

SMALL BUSINESS CREDIT SURVEY

2017
CALIFORNIA
STATE REPORT

ABOUT THE SURVEY

The Small Business Credit Survey (SBCS) is a national collaboration of the Community Development Offices of the 12 Federal Reserve Banks. The SBCS is an annual survey that is designed to provide timely information on small businesses in the United States. Respondents are asked to report information about their business performance, financing needs and challenges, as well as borrowing behaviors and experiences. Responses to the Survey provide insight into the dynamics behind aggregate lending trends and about noteworthy segments of small businesses. Intelligence on small firms' financing needs and gaps is fundamental to understanding and bolstering the sector's health and growth.

The 2017 SBCS is the second iteration of the Survey that was conducted on a national scale with involvement from all 12 Federal Reserve Banks and input collected across all 50 states and the District of Columbia. Fielded in the third and fourth quarters of 2017, the survey yielded 8,169 responses from small employer firms, business that have 1,499 full- or part-time employees, in the 50 states and the District of Columbia. The findings of the 2017 SBCS provide an in-depth look at small business performance, debt holdings, and credit experiences. The results are weighted to reflect the full population of small businesses. The Survey is not a random sample; therefore, results should be analyzed with awareness of potential methodological biases. For detailed information about the survey design and weighting methodology, please consult the Methodology section of the [2017 Small Business Credit Survey: Report on Employer Firms](#).

The California State Report is a product of the SBCS that aims to increase the understanding of small business performance and needs at the state level. This state level data is provided to help policy makers, researchers, service providers and community development stakeholders have a better understanding of their respective markets. From the 2017 SBCS, California is the only state in the Federal Reserve's 12th District with enough responses for its own state report. The information contained in this report for California is from employer firms who responded to the SBCS and indicated that their firm was headquartered in the state of California. Survey responses are weighted to represent the distribution of firms in the state the business operates in.

EXECUTIVE SUMMARY

SURVEY RESPONSE

- In California, there were 556 responses for the 2017 SBCS. Nationwide, there were 8,169 responses.

DEMOGRAPHICS

- A majority of firms had revenues of \$1M or less (65 percent) and a workforce of 1 to 4 employees (56 percent).
- Nearly half of all employer firms (47 percent) used contract workers.
- 95 percent of small businesses were located in urban areas.

PERFORMANCE AND EXPECTATIONS

- Firms reported modest performance at the end of 2017 with a profitability index of 27, which reflects the share of firms reporting profitability minus the share not profitable.
- Firms expressed high levels of optimism and anticipated their revenues to grow and their workforce to expand in the next 12 months.

FINANCING CHALLENGES AND DEBT

- 42 percent of firms experienced a financial challenge in paying operating expenses and 39 percent of firms experienced a financial challenge in credit availability.
- California firms were less likely to not experience any financial challenges than firms nationwide (30 percent compared to 36 percent).
- 64 percent of firms possess outstanding debt. Of those firms, 58 percent of them have debt amounts of \$100K or less.

FINANCING SOURCES, SUCCESS AND SATISFACTION

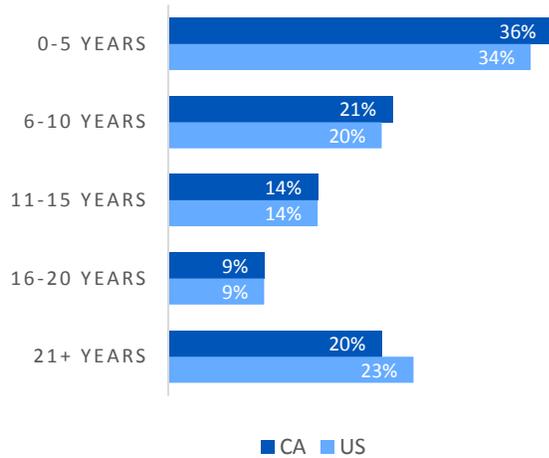
- 38 percent of firms applied for financing in the prior 12 months. Of those firms, 54 percent applied for funding of \$100K or less.
- A majority of firms sought financing to meet operating expenses (54 percent) and to expand business, pursue new opportunities or replace capital (59 percent).
- California firms received less financing than the amount requested compared to firms nationwide.

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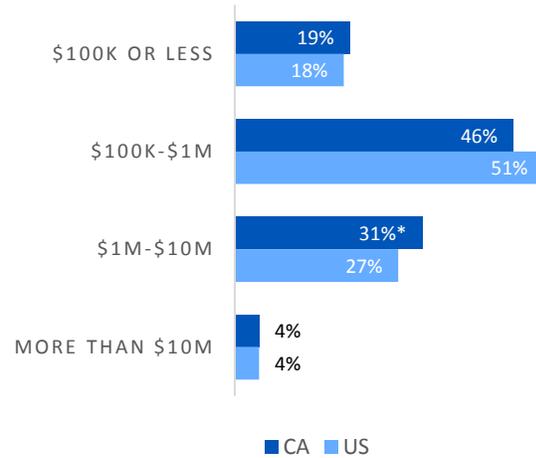
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47%* of employer firms in California use contract workers compared to **39%** nationwide.

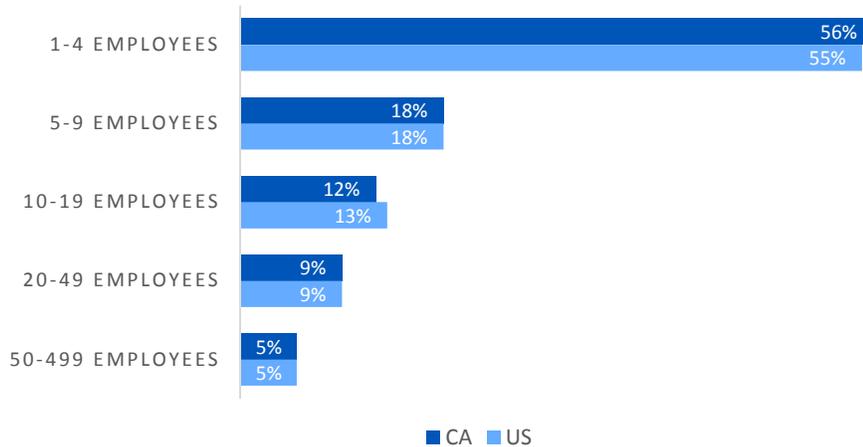
AGE OF FIRM^{1,2}



REVENUE SIZE OF FIRM



NUMBER OF EMPLOYEES^{1,2,3}



* Significant difference between the value of California and the United States at the ninety-five percent level.

¹ SBCS responses throughout the report are weighted using Census data to represent the US small business population on the following dimensions: firm age, size, industry, geography, race/ethnicity of owner and gender of owner.

² Percentages may not sum to 100 due to rounding.

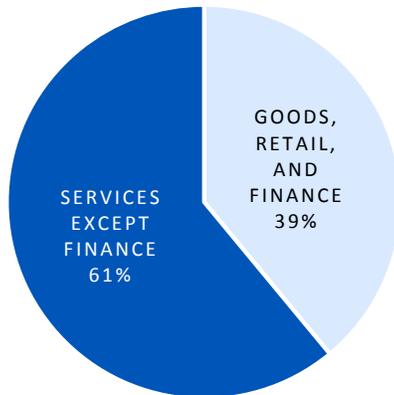
³ Employer firms are those that reported having at least one full- or part-time employee. Does not include self-employed or firms where the owner is the only employee.

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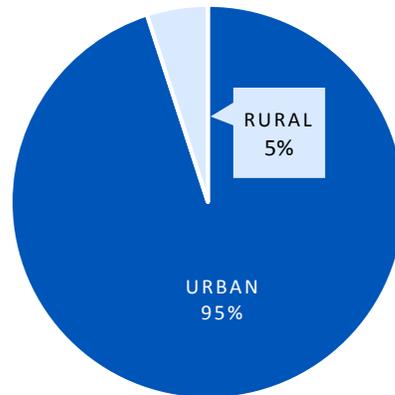
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INDUSTRY^{1,2}



GEOGRAPHIC LOCATION^{1,3}

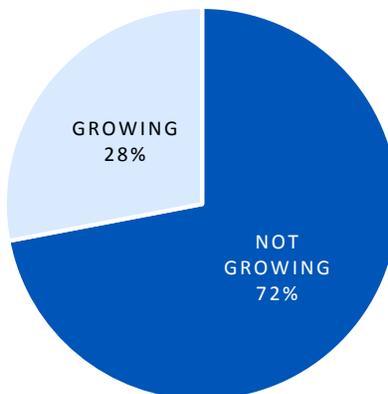


28% of employer firms are growing.

Growing firms are defined as those that:

- Increased revenues⁴
- Increased number of employees⁴
- Plan to increase or maintain number of employees⁵

BUSINESS STAGE OF FIRM



¹ SBCS responses throughout the report are weighted using Census data to represent the US small business population on the following dimensions: firm age, size, industry, geography, race/ethnicity of owner and gender of owner.

² Firm industry is classified based on the description of what the business does, as provided by the survey participant.

³ Urban and rural definitions come from Centers for Medicare & Medicaid Services.

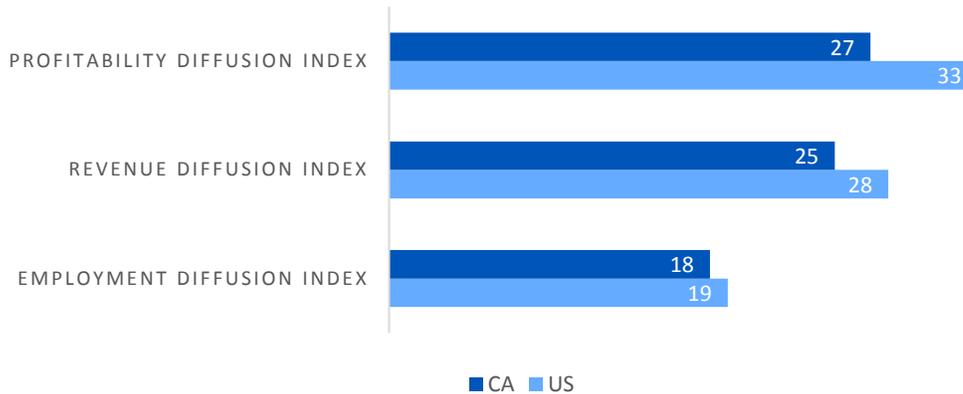
⁴ Prior 12 months. Approximately the second half of 2016 through the second half of 2017.

⁵ Expected change in approximately the second half of the surveyed year through the second half of the following year.

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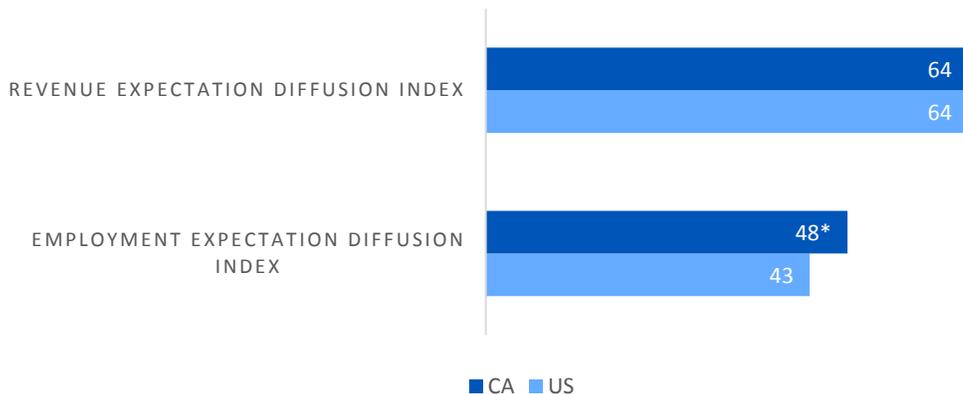
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BUSINESS PERFORMANCE^{1,2,3} ON A SCALE OF -100 (DECREASE/NOT PROFITABLE) TO 100 (INCREASE/PROFITABLE)



A number above 0 indicates more small firms selected 'profitable' than 'not profitable' or 'increase' than 'decrease.'

BUSINESS EXPECTATIONS^{4,5} ON A SCALE OF -100 (DECREASE/NOT PROFITABLE) TO 100 (INCREASE/PROFITABLE)



* Significant difference between the value of California and the United States at the ninety-five percent level.

¹ The share of firms profitable minus the share not profitable at the end of 2016.

² The share of firms with growing revenues minus the share with shrinking revenues during the prior 12 months.

³ The share of firms expanding their workforce minus the share shrinking their workforce during the prior 12 months.

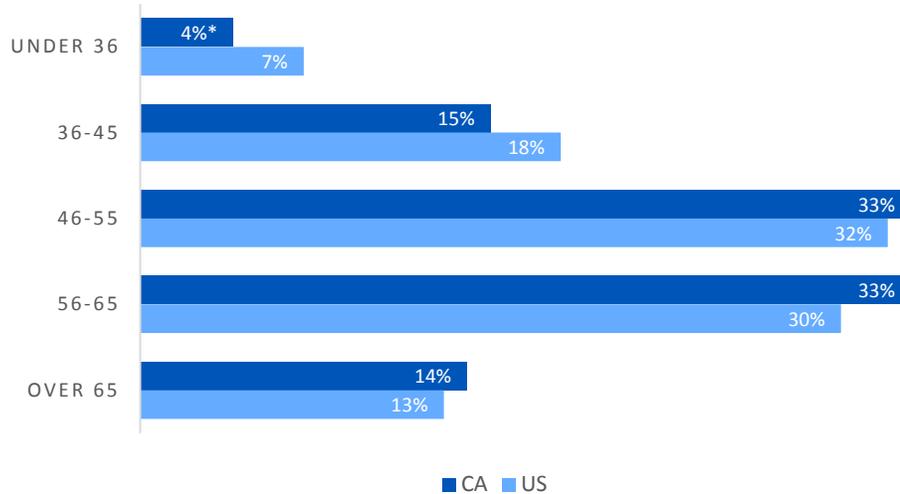
⁴ The share of firms expecting their revenues to grow minus the share anticipating a decline over the next 12 months.

⁵ The share of firms anticipating an expansion in their workforce minus the share expecting a decline over the next 12 months.

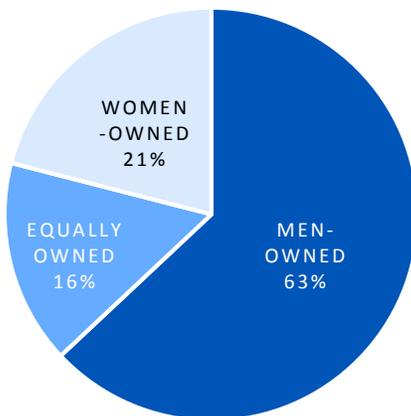
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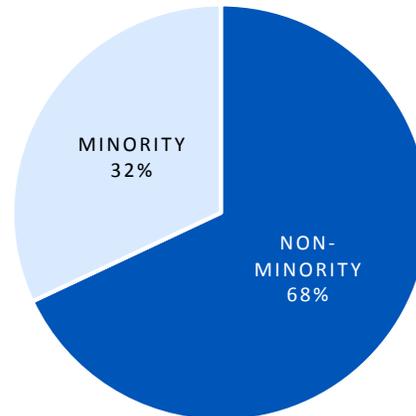
AGE OF PRIMARY FINANCIAL DECISION MAKER



GENDER OF OWNER(S)¹



RACE/ETHNICITY OF OWNER(S)^{1,2}



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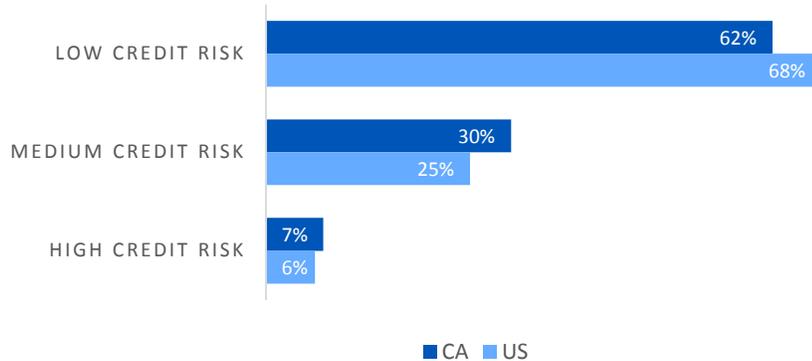
¹ SBCS responses throughout the report are weighted using Census data to represent the US small business population on the following dimensions: firm age, size, industry, geography, race/ethnicity of owner and gender of owner.

² A firm is classified as minority-owned if at least half of the business is owned and controlled by minority group members.

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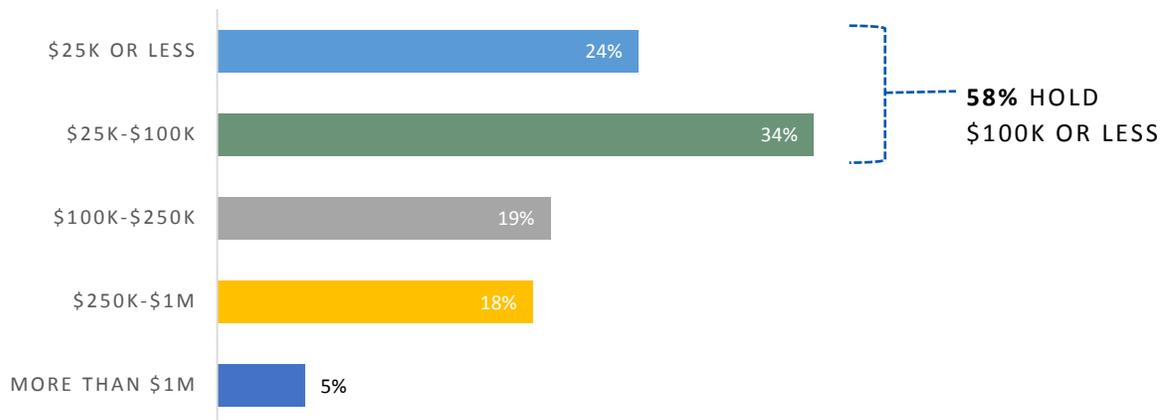
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CREDIT RISK¹



64% of employer firms in California have outstanding debt.

AMOUNT OF OUTSTANDING DEBT² AT TIME OF SURVEY



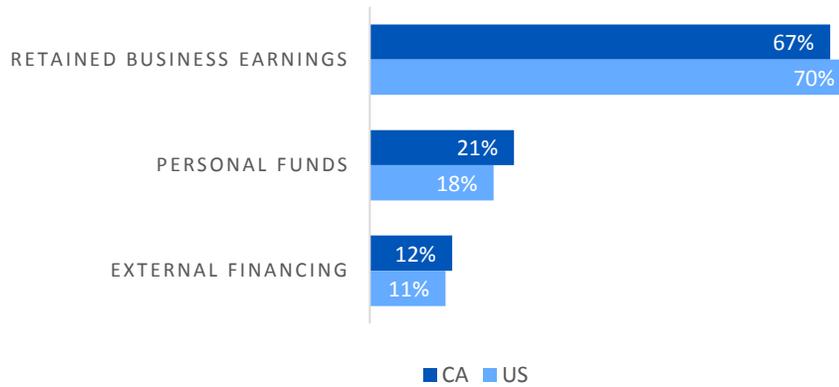
¹ Self-reported business credit score or personal credit score, depending on which is used to obtain financing for their business. If the firm uses both, the highest risk rating is used. 'Low credit risk' is a 80-100 business credit score or 720+ personal credit score. 'Medium credit risk' is a 50-79 business credit score or a 620-719 personal credit score. 'High credit risk' is a 1-49 business credit score or a <620 personal credit score.

² Percentages may not sum to 100 due to rounding.

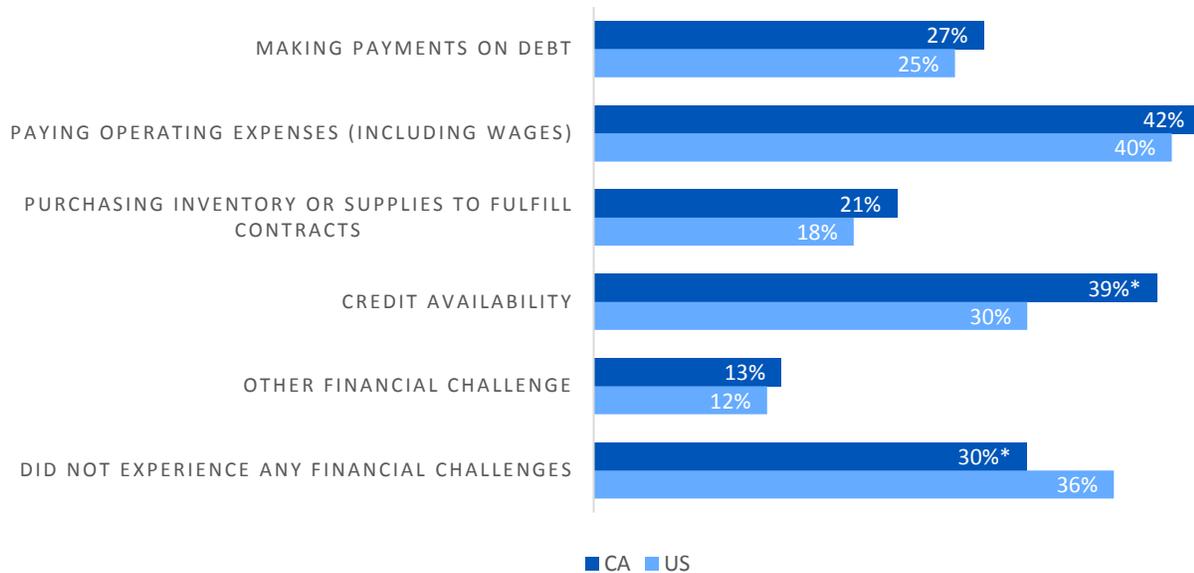
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PRIMARY FUNDING SOURCE¹



FINANCIAL CHALLENGES EXPERIENCED IN PRIOR 12 MOS.



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² Respondents could select multiple options.

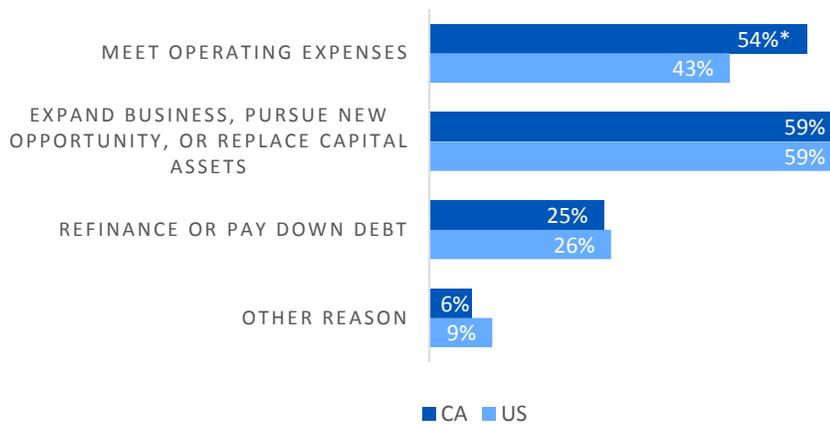
³ Approximately the second half of 2016 through the second half of 2017.

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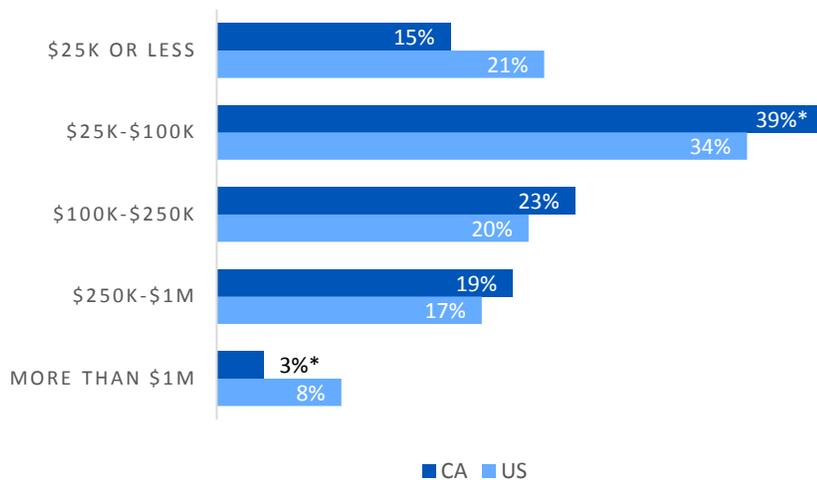
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38% of employer firms in California applied for financing in prior 12 months.

REASONS FOR SEEKING FINANCING^{1,2}



AMOUNT OF FINANCING SOUGHT



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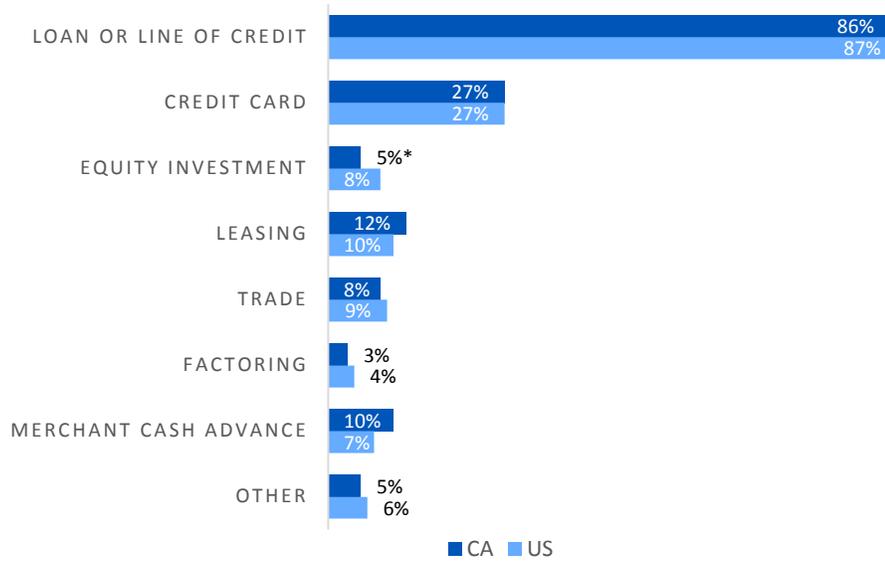
¹ Respondents could select multiple options.

² Respondents who selected 'other' were asked to explain their reason for applying. They often indicated that they were looking to start a business or to obtain a credit line in case they needed it.

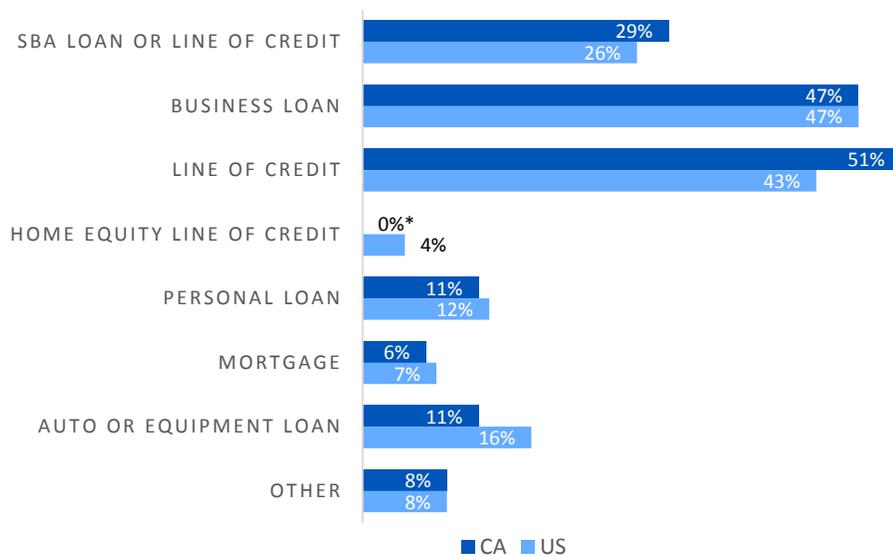
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APPLICATION RATE BY FINANCIAL PRODUCT



APPLICATION RATE BY TYPE OF LOAN OR LINE OF CREDIT



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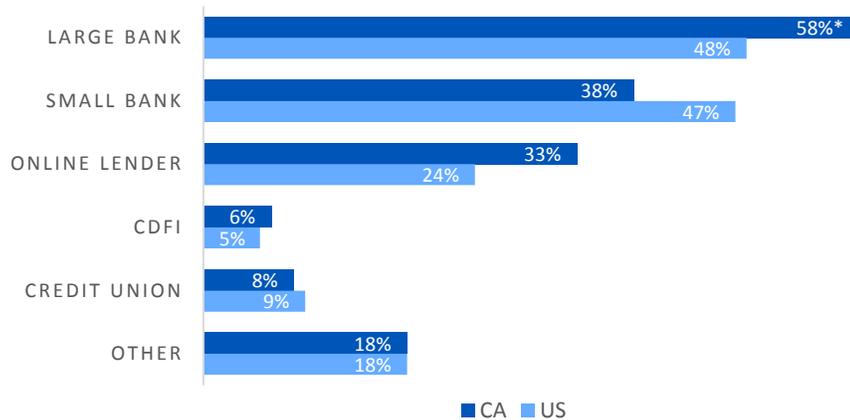
¹ Respondents could select multiple options.

² Response options 'other' and 'unsure' not shown.

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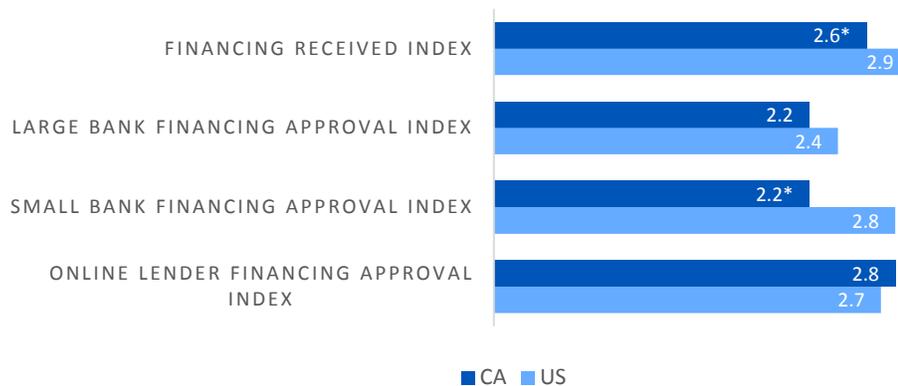
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APPLICATION RATE BY SOURCE OF LOAN, LINE OF CREDIT, OR CASH ADVANCE¹



33% of borrowers in California applied for financing from online lenders compared to **24%** of borrowers nationwide.

FINANCING SUCCESS^{2,3} ON A SCALE OF 1 (NONE) TO 4 (ALL)



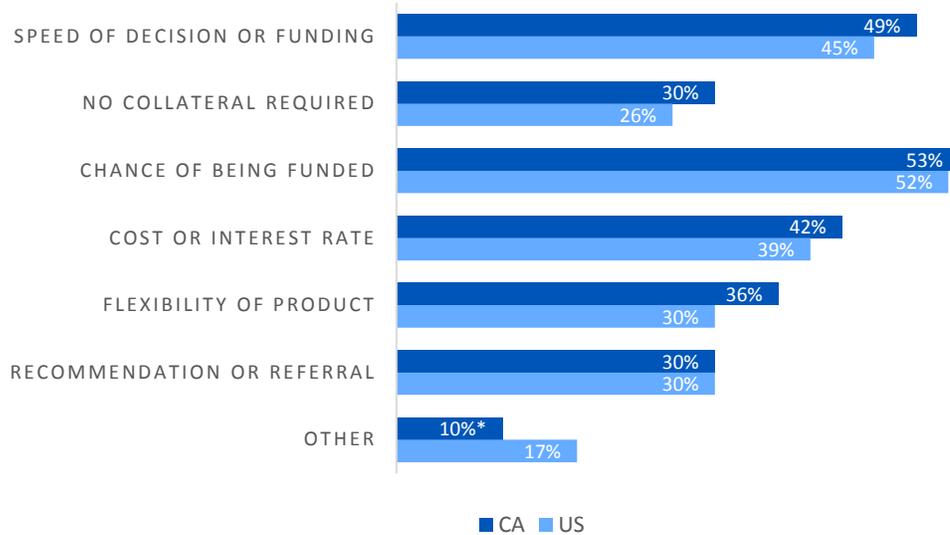
* Significant difference between the value of California and the United States at the ninety-five percent level.

¹ Respondents could select multiple options.

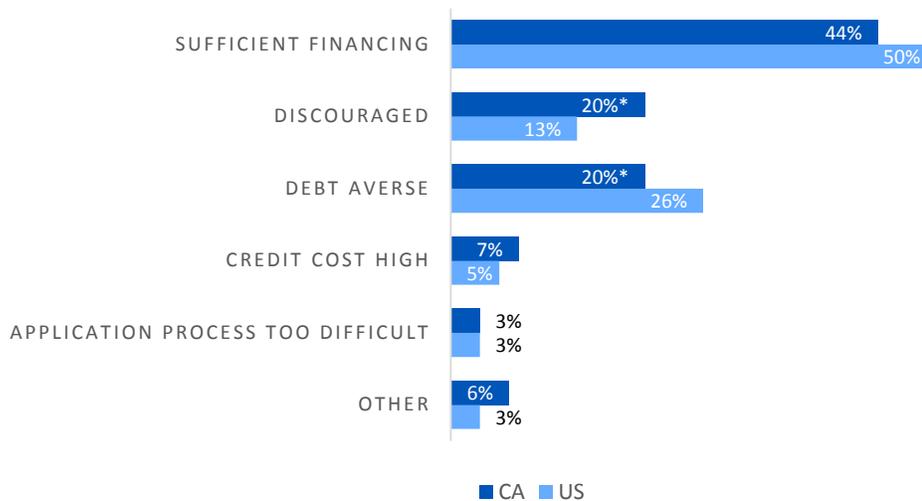
² Credit union, online lender, CDFI, and other source approval rates not shown due to lack of sufficient observations.

³ 1 indicates the average firm received (or was approved for) none of the financing requested. 4 indicates the average firm received (or was approved for) all of the financing requested.

FACTORS INFLUENCING WHERE FIRMS APPLY¹



PRIMARY REASON FOR NOT APPLYING



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¹ Respondents could select multiple options.