms that participated in the survey.

FIGURE 1. LOCATION OF COMPANIES SURVEYED

Data Note: N=444, R=444.
FIGURE 2. LOCATION OF COMPANIES BY REGION

Data Note: Because of rounding, N is 444.

FIGURE 3. YEARS SINCE THE COMPANY WAS ESTABLISHED

Data Note: N=445, R=445.
FIGURE 4. CORPORATE FORM OF THE COMPANY

- Limited liability company: 37%
- C corporation: 25%
- S corporation: 20%
- Partnership: 9%
- Limited liability partnership: 5%
- Other: 2%
- B corporation: 1%
- Do not know: 1%

Data Note: N=445, R=445.

FIGURE 5. IS THE COMPANY A PUBLIC COMPANY?

- No: 74%
- Yes: 23%
- Do not know: 3%

Data Note: N=445, R=445.
FIGURE 6. PRIMARY BUSINESS ACTIVITY OF THE COMPANY

- Professional, scientific, and technical services: 13%
- Other services: 12%
- Retail trade: 11%
- Healthcare and social assistance: 11%
- Construction: 11%
- Accommodation and food services: 9%
- Administrative and support and waste management and remediation services: 6%
- Wholesale trade: 5%
- Real estate and rental and leasing: 5%
- Manufacturing: 4%
- Finance and insurance: 4%
- Transportation and warehousing: 3%
- Arts, entertainment, and recreation: 2%
- Information: 1%
- Educational services: 1%
- Agriculture, forestry, fishing, and hunting: < 1%
- Management of companies and enterprises: < 1%
- Utilities: 0%
- Mining, quarrying, and oil and gas extraction: 0%

Data Note: N=445, R=445.

FIGURE 7. COMPANY REVENUE IN MOST RECENT FISCAL YEAR

- $1M–$10M: 40%
- $1k–$1M: 49%
- < $1k: 10%
- None/the company is prerevenue: 2%

Data Note: N=445, R=445.
FIGURE 8. WAS THE COMPANY PROFITABLE IN THE MOST RECENT FISCAL YEAR

Data Note: N=445, R=445.

FIGURE 9. PROFITABILITY BY COMPANY SIZE

Data Note: N=445, R=445.
FIGURE 10. NUMBER OF EMPLOYEES CURRENTLY WORKING FOR THE COMPANY

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>100–500</td>
<td>13%</td>
</tr>
<tr>
<td>50–99</td>
<td>17%</td>
</tr>
<tr>
<td>10–49</td>
<td>30%</td>
</tr>
<tr>
<td>5–9</td>
<td>23%</td>
</tr>
<tr>
<td>2–4</td>
<td>16%</td>
</tr>
<tr>
<td>1</td>
<td>1%</td>
</tr>
</tbody>
</table>

Data Note: N=445, R=445.

FIGURE 11. MAXIMUM NUMBER OF EMPLOYEES ANTICIPATED IN THE FUTURE

<table>
<thead>
<tr>
<th>Maximum Employees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>500+</td>
<td>6%</td>
</tr>
<tr>
<td>100–500</td>
<td>21%</td>
</tr>
<tr>
<td>50–99</td>
<td>17%</td>
</tr>
<tr>
<td>10–49</td>
<td>31%</td>
</tr>
<tr>
<td>5–9</td>
<td>17%</td>
</tr>
<tr>
<td>2–4</td>
<td>8%</td>
</tr>
<tr>
<td>1</td>
<td>1%</td>
</tr>
</tbody>
</table>

Data Note: N=445, R=445.
How Do Companies View the Capital Access Environment?

This section discusses the respondents’ views of the access to capital generally, both specific to the company and in the broader market.

FIGURE 12. HAS ACCESS TO CAPITAL BECOME EASIER OR HARDER OVER THE PAST FIVE YEARS?

Data Note: N=445, R=445.

How Do Companies View the Capital Access Environment?
FIGURE 13. EASE OF ACCESS BY COMPANY SIZE

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Much Harder</th>
<th>Somewhat Harder</th>
<th>About the Same</th>
<th>Somewhat Easier</th>
<th>Much Easier</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 10</td>
<td>14%</td>
<td>47%</td>
<td>27%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>10–49</td>
<td>3%</td>
<td>12%</td>
<td>37%</td>
<td>36%</td>
<td>13%</td>
</tr>
<tr>
<td>50+</td>
<td>3%</td>
<td>7%</td>
<td>29%</td>
<td>37%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Data Note: N=445, R=445.

FIGURE 14. EASE OF ACCESS BY AMOUNT SOUGHT

<table>
<thead>
<tr>
<th>Capital Sought</th>
<th>Much Harder</th>
<th>Somewhat Harder</th>
<th>About the Same</th>
<th>Somewhat Easier</th>
<th>Much Easier</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100k or less</td>
<td>4%</td>
<td>8%</td>
<td>44%</td>
<td>20%</td>
<td>24%</td>
</tr>
<tr>
<td>$100k–$500k</td>
<td>7%</td>
<td>39%</td>
<td>34%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>$500k+</td>
<td>10%</td>
<td>8%</td>
<td>26%</td>
<td>33%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Data Note: N=179, R=179.
N by Segment: $100k or less: 60, $100k–$500k: 73, $500k+: 47.
Sample consists of companies that sought capital within the two years before the survey was administered and those who were seeking capital at the time the survey was administered.
FIGURE 15. EASE OF ACCESS BY AGE OF COMPANY

<table>
<thead>
<tr>
<th>Age of Company</th>
<th>Much Harder</th>
<th>Somewhat Harder</th>
<th>About the Same</th>
<th>Somewhat Easier</th>
<th>Much Easier</th>
</tr>
</thead>
<tbody>
<tr>
<td>11+ yrs</td>
<td>4%</td>
<td>16%</td>
<td>42%</td>
<td>30%</td>
<td>9%</td>
</tr>
<tr>
<td>6-10 yrs</td>
<td>8%</td>
<td>40%</td>
<td>38%</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td>3-5 yrs</td>
<td>5%</td>
<td>33%</td>
<td>31%</td>
<td>31%</td>
<td>1%</td>
</tr>
<tr>
<td>0-2 yrs</td>
<td>14%</td>
<td>35%</td>
<td>35%</td>
<td>14%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Data Note: N=445, R=445.
Note the small sample size for firms age 0–2 years.

FIGURE 16. HOW BIG OF A CONCERN IS THE ABILITY TO ACCESS CAPITAL FOR THE COMPANY?

<table>
<thead>
<tr>
<th>Concern</th>
<th>15%</th>
<th>39%</th>
<th>39%</th>
<th>8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>the greatest concern</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a major concern</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a minor concern</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>not a concern</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Data Note: N=445, R=445.
FIGURE 17. HOW BIG A CONCERN BY AGE OF COMPANY

Data Note: N=445, R=445.
Note small sample size for firms age 0–2 yrs.

FIGURE 18. HOW BIG A CONCERN BY COMPANY SIZE

Data Note: N=445, R=445.
FIGURE 19. HOW BIG A CONCERN BY AMOUNT SOUGHT

Data Note: N=179, R=179.
N by Segment: $100k: 60, $100k–$500k: 73, $500+: 47.
Sample consists of companies that sought capital within the two years before the survey was administered and those who were seeking capital at the time the survey was administered.

FIGURE 20. HOW BIG A CONCERN BY EASE OF ACCESS

Data Note: N=445, R=445.
N by Segment: easier: 211, the same: 172, harder: 62.
FIGURE 21. ARE ANY OF THE FOLLOWING A GREATER CONCERN THAN ACCESS TO CAPITAL?

The company's performance: 33%
Market conditions for the company's industry: 29%
Cost of providing health care: 26%
General market conditions: 26%
The impact and cost of regulation: 26%
Competition: 24%
Finding talent: 23%
Other: 1%

Data Note: N=380, R=718. Sample consists of companies that do not consider access to capital to be their greatest concern.
## Figure 22. Greater Concern by Ease of Access

<table>
<thead>
<tr>
<th>Concern</th>
<th>Easier</th>
<th>The Same</th>
<th>Harder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition</td>
<td>28%</td>
<td>24%</td>
<td>16%</td>
</tr>
<tr>
<td>Cost of Providing Healthcare</td>
<td>27%</td>
<td>24%</td>
<td>20%</td>
</tr>
<tr>
<td>Finding Talent</td>
<td>26%</td>
<td>24%</td>
<td>23%</td>
</tr>
<tr>
<td>General Market Conditions</td>
<td>27%</td>
<td>24%</td>
<td>38%</td>
</tr>
<tr>
<td>Market Conditions for the Company’s Industry</td>
<td>30%</td>
<td>27%</td>
<td>32%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>The Company’s Performance</td>
<td>38%</td>
<td>27%</td>
<td>25%</td>
</tr>
<tr>
<td>The Impact and Cost of Regulation</td>
<td>28%</td>
<td>23%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Data Note: Because of rounding, N is 444.

N and R by Segment: harder: N=56, R=97, the same: N=164, R=284, easier: N=158, 328.

Sample consists of companies that do not consider access to capital to be their greatest concern.
FIGURE 23. WHICH OF THE FOLLOWING HAVE AFFECTED ACCESS TO CAPITAL?

Data Note: N=445, R=807.

- General market conditions: 49%
- The impact and cost of regulation: 32%
- The company's performance: 28%
- Market conditions for the company's industry: 28%
- Competition among companies seeking capital: 16%
- New means of accessing capital: 14%
- Competition among capital providers: 12%
- Other: 3%
### Figure 24. Factors Affecting Access by Ease of Access

<table>
<thead>
<tr>
<th>Reason</th>
<th>Easier</th>
<th>Difficulty the Same</th>
<th>Harder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition among capital providers</td>
<td>16%</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>Competition among companies seeking capital</td>
<td>18%</td>
<td>15%</td>
<td>16%</td>
</tr>
<tr>
<td>General market conditions</td>
<td>52%</td>
<td>37%</td>
<td>66%</td>
</tr>
<tr>
<td>Market conditions for the company’s industry</td>
<td>28%</td>
<td>28%</td>
<td>24%</td>
</tr>
<tr>
<td>New means of accessing capital</td>
<td>13%</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>The company’s performance</td>
<td>33%</td>
<td>23%</td>
<td>19%</td>
</tr>
<tr>
<td>The impact and cost of regulation</td>
<td>35%</td>
<td>21%</td>
<td>39%</td>
</tr>
</tbody>
</table>

Data Note: N=445, R=790.
N and R by Segment: easier: N=211, R=419; the same: N=172, R=256; harder: N=62, R=115.
FIGURE 25. WHAT IS MOST IMPORTANT TO THE COMPANY WHEN DECIDING WHAT TYPE OF CAPITAL TO SEEK?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of funds</td>
<td>29%</td>
</tr>
<tr>
<td>Repayment terms that fit the company’s needs</td>
<td>27%</td>
</tr>
<tr>
<td>Willingness to provide capital to the company</td>
<td>14%</td>
</tr>
<tr>
<td>Amount of money available from source</td>
<td>12%</td>
</tr>
<tr>
<td>Speed of obtaining capital</td>
<td>10%</td>
</tr>
<tr>
<td>Ease of application</td>
<td>7%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
</tbody>
</table>

Data Note: N=445, R=445.
Companies’ Past Experience with Capital Raising

This section discusses the companies’ histories of considering and pursuing outside capital.

FIGURE 26. BEFORE ITS MOST RECENT ATTEMPT, HAS THE COMPANY SOUGHT OUTSIDE CAPITAL PREVIOUSLY?

Data Note: N=445, R=445.
FIGURE 27. AMONG COMPANIES THAT SOUGHT CAPITAL PRIOR TO THE MOST RECENT OR CURRENT ATTEMPT, WHAT TYPE OF OUTSIDE CAPITAL HAS THE COMPANY SOUGHT?

- Business loan from bank or credit union: 59%
- Personal loan by an employee/officer/owner of the company with proceeds used for business purposes: 32%
- Business loan from entity other than a bank or credit union: 32%
- Offer of corporate securities to investors: 16%
- Sale of invoices or accounts receivable or similar: 15%
- Other: 7%
- Government loan or grant: 6%

Data Note: N=190, R=317.
Sample consists of companies that sought capital before the most recent or current attempt.
### Figure 28. Type of Outside Capital Sought in the Past by Company Size

<table>
<thead>
<tr>
<th>Capital Sought</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt; 10</td>
</tr>
<tr>
<td>Business loan from bank or credit union</td>
<td>47%</td>
</tr>
<tr>
<td>Business loan from entity other than a bank or credit union</td>
<td>32%</td>
</tr>
<tr>
<td>Government loan or grant</td>
<td>1%</td>
</tr>
<tr>
<td>Offer of corporate securities to investors</td>
<td>7%</td>
</tr>
<tr>
<td>Other</td>
<td>15%</td>
</tr>
<tr>
<td>Personal loan by an employee/officer/owner of the company with proceeds used for business purposes</td>
<td>33%</td>
</tr>
<tr>
<td>Sale of invoices or accounts receivable or similar</td>
<td>11%</td>
</tr>
</tbody>
</table>

Data Note: N=183, R=305.
Sample consists of companies that had sought capital before the most recent or current attempt.
FIGURE 29. WHAT TYPE OF BUSINESS LOAN FROM A BANK OR CREDIT UNION HAS THE COMPANY SOUGHT?

- Bank business loan from a large bank: 58%
- Bank business loan from a community bank: 45%
- Loan offered as part of a Small Business Administration program: 23%
- Business loan from a credit union: 22%

Data Note: N=111, R=165.
Sample consists of companies that previously sought bank loans.

FIGURE 30. HAS THE COMPANY SOUGHT SECURED OR UNSECURED LOANS IN THE PAST?

- Secured: 48%
- Both: 29%
- Unsecured: 16%
- Do not know: 7%

Data Note: N=111, R=111.
Sample consists of companies that previously sought business loans from banks or credit unions.
FIGURE 31. WHAT TYPE OF BUSINESS LOAN FROM ENTITIES OTHER THAN A BANK OR CREDIT UNION HAS THE COMPANY SOUGHT?

- Unsecured business loan from an investment bank or wealth management firm: 31%
- Secured business loan from an online non-bank lender: 29%
- Equipment financing through seller: 29%
- Secured business loan from a brick-and-mortar non-bank lender: 26%
- Merchant cash advance: 26%
- Unsecured business loan from a brick-and-mortar non-bank lender: 22%
- Sale of invoices or accounts receivable: 15%
- Secured business loan from an online non-bank lender: 14%
- Unsecured business loan from an investment bank or wealth management firm: 13%

Data Note: N=61, R=124. Sample consists of companies that have sought loans from entities other than banks or credit unions in the past.

FIGURE 32. WHAT TYPE OF PERSONAL LOAN HAS BEEN SOUGHT?

- Personal term loan by employee/officer/owner of company from bank or credit union: 48%
- Employee/officer/owner of company used existing personal lines of credit: 46%
- Home equity loan or home equity line of credit by employee/officer of company: 33%
- Term lump sum loan by employee/officer/owner of company: 21%
- Loan from friends or family of an employee/officer/owner of the company: 18%
- Personal loan by employee/officer/owner of company from pawn shop: 18%
- Other: 5%

Data Note: N=62, R=117. Sample consists of companies that had employees, officers, or owners who sought personal loans to be used for business purposes in the past.
FIGURE 33. BEFORE ITS MOST RECENT ATTEMPT, HAS THE COMPANY RECEIVED OUTSIDE CAPITAL PREVIOUSLY?

- **14%** yes, it has sought or received outside capital more than five times before
- **33%** yes, it has sought or received outside capital between two and five times before
- **51%** yes, it has sought or received outside capital once before
- **2%** no

Data Note: N=190, R=190. Sample consists of companies that had sought outside capital previously.
Are Companies Pursuing or Considering Pursuing Outside Capital?

This section provides information on whether respondent companies were actively pursuing or were considering pursuing outside capital at the time the survey was administered.

**FIGURE 34. IS THE COMPANY CURRENTLY SEEKING OR CONSIDERING SEEKING OUTSIDE CAPITAL?**

- 30% yes, it is currently seeking outside capital
- 50% yes, it is currently considering seeking outside capital
- 20% no

Data Note: N=445, R=445.

“Currently seeking” includes companies that were actively seeking capital at the time the survey was administered, even if they had raised some of the capital.
FIGURE 35. SEEKING OUTSIDE CAPITAL BY COMPANY SIZE

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Yes, it is currently seeking outside capital</th>
<th>Yes, it is currently considering seeking outside capital</th>
<th>No, it is not currently seeking or considering seeking outside capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>50+</td>
<td>45%</td>
<td>40%</td>
<td>15%</td>
</tr>
<tr>
<td>10–49</td>
<td>31%</td>
<td>49%</td>
<td>20%</td>
</tr>
<tr>
<td>&lt;10</td>
<td>24%</td>
<td>55%</td>
<td>21%</td>
</tr>
</tbody>
</table>


FIGURE 36. DID THE COMPANY SEEK OR CONSIDER SEEKING OUTSIDE CAPITAL WITHIN THE PAST TWO YEARS?

<table>
<thead>
<tr>
<th>Yes, it sought outside capital within the past two years</th>
<th>Yes, it considered seeking outside capital, but decided against it</th>
</tr>
</thead>
<tbody>
<tr>
<td>49%</td>
<td>51%</td>
</tr>
</tbody>
</table>

Data Note: N=88, R=88. Sample consists of companies that were not seeking or considering seeking outside capital.
FIGURE 37. IS THE COMPANY PLANNING TO SEEK OUTSIDE CAPITAL AGAIN IN THE NEXT TWO YEARS?

Data Note: N=88, R=88.
Sample consists of companies that were not seeking or considering seeking outside capital.
Firms That Considered and Abandoned Seeking Outside Capital

This section provides information on companies that considered seeking outside capital recently, but decided against it.

**FIGURE 38. WHY DID THE COMPANY CONSIDER OUTSIDE CAPITAL MOST RECENTLY?**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund growth or expansion</td>
<td>53%</td>
</tr>
<tr>
<td>Purchase equipment</td>
<td>35%</td>
</tr>
<tr>
<td>Hire additional employees</td>
<td>14%</td>
</tr>
<tr>
<td>Fund ongoing operations</td>
<td>11%</td>
</tr>
<tr>
<td>Take advantage of good fundraising climate</td>
<td>11%</td>
</tr>
<tr>
<td>Fund initial startup of business</td>
<td>10%</td>
</tr>
<tr>
<td>Prevent bankruptcy</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
</tbody>
</table>

Data Note: N=45, R=62.
Sample consists of companies that considered seeking outside capital but decided against it.
FIGURE 39. WHY DID THE COMPANY DECIDE NOT TO SEEK CAPITAL AFTER CONSIDERING IT MOST RECENTLY?

Data Note: N=45, R=51.
Sample consists of companies that considered seeking outside capital but decided against it.
Firms That Most Recently Sought Capital in the Two Years before the Survey

This section gives information about firms that pursued capital up to two years before the survey was conducted, but were not actively seeking outside capital at the time of the survey.

FIGURE 40. WHY DID THE COMPANY SEEK OR CONSIDER OUTSIDE CAPITAL MOST RECENTLY?

- Fund growth or expansion: 37%
- Fund ongoing operations: 37%
- Purchase equipment: 28%
- Other: 10%
- Fund initial startup of business: 8%
- Take advantage of good fundraising climate: 7%
- Hire additional employees: 4%
- Prevent bankruptcy: 1%

Data Note: N=43, R=57.
Sample consists of companies that sought capital within the two years before the survey was administered.
**FIGURE 41. REGARDING ITS MOST RECENT EFFORT TO RAISE OUTSIDE CAPITAL, HOW MUCH MONEY DID THE COMPANY INITIALLY CONSIDER ASKING FOR?**

<table>
<thead>
<tr>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $25k</td>
<td>21%</td>
</tr>
<tr>
<td>$25k–$50k</td>
<td>12%</td>
</tr>
<tr>
<td>$50k–$100k</td>
<td>11%</td>
</tr>
<tr>
<td>$100k–$250k</td>
<td>10%</td>
</tr>
<tr>
<td>$250k–$500k</td>
<td>18%</td>
</tr>
<tr>
<td>$500k–$1M</td>
<td>13%</td>
</tr>
<tr>
<td>$1M–$5M</td>
<td>11%</td>
</tr>
<tr>
<td>$5M–$10M</td>
<td>3%</td>
</tr>
</tbody>
</table>

Data Note: N=43, R=43. Sample consists of firms that sought capital within the two years before the survey was administered.

**FIGURE 42. WHAT TYPES OF OUTSIDE CAPITAL DID THE COMPANY SEEK OUT MOST RECENTLY?**

- Business loan from bank or credit union: 64%
- Business loan from entity other than a bank or credit union: 19%
- Other: 7%
- Personal loan by an employee/officer/owner of the company with proceeds used for business purposes (including using personal credit cards): 7%
- Offer of corporate securities to investors: 7%
- Sale of invoices or accounts receivable or similar: 2%
- Government loan or grant: 0%

Data Note: N=43, R=46. Sample consists of companies that sought capital within the two years before the survey was administered.
FIGURE 43. HOW DID THE COMPANY DETERMINE WHAT SOURCE OF CAPITAL TO INITIALLY APPROACH?

- Had preexisting business relationship with source: 74%
- Employee/officer/owner of company had a preexisting personal relationship with source: 27%
- Was approached by representative of source of capital: 24%
- Referral: 17%
- Internet search: 10%
- Guidance from small business advocacy or mentoring group: 9%
- Other: 8%
- Was approached by a finder or broker offered to connect company with sources of capital: 5%
- Guidance from government: 1%

Data Note: N=43, R=76.
Sample consists of companies that sought capital within the two years before the survey was administered.

FIGURE 44. WAS THE COMPANY SUCCESSFUL IN OBTAINING CAPITAL FROM ITS INITIAL TARGET?

- Yes: 94%
- No: 6%

Data Note: N=43, R=43.
Sample consists of companies that sought capital within the two years before the survey was administered.
**FIGURE 45. WHAT TYPE OF CAPITAL DID THE COMPANY OBTAIN?**

- Business loan from bank or credit union: 62%
- Business loan from entity other than a bank or credit union: 16%
- Other: 8%
- Offer of corporate securities to investors: 7%
- Personal loan by an employee/officer/owner of the company with proceeds used for business purposes (including using personal credit cards): 6%
- Sale of invoices or accounts receivable or similar: 2%
- Government loan or grant: 0%

Data Note: N=41, R=42. Sample consists of companies that sought and obtained capital within the two years before the survey was administered.

**FIGURE 46. WHICH OF THE FOLLOWING APPLY REGARDING THE CAPITAL THE COMPANY OBTAINED FROM ITS INITIAL TARGET?**

- 96%: company received the capital it was seeking on acceptable terms
- 4%: company received capital, but not as much as it was looking for
- 3%: company received capital, but at a higher cost than it was looking for
- 0%: company received capital, but there were some problems with the terms

Data Note: N=41, R=41. Sample consists of companies that sought and obtained capital within the two years before the survey was administered. Because of rounding, responses exceed 100%.
FIGURE 47. HOW MUCH CAPITAL DID THE COMPANY RECEIVE IN THE MOST RECENT EFFORT?

![Bar chart showing the distribution of capital received by companies since their last effort.]

Data Note: N=41, R=41. Sample consists of companies that sought and obtained capital within the two years before the survey was administered.

FIGURE 48. WHAT WAS THE MAIN REASON THE COMPANY CHOSE THE SOURCE OF CAPITAL IT OBTAINED?

![Bar chart showing the distribution of reasons for choosing the source of capital.]

Data Note: N=41, R=41. Sample consists of companies that sought and obtained capital within the two years before the survey was administered.
FIGURE 49. WAS THE COMPANY SATISFIED WITH ITS MOST RECENT CAPITAL RAISING EXPERIENCE?

Data Note: N=43, R=43. Sample consists of companies that sought capital within the two years before the survey was administered.

FIGURE 50. WHAT WERE THE POSITIVE ASPECTS OF THE MOST RECENT CAPITAL RAISING EXPERIENCE?

Data Note: N=43, R=169. Sample consists of companies that sought and obtained capital within the two years before the survey was administered.
FIGURE 51. WHAT WERE THE UNSATISFACTORY ASPECTS OF THE MOST RECENT CAPITAL RAISING EXPERIENCE?

- None: 67%
- Process was too slow: 8%
- Did not receive adequate help to complete process easily: 8%
- Process was too difficult or cumbersome: 8%
- Terms and cost were misleading: 7%
- Had to take more money than desired to get a sufficiently low interest rate: 6%
- Had to agree to repay the loan too quickly: 3%
- Capital was too expensive: 2%
- Other: 2%
- Was required to take longer than desired to repay the loan: 1%
- Terms and cost were hard to understand: <1%
- Was not able to get sufficient capital: <1%
- Had to give up too much control of the company: 0%

Data Note: N=43, R=49.
Sample consists of companies that sought and obtained capital within the two years before the survey was administered.

FIGURE 52. HOW COULD THE CAPITAL HAVE BEEN IMPROVED?

- None, the source and characteristics of the capital were the best reasonably available: 34%
- Lower interest rate: 30%
- Would have secured loan with some sort of collateral: 14%
- Longer repayment terms: 13%
- Would have used an unsecured loan instead of a secured loan: 7%
- Would have sought investment from outside sources rather than friends and family: 5%
- Would have taken more capital: 5%
- Would have waited until business conditions improved: 5%
- Other: 4%
- Personal loan by employee/officer/owner of company instead of a loan by the company: 4%
- Would have sought a registered offering of securities rather than a private offering: 3%
- Would have used a government-affiliated program instead of a purely private source: 2%
- Would have taken less capital: 2%
- Debt offering instead of what was chosen: 2%
- Loan instead of what was chosen: 1%
- Would have offered fewer rights to investors/lenders: 1%
- Higher interest rate: 1%
- Merchant cash advance instead of what was chosen: 1%

Data Note: N=43, R=58.
Sample consists of companies that sought and obtained capital within the two years before the survey was administered.
Companies That Were Actively Seeking Capital at the Time of the Survey

This section provides information on the experience of firms that were actively seeking capital at the time the survey was conducted.

**FIGURE 53. WHY IS THE COMPANY SEEKING OUTSIDE CAPITAL?**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund growth or expansion</td>
<td>52%</td>
</tr>
<tr>
<td>Hire additional employees</td>
<td>36%</td>
</tr>
<tr>
<td>Purchase equipment</td>
<td>31%</td>
</tr>
<tr>
<td>Fund ongoing operations</td>
<td>27%</td>
</tr>
<tr>
<td>Take advantage of good fundraising climate</td>
<td>21%</td>
</tr>
<tr>
<td>Prevent bankruptcy</td>
<td>16%</td>
</tr>
<tr>
<td>Fund initial startup of business</td>
<td>15%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
<tr>
<td>Taxes/regulatory costs</td>
<td>1%</td>
</tr>
</tbody>
</table>

Data Note: N=136, R=274.
Sample consists of companies that sought and obtained capital within the two years before the survey was administered.
### FIGURE 54. REASONS FOR CAPITAL BY COMPANY SIZE

<table>
<thead>
<tr>
<th>reason</th>
<th>&lt; 10</th>
<th>10–49</th>
<th>50+</th>
</tr>
</thead>
<tbody>
<tr>
<td>fund growth or expansion</td>
<td>46%</td>
<td>60%</td>
<td>46%</td>
</tr>
<tr>
<td>fund initial startup of business</td>
<td>27%</td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td>fund ongoing operations</td>
<td>22%</td>
<td>29%</td>
<td>25%</td>
</tr>
<tr>
<td>hire additional employees</td>
<td>12%</td>
<td>48%</td>
<td>44%</td>
</tr>
<tr>
<td>prevent bankruptcy</td>
<td>5%</td>
<td>7%</td>
<td>33%</td>
</tr>
<tr>
<td>purchase equipment</td>
<td>29%</td>
<td>38%</td>
<td>26%</td>
</tr>
<tr>
<td>take advantage of good fund-raising climate</td>
<td>15%</td>
<td>24%</td>
<td>30%</td>
</tr>
<tr>
<td>taxes/regulatory costs</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

**Data Note:** N=144, R=293.


Sample consists of companies that were seeking capital at the time the survey was administered.
FIGURE 55. HOW MUCH MONEY DID THE COMPANY INITIALLY CONSIDER ASKING FOR?

- $10M+: 1%
- $5M–$10M: 0.5%
- $1M–$5M: 10%
- $500k–$1M: 14%
- $250k–$500k: 24%
- $100k–$250k: 21%
- $50k–$100k: 15%
- $25k–$50k: 8.8%
- < $25k: 6%

Data Note: N=136, R=136.
Sample consists of companies that sought and obtained capital within the two years before the survey was administered.

FIGURE 56. WHAT TYPE OF OUTSIDE CAPITAL IS THE COMPANY SEEKING?

- Business loan from bank or credit union: 46%
- Business loan from entity other than a bank or credit union: 43%
- Personal loan by an employee/officer/owner of the company with proceeds used for business purposes: 27%
- Offer of corporate securities to investors: 23%
- Sale of invoices or accounts receivable or similar: 18%
- Government loan or grant: 10%
- Other: 6%

Data Note: N=136, R=234.
Sample consists of companies that sought and obtained capital within the two years before the survey was administered.
FIGURE 57. HOW DID THE COMPANY DETERMINE WHAT SOURCE OF CAPITAL TO INITIALLY APPROACH?

- had preexisting business relationship with source: 52%
- employee/officer/owner of company had a preexisting personal relationship with source: 40%
- was approached by representative of source of capital: 32%
- was approached by a finder or broker offered to connect company with sources of capital: 20%
- internet search: 20%
- referral: 14%
- guidance from small business advocacy or mentoring group: 10%
- guidance from government: 4%
- other: 1%

Data Note: N=136, R=262.
Sample consists of companies that were seeking capital at the time the survey was administered.

FIGURE 58. WHAT TYPE OF BUSINESS LOAN FROM A BANK OR CREDIT UNION IS THE COMPANY SEEKING?

- business loan from a credit union: 53%
- business loan from a community bank: 51%
- business loan from a large bank: 48%
- loan offered as part of a Small Business Administration program: 28%

Data Note: N=63, R=122.
Sample consists of companies that were seeking capital at the time the survey was administered.
FIGURE 59. IS THE COMPANY SEEKING SECURED OR UNSECURED LOANS?

Data Note: N=63, R=63. Sample consists of companies that were seeking a business loan from a bank or credit union at the time the survey was administered.

FIGURE 60. WHAT TYPE OF BUSINESS LOAN FROM ENTITIES OTHER THAN A BANK OR CREDIT UNION IS THE COMPANY SEEKING?

Data Note: N=58, R=121. Sample consists of companies that were seeking a business loan from a nonbank lender at the time the survey was administered.
FIGURE 61. HAS THE COMPANY BEEN SUCCESSFUL DURING ITS CURRENT EFFORT IN OBTAINING CAPITAL FROM ITS INITIAL TARGET?

Data Note: N=136, R=136. Sample consists of companies that were seeking capital at the time the survey was administered.

FIGURE 62. CURRENT SUCCESS BY AMOUNT SOUGHT

Data Note: N=136, R=136. N by Segment: $100k or less: 40, $100k–$500k: 61, $500k+: 35. Sample consists of companies that were seeking capital when the survey was administered. Note the small sample size for firms seeking $500k or more.
FIGURE 63. WHICH OF THE FOLLOWING APPLY REGARDING THE CAPITAL THE COMPANY OBTAINED FROM ITS INITIAL TARGET?

- 63%: company received the capital it was seeking on acceptable terms
- 41%: company received capital, but not as much as it was looking for
- 26%: company received capital, but at a higher cost than it was looking for
- 6%: company received capital, but there were some problems with the terms

Data Note: N=107, R=144. Sample consists of companies that were seeking and had obtained capital at the time the survey was administered.

FIGURE 64. HOW MUCH CAPITAL HAS THE COMPANY RECEIVED IN ITS CURRENT EFFORT?

- 37%: more than it was looking for
- 23%: 90–99% of what it was looking for
- 23%: 75–89% of what it was looking for
- 6%: 50–74% of what it was looking for
- 3%: under 50% of what it was looking for
- 8%: the amount it was looking for

Data Note: N=107, R=107. Sample consists of companies that were seeking and had obtained capital at the time the survey was administered.
FIGURE 65. WHAT WAS THE MAIN REASON THE COMPANY CHOSE THE SOURCE OF CAPITAL IT OBTAINED?

Data Note: N=107, R=107. Sample consists of companies that were seeking and had obtained capital at the time the survey was administered.

FIGURE 66. WHAT WERE THE REASONS GIVEN AS TO WHY THE COMPANY WAS NOT OFFERED SOME OR ALL OF THE CAPITAL IT SOUGHT FROM ITS INITIAL TARGET?

Data Note: N=63, R=114. Sample consists of companies that did not receive some or all of the capital they were seeking from their initial target at the time the survey was administered.
FIGURE 67. WHEN THE COMPANY WAS NOT ABLE TO GET SOME OR ALL OF THE CAPITAL IT WAS LOOKING FOR FROM ITS ORIGINAL TARGET, WHAT DID IT DO?

Data Note: N=73, R=73.
Sample consists of companies that did not receive some or all of the capital they were seeking from their initial target at the time the survey was administered.
Companies That Were Considering Seeking Outside Capital at the Time of the Survey

This section provides information on the experience of firms that were considering seeking outside capital at the time of the survey, but were not yet actively engaged in a pursuit.

FIGURE 68. WHY IS THE COMPANY CONSIDERING SEEKING OUTSIDE CAPITAL?

- Fund growth or expansion: 70%
- Purchase equipment: 34%
- Fund ongoing operations: 25%
- Hire additional employees: 23%
- Take advantage of good fundraising climate: 18%
- Fund initial startup of business: 10%
- Prevent bankruptcy: 6%
- Other: 1%

Data Note: N=221, R=415.
Sample consists of companies that were considering seeking outside capital at the time the survey was administered.
Interest in Innovative Lending

This section provides information on respondents’ views of innovative online lenders.

**FIGURE 69. WOULD THE COMPANY CONSIDER TAKING A SMALL BUSINESS LOAN FROM A NONBANK INTERNET-BASED LENDER?**

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>55%</td>
</tr>
<tr>
<td>No</td>
<td>24%</td>
</tr>
<tr>
<td>Unsure</td>
<td>22%</td>
</tr>
</tbody>
</table>

Data Note: N=445, R=445.
Because of rounding, responses exceed 100%.
FIGURE 70. WILLINGNESS TO TAKE ONLINE LENDER LOAN BY AMOUNT SOUGHT

<table>
<thead>
<tr>
<th>Capital Sought</th>
<th>Yes</th>
<th>No</th>
<th>Unsure</th>
</tr>
</thead>
<tbody>
<tr>
<td>$500k+</td>
<td>55%</td>
<td>32%</td>
<td>14%</td>
</tr>
<tr>
<td>$100k-$500k</td>
<td>56%</td>
<td>30%</td>
<td>13%</td>
</tr>
<tr>
<td>$100k or less</td>
<td>60%</td>
<td>24%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Data Note: N=179, R=179.
N by Segment: $100k or less: 60, $100-$500k: 73, $500k+: 47.
Sample consists of companies that had recently sought or were seeking capital at the time the survey was administered.

FIGURE 71. WILLINGNESS TO TAKE ONLINE LENDER LOAN BY AGE OF THE COMPANY

<table>
<thead>
<tr>
<th>Age of Company</th>
<th>Yes</th>
<th>No</th>
<th>Unsure</th>
</tr>
</thead>
<tbody>
<tr>
<td>11+ yrs</td>
<td>44%</td>
<td>30%</td>
<td>26%</td>
</tr>
<tr>
<td>6-10 yrs</td>
<td>64%</td>
<td>20%</td>
<td>16%</td>
</tr>
<tr>
<td>3-5 yrs</td>
<td>62%</td>
<td>22%</td>
<td>16%</td>
</tr>
<tr>
<td>0-2 yrs</td>
<td>59%</td>
<td>22%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Data Note: N=445, R=445.
Note the small sample size for firms age 0-2 years.
FIGURE 72. WILLINGNESS TO TAKE ONLINE LENDER LOAN BY EASE OF ACCESS

- Easier: 65% yes, 21% no, 14% unsure
- The same: 48% yes, 27% no, 26% unsure
- Harder: 40% yes, 32% no, 27% unsure

Data Note: N=445, R=445.
N by Segment: easier: 211, the same: 172, harder: 62.

FIGURE 73. WILLINGNESS TO TAKE ONLINE LENDER LOAN BY COMPANY SIZE

- 50+: 63% yes, 18% no, 18% unsure
- 10–49: 56% yes, 22% no, 22% unsure
- < 10: 47% yes, 32% no, 21% unsure

Data Note: N=445, R=445.
FIGURE 74. WHY CONSIDER TAKING A LOAN FROM A NONBANK INTERNET-BASED LENDER?

Data Note: N=346, R=600.
Sample consists of companies that were considering or were unsure about seeking a small business loan from a nonbank internet-based lender.

What reasons might companies consider taking a loan from a nonbank internet-based lender? The chart shows the following breakdown:

- 54% believe there is potential to access capital at a lower cost.
- 43% believe there is potential to access capital with better repayment terms.
- 42% believe the process would be faster than other options.
- 37% believe the process would be easier than other options.
- 1% indicate other reasons.

Potential to access capital at a lower cost is the most common reason, followed by better repayment terms, faster process, easier process, and other reasons.
### Figure 75. Reasons to Consider an Internet-Based Lender by Age of the Company

<table>
<thead>
<tr>
<th>Reason</th>
<th>0–2 yrs</th>
<th>3–5 yrs</th>
<th>6–10 yrs</th>
<th>11+ yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Believe the process would be easier than other options</td>
<td>38%</td>
<td>33%</td>
<td>40%</td>
<td>42%</td>
</tr>
<tr>
<td>Believe the process would be faster than other options</td>
<td>31%</td>
<td>44%</td>
<td>43%</td>
<td>30%</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Potential to access capital at a lower cost</td>
<td>41%</td>
<td>48%</td>
<td>56%</td>
<td>54%</td>
</tr>
<tr>
<td>Potential to access capital with better repayment terms</td>
<td>72%</td>
<td>43%</td>
<td>51%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Data Note: N=335, R=583.


Sample consists of companies that are considering or are unsure about seeking a small business loan from a non-bank internet-based lender. Note the small sample size for companies age 0–2 and 3–5 years.
FIGURE 76. WHY WOULD THE COMPANY NOT CONSIDER TAKING A SMALL BUSINESS LOAN FROM A NONBANK INTERNET-BASED LENDER?

Data Note: N=202, R=360.
Sample consists of companies that were not considering or were unsure about seeking a small business loan from a nonbank internet-based lender.

Data Note: N=202, R=360.
Sample consists of companies that were not considering or were unsure about seeking a small business loan from a nonbank internet-based lender.
<table>
<thead>
<tr>
<th>Reason</th>
<th>0–2 yrs</th>
<th>3–5 yrs</th>
<th>6–10 yrs</th>
<th>11+ yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>believe the amount of capital would not be obtainable from this type of source</td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>believe the capital would be more expensive than other options</td>
<td>27%</td>
<td>29%</td>
<td>23%</td>
<td>20%</td>
</tr>
<tr>
<td>believe the capital would be provided with worse terms than other options</td>
<td>27%</td>
<td>16%</td>
<td>32%</td>
<td>18%</td>
</tr>
<tr>
<td>believe the process would be harder than other options</td>
<td>13%</td>
<td>5%</td>
<td>14%</td>
<td>9%</td>
</tr>
<tr>
<td>believe the process would be slower than other options</td>
<td>7%</td>
<td>11%</td>
<td>20%</td>
<td>7%</td>
</tr>
<tr>
<td>concerns about fraud</td>
<td>27%</td>
<td>26%</td>
<td>23%</td>
<td>23%</td>
</tr>
<tr>
<td>no need to try new method</td>
<td>13%</td>
<td>8%</td>
<td>20%</td>
<td>26%</td>
</tr>
<tr>
<td>not a good fit for the company’s model</td>
<td>7%</td>
<td>16%</td>
<td>25%</td>
<td>15%</td>
</tr>
<tr>
<td>not enough information or familiarity to feel comfortable</td>
<td>47%</td>
<td>16%</td>
<td>36%</td>
<td>38%</td>
</tr>
<tr>
<td>other</td>
<td>0%</td>
<td>5%</td>
<td>0%</td>
<td>3%</td>
</tr>
<tr>
<td>wish to have face-to-face relationship with lender</td>
<td>20%</td>
<td>21%</td>
<td>16%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Data Note: N=201, R=370.
Sample consists of companies that were not considering or were unsure about seeking a small business loan from a nonbank internet-based lender.
Note the small sample size for firms age 0–2 and 3–5 years.
Interest in Innovative Securities Offerings
This section provides information on respondents’ views of the use of the internet to offer securities to potential investors.

FIGURE 78. IN THE FUTURE, WOULD THE COMPANY CONSIDER SEEKING CAPITAL BY SELLING SECURITIES ONLINE?

Data Note: N=445, R=445.
FIGURE 79. WILLINGNESS TO CONSIDER SELLING SECURITIES ONLINE BY AMOUNT OF CAPITAL SOUGHT

Data Note: N=179, R=179.
N by Segment: $100k or less: 60, $100k–$500k: 73, $500k+: 47.
Sample consists of companies that had recently sought capital or were seeking capital at the time the survey was administered.

FIGURE 80. WILLINGNESS TO CONSIDER SELLING SECURITIES ONLINE BY AGE OF COMPANY

Data Note: N=445, R=445.
Note the small sample size for firms age 0–2 years.
FIGURE 81. FIRM’S WILLINGNESS TO CONSIDER SELLING SECURITIES ONLINE BY EASE OF ACCESS


FIGURE 82. WILLINGNESS TO CONSIDER SELLING SECURITIES ONLINE BY COMPANY SIZE

FIGURE 83. WHY WOULD THE COMPANY CONSIDER SEEKING OUTSIDE CAPITAL IN THE NEXT TWO YEARS (VIA SELLING SECURITIES ONLINE)?

- Wish to expand my investment base: 46%
- Believe process would be faster than other options: 35%
- Potential to access capital with better repayment terms: 33%
- Potential for good press/public/customer relations: 33%
- Believe process would be easier than other options: 32%
- Potential to access capital at a lower cost: 30%
- Other: 0%

Data Note: N=179, R=375.
Sample consists of companies considering selling securities online in the next two years.
### Figure 84. Reasons to Consider Selling Securities Online by Age of the Company

<table>
<thead>
<tr>
<th>Reason</th>
<th>0-2 yrs</th>
<th>3-5 yrs</th>
<th>6-10 yrs</th>
<th>11+ yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Believe the process would be faster than other options</td>
<td>42%</td>
<td>38%</td>
<td>22%</td>
<td>32%</td>
</tr>
<tr>
<td>Believe the process would be easier than other options</td>
<td>32%</td>
<td>29%</td>
<td>38%</td>
<td>28%</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>Potential for good press/public/customer relations</td>
<td>37%</td>
<td>38%</td>
<td>32%</td>
<td>30%</td>
</tr>
<tr>
<td>Potential to access capital at a lower cost</td>
<td>42%</td>
<td>27%</td>
<td>42%</td>
<td>21%</td>
</tr>
<tr>
<td>Potential to access capital with better repayment terms</td>
<td>32%</td>
<td>27%</td>
<td>33%</td>
<td>32%</td>
</tr>
<tr>
<td>Wish to expand my investment base</td>
<td>47%</td>
<td>42%</td>
<td>54%</td>
<td>45%</td>
</tr>
</tbody>
</table>

Data Note: N=183, R=381.
N and R by Segment: 0–2 yrs: N=19, R=44; 3–5 yrs: N=48, R=96; 6–10 yrs: N=69, R=152; 11+ yrs: N=47, R=89.
Sample consists of companies considering selling securities online within the next two years.
Note the small sample size for companies age 0–2 years.
FIGURE 85. EVEN IF UNSURE, WHY CONSIDER SELLING SECURITIES ONLINE?

- Potential to access capital at a lower cost: 47%
- Potential to access capital with better repayment terms: 40%
- Wish to expand my investment base: 24%
- Believe the process would be easier than other options: 23%
- Potential for good press/public/customer relations: 20%
- Believe process would be faster than other options: 15%
- Other: 0%

Data Note: N=114, R=193.
Sample consists of companies uncertain about selling securities online in the next two years.
## Figure 86. Reasons to Consider Selling Securities Online by Age of the Company

<table>
<thead>
<tr>
<th>Reason</th>
<th>0–2 yrs</th>
<th>3–5 yrs</th>
<th>6–10 yrs</th>
<th>11+ yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Believe the process would be easier than other options</td>
<td>0%</td>
<td>36%</td>
<td>18%</td>
<td>21%</td>
</tr>
<tr>
<td>Believe the process would be faster than other options</td>
<td>0%</td>
<td>12%</td>
<td>14%</td>
<td>17%</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Potential for good press/public/customer relations</td>
<td>33%</td>
<td>40%</td>
<td>18%</td>
<td>15%</td>
</tr>
<tr>
<td>Potential to access capital at a lower cost</td>
<td>17%</td>
<td>32%</td>
<td>64%</td>
<td>47%</td>
</tr>
<tr>
<td>Potential to access capital with better repayment terms</td>
<td>67%</td>
<td>32%</td>
<td>36%</td>
<td>42%</td>
</tr>
<tr>
<td>Wish to expand my investment base</td>
<td>17%</td>
<td>32%</td>
<td>29%</td>
<td>19%</td>
</tr>
</tbody>
</table>

**Data Note:** N=112, R=189.
Sample consists of companies uncertain about selling securities online in the next two years.
Note the small sample size for companies age 0–2, 3–5, and 6–10 years.
**FIGURE 87. EVEN IF UNSURE, WHY FORGO SELLING SECURITIES ONLINE?**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not enough information or familiarity to feel comfortable</td>
<td>37%</td>
</tr>
<tr>
<td>Wish to know investors personally</td>
<td>22%</td>
</tr>
<tr>
<td>Concerns about ongoing obligations</td>
<td>22%</td>
</tr>
<tr>
<td>Not a good fit for the company's model</td>
<td>20%</td>
</tr>
<tr>
<td>Concerns about potential legal liability</td>
<td>17%</td>
</tr>
<tr>
<td>Believe process would be slower than other options</td>
<td>16%</td>
</tr>
<tr>
<td>Concerns about fraud</td>
<td>15%</td>
</tr>
<tr>
<td>Believe process would be harder than other options</td>
<td>15%</td>
</tr>
<tr>
<td>Believe capital would be more expensive than other options</td>
<td>15%</td>
</tr>
<tr>
<td>Believe capital would provide worse terms than other options</td>
<td>12%</td>
</tr>
<tr>
<td>Concerns it would hamper future fundraising efforts</td>
<td>12%</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
</tr>
</tbody>
</table>

Data Note: N=114, R=242. Sample consists of companies uncertain about selling securities online in the next two years.

**FIGURE 88. THE COMPANY IS NOT CONSIDERING SEEKING OUTSIDE CAPITAL IN THE NEXT TWO YEARS (VIA SELLING SECURITIES ONLINE). WHY NOT?**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No need to try new method</td>
<td>29%</td>
</tr>
<tr>
<td>Not a good fit for the company's model</td>
<td>23%</td>
</tr>
<tr>
<td>Not enough information or familiarity to feel comfortable</td>
<td>21%</td>
</tr>
<tr>
<td>Believe the capital would be more expensive than other options</td>
<td>17%</td>
</tr>
<tr>
<td>Believe the process would be harder than other options</td>
<td>12%</td>
</tr>
<tr>
<td>Wish to know investors personally</td>
<td>11%</td>
</tr>
<tr>
<td>Concerns about ongoing obligations</td>
<td>10%</td>
</tr>
<tr>
<td>Other</td>
<td>9%</td>
</tr>
<tr>
<td>Believe the capital would provide worse terms than other options</td>
<td>8%</td>
</tr>
<tr>
<td>Concerns about potential legal liability</td>
<td>8%</td>
</tr>
<tr>
<td>Concerns it would hamper future fundraising efforts</td>
<td>7%</td>
</tr>
<tr>
<td>Concerns about fraud</td>
<td>7%</td>
</tr>
<tr>
<td>Believe process would be slower than other options</td>
<td>4%</td>
</tr>
</tbody>
</table>

Data Note: N=152, R=250. Sample consists of companies not considering selling securities online in the next two years.
CONCLUSION

The data above indicate that small businesses have diverse needs when it comes to capital. For example, many firms prioritize speed and convenience over cost, reflecting the fact that more-expensive capital that is available when and where the business needs it can be better than cheaper capital that is too difficult to obtain or available too slowly. Therefore, when evaluating whether a capital option is “good” or “bad,” we should not limit our analysis solely to the cost.

Additionally, the impact and cost of regulation was cited as influencing the availability of capital. This should give regulators further reason to analyze the potential costs, as well as benefits, of regulation, since well-meaning rules could potentially harm the very firms they seek to help.

These results also highlight the interest of firms in innovative solutions. While many firms are able to access capital under the status quo, that access is not universal and there is broad interest among small businesses in new means of accessing loans and capital markets. It is important that the market for capital be allowed to evolve to better serve the small businesses that rely on them.
ABOUT THE AUTHOR

Brian Knight is the director of the Program on Financial Regulation and a senior research fellow at the Mercatus Center at George Mason University. Brian’s research focuses on numerous aspects of financial regulation, including the creation of pro-innovation regulatory environments, the role of federalism in fintech regulation, the use of digital assets for financial transactions, the role of regulation for credit markets and consumer protection, and the provision of capital to businesses.

Prior to joining Mercatus, Brian worked for the Milken Institute, where he headed up the FinTech and Capital Access programs. He has experience working for a broker-dealer with a focus on the emerging online private-placement market and was the co-founder of CrowdCheck, a company providing due-diligence and disclosure services to companies and intermediaries engaged in online private offerings.

Brian received his law degree from the University of Virginia and his bachelor’s degree from the College of William and Mary.

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