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Small Business Facts

Advocacy: the voice of small business in government

Home Values and Entrepreneurship

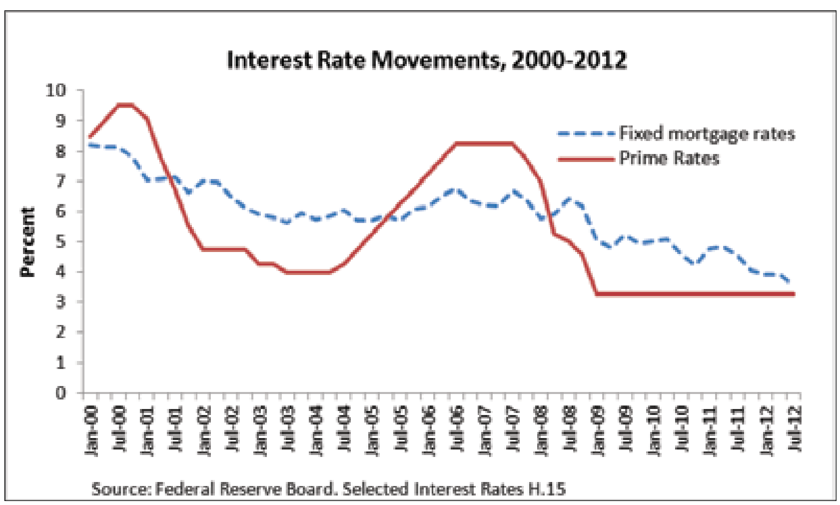
Startups and young small businesses often seek novel sources for their financing needs.

Small businesses typically seek their funding from depository institutions; however, financing for very young firms and startups often comes from home equity and other sources, according to the First Quarter 2012 Small Business Survey by the Federal Reserve Bank of Atlanta. Well-established small firms were more successful in accessing financing from institutional lenders.

Small business owners often report using their homes to obtain capital for their businesses.

Data show that 22 percent of mature firms relied on home equity to start their businesses, compared with 13 percent of young firms (First Quarter 2012 Small Business Survey, Federal Reserve Bank of Atlanta). Small-business-owning households were more likely to have a home equity line of credit, 18.8 percent versus 10.3 percent of all households in 2010 (compared with 20.4 percent and 12.6 percent in 2007), and were more likely to be borrowing against it than non-business-owning households (Survey of Consumer Finances, 2010).[1]

Interest rates are supportive of economic growth, but the small business loan market mirrors the mortgage market.



Although mortgage interest rates have declined, the ability of potential borrowers to obtain mortgage credit for purchase transactions or refinancing continued to be limited. Only stellar credit quality borrowers had access to capital, while low-quality borrowers found access very difficult. The decrease in home values, along with tighter lending standards, made it difficult for borrowers. As a result, the percentage of homeowners that had a home equity line of credit declined in 2010 to 10.3 percent, compared with 12.6 percent in 2007 (Survey of Consumer Finances, 2010).

[1]See “Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances,” Federal Reserve Bulletin, June 2012, vol. 98 no. 2.