Executive Summary

The Small Business Credit Survey (SBCS) collects information about business performance, financing needs and choices, and borrowing experiences of firms with 500 or fewer employees. Responses to the SBCS provide insight into the dynamics behind aggregate lending trends and about noteworthy segments of small businesses. The results are weighted to reflect the full population of small businesses. The SBCS is not a random sample; therefore, results should be analyzed with awareness of potential methodological biases. This report analyzes data from the 2020 SBCS for Hawaii.

Survey Response
- National results are included in the charts for comparison purposes. The executive summary reflects small business trends in Hawaii.
- In Hawaii, there were 322 responses for the 2020 SBCS. Nationwide, there were 9,693 responses.
- Survey responses were collected from employer firms in September and October 2020.

Surveyed Firm Characteristics
- The majority of firms had revenues of $1M or less (57 percent) and a workforce of 1 to 4 employees (52 percent).
- Nearly half of all employer firms (45 percent) used contract workers.
- 73 percent of small businesses were located in urban areas.

Performance and Expectations
- 79 percent of firms reported that their current financial condition is poor or fair.
- 90 percent of firms experienced revenue declines in the previous 12 months and the majority (62 percent) had decreases in the number of employees.
- 35 percent of firms expected revenues to increase in the next 12 months and 50 percent expected decreases in revenues.
- 51 percent of firms expected no change in their employment in the next 12 months.

For a full discussion of the survey methodology, see Small Business Credit Survey 2021 Report, page 38.
Financing Sources, Challenges, and Debt
- 78 percent of firms experienced a financial challenge in paying operating expenses and 64 percent of firms experienced a financial challenge in paying rent.
- 86 percent of firms possess outstanding debt. Of those firms, 70 percent of them have debt amounts of more than $100K.

Applications for Financing
- 36 percent of firms applied for financing in the prior 12 months. Of those firms, 56 percent applied for funding of more than $100K.
- The majority of firms sought financing to meet operating expenses (63 percent) and 34 percent sought financing to expand their business or explore new opportunities.

Pandemic-related Challenges and Emergency Funding
- 65 percent of firms reduced operations as a result of the COVID-19 pandemic, with 72 percent of firms attributing government mandates affecting business.
- Among businesses that applied for pandemic-related emergency assistance funding, 90 percent of firms applied to the Paycheck Protection Program and 76 percent of firms that applied received all funding requested.
- Of firms that received PPP funding, 74 percent expect full forgiveness.
- The majority of firms expect weak demand for products and services as a result of COVID-19 over the next 12 months (74 percent), with 37 percent of firms citing this as the most important challenge they will face.
45% of employer firms in Hawaii use contract workers compared to 43% nationwide.
Performance and Expectations

Current financial condition

- Poor: 23% (Hawaii), 43% (US)
- Fair: 36% (Hawaii), 34% (US)
- Good: 14% (Hawaii), 25% (US)
- Very good: 4% (Hawaii), 11% (US)
- Excellent: 2% (Hawaii), 6% (US)
2020 SMALL BUSINESS CREDIT SURVEY
HAWAII STATE REPORT

Revenue change, prior 12 months

- Decreased: 90% in Hawaii, 78% in US
- No change: 6% in Hawaii, 9% in US
- Increased: 5% in Hawaii, 13% in US

Change in number of employees, prior 12 months

- Decreased: 62% in Hawaii, 46% in US
- No change: 33% in Hawaii, 43% in US
- Increased: 6% in Hawaii, 11% in US
2020 SMALL BUSINESS CREDIT SURVEY
HAWAII STATE REPORT

Financing Sources, Challenges, and Debt

Financial challenges experienced in the last 12 months

- Paying operating expenses: 78% in Hawaii, 65% in US
- Paying rent: 64% in Hawaii, 43% in US
- Making payments on debt: 58% in Hawaii, 44% in US
- Purchasing inventory to fulfill contracts: 41% in Hawaii, 32% in US
- Accessing credit: 39% in Hawaii, 32% in US
- Other financial challenge: 9% in Hawaii, 9% in US
- No challenges: 12% in Hawaii, 20% in US

Respondents could select multiple options.
Actions taken by firms reporting financial challenges, prior 12 months

- Cut staff, hours, and/or downsize operations: 71% (Hawaii), 55% (US)
- Obtained funds through grants, crowdfunding, donations, etc.: 69% (Hawaii), 52% (US)
- Used personal funds: 67% (Hawaii), 62% (US)
- Took out debt: 60% (Hawaii), 50% (US)
- Made a late payment or did not pay: 50% (Hawaii), 38% (US)
- Other action: 9% (Hawaii), 9% (US)
- No action: 3% (Hawaii), 11% (US)

Respondents could select multiple options.
### Use of financial services

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Hawaii</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small bank</td>
<td>48%</td>
<td>45%</td>
</tr>
<tr>
<td>Large bank</td>
<td>45%</td>
<td>49%</td>
</tr>
<tr>
<td>Business financial services company</td>
<td>23%</td>
<td>28%</td>
</tr>
<tr>
<td>Nonbank online/fintech lender</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>Credit union</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Nonbank finance company</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>Other financial service provider</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>Alternative financial source</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>CDFI</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>Business does not use financial services</td>
<td>6%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Respondents could select multiple options.
Primary source of financial services if use more than one

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Hawaii</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large bank</td>
<td>44%</td>
<td>42%</td>
</tr>
<tr>
<td>Small bank</td>
<td>38%</td>
<td>42%</td>
</tr>
<tr>
<td>Credit union</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Business financial services company</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Nonbank online/fintech company</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Alternative financial source</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Nonbank finance company</td>
<td>2%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Credit risk

- Low credit risk: 68% (Hawaii) vs. 70% (US)
- Medium credit risk: 22% (Hawaii) vs. 24% (US)
- High credit risk: 10% (Hawaii) vs. 6% (US)
86% of employer firms in Hawaii have outstanding debt.

Amount of debt outstanding
Among businesses with debt outstanding

- $25K or less: Hawaii 9%, US 14%
- $25,001-$50K: Hawaii 6%, US 12%
- $50,001-$100K: Hawaii 14%, US 17%
- $100,001-$250K: Hawaii 26%, US 31%
- $250,001-$1M: Hawaii 24%, US 21%
- More than $1M: Hawaii 10%, US 15%
Applications for Financing

36% of employer firms in Hawaii applied for financing in prior 12 months.

Reasons for seeking financing:
- Meet operating expenses: 63% (Hawaii), 58% (US)
- Expand business/new opportunity: 34% (Hawaii), 38% (US)
- Refinance or pay down debt: 29% (Hawaii), 32% (US)
- Replace capital assets or make repairs: 13% (Hawaii), 22% (US)
- Other reasons: 4% (Hawaii), 3% (US)

Respondents could select multiple options.
Total amount of financing sought

- $25K or less: Hawaii 15%, US 15%
- $25,001-$50K: Hawaii 11%, US 14%
- $50,001-$100K: Hawaii 18%, US 19%
- $100,001-$250K: Hawaii 23%, US 23%
- $250,001-$1M: Hawaii 25%, US 19%
- More than $1M: Hawaii 8%, US 10%
Financing and credit products sought

<table>
<thead>
<tr>
<th>Product</th>
<th>Hawaii</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home equity line of credit</td>
<td>88%</td>
<td>89%</td>
</tr>
<tr>
<td>Credit card</td>
<td>18%</td>
<td>21%</td>
</tr>
<tr>
<td>Lease</td>
<td>12%</td>
<td>7%</td>
</tr>
<tr>
<td>Trade credit</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td>Merchant cash advance</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Factoring (sale of accounts receivable)</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Equity investment</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Respondents could select multiple options.
Application rate by type of loan or line of credit

- **Business loan**: 57% (Hawaii 45%), 43% (US 42%)
- **SBA loan or line of credit**: 32% (Hawaii 35%), 42% (US 43%)
- **Line of credit**: 21% (Hawaii 21%), 12% (US 10%)
- **Personal loan**: 11% (Hawaii), 21% (US)
- **Home equity line of credit**: 10% (Hawaii), 21% (US)
- **Auto or equipment loan**: 12% (Hawaii), 10% (US)
- **Mortgage**: 6% (Hawaii), 7% (US)
- **Other**: 5% (Hawaii), 5% (US)

Respondents could select multiple options.
Survey question had fewer than 100 responses for the state of Hawaii.
Primary reason for not applying

Among businesses that did not apply for financing

- Had sufficient financing: 37% (Hawaii 52%) vs. 25% (US 35%)
- Debt averse: 12% (Hawaii 25%) vs. 4% (US 25%)
- Discouraged: 19% (Hawaii 19%) vs. 4% (US 4%)
- Credit cost high: 6% (Hawaii 4%) vs. 3% (US 4%)
- Application process too difficult: 3% (Hawaii 4%) vs. 4% (US 4%)
- Other: 1% (Hawaii 2%) vs. 4% (US 4%)
Pandemic-related Challenges and Emergency Funding

**How has the COVID-19 Pandemic impacted your business?**

- Reduced operations: 65% (Hawaii), 56% (US)
- Maintained operations, with modifications: 40% (Hawaii), 48% (US)
- Temporarily closed: 36% (Hawaii), 26% (US)
- No significant impact: 3% (Hawaii), 5% (US)
- Expanded operations: 2% (Hawaii), 5% (US)

*Respondents could select multiple options.*
Why did your business close or modify operations during the pandemic?

- Government mandate affecting my business: 72% (Hawaii) 55% (US)
- Change in demand for products/services: 59% (Hawaii) 58% (US)
- Government mandate affecting clients' businesses: 48% (Hawaii) 34% (US)
- Needed to adapt to health/safety guidelines: 46% (Hawaii) 52% (US)
- Supply chain disruption: 24% (Hawaii) 24% (US)
- Worker availability: 23% (Hawaii) 27% (US)
- Personal/family obligations: 12% (Hawaii) 10% (US)
- Other reason: 5% (Hawaii) 4% (US)

Respondents could select multiple options.
If sales revenue is expected to decrease due to the COVID-19 pandemic, what do you expect will be the effect?

- Will decrease by >50%: 54% (Hawaii: 32%)
- Will decrease by 26%-50%: 26% (Hawaii: 33%)
- Will decrease by 10%-25%: 15% (Hawaii: 25%)
- Will decrease by <10%: 3% (Hawaii: 6%)
- Unsure: 2% (Hawaii: 4%)

Source: Federal Reserve Bank of San Francisco, frbsf.org
Effect of COVID-19 on availability of goods and services in supply chain

- Business does not rely on suppliers: Hawaii 12%, US 15%
- Large decrease: Hawaii 24%, US 20%
- Moderate decrease: Hawaii 46%, US 43%
- Little or no effect: Hawaii 16%, US 20%
- Moderate increase: Hawaii 1%, US 2%
- Large increase: Hawaii 2%, US 1%
Applications for emergency assistance funds
Among businesses that applied for pandemic-related emergency assistance funding

- Paycheck Protection Program: 82%
- EIDL loan: 62%
- Grant from state/local government fund: 56%
- EIDL grant: 48%
- Grant from nonprofit or foundation: 8%
- Loan from state/local government fund: 8%
- Other type of funding: 2%
- Main Street Lending Program loan: 3%
- Did not complete emergency assistance funding application: 9%

Respondents could select multiple options.
PPP funding received

- None: 2% Hawaii, 4% US
- Some (1%-50%): 7% Hawaii, 8% US
- Most (51%-99%): 15% Hawaii, 11% US
- All: 76% Hawaii, 77% US

Expectations for PPP forgiveness
Among business that received PPP

- Full forgiveness: 74% Hawaii, 80% US
- Partial forgiveness: 15% Hawaii, 10% US
- Does not expect forgiveness: 1% Hawaii, 1% US
- Unsure: 11% Hawaii, 9% US
Credit sources applied to
Among businesses that applied for PPP

- Small bank: 49% (Hawaii) vs 43% (US)
- Large bank: 40% (Hawaii) vs 42% (US)
- Other: 19% (Hawaii) vs 10% (US)
- Online lender: 16% (Hawaii) vs 20% (US)
- Finance company: 14% (Hawaii) vs 15% (US)
- CDFI: 3% (Hawaii) vs 6% (US)
- Credit union: 4% (Hawaii) vs 9% (US)

Respondents could select multiple options.
Survey question had fewer than 100 responses for the state of Hawaii.
Over the next 12 months, what challenges do you expect your business will face as a result of COVID-19?

- Weak demand for products/services: 74% (Hawaii) 59% (US)
- Government-mandated restrictions/closures: 69% (Hawaii) 53% (US)
- Limited credit availability: 40% (Hawaii) 32% (US)
- Supply chain disruptions: 39% (Hawaii) 37% (US)
- Personal/family obligations: 25% (Hawaii) 22% (US)
- Other: 17% (Hawaii) 13% (US)
- Labor shortages: 17% (Hawaii) 26% (US)
- No significant challenges: 2% (Hawaii) 5% (US)

Respondents could select multiple options.
Among expected challenges, which is the most important challenge you expect your business will face?

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Hawaii</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand for products/services</td>
<td>37%</td>
<td>37%</td>
</tr>
<tr>
<td>Government-mandated restrictions/closures</td>
<td>26%</td>
<td>34%</td>
</tr>
<tr>
<td>Limited credit availability</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Personal/family obligations</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Supply chain disruptions</td>
<td>9%</td>
<td>4%</td>
</tr>
<tr>
<td>Labor shortages</td>
<td>7%</td>
<td>3%</td>
</tr>
</tbody>
</table>
Do you plan to apply for additional government-provided emergency assistance funding if/when it is made available?

- Yes: 84% (Hawaii: 64%, US: 20%)
- Unsure: 10% (Hawaii: 20%, US: 0%)

**Author**
Rocio Sanchez-Moyano

**Acknowledgement**
Thanks to Brooke Ada Tran for research assistance.

**Disclaimer**
The views expressed here are those of the author and not necessarily those of the Federal Reserve Bank of San Francisco or the Federal Reserve System.