The Impact of Deregulation on Rural Commercial Credit Availability in Four New England States:

Empirical Evidence and Policy Implications

By

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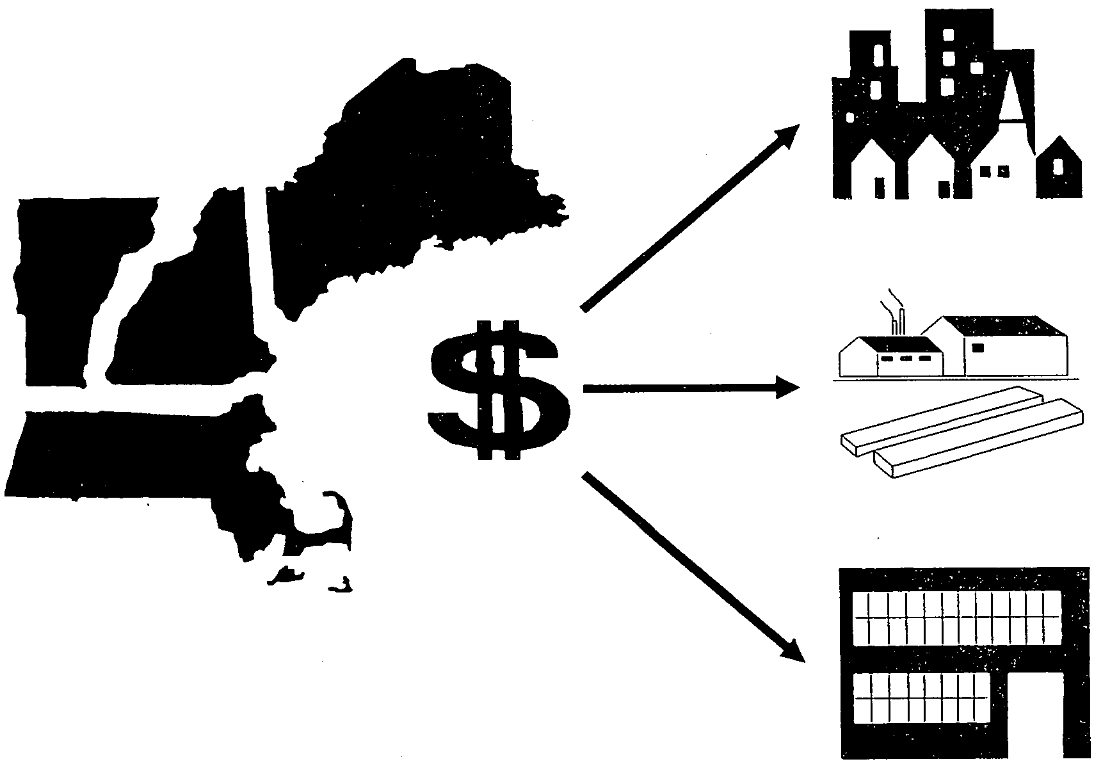

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CHAPTER 1

Overview of the Project

PROJECT DESIGN AND RESEARCH HYPOTHESES

The primary objective of this project was to evaluate the impact of financial deregulation on rural commercial credit availability, particularly for small business enterprises. For the purposes of this project, financial deregulation was defined broadly to include:

1. Expansion of large banks and bank holding companies (BHCs) across state lines in response to reduced restrictions on interstate banking, primarily at the regional level;

2. Increased branching and acquisition of existing banks by large banks or BHCs within a state, particularly in small or rural markets in response to relaxed restraints on geographical expansion; and

3. Expanded commercial lending powers for savings banks, the institutional type responsible for most of the commercial lending within the thrift industry.

Several hypotheses were evaluated based on the results of this research. First, it was hypothesized that commercial credit availability would differ according to a bank's institutional structure, i.e., whether it is independent or a branch of a larger bank or BHC, and the structure of the rural banking market, where structure is defined in terms of changes resulting from deregulation, as described above. The assumption was that while rural commercial credit may increase as a whole with the presence of larger banks, more qualitative features of credit availability would change, e.g., decreased flexibility of loan terms and conditions, lack of personal attention to credit needs, more time required to process a loan, lack of understanding of local credit needs. And, it was assumed that these conditions would vary by type of banking market analyzed, as described in greater detail later in this chapter.

Second, management was hypothesized to play a key role in the credit provision process. It was assumed that banks with loan officers specialized in commercial lending, with defined policies for small business lending, and/or with greater control over lending decisions would provide greater support for small businesses.

Third, it was hypothesized that small businesses would be affected negatively by market changes resulting from deregulation. This assumption was based on expected changes in local markets that would remove credit decisions from the local area, where greater knowledge of small business prospects exists, to more centralized urban areas. In addition, expected changes in lending policies toward more standardized accounting techniques and limited reliance on character loans would have a greater impact on small as opposed to large businesses.

While it is possible to formulate hypotheses like those set out above, there is only limited information with which to suggest expectations about these hypotheses, and much of that information is anecdotal. While economic theory suggests that increased competition in local markets will increase the quantity and reduce the price of bank services and products, there is only limited evidence about how deregulation is likely to affect local market competition. For New England, evidence at the state level would suggest that deregulation is associated with increased concentration and decreased competition, rather than more competitive markets. And, the long run affects of deregulation on local market structure have yet to be determined. In addition, it is important to consider how the organizational structure of banks operating within a particular market is likely to affect behavior and lending performance. Increased centralization of bank decision making, particularly when it is removed from the local area, may serve to increase the transaction costs associated with rural lending opportunities for some larger banks, thereby reducing the bank's expected return. As a result, rural credit availability may be reduced. This research project provides additional information with which to evaluate rural credit availability and to better interpret and formulate hypotheses. As such, it should be viewed as the first stage of research which will lead, hopefully, to additional evaluation of rural capital markets in the future.

Four New England states, Maine, Massachusetts, New Hampshire, and Vermont, were selected for this study because the New England region has the longest history of interstate banking and commercial lending by savings banks. In 1978, Maine was the first state to pass interstate banking legislation which allowed banks from any state to enter Maine, provided that Maine banks were granted the same privilege, i.e., reciprocity. This reciprocity requirement has since been removed. Other New England states formed the first regional interstate banking compact, beginning with Massachusetts and Connecticut in 1983, Rhode Island in 1984, and Vermont and New Hampshire in 1987. Initially, legislation in these other New England states permitted regional reciprocity, i.e., entry permitted to banks from states within the region, but excludes banks from states outside the region. It is expected that regional reciprocity will be maintained into the early 1990s, rather than moving to national interstate banking.[1] Because state banking regulations and economic conditions vary, the results from these four New England states cannot be generalized to other rural markets in the country. However, by combining these results with those of past studies in other states or regions, some common themes or observations may be identified. Bringing the results of separate studies together to highlight similar findings and evaluate differences will make an important contribution to the policy making process.

Commercial credit availability was the focus of this study since it has a more direct relationship to economic development in a community than does housing or consumer lending activity. Commercial activity creates both income and employment within a community, thus contributing to economic development. In addition, although the mag-

1. Robert T. Clair and Paula K. Tucker, "Interstate Banking and the Federal Reserve: A Historical Perspective," *Economic Review*, Federal Reserve Bank of Dallas, Dallas, Texas, November 1989, 1-20.

nitude of jobs created in the small business sector is the subject of debate,[2] small enterprises contribute to the process of economic growth, particularly in smaller communities. And, these same small enterprises are also more likely to depend on local financial institutions for their capital, suggesting that any changes in local market structure and the availability of credit as a result of deregulation will affect these enterprises to a much greater extent than larger firms. While equity capital is important to small businesses, particularly during their start-up and expansion phases, the availability of debt capital was evaluated in this study since deregulation affects providers of debt, e.g., banks and savings banks, rather than providers of equity, e.g., informal and formal venture capital investors.

To better understand the relationship between financial deregulation and commercial credit availability, this study was designed to evaluate both the supply and demand sides of rural capital markets. Most research studies in the past focused on the supply side of the market, evaluating the lending practices of commercial banks and structural changes in banking markets at the national, state, and local levels. More limited research has been conducted to evaluate the demand for capital, particularly among small business enterprises, and to relate that demand to the practices and policies of the commercial lenders in the local market.

If capital markets are perfectly functioning, such an investigation of local markets would be unnecessary and the national capital market would be the appropriate unit of analysis. If capital flows into markets where the risk-adjusted rate of return is highest and away from markets where the return is lowest, without any impediments, then there should be little concern with describing the functioning of credit markets at the local level. However, if there are imperfections in capital markets, such as incomplete information about investment opportunities in all markets, higher transaction costs associated with lending in particular markets, e.g., rural markets, or barriers to capital flows across geographic boundaries, e.g., bank policies on lending within the service area, then evaluating the structure and functioning of the local capital market becomes an important issue for empirical investigation.

One of the purposes of this study was to examine the widely-held hypothesis that capital markets do not function perfectly and, specifically, that the transaction costs associated with rural lending opportunities are positive, that information about rural lending opportunities is incomplete, and that bankers explicitly define a local service area, e.g., communities within a certain mile radius of the bank or sections of a county, and concentrate their loan activity within that area. Survey results from both bankers and small commercial borrowers are used to test whether this hypothesis is correct.

The following sections describe the project in greater detail. The first section briefly discusses the background for the project, specifically past research in this area and the importance of the project in terms of continued trends in financial deregulation. The next section describes the selection of the local markets, businesses, and financial institutions used in the analysis. Then, the design of both the business and financial institution surveys is discussed. Finally, the structure of the rest of the report is described.

BACKGROUND

Past Research

Most of the past research on rural capital markets has focused on the supply side of rural financial markets, evaluating changes in

2. David L. Birch, *The Job Generation Process*, Cambridge, MA: MIT Program on Neighborhood and Regional Change, 1979; Catherine Armington and Marjorie Olde, "Sources of Job Growth: A New Look at the Small Business Role," *Economic Development Quarterly*, Vol. 6, Fall 1982, 3-7.

market concentration and competition resulting from geographic deregulation. The consensus is that geographic deregulation increases concentration of financial market resources at the national level, although the level of concentration still remains relatively low compared to other countries. Savage notes that since most of the bank expansion resulting from interstate banking occurs primarily through mergers and can be attributed to the largest banks in the country, there will be an increase in the concentration of banking assets in the long run.[3] From the perspective of local markets, the evidence is mixed. Since banks, both urban and rural, typically expand by acquiring existing banks rather than opening new offices, local market concentration should remain unchanged. The competitive situation in terms of commercial banking in the specific local markets considered in this study is described in Table 1. While the level of concentration in the four states overall has increased dramatically from 1983-1988, local market concentration ratios have declined slightly in almost half of the markets over the same period. Most of the local markets were highly concentrated prior to changes brought on by deregulation and it is difficult, based on this evidence, to suggest that deregulation has exacerbated this situation.

Several research studies were designed to identify differences in the lending practices of independent and affiliated banks, i.e., those that are part of a bank holding company or large branch banking system.[4] Affiliated banks were found to be less risk averse, holding less of their assets in government securities; to maintain higher overall loan-to-deposit ratios; to provide less relative support for the agricultural sector when paired with independents operating in the same market; and to have primary decision making authority outside the local level. Related research suggests that a shift from independent banks to those that are branches of institutions outside the local area results in a shifting of funds from more slowly to more rapidly growing rural areas, rather than from rural to urban areas.[5] Dunham found that larger banks do not necessarily contribute to an outflow of local funds from rural areas. Small banks contribute heavily to this outflow via their relatively large investments in government securities, a nonlocal investment, and their dependence on local deposits as their source of funds.[6] Larger banks tend to rely less on local sources of funds and return relatively more money to the local market. These results are likely to vary depending upon the local economy, specifically whether it is rural or urban.

Putting these research results together, one can suggest some possible impacts on rural capital markets from geographic deregulation. To the extent that formerly isolated rural banking institutions find themselves acquired by urban-based bank holding companies, rural

3. Donald T. Savage, "Interstate Banking Developments," *Federal Reserve Bulletin*, Board of Governors of the Federal Reserve System, Washington, D.C., February 1987, 79-92.

4. David L. Barkley, Glenn T. Potts, and Cindy Mellon, *Bank Structure and Performance at the Nonmetropolitan Level*, Technical Bulletin No. 251, The University of Arizona, 1984; Michael T. Belongia and R. Alton Gilbert, "Commercial Bank Lending to Agriculture: A Comparison of Rural Independent Banks and Holding Company Subsidiaries," Research Report 86-005, Federal Reserve Bank of St. Louis, 1986; Deborah M. Markley, "Impacts of Banking Deregulation on Rural Capital Markets: Evidence from Virginia and Tennessee," *Review of Regional Studies*, Vol. 13, No. 3, Fall 1987, 14-22.

5. David L. Barkley and Peter Helander, "Commercial Bank Loans and Economic Activity in Nonmetropolitan Arizona: A Question of Causality," Paper presented at the 1984 annual meetings of the American Agricultural Economics Association, Ithaca, N.Y., August 1984.

6. Constance R. Dunham, "Interstate Banking and the Outflow of Local Funds," *New England Economic Review*, Federal Reserve Bank of Boston, Boston, Massachusetts, March/April 1986, 7-18.

Table 1.

Measures of Market Concentration for Commercial Banks and Thrift Institutions, State and Local Market, 1983 and 1988.

Maine

	1983	1988
State:		
10-Firm Concentration Ratio*	69.1%	94.6%
Bar Harbor:		
Herfindahl Index (HI)**	3,769	3,597
3-Firm Concentration Ratio*	91.99%	89.83%
Belfast:		
HI	3,012	2,697
3-Firm	86.64%	80.92%
Damariscotta:		
HI	2,432	2,910
3-Firm	76.02%	76.41%
Houlton:		
HI	2,606	2,175
3-Firm	79.65%	69.83%
Machias:		
HI	3,591	4,046
3-Firm	84.90%	88.42%
Paris-Norway:		
HI	2,394	2,616
3-Firm	70.99%	73.89%
Rockland:		
HI	1,983	2,202
3-Firm	68.17%	72.46%
Sanford:		
HI	1,817	1,976
3-Firm	63.98%	63.72%
Skowhegan:		
HI	3,657	3,865
3-Firm	94.00%	94.73%
St. John Valley:		
HI	5,858	4,091
3-Firm	87.76%	91.07%

Massachusetts

	1983	1988
State:		
10-Firm Concentration Ratio*	42.3%	87.9%
Athol:		
Herfindahl Index (HI)**	2,084	2,072
3-Firm Concentration Ratio*	74.05%	71.18%
Gardner:		
HI	2,723	2,798
3-Firm	75.15%	77.93%
Greenfield:		
HI	1,556	1,701
3-Firm	55.74%	60.14%
Martha's Vineyard:		
HI	2,811	3,302
3-Firm	87.56%	91.72%
N. Adams - Williamstown:		
HI	2,407	2,179
3-Firm	71.33%	69.38%

New Hampshire

	1983	1988
State:		
10-Firm Concentration Ratio*	50.4%	81.7%
Berlin:		
Herfindahl Index (HI)**	3,224	3,507
3-Firm Concentration Ratio*	91.80%	91.61%
Claremont:		
HI	1,683	1,548
3-Firm	62.37%	54.81%
Conway:		
HI	2,394	2,508
3-Firm	80.71%	79.92%
Keene:		
HI	2,076	2,111
3-Firm	65.06%	66.50%
Littleton:		
HI	4,076	4,735
3-Firm	94.41%	97.73%
Plymouth:		
HI	3,426	3,004
3-Firm	86.17%	84.99%

Vermont

	1983	1988
State:		
10-Firm Concentration Ratio*	74.6%	89.4%
Brattleboro:		
Herfindahl Index (HI)**	2,591	2,960
3-Firm Concentration Ratio*	84.24%	82.70%
Middlebury:		
HI	2,264	2,174
3-Firm	74.80%	70.92%
Randolph:		
HI	2,974	3,147
3-Firm	83.41%	87.61%
Springfield:		
HI	1,871	1,797
3-Firm	65.72%	64.48%
St. Johnsbury:		
HI	2,395	2,324
3-Firm	73.64%	74.00%
Vergennes:		
HI	4,715	4,446
3-Firm	100.00%	100.00%
Woodstock:		
HI	3,851	3,868
3-Firm	100.00%	98.67%

* % of total banking deposits held by the top 10 commercial banks in state, or % of deposits held by the top 3 commercial banks and thrift institutions in the local market. State data are for June 30, 1989. Local market data are for June 30, 1988.

** Market is considered unconcentrated if HI < 1000; moderately concentrated if 1000 ≤ HI ≤ 1800; highly concentrated if HI > 1800.

Source: Gary Heaton, *1983 Banking Structure in New England*, Research Report 68, Federal Reserve Bank of Boston, and 1988,1989 unpublished data.

markets are likely to be characterized by institutions willing to accept greater levels of risk in loans, able to provide access more readily to a greater range of services and to greater amounts of capital, and disposed to make decisions outside the local market. If rural banks are not acquired but rural markets are subject to greater competition from nonlocal banks, more aggressive commercial lending may result. It is not clear which changes will occur in rural markets and how such changes will affect the net availability of capital to local businesses.

Much less research has been done to evaluate the credit needs and experience of small businesses. A few studies have been done to identify sources of financing for businesses and, specifically, the role of banks in providing business capital. Commercial banks were found to be a common source of loans for most existing businesses. However, the evidence on bank support for start-up enterprises is mixed. Banks are prohibited by regulation from providing equity so their contribution to business start-ups must be in the form of debt capital. Work in Wisconsin found limited bank provision of start-up capital, while a study in Iowa found that rural banks were an important source of start-up capital for many businesses.[7] These results suggest that bank support of start-up enterprises is not uniform and, consequently, further study is warranted. The results of the present study shed some light on this particular issue.

There has been only one other comprehensive investigation of both the supply and demand sides of rural capital markets. This work, recently completed in Wisconsin, provides some important insights into the functioning of local, rural capital markets.[8] Several results are relevant to the work reported here. The Wisconsin study found that there was no general rural capital market failure and that most business credit needs were met through the local market. However, the study did identify particular types of firms, i.e., start-ups, ownership transition firms, firms in emerging economic sectors, and particular types of capital, i.e., equity, long-term debt, nontraditional or limited collateral debt, for which the local capital markets were less adequate. The study also confirms the importance of the local capital market as a unit of analysis, citing the reliance by most businesses on financial institutions within the local market and the focus of most banks on lending almost exclusively within their local market area.

Perceptions of borrowers, lenders, and the general public as to what is happening in rural capital markets as a result of regulatory changes are equally important to the policy making process. These perceptions are based typically on anecdotal information derived from experience working with firms in rural areas, as well as working on capital market issues in general. Some of these general perceptions are summarized below.[9]

1. There has been increased consolidation of banking resources, at the state level, as a result of increased acquisitions since 1980.

2. Centralization of banking organizations has occurred, with conversion of locally controlled subsidiaries of bank holding companies

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7. Robert P. Combs, Glen C. Pulver, and Ron E. Shaffer, *Financing New Small Business Enterprise in Wisconsin*, Research Bulletin R3198, College of Agricultural and Life Sciences, University of Wisconsin, Madison, Wisconsin; William J. Dennis, Jr., William C. Dunkelberg, and Jeffrey S. Van Hulle, *Small Business and Banks: The United States*, Washington, D.C.: The NFIB Foundation, 1988; Mark G. Popovich and Terry F. Buss, *State Emergency Farm Finance Volume II*, Council of State Policy and Planning Agencies, Washington, D.C., April 1987.

8. Ron Shaffer, et al., *Rural Nonfarm Businesses' Access to Debt and Equity Capital*, Department of Agricultural Economics, University of Wisconsin-Madison, December, 1989.

9. These perceptions are drawn from observations made during a conference sponsored by the Ford Foundation and the Aspen Institute and are included in a draft report of the conference, The Aspen Institute, "Commercial Credit Availability and Economic Development: Issues and Analysis," report of symposium sponsored by the Rural Economic Policy Program of the Aspen Institute and the Ford Foundation's Rural Poverty and Resources Program, October 1987.

into branches of large regional banks, reducing local decision-making authority.

3. Consolidation results in more creative, flexible, and aggressive lending in rural markets through the presence of larger, more sophisticated banks.

4. Consolidation results in greater reliance on financial analysis rather than character analysis in lending decisions, to the disadvantage of some rural businesses.

5. Large lenders have more limited understanding of local markets and, consequently, of local credit needs.

6. Interstate banking is likely to drain capital from slow growth rural communities, but may help to inject capital into more rapidly growing rural areas.

7. Small rural bankers are generally more conservative than large bankers, earning higher profits and accepting lower risk, while making less money available to the community via loans.

8. Rural economic growth would be stimulated if bankers made more capital available to small businesses in rural areas.

Some of these perceptions appear to be supported by empirical observations. However, they also reflect an incomplete picture of what is happening in rural capital markets, on both the supply and demand sides, and the need to undertake a more systematic analysis of rural credit needs and supplies in order to contribute better information to the policy making process. This research project was designed to take a step toward that end.

Role of Bankers in Rural Economic Development

One of the perceptions described above is that bankers should be more actively involved in encouraging rural economic development by making more credit available. However, the role played by financial institutions in the economic development process is not clear. There is no strong empirical evidence to suggest whether bankers stimulate economic development through their lending activities or whether bankers simply respond to economic development and the lending opportunities created. It is likely that, under certain circumstances, bankers can actively stimulate economic development by providing financial capital and contributing their own human capital in some leadership capacity. In other cases, capital may not be the limiting constraint on development and the banker's potential role as a provider of capital is necessarily limited.

No attempt will be made here to define an appropriate role for bankers in rural economic development. That type of normative judgement is best left to community leaders and policy makers working in conjunction with bankers. However, several observations can be made to clarify the perspective underlying this research project. First, it is not assumed in this study that all bankers should be development bankers, i.e., those whose primary objective is the encouragement of economic development for all or particular subsets of the communities in which they operate. As such, the results are not evaluated strictly in terms of how bank policy or practice may constrain or encourage economic development. Second, it is recognized that how the banker views her role in stimulating economic development will vary across bankers and, to the extent that bank lending policy is conditioned by that view, lending practice will be more or less stimulative to economic development. From the perspective of this study, the important issue is whether those views are affected by the institutional and structural changes occurring in rural banking markets as a result of deregulation and, consequently, how credit availability may be affected. Finally, the banker's role in economic development is not constrained to that of credit provider. The banker's willingness to become involved in local economic activities, to be a community leader, to bring her expertise to bear on economic development problems and to work with other community organizations to make economic development a reality is as important to rural development as providing capital to small businesses. The results of this and other studies of rural credit availability need to be interpreted within this broader view of bankers and rural economic development.

Importance of Project

As geographic deregulation of the financial services industry continues into the 1990s, changes in rural markets will continue to occur and the results of research, such as this, can be used to help anticipate how those changes will affect small business borrowers. By 1993, 28 states will permit some form of national interstate banking, 17 states will permit regional interstate banking, and only 5 states will continue to restrict geographical expansion, one important component of deregulation.[10] Most interstate acquisitions have occurred in states like Florida, with rapid deposit growth, or in states like Maine, with relatively small banks that are easily acquired by out-of-state institutions. The extent of structural change which has occurred in Maine, a relatively rural state, supports the need for continued research to evaluate how these changes affect at least one component of rural capital markets, commercial credit.

In the past 10 years, state and local governments have been given greater responsibility for rural development programs, both their design and financing, as the federal government has reduced its commitment to such programs. As a result, capital to fund these programs will come either from state and local sources or from the ability of state and local officials to capture federal dollars, e.g., community development block grants, for use at the local level. Yet, it is not clear how geographic deregulation will affect the availability of capital in rural markets. It is possible that local market concentration will not increase and may, in fact, decrease with deregulation. But there are other aspects of a changed market structure, e.g., larger banks, more nonlocal decision making, increased competition from other financial institutions, that are likely to affect capital availability. The net impact will become clear only through empirical investigation of specific rural markets and the bankers and businesses that operate within them. This study is important in that it takes such an approach in four states so that commonalities across states can be identified and the policy implications discussed.

DEFINITIONS AND SAMPLE SELECTION

Local Market Definition and Selection Criteria

As the first step in this research project, the market was defined. In most past studies of banking markets, the county has been taken as the market definition. While the county represents a useful and convenient unit of analysis, it is not clear that it makes sense to define a banking market by arbitrary political boundaries. To get around this problem, geographic banking markets as defined by the Federal Reserve Bank of Boston were used as the basis for analysis. A banking market in this project was defined as a region "within which buyers and sellers can interact without significant transaction costs."[11] These areas are defined as economically integrated, based on consideration of both economic and demographic data such as population size and density, transportation networks, commuting patterns, overlap of media coverage, natural and political boundaries, economic growth, and banking patterns of bank customers. The market definitions used in this study reflect the most recent census data available, 1980, and should provide a better picture of a rural capital market than

10. Robert T. Clair and Paula K. Tucker, November 1989.

11. Gary Heaton, *1983 Banking Structure in New England*, Research Report 68, Federal Reserve Bank of Boston, November 1984, 3.

using county boundaries since these markets reflect basic economic characteristics as well as the financial institution interactions that go on there. For the states included in this analysis, there are a total of 83 banking markets. The distribution by state is as follows: Maine, 29; Massachusetts, 19; New Hampshire, 19; and Vermont, 16.

The next step was to determine which of the markets could be classified as rural. For the purposes of this analysis, rural was defined as being non-MSA, having no bank of more than $100 million in deposits, and having no town of more than 25,000. It was relatively easy to classify the markets according to the size of banking institution. However, because the banking markets do not coincide with county boundaries, it was more difficult to define the status of each market according to non-MSA and town size. Consequently, each market was evaluated to determine which counties were represented in each market and, then, the status of each county was determined. In some cases, judgment had to be used in deciding how to classify, for example, a market composed primarily of a rural county, but with some towns from an MSA county. In general, however, the classification system, while time consuming, was relatively straight forward. Fifty-seven percent of the markets were classified as rural. The number of rural markets in each state included in the study is: Maine, 17; Massachusetts, 7; New Hampshire, 12; and Vermont, 11.

From this larger set of rural banking markets, some markets were eliminated. Specifically, markets were deleted to (1) reduce the total number of markets studied in the state while ensuring geographic coverage throughout the state (Maine), (2) remove markets that had no savings bank present, so that each market would contain both types of credit suppliers, as defined below, and (3) to eliminate any markets with unusual conditions based on demographic data (per capita income, percent of the population below poverty, percent of employment in retail, services, and manufacturing), e.g., Nantucket market in Massachusetts with exceptionally high per capita income. The final set of rural markets (28) to be analyzed for each state is: Maine, 10; Massachusetts, 5; New Hampshire, 6; and Vermont, 7. Table 2 shows the twenty-eight markets selected, by state.[12]

Table 3 describes the deposits held by banks and thrifts in each market and the growth over the 1983-1988 period. For three of the four states (Maine, Massachusetts, and Vermont), bank deposit growth rates in most of the rural markets studied were less than the state average. In New Hampshire, however, bank deposits grew faster than the state average in five of the six rural markets studied. Thrift deposit growth rates in most of the rural markets studied were less than the state average, with the exception of Massachusetts, where four of five markets had greater rates of thrift deposit growth than the state overall.

Table 2.

Banking Markets Included in Sample, by State

Massachusetts	New Hampshire
Athol	Berlin
Gardner	Claremont
Greenfield	Conway
Martha's Vineyard	Keene
North Adams-Williamstown	Littleton
	Plymouth

Maine	Vermont
Bar Harbor	Brattleboro
Belfast	Middlebury
Damariscotta	Randolph
Houlton	Springfield
Machias	St. Johnsbury
Paris-Norway	Vergennes
Rockland	Woodstock
Sanford	
Skowhegan	
St. John Valley	

12. In most cases, the market is named for the largest or most central town included within its boundaries.

Table 3

Total Deposits in Commercial Banking Organizations and Thrift Institutions, By State and Local Market, 1983 and 1988.

■ Maine

	1983 (000's)	1988 (000's)	%Δ
State*:			
Banks	$3,370,091	$6,614,282	96.26
Thrifts	3,626,049	6,613,292	82.38
Bar Harbor:			
Banks	66,920	114,254	70.73
Thrifts	14,983	21,671	44.64
Belfast:			
Banks	43,526	71,585	64.46
Thrifts	48,988	71,912	46.80
Damariscotta:			
Banks	69,643	147,682	112.05
Thrifts	54,123	70,157	29.63
Houlton:			
Banks	69,704	94,280	35.26
Thrifts	33,180	48,464	46.06
Machias:			
Banks	39,314	54,129	37.68
Thrifts	47,519	80,001	68.35
Paris - Norway:			
Banks	50,221	76,011	51.35
Thrifts	69,334	119,360	72.15
Rockland:			
Banks	50,872	281,418	86.53
Thrifts	114,186	170,188	49.04
Sanford:			
Banks	79,834	117,204	46.81
Thrifts	85,529	150,747	76.25
Skowhegan:			
Banks	58,162	85,700	47.35
Thrifts	81,007	131,705	62.58
St. John Valley:			
Banks	71,446	72,123	.95
Thrifts	6,943	29,127	319.52

■ Massachusetts

	1983 (000's)	1988 (000's)	%Δ
State*:			
Banks	$27,650,185	$58,839,790	112.80
Thrifts	32,239,610	50,315,408	56.07
Athol:			
Banks	42,227	48,226	14.21
Thrifts	84,872	132,733	56.39
Gardner:			
Banks	52,268	74,752	43.02
Thrifts	161,153	274,848	70.55
Greenfield:			
Banks	134,170	182,375	35.93
Thrifts	250,656	388,999	55.19
Martha's Vineyard:			
Banks	54,654	194,868	256.55
Thrifts	52,240	115,274	120.66
N. Adams - Williamstown:			
Banks	83,149	99,032	19.10
Thrifts	161,271	265,865	64.86

■ New Hampshire

	1983 (000's)	1988 (000's)	%Δ
State*:			
Banks	$4,454,774	$6,194,083	39.04
Thrifts	3,509,842	9,693,944	176.19
Berlin:			
Banks	92,427	132,382	43.23
Thrifts	67,092	135,951	102.63
Claremont:			
Banks	110,853	252,026	127.35
Thrifts	183,754	289,135	57.35
Conway:			
Banks	108,967	189,353	73.77
Thrifts	13,477	141,564	950.41
Keene:			
Banks	118,042	225,481	91.02
Thrifts	340,714	570,727	67.51
Littleton:			
Banks	64,877	119.038	83.48
Thrifts	87,956	211,060	139.96
Plymouth:			
Banks	112,698	111,311	-1.23
Thrifts	14,551	169,200	1062.81

■ Vermont

	1983 (000's)	1988 (000's)	%Δ
State*:			
Banks	$2,667,158	$4,862,627	82.31
Thrifts	1,071,454	1,644,149	53.45
Brattleboro:			
Banks	169,188	318,837	88.45
Thrifts	55,605	52,095	-6.31
Middlebury:			
Banks	73,112	139,425	90.70
Thrifts	28,260	28,791	1.88
Randolph:			
Banks	45,219	74.660	65.11
Thrifts	23,502	35,603	51.49
Springfield:			
Banks	153,193	232,749	51.93
Thrifts	33,723	48,877	44.94
St. Johnsbury:			
Banks	110,279	184,125	66.96
Thrifts	70,502	102,226	45.00
Vergennes:			
Banks	22,546	35,289	56.52
Thrifts	7,485	11,868	58.56
Woodstock:			
Banks	42,639	71,822	68.44
Thrifts	10,802	15,901	47.20

* State data are for June 30, 1989. Local market data are for June 30, 1988.

Source: Gary Heaton, *1983 Banking Structure in New England*, Research Report 68, Federal Reserve Bank of Boston, and 1988, 1989 unpublished data.

While these results suggest that rural markets in the four states are characterized by relatively slow economic growth (as measured by growth in bank and thrift deposits) as compared to the state overall, there does appear to be diversity in these banking markets in terms of underlying economic conditions. This diversity makes it more difficult to generalize the findings of this study to all rural markets, but to the extent that consistent results are found across markets and states, greater confidence can be placed in the conclusions reached.

Small Business Definition and Sample Selection

A small business was defined as an independently owned and operated firm, not a branch of a larger firm or a franchise, with less than $5 million in gross sales and less than 100 employees. These criteria are more restrictive than those of the Small Business Administration and, indeed, the small business sample was chosen to reflect the relatively high proportion of firms with less than 20 employees in rural New England.

Obtaining data from which to draw a sample of small businesses in four different states is a difficult process. The data used in this project were obtained from a private marketing firm (Trinet) that maintains a six million firm data set for use in telemarketing research. Their data set is comparable to the Dun and Bradstreet microenterprise data, but has better representation among very small businesses (less than 20 employees) and data on firms in this small business file are updated yearly, according to Trinet. The data were compared to published U.S. Department of Commerce County Business Pattern data in terms of the distribution of firms across size and industry classes and compared favorably. Specific industrial sectors, e.g., finance, insurance, and real estate, and health, legal, educational, and governmental services, were eliminated from the database before the sample was selected. These sectors represent primarily professional rather than commercial activity and the potential for job creation in this class is more limited. Since the study's focus was on credit to commercial enterprises, these sectors were excluded.

From this overall data set based on 1987 data, a stratified random sample of 2500 small firms operating in the four states was selected. The sample was stratified so that the total sample reflected the distribution of firms (1) by state and (2) by size, i.e., less than 20 employees and 20 - 99 employees. The percent of firms having less than 20 employees varied from 93-96 percent across the four states.

The initial sample of 2500 firms was reduced to 2081 through the elimination of firms that had gone out of business by the time the surveys were mailed in late 1988 and early 1989. These firms were identified by returned surveys and constituted 17% of the initial sample. The distribution of firms included in the total, by state, is: Maine, 720 firms surveyed; Massachusetts, 658 firms surveyed; New Hampshire, 421 firms surveyed; Vermont, 282 firms surveyed.

Financial Institution Definition and Sample Selection

In rural New England markets, there are two primary suppliers of commercial credit, banks and savings banks. While banks historically have provided the largest share of commercial credit, savings banks have assumed an expanded role in recent years. Since 1980, the annual rate of growth in commercial lending for New England savings banks has exceeded 100 percent and their share of total commercial lending has increased to six percent.[13] However, the extent to which savings banks are involved in providing commercial credit varies considerably across markets and is typically concentrated in a relatively small number of institutions in any state. On the other hand, the

13. Constance R. Dunham, "Recent Developments in Thrift Commercial Lending," *New England Economic Review*, Federal Reserve Bank of Boston, November/December 1985, 41-48.

fact that savings banks have the potential to provide commercial credit makes them worthy of further analysis and consideration. For that reason, they are included in this analysis as suppliers of credit.

For the purposes of this study, a financial institution is the local office of a commercial bank or savings bank, which in turn may be either independent or affiliated with a holding company, headquartered within the same state or in another state. In each market in the sample, all branches of banks and savings banks were included initially. If there was more than one branch of an institution in the market, only the largest or most centrally located branch was chosen to be interviewed. The other branches were not included since, in most cases, they were small offices providing deposit not loan services. A total of 130 institutions were selected in the four states. The distribution across states is: Maine, 24 banks and 16 savings banks; Massachusetts, 11 banks and 20 savings banks; New Hampshire, 19 banks and 12 savings banks; Vermont, 18 banks and 10 savings banks.

Market Typology

For the purposes of this study, the impact of geographic deregulation on market structure was assumed to occur in two ways. First, out-of-state firms may move into rural banking markets through merger or acquisition as a result of interstate banking legislation. As noted by Dunham, this type of activity has been limited so far, with only Maine exhibiting a dominant presence of out-of-state institutions.[14] Second, large banks within the state have recently moved into rural markets as a means of better positioning themselves for future interstate activity, in terms of increasing their own relative size and the number of markets they serve. This type of movement has been prevalent in all the states included in this study and established the framework for the market structure typology that follows.

Each rural banking market included in the analysis was classified as one of three types, based on information provided for 1987 by the Federal Reserve Bank of Boston:[15]

Type 1. Dominance by independent banks, i.e., no large in- or out-of-state banking institutions present.

Type 2. Dominance by large in- or out-of-state banking institutions (affiliated banks), i.e., no independent banks present.

Type 3. A mix of independent and large in- or out-of-state banking institutions.

Each of these types represents a different level of geographic deregulation's impact. At one extreme, one might suggest that geographic deregulation will lead to the elimination of independent banks in rural areas, replacing them with branches of the largest holding companies in the region. At the other extreme, it is possible that these large holding companies may eventually choose to bypass rural banking markets, perhaps because profit opportunities are not perceived to be great enough or because the competitive pressure from local independent banks is too great. It is also likely that the end result will be some mix of institutions representing both independents and their large bank holding company counterparts.

By classifying markets according to this typology, it is possible to compare the survey results across market types to evaluate how financial institution behavior differs or how local business and banker perceptions of market changes may differ. In this way, some initial ideas about how geographic deregula-

14. Constance R. Dunham, "New England Interstate Banking Laws: Efforts to Achieve the Public Purpose," *New England Economic Indicators*, Federal Reserve Bank of Boston, January 1988, iv-xi.

15. Warren Tam, Christopher Arnold, and Beth Lewis, *1987 Banking Structure in New England*, Research Report 70, Federal Reserve Bank of Boston, December 1987.

tion affects rural capital markets may be gleaned. The distribution of markets according to type for the four states combined is: Type 1, 5; Type 2, 9; Type 3, 15.

SURVEY DESIGN

Small Business Survey

The small business survey, designed to gather information about the small business's commercial credit needs and experience, had four specific components.

1. The firm supplied information about its credit experience including sources of capital, both start-up and operating; type of credit products obtained and needed; and reasons for obtaining credit.

2. The firm identified its primary commercial lender, including the institution's location, institutional type, services provided, and whether the firm would recommend the lender to another business firm.

3. The firm's perceptions about changing local financial markets and characteristics of a financial institution deemed to be most important were identified.

4. The firm provided information about its age, ownership structure, sales growth, and total number of employees.

The survey was mailed to the sample of small businesses, along with a letter from a prominent local person, typically a business or community leader, explaining the importance of the project and encouraging the firm's participation.[16] This initial mailing was followed about two weeks later by a follow-up letter, encouraging the firm to return the survey. In another two-three weeks, a third mailing was sent to the firms, including another copy of the survey and a letter encouraging their quick response. A final reminder letter was mailed to nonrespondents after another two weeks. Telephone follow-up of nonrespondents was not done because of the large number of firms that required follow-up and the length of the survey.

Of the 2081 usable surveys mailed to firms, 582 completed surveys were returned. The response rate averaged 28% across the four states, ranging from a low of 26% in Massachusetts and New Hampshire to highs of 30% and 31% in Maine and Vermont, respectively. While the response rate is relatively low, the respondents do appear to be representative of the broader population of firms included in the initial sample. The majority of respondents are in the trade and service sectors (more than 60%), as is true for each state as a whole. The average size of respondents is 8-10 employees, suggesting that the sample accurately reflects the large percent of relatively small enterprises in rural New England (Chapter 2, Table 4 and Appendix I). While caution is required in generalizing the results of this study to a broader population of firms within the region or the nation, important insights can be gained from this analysis, particularly when combined with similar studies in other parts of the country.

Financial Institution Surveys

The bank survey, designed to gather information about the bank's commercial lending experience and practice, had three specific components.

1. The banker provided information about the bank's borrowers, e.g., industry, size, and location, to develop a borrower profile and about the bank's commercial loan portfolio, specifically the type and size distribution of commercial loans made.

16. Letters of support were obtained from business or community leaders in most of the local markets selected. It was felt that such a letter would help to increase the percent of firms responding to the survey because of the direct tie to the local market. When a local person was not found to provide this letter, a general cover letter from the principal investigator was mailed along with the survey.

2. The banker provided information about commercial loan decision making, services provided to business borrowers, and specific attitudes toward small business lending.

3. The banker's attitudes toward changing local financial markets, e.g., competition, alternative sources of financing, flexibility in decision making, the bank's ability to increase small business lending, and attitudes toward deregulated financial markets, specifically interstate banking, were identified.

The survey of savings banks paralleled that for the bankers. However, in addition to the components outlined above, those savings banks that were not engaged in commercial lending currently were asked about future plans to extend into commercial lending and how they might accomplish such a move. Surveys conducted with savings bankers did not include the section determining attitudes toward changing financial markets, since many of these bankers were not engaged in commercial lending in the past.

The financial institution surveys were designed to be administered as personal interviews, although phone interviews were conducted for about 20% of the sample when personal interviews could not be arranged. The interviews were conducted between October, 1989 and October, 1990. Of the 130 financial institutions included in the initial sample, completed interviews were obtained for 114 (61 banks and 53 savings banks). The response rate for the financial institutions survey was 88%, ranging from a low of 82% in Vermont to a high of 93% in Massachusetts.

STRUCTURE OF REPORT

The next chapter discusses the results of the business survey. Results for individual states are reported separately since economic conditions in each state will likely influence the response of small business firms to the questionnaire. However, all states are combined to report information related to the affect of market structure on business responses. This grouping was done to insure confidentiality of the results, given the small number of observations in some local markets in the four states. The third chapter presents the results of the financial institution surveys, both bank and savings bank. Results for these surveys are presented for the entire sample of institutions, as well as broken down by state. Results are also presented based on a break down according to bank institutional type, i.e., independent bank vs. branch or holding company bank, and market type. The fourth chapter brings the supply and demand sides of the local market together, discussing the results of both the small business and financial institutions surveys. Finally, the fifth chapter discusses the policy implications of this study, based on input from the advisory group to the project.

CHAPTER 2

Small Business Credit Needs And Experience

GENERAL DESCRIPTION OF BUSINESSES INCLUDED IN THE SURVEY

The businesses included in the sample were very small, averaging 8-10 employees across the four states (Table 4). Between 63% and 73% of the enterprises had gross sales of less than $500,000. The majority of firms were in the trade (wholesale and retail) and service sectors, as is true for the entire population of firms in the four states (Appendix I). However, manufacturing firms appear to be underrepresented among respondents, as compared to the total population of firms. More than 55% of the firms were over 10 years old, suggesting that younger firms may have been underrepresented in the sample. And, most firms were organized as sole proprietorships or private corporations (Figure 1). Finally, more than 50% of the firms had a commercial lender located in their own community and more than 75% banked with an institution located within 10 miles of their community (Table 5). This profile of business respondents suggests that firms were small in terms of both employee and sales size, were established in their business, and relied upon the local financial market for their primary source of commercial credit.

COMMERCIAL CREDIT EXPERIENCE

As is true for many small business enterprises, over 50% of the start-up capital used by these firms was obtained from private sources, i.e., family and friends, personal savings. However, commercial banks were the next most important source, accounting for 27%-35% of start-up capital, across the four states (Appendix A-D, Figure 1). These results were consistent across market types. Most firms relied on local market sources of capital, since less than 6% of debt or equity capital was received from sources outside the business's own state. Commercial banks were an important source of loans to the businesses during their first five years of operation, providing an average of 44%-58% of total loans received (Appendix A-D, Figure 2). Reliance on commercial banks was even greater during the most recent five-year period, averaging 53%-65% across the four states (Appendix A-D, Figure 3).

When asked about their experience acquiring different types of commercial credit, most businesses were either able to obtain the particular type of credit they sought or had never tried to obtain it (Appendix A-D, Figures 4-

Table 4.

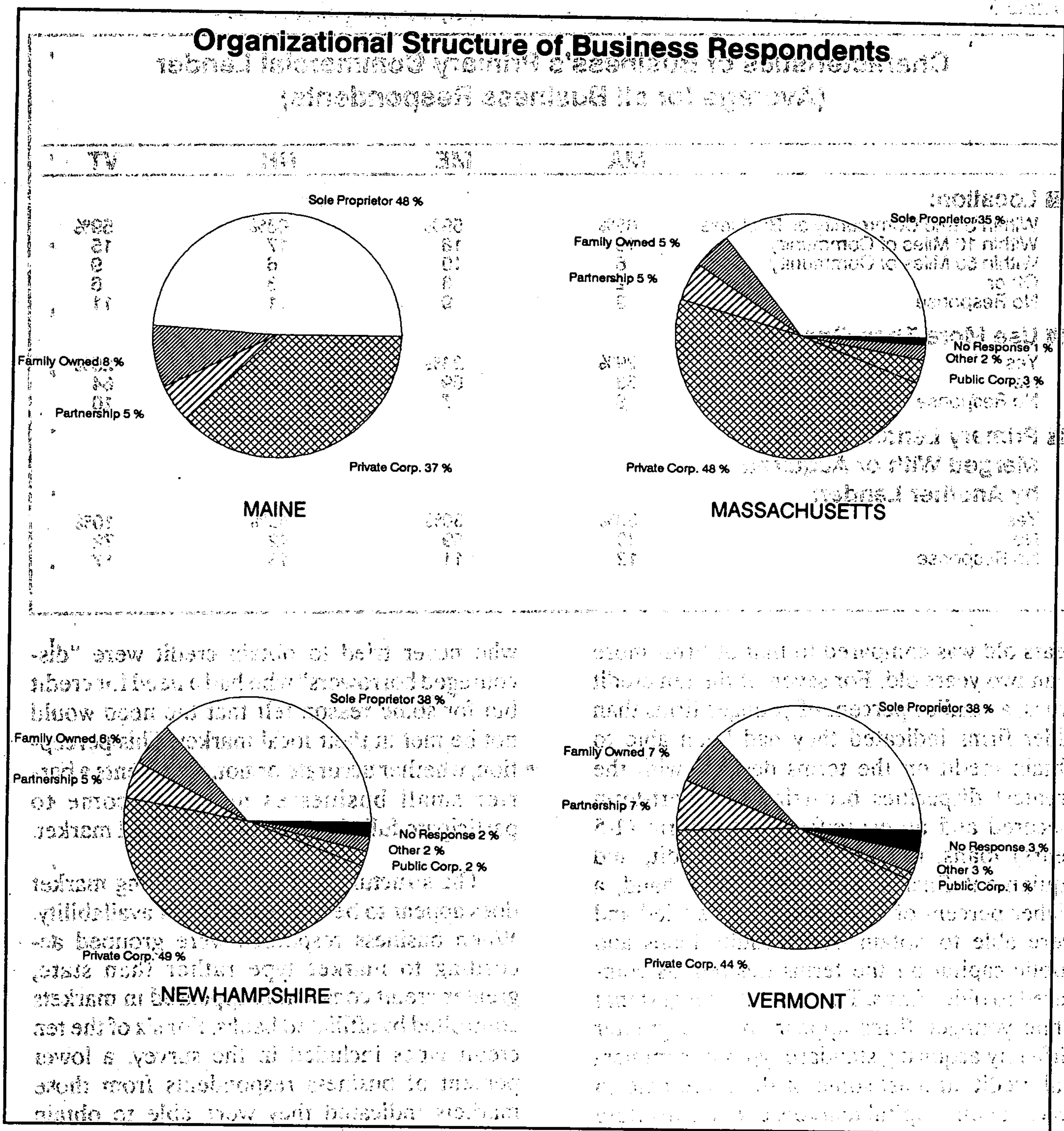
Description of Business Respondents: By State

	MA (n=172)		ME (n=214)		NH (n=109)		VT (n=87)	
■ Employees:								
Average number of employees	10		8		10		8	
■ Sales:	#	%	#	%	#	%	#	%
Firms with < $500,000 in gross sales	117	67	158	73	68	63	63	72
Firms with $500,000 -$1 million in gross sales	25	15	37	17	16	15	3	3
Firms with > $1 million in gross sales	24	14	15	7	22	21	19	21
No response	6	3	4	2	3	3	2	2
■ Sales Change:								
Firms with sales increase 1984-87	148	86	177	83	97	89	69	79
Firms with sales decrease 1984-87	16	9	27	13	7	7	12	14
No response	8	5	10	5	5	5	6	7
■ Industry:								
Resource based	5	3	9	4	4	4	2	2
Manufacturing	14	8	18	8	6	6	9	10
Trade	96	56	97	45	54	50	40	46
Service	35	20	52	24	25	23	19	22
Other	22	13	38	18	20	18	17	20
■ Age:								
Less than 5 years	28	16	36	17	21	19	15	17
5 to 10 years	37	22	50	23	24	22	17	20
More than 10 years	103	60	121	57	60	55	52	60
No response	4	2	7	3	4	4	3	3

13).[17] However, for some types of credit, access was more limited. The percent of respondents unable to obtain short-term, unsecured loans was more than double the percent unable to obtain short-term, secured loans in all four states (Appendix A-D, Figures 4 and 5). A larger percent of businesses indicated that they were unable to obtain or had never tried to obtain long-term loans, greater than 5 years, than was true for long-term loans, 1-5 years, (Appendix A-D, Figures 6 and 7). And, more than 79% of businesses had never tried to obtain a line of credit secured by assets such as accounts receivable (Appendix A-D, Figure 11). These results suggest that, for many businesses, sophisticated commercial credit instruments, e.g., asset-based lines, are not in high demand or that businesses are unaware of these credit instruments and how they can be used to their advantage. For example, 62%-72% of businesses across the four states did not know whether their bank offered asset-based lending services.

17. The "never tried to obtain" category was included in the survey to distinguish those firms that tried but were unsuccessful in obtaining credit from those who did not demand particular types of credit, reflected by their "never tried to obtain" response.

Figure 1.



There appear to be some important differences between those firms that experienced difficulty obtaining financing, of any type, and those that did not. Firms that tried but were unable to obtain some type of commercial credit were typically smaller, in terms of employee size, a higher percent of these firms had less than $1 million in gross sales than for all firms, and a higher percent were less than 10 years old as compared to all firms. These results suggest that smaller, younger firms have more difficulty obtaining commercial credit than do larger, more established enterprises.

To investigate these younger firms further, the credit experience of firms less than two

Table 5.

Characteristics of Business's Primary Commercial Lender (Average for all Business Respondents)

	MA	ME	NH	VT
■ Location:				
Within Same Community as Business	65%	59%	63%	59%
Within 10 Miles of Community	19	18	17	15
Within 50 Miles of Community	6	10	6	9
Other	2	3	3	6
No Response	9	9	11	11
■ Use More Than One Branch:				
Yes	29%	24%	27%	25%
No	63	69	62	64
No Response	8	7	10	10
■ Primary Lender Recently Merged With or Acquired by Another Lender:				
Yes	38%	30%	45%	10%
No	49	59	42	72
No Response	12	11	13	17

years old was compared to that of firms more than two years old. For seven of the ten credit types, a smaller percent of younger firms than older firms indicated they had been able to obtain credit on the terms desired, with the greatest disparities occurring for short-term (secured and unsecured) and long-term (1-5 years) loans, revolving lines of credit, and equipment financing. On the other hand, a higher percent of the younger firms tried and were able to obtain home equity loans and public capital on the terms desired, as compared to older firms. These results suggest that while younger firms appear to have greater difficulty acquiring standard types of commercial credit, at least some of them are able to access public capital markets and to substitute home equity for business debt in the early stages of their enterprises.

While the percent of firms unable to obtain credit was 9%-15% of total firms across the four states, the actual percent is likely to be higher, given the bias in this sample toward more established firms. In addition, it is not clear whether the large percent of respondents who never tried to obtain credit were "discouraged borrowers" who had a need for credit but for some reason felt that the need would not be met in their local market. This perception, whether accurate or not, represents a barrier small businesses must overcome to participate fully in their local financial market.

The structure of the local banking market does appear to be related to credit availability. When business responses were grouped according to market type rather than state, greater credit constraints appeared in markets controlled by affiliated banks. For six of the ten credit types included in the survey, a lower percent of business respondents from those markets indicated they were able to obtain credit than respondents in markets dominated by independents (Table 6). When a mix of institutions was present, however, the percent of respondents able to obtain credit for seven of ten credit types was greater than those in the other two market types.

Viewed from another perspective, for eight of ten credit types evaluated, the percent of business respondents who tried but were un-

Table 6.

Credit Availability to Business Respondents: by Market Type*

	Type 1	Type 2	Type 3
Short-term, secured			
Obtain on terms desired	43%	40%	43%
Obtain on less favorable terms	6	10	7
Unable to obtain	1	2	2
Never tried to obtain	48	48	46
Short-term, unsecured			
Obtain on terms desired	46	29	36
Obtain on less favorable terms	6	9	8
Unable to obtain	2	6	6
Never tried to obtain	44	54	48
Long-term (1-5 years)			
Obtain on terms desired	36	35	38
Obtain on less favorable terms	13	12	11
Unable to obtain	1	1	4
Never tried to obtain	48	50	46
Long-term (>5 years)			
Obtain on terms desired	20	23	27
Obtain on less favorable terms	7	10	8
Unable to obtain	3	5	5
Never tried to obtain	68	61	59
Commercial mortgage			
Obtain on terms desired	23	23	28
Obtain on less favorable terms	9	9	11
Unable to obtain	3	3	3
Never tried to obtain	62	64	57
Home equity			
Obtain on terms desired	20	15	14
Obtain on less favorable terms	9	6	5
Unable to obtain	—	2	3
Never tried to obtain	69	75	77
Revolving lines			
Obtain on terms desired	31	35	35
Obtain on less favorable terms	8	9	8
Unable to obtain	1	6	4
Never tried to obtain	57	49	51
Asset based			
Obtain on terms desired	8	6	11
Obtain on less favorable terms	3	3	2
Unable to obtain	1	3	3
Never tried to obtain	85	88	81
Equipment			
Obtain on terms desired	36	30	39
Obtain on less favorable terms	9	10	9
Unable to obtain	1	3	2
Never tried to obtain	52	56	48
Public capital			
Obtain on terms desired	2	2	2
Obtain on less favorable terms	1	—	1
Unable to obtain	1	4	1
Never tried to obtain	93	94	95

* Type 1 are banking markets where only independent banks operate.
Type 2 are banking markets where only large in- or out-of-state banking institutions operate.
Type 3 are banking markets where both independent and large in- or out-of-state banks operate.

able to obtain credit was greater in markets dominated by affiliated banks than in markets dominated by independent banks. When a mix of institutional types existed in the market, the percent of respondents unable to obtain credit was greater than in independent markets, but usually less than or equal to those in affiliated bank markets.

While it is not possible to indicate any causal connection between market structure and credit availability from these results, there do appear to be differences in credit availability across markets. Since markets in four states were grouped together for this analysis, it is less likely that some common component of the economic base of these markets is contributing to differences in credit access. However, characteristics of business respondents, e.g., risk or creditworthiness, will have an impact on their ability to receive credit and this analysis does not control for those factors. These results do suggest some connection between rural financial market structure and business credit availability that is worthy of further study.

One final aspect of the credit experience of business respondents must be addressed. Fourteen percent of total business respondents indicated that they do not use credit, ranging from a low of 8% in Massachusetts to highs of 17% in Maine and Vermont. Descriptive data were evaluated to determine in what ways these firms differ from other respondents. In general, firms that do not use credit are (Table 7):

1. Smaller, in terms of average number of employees, than respondents who use credit.

2. Smaller, in terms of gross sales, than respondents who use credit.

3. More likely than respondents who use credit to be in the service sector.

4. No different from respondents who use credit in terms of age.

5. More likely to be sole proprietors than respondents who use credit.

Based on this information, firms that do not use credit can be described as small, sole proprietor service enterprises whose credit needs may be limited. It is less likely that these very small firms are "discouraged borrowers" who have sizeable credit needs that are not being met through the local market. However, more information about these firms is needed to draw firm conclusions about their credit needs and experience.

Purpose For Which Firms Acquired Commercial Credit

Understanding the purposes for which firms acquire credit provides some insight into the credit needs that may exist in rural markets. Most respondents indicated that they used credit to finance the current operation or expansion of their existing business (Appendix A-D, Figure 14). Less than 25% of existing firms used credit to expand into a new business area, an activity that would likely entail greater risk than financing an existing operation, but less risk than financing a new start-up enterprise. While these results might suggest that existing businesses expanding into a new area face credit constraints, information provided by the survey suggests that other constraints are more important. Firms were asked whether or not they had considered expanding their business in the past five years but for some reason had decided against expansion. About one-third of respondents indicated they had decided against expansion (Appendix A-D, Figures 15). Of the reasons given for deciding not to expand, risk and lack of management capacity were most frequently cited, with credit availability cited as a constraint by less than 25% of respondents across the four states. These results suggest that the local credit market is not the most important constraint on business expansion in these rural markets. Since less than 13% of respondents across the four states indicated they had decided there

Table 7.

Description of Business Respondents Who Indicated They Do Not Use Credit: By State

	MA (n=14)	ME (n=36)	NH (n=16)	VT (n=15)
Employees:				
Average number of employees	5	4	4	7
Sales:				
Firms with < $500,000 in gross sales	86%	89%	75%	73%
Firms with $500,000 - $1 million in gross sales	—	3	6	—
Firms with > $1 million in gross sales	—	3	—	20
No response	14	6	19	7
Sales change:				
Firms with sales increase 1984-87	79	83	81	67
Firms with sales decrease 1984-87	—	6	—	13
No response	21	11	19	20
Industry:				
Resource based	7	8	—	—
Manufacturing	7	8	6	7
Trade	43	28	44	47
Service	29	42	31	20
Other	14	14	19	27
Age:				
Less than 5 years	14	17	12	13
5 to 10 years	21	25	31	20
More than 10 years	50	53	44	60
No response	14	6	12	7
Organizational structure:				
Sole proprietor	43	72	38	67
Family owned	7	8	—	7
Partnership	7	—	12	—
Private corp.	29	17	38	20
Public corp.	—	—	—	—
Other	—	—	—	7
No response	14	3	12	—

was no economic reason to expand, it was assumed that expansion could be justified for most firms based on demand for their products or services.

To evaluate whether respondents' reasons for deciding against business expansion were influenced by the structure of the local banking markets, data from respondents who wanted to expand but decided against it were grouped according to market type. These results (Table 8) show that credit limitations were mentioned by a greater percent of respondents in markets dominated by larger, affiliated institutions than in markets dominated by independents. Assuming all other factors are constant, credit appears to be a more important constraint on business expansion in these markets. However, it is important to recognize that the most important constraint on expansion for firms, regardless of market type, was their own limited management capacity.

COMMERCIAL CREDIT NEEDS

To determine what types of credit businesses felt they needed most, e.g., short-term, secured loans, revolving lines of credit, commercial mortgages, respondents were asked to rank eight types of credit according to need (i.e., #1 equals most important credit need, #2 equals second most important need, etc.) In Maine, Massachusetts, and Vermont, short-term credit was cited as the most important need by the highest percent of respondents (Appendix A-D, Figure 16) and was the second most frequently cited need in New Hampshire. In all cases, short-term, unsecured loans comprised most of this percentage. Long-term credit was cited as the number one need by the highest percent of respondents in New Hampshire and was the second most frequently cited credit need in Maine and Massachusetts. Commercial mortgages and revolving lines of credit were also cited as the most important need by a large percent of respondents.

Equity capital was selected as the most important need by 5% or fewer respondents. This percent did not vary much by firm size or industry. The relatively small percent of firms who viewed equity capital as an important need may result from the fact that the firms in the sample are established, with most more than 10 years old, and, therefore, their need for equity would be lower than for a new, start-up enterprise. Although this result appears to be in conflict with other research results and perceptions about rural capital markets, it may be more a reflection of the firms included in this sample and less a reflection of actual credit gaps in the market.

To get a better picture of how a firm's age might affect its credit needs, data from respondents were also grouped according to age and the percent of respondents who ranked a particular credit type as their number one need compared. However, no consistent patterns were observed. Equity capital, assumed to be an important need for younger firms, was never ranked as the number one need by respondents in Massachusetts and Vermont, regardless of age. And, only in Maine did a higher percent of firms less than five years old rank it as their number one need as compared to older firms. Similarly, only in Massachusetts did a greater percent of younger firms rank short-term, unsecured loans as their number one need as compared to older firms. In Maine and Vermont, a greater percent of older firms ranked this type of credit as their number one need. Age does not appear to play a consistent role in explaining credit needs across the four states.

USE AND KNOWLEDGE OF BUSINESS SERVICES PROVIDED BY FINANCIAL INSTITUTIONS

A relatively small percent of firms used a range of business services provided by their banks. Across the four states, 2%-10% of respondents used payroll services offered by the bank; 2%-8% used cash management ac-

Table 8.

Reasons Why Business Respondents Who Wanted to Expand Decided Against Expansion: By Market Type*

Reason	Type 1	Type 2	Type 3
No economic reason to expand business	11%	10%	5%
Expansion limited by mgt. capacities	39	25	25
Felt credit was not available in local mkt.	11	20	16
Felt that expansion was too risky	25	21	27
Other	14	23	23
No response	—	1	3

* Type 1 are banking markets where only independent banks operate.
Type 2 are banking markets where only large in- or out-of-state banking institutions operate.
Type 3 are banking markets where both independent and large in- or out-of-state banks operate.

counts; 15%-24% used financial counseling, particularly during the loan application process; 1%-3% used bank referral to sources of technical assistance; 1%-5% used management counseling; 9%-15% used asset-based lending; and 1%-9% used leasing services provided by the bank or bank holding company (Appendix A-D, Figure 17).

A large percent of respondents did not know whether their bank even provided most of the services included in the survey. It may be that businesses do not need these services and, therefore, do not obtain information about them. However, since this same pattern was true for most important commercial loan services, an information gap is apparent between the lender and the small business commercial borrower. This result suggests that small business borrowers, in particular, may need to be educated about the business services available from their bank and other sources and the benefits of using these services.

BUSINESS ATTITUDES TOWARD CHANGING LOCAL FINANCIAL MARKETS

Firms were asked to evaluate how their local credit market had changed over the past five years. In general, the responses suggest favorable changes in local credit markets. Across the four states, 52%-62% of businesses felt they received the same or greater personal attention to their credit needs; 48%-57% felt the length of time required to process loan applications was the same or shorter now; 35%-50% felt their bankers offered the same or greater flexibility in terms and conditions on both short- and long-term loans; and 40%-50% felt that bankers were able to tailor loans to meet their needs to the same or greater extent as five years earlier (Appendix A-D, Figure 19).

A relatively large percent of respondents felt they had no basis to judge certain aspects of changing financial markets. More than 50% indicated that they could not judge any change in the availability of asset-based loan products and 63%-70% felt they had no basis to judge any change in the frequency of loan denials. These responses are consistent with earlier results which showed that a relatively small percent of firms had been unable to obtain commercial credit and that use of and knowledge about asset-based loan products was low.

Finally, a majority of firms in each state (60%-61%) indicated they never had a visit from a financial institution to solicit their loan activity, suggesting that bankers are not actively pursuing small business lending opportunities in their communities. This result is in sharp contrast to results from the banking survey which suggest that bankers are making more visits to potential commercial borrowers. It may be that the small businesses included in this sample are not the focus of solicitation activities by bankers. Alternatively, bankers may focus their attention on newer firms, not the older, established enterprises that make up the majority of firms in this study.

Caution is needed in interpreting the results described above. This study was conducted during a period of expansion in the New England economy. Most of the banking markets included in this study, although rural in nature, were affected positively by this overall economic improvement. Business attitudes toward the local financial market may be influenced by these economic conditions, to the extent that local banks responded during this expansionary period by increasing credit availability. Banker responses indicating increased business loan activity would suggest that banks did indeed respond favorably. Positive attitudes toward local financial markets may be more a reflection of the economy and less a reflection of the impact, positive or negative, of deregulated capital markets. When data from respondents were grouped according to market type, no important differences were found. Business perceptions of local markets seem to hold, regardless of market type, suggesting that favorable economic conditions throughout the region may mask any local market changes resulting from deregulation.

CHARACTERISTICS OF FINANCIAL INSTITUTIONS IMPORTANT TO BUSINESSES

Businesses were asked to evaluate characteristics that were important to them in selecting a financial institution and then rate their own institutions. Four characteristics were rated as important or very important by at least 70% of respondents in all four states: personal service; reliable and consistent source of credit; flexible terms and conditions; and business's knowledge of and confidence in bank. Businesses rated their own institutions relatively well in terms of these characteristics, with the exception of flexible terms and conditions. While 70%-75% of businesses rated flexibility as important or very important, institutions were rated as good or excellent relative to flexibility by only 52%-59% of respondents (Appendix A-D, Figure 18). Although the focus of this study has been on access to credit rather than its cost, it is obvious from these responses that business firms are less satisfied with their local institutions when terms and conditions on loans are considered.

RECOMMENDING THEIR FINANCIAL INSTITUTION TO OTHER BORROWERS

One measure of a firm's overall level of satisfaction with its banking relationship is whether the firm would recommend its own institution to another business borrower. Assuming that a firm would not recommend an institution that had failed to meet its legitimate credit needs, the percent of firms recommending their own institution is one measure of the adequacy of the local market in terms of commercial credit. About two-thirds of the business firms surveyed (66%-73%) across the four states would recommend their own institution to another firm (Figure 2). A slightly higher percent of firms in markets dominated by independents would recommend their institutions (77%) as compared to firms in markets dominated by affiliated banks (72%) or in markets with a mix of institutional types (69%). These results suggest a relatively high level of satisfaction with the overall credit experience and the business's relationship with the bank. On the other hand, these results do not suggest that credit gaps do or do not exist for some businesses or for some types of credit.

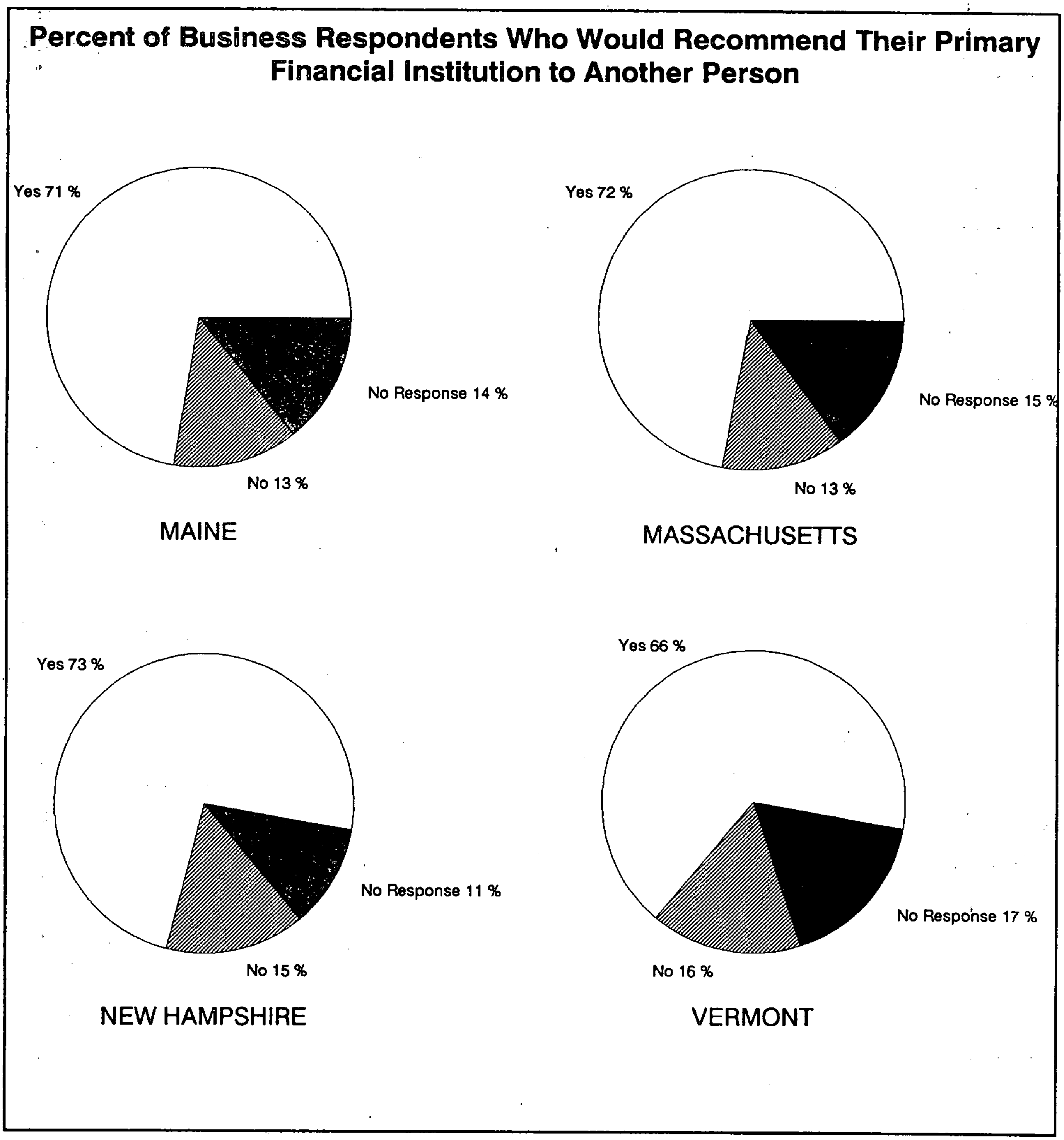
SUMMARY

The results of the business survey suggest that rural capital markets are functioning well for some participants in the market. To the extent that markets have changed in the past five years because of geographic deregulation or general economic conditions, most businesses express positive perceptions of these changes. However, a sizeable percent of business respondents, particularly younger firms, experienced difficulty acquiring credit. And, it appears that the important credit needs expressed by business firms (short-term, unsecured debt; long-term, greater than 5 years, debt) could be addressed by traditional financial institutions within their existing regulatory structure. Additional research would be necessary to determine why those types of credit may be relatively less available to small businesses and whether alternative structures, e.g., partnerships between banks and development organizations to share risk, are needed to provide additional capital to small enterprises.

Businesses appear to be satisfied with their banking relationships and are usually able to obtain the credit they need. The use of services by these small business borrowers was not great, suggesting that geographic deregulation, to the extent that more commercial loan services are now available in the local market, may have only a limited impact on very small firms.

The results of this study provide some evidence that the structure of the local banking market, measured as dominance by local inde-

Figure 2.



pendent banks, by large statewide or out-of-state banks, or some mix of institutions, is related to business credit availability. A higher percent of firms in markets dominated by affiliated banks identified credit constraints for many types of commercial credit. And, a higher percent of respondents in these same markets cited perceived credit limitations as a reason for not proceeding with business expansion. Finally, a slightly lower percent of firms in these same markets would recommend their financial institution to another borrower, a rough measure of the business's overall level of satisfaction with the banking relationship. While these results suggest that market structure may have some influence on credit availability, the results are by no means conclusive and further study is indicated.

An important caveat to this study is the fact that only existing businesses were included in this survey. Firms that had started during the year in which the sample was drawn were not included, so there is important underrepresentation of very young, start-up enterprises. It is also not possible to survey firms that tried to start but were unsuccessful for a number of reasons, including lack of capital in the local market. The results of this survey are likely to underestimate the capital gaps that may exist for small businesses as a result.

However, one strength of the present study is the relative consistency of the survey results across the four states. There do not appear to be important differences in the way in which rural capital markets function in these states, at least based on small business experience and perceptions of those markets. Although it is not possible to generalize the results of this study to other rural areas, the consistent results obtained for these four New England states suggest that this study can provide important insights into how rural capital markets are meeting the credit needs of the small, established firms included in this sample.

CHAPTER 3

Small Business and Commercial Lending Practice Among Financial Institutions

COMMERCIAL BANKS

General Characteristics of Small Business Commercial Lending

Although only about 25% of the banks had formal definitions of a small business they used to guide lending decisions, all bankers indicated that their commercial lending was almost exclusively to small businesses, by any definition. While only about half of the banks had formal marketing programs designed to promote commercial lending, particularly to small business, more than 80% had officer call programs or visited commercial borrowers, either existing or potential. Branch or holding company banks were much more likely to have both formal marketing programs and visitation programs. If the bank was unable to make a loan to a small business person, 82% of the bankers would refer to another source of capital, such as a local development organization or a public lending program. Independent banks were more likely to refer small businesses to other institutions than were branch or holding company banks (Appendix E, Table 1). The results did not vary greatly across the four states.

Most bankers felt that they could increase their lending to small businesses, but that they faced a number of important constraints (Appendix E, Table 2). Inadequate deposit base to support increased lending, i.e., high loan to deposit ratio currently, poor business climate or economy, and poorly prepared loan applications were constraints cited by most bankers. Inadequate deposit base was the most important constraint for local independent banks while business or economic climate was more important for the branch or holding company banks. This result is not unexpected since local branches of larger statewide or out-of-state banking organizations are not constrained in terms of lending by the local deposit base since they have access to the larger capital base of their parent organization. However, they are more likely to consider local economic conditions relative to other areas since the option for making or participating in loans outside the local market is readily available.

Business Services Provided by Commercial Banks

More than 60% of commercial banks provided payroll services, cash management accounts, financial counseling, referral to technical assistance agencies, asset-based lending, and equipment financing (Appendix E, Table 3). While there was some variation across the four states, the more interesting differences appear when considering the responses by bank type. A higher percent of independent banks provided counseling, both financial and management, and referral services than did branch or holding company banks. But, fewer of these same independent banks provided more sophisticated commercial services, e.g., payroll, cash management, asset-based lending, and leasing. This result suggests that as geographic deregulation alters the structure of local banking markets, the availability of services which are assumed to be more important to small businesses based on their use, e.g., counseling and referral services, could decline while the availability of more sophisticated business services would likely increase. This result also suggests that the type of business services provided, in addition to commercial loans, should be an important consideration in both reinvestment and merger/acquisition decisions made by regulators.

Commercial Loan Decision Making Criteria

Borrower's character and cash flow projections for the business were rated as the most important criteria considered in accepting a small business loan application by bankers (Appendix E, Table 4). Collateral was rated as the most important criterion by only 5% of the bankers overall. Minor differences were found when banks were separated by bank type. A slightly higher percent of independent bankers rated character as most important, while a higher percent of branch or holding company banks rated cash flow as most important. In addition, independent banks placed more emphasis on specific industry conditions for the business applicant while branch or holding company banks placed greater emphasis on the firm's management capacity.

Poor earning's record and limited management capacity were rated as the most important criteria considered in rejecting a small business loan application by bankers (Appendix E, Table 4). However, for 20% of the bankers interviewed, being a new firm without an established earning's record was the most important factor leading to rejection of a loan application. This percent was higher for independent banks (28%) than for branch or holding company banks (16%). This result suggests that while other factors may be important in rejecting small business loans, some enterprises are likely to face credit constraints by virtue of their start-up status. Fewer branch or holding company banks, perhaps because of their greater ability to bear risk, are likely to reject a small business loan simply because the firm is a new enterprise.

Over 90% of all bankers indicated that the extent to which they could tailor lending decisions to individual situations rather than relying on some formula was the same or greater than in the past. For the 50% who responded "same," most bankers indicated that they never based lending decisions on a formula, but responded to each individual application on its own merits. There was little difference in responses across bank types, with only 5% of branch or holding company banks indicating less ability to tailor lending decisions.

These results suggest that these rural bankers, in general, can be described as "character and cash flow lenders" rather than "collateral lenders" and that they do not rely on formula-based lending. From the perspective of a small business, the emphasis on character is important since many small enterprises have more limited capacity to produce the type of financial statements and records required for many loan decisions. Strong character may substitute for weaker financial information. From the standpoint of a new enterprise, character may be even more important since past cash flow experience is not available. However, the relatively large percent of rural bankers who cited a new firm as the most important reason for rejecting a loan application suggests that start-up enterprises may face some important constraints in terms of access to capital. The entry or acquisition of local banks by nonlocal institutions is not likely to exacerbate this situation since a smaller percent of branch or holding company banks are likely to reject applications on this basis.

Bank Capacity for Commercial Lending

While all commercial banks can legally provide commercial lending services, the capacity of individual banking offices to do so is likely to vary significantly. Several factors can be taken as proxies for the capacity or level of sophistication a bank has relative to providing commercial lending services. The presence of trained commercial loan officers is one measure of greater capacity for commercial lending. Particularly for a small business, a trained loan officer can be important in arranging appropriate credit packages and providing technical assistance to the enterprise. Most bank offices included in this sample (82%) had a commercial loan officer with training in commercial lending other than real estate lending (Appendix E, Table 5). This percent varied from 73% in New Hampshire to 80% in Massachusetts, 82% in Maine, and 93% in Vermont. In addition, there was little difference between independent and branch or holding company banks. While 80% of independent bank offices had trained commercial loan officers, 83% of bank affiliate offices did. At the same time, the largest average loan authority in the local branches of these bank affiliate offices was larger than that for independent banks, $213,000 vs. $156,000.

It is also important to note that the quality and extent of loan officer training may be quite variable across banks. Training can be acquired through formal lending schools, in-house bank training programs, or years of experience as a commercial lender. It is possible that even with formal training, a commercial loan officer may not have the skills necessary for successful small business lending, e.g., risk assessment. As such, more information about the actual training received by commercial loan officers may be necessary to gain a better understanding of bank commercial lending capacity.

The presence of trained commercial lenders is just one measure of a bank's capacity for commercial lending. Other measures of sophistication present a mixed picture of rural lending capacity. Most bankers used state or federal guaranteed loan programs (95%), but the value of guaranteed loans in their portfolios was typically small, averaging 6% of total commercial loans across all banks, with no variation by bank type. Only about half of the bankers did loan participations or sold their commercial loans, usually the guaranteed portion of SBA loans (Appendix E, Table 5). This result suggests that rural banks do not take full advantage of opportunities to enhance liquidity and, thus, availability of capital. As a consequence, these banks, particularly independents, may be constrained by their deposit base to a greater extent than necessary. For those banks that did sell loans, an average of 13% of the total value of commercial loans was sold, ranging from 10% for affiliated banks to 23% for independents. The higher percent for independents may reflect their more limited access to nonlocal funds and, thus, greater reliance on selling loans to enhance liquidity. In addition, a number of bankers expressed interest in increasing their use of SBA guarantees as a means of expanding their capacity to do commercial lending.

Based on these results, it is difficult to suggest whether one type of bank has greater capacity for small business lending. Independent banks provided services that are likely to be in greater demand by small businesses, i.e., financial counseling, referral. These results suggest that at least one benefit of entry or acquisition by a larger bank, i.e., increased range of services available to business borrowers, may be offset by the more appropriate mix of services and experience present in local independent banks.

Profile of Commercial Borrowers and Loan Portfolio

Creating a profile of commercial borrowers can help identify to whom credit is available and, consequently, particular firms that may face credit constraints. This study was designed to gather information from the bankers as to (1) the location, size, and industry of their borrowers and (2) the type and size of commercial loans. At the present time, this type of detailed information about a bank's commercial loan portfolio is not collected by regulators, even at the headquarters bank level. While these banks may keep such information for internal accounting purposes, this study found that detailed data on borrowers and commercial loans was not available, generally, at the branch office level. In most cases (approximately 75%), bankers were able to provide reasonable estimates of this information for their borrowers, but only about half of the bankers (59%) were able to provide reasonable estimates about their commercial loan portfolios. It was clear during the interviews that such information would be useful to local loan officers as they make lending decisions. Policy implications of this "information gap" will be discussed later in this report.

For the banks interviewed in this study, business borrowers were typically local (97% located within the service area), small (69% had < $500,000 in gross sales), concentrated in the trade and service sectors (51%, with some variation across states), and relatively few start-up enterprises (only 7%) (Appendix E, Table 6). Borrowers appear to be representative of most business firms in these rural economies, suggesting that banks respond to local demand for capital and local economic structure and conditions.

More than one-third of the bank's commercial loan portfolio was in long-term loans, while 27% was in short-term loans, secured and unsecured (Appendix E, Table 7). Asset-based loans, a relatively sophisticated type of commercial financing, comprised only 5% of loan portfolios, ranging from 3% in Maine to 10% in New Hampshire. With the exception of Maine, more than 50% of commercial loans were greater than $50,000. New Hampshire, on the other hand, had the highest percent of loans over $50,000 (72% vs. 57% overall). One concern about the potential impact of entry by larger, nonlocal banks has been that markets will become more concentrated and that fewer small loans will be made, in an effort to reduce costs to the banks. These results suggest that trend has not occurred. Some of the general comments made by bankers during the interviews suggested that these local banks are constrained by local economic conditions and make small commercial loans because that is where the demand exists. The different portfolio structures in New Hampshire and Maine may reflect economic structure rather than the impacts of bank entry.

There appear to be only minor differences in both portfolio structure and the size distribution of loans for independent vs. branch or holding company banks. However, some differences were observed when the data were analyzed by market type. Banks in markets dominated by independents had a slightly higher percent of loans to start-ups and 77% of their loans were to businesses with less than $500,000 in sales, as compared to 69% for banks in markets dominated by affiliated banks (Table 9). Banks in markets dominated by affiliated banks appeared to provide greater support for the basic sectors of resource based and manufacturing industries, while banks in markets dominated by independents had most of their loans in trade and service sector enterprises. In terms of portfolio structure, banks in markets dominated by independents had 40% of their loans in short-term categories and 22% in long-term vs. 30% and 48%, respectively, for banks in markets dominated by affiliated banks. These independent market banks also had a slightly higher percent of loans of less than $50,000 as compared to banks in other markets (Table 10).

Table 9.

Location, Size and Industry Profile of Bank Commercial Borrowers, by Market Type*

	Type 1	Type 2	Type 3
Location:			
Within Market	97%	97%	97%
Outside Market	3	2	2
Out-of-state	—	1	1
Size:			
Start-up	10%	6%	6%
< $100,000 in sales	35	29	25
$100,000 - $500,000 in sales	42	40	41
$500,000 - $1 million in sales	8	20	19
$1 - $5 million in sales	4	5	7
> $5 million in sales	1	1	2
Industry:			
Resource based	10%	21%	14%
Manufacturing	8	14	12
Retail	35	29	28
Wholesale	6	8	6
Construction	16	9	15
Service—business	16	8	10
Service—personal	7	7	12
TCU**	2	4	2

* Type 1 are banking markets where only independent banks operate.
Type 2 are banking markets where only large in- or out-of-state banking institutions operate.
Type 3 are banking markets where both independent and large in- or out-of-state banks operate.

** Transportation, communication and other utilities.

These differences suggest, again, that market structure has an influence on commercial credit availability. While banks in markets dominated by independents make more of their loans to smaller businesses, they also appear to rely heavily on short-term rather than long-term lending. In addition, it is not clear from these results whether the lending patterns represent a response to differing economic conditions across market types. It may be that markets dominated by affiliated banks are also markets with more manufacturing and resource based activity and, perhaps as a result, more large firms. Markets dominated by independents, in turn, may have more trade and service activity concentrated in small enterprises. Further analysis is needed to clarify the relationship between market type, economic structure, and commercial credit.

Further evidence on the minimum commercial loan that banks are willing to make supports the notion of banks responding to local demand. The average minimum commercial loan size for all banks was $3,367, ranging from $1,738 in Maine to $6,133 in New Hampshire. The average commercial loan for all banks was $70,313, ranging from $52,263 in Maine to $136,923 in New Hampshire. While independent banks had lower minimum and average commercial loan sizes than branch or holding company banks ($2,395 vs. $4,207 minimum; $74,853 vs. $83,792 average), both types of banks appear to respond to market conditions and be willing to make relatively small commercial loans, although a comparison of minimum and average loan sizes suggests that relatively few small loans are made by these banks.

Average loan size also varied by market type, with banks in markets dominated by inde-

Table 10.

Type and Size of Commercial Loans in Bank's Portfolio, By Market Type*

	Type 1	Type 2	Type 3
■ Type:			
Asset Line	13%	2%	4%
ST, secured	20	15	14
ST, unsecured	20	15	14
LT (1-5 years)	12	30	22
LT (> 5 years)	10	18	20
Revolving Line	10	11	19
Equipment	16	12	12
Industrial Revenue Bonds	—	1	1
■ Size Outstanding:			
< $10,000	13%	13%	10%
$10,000 - $25,000	19	15	16
$25,000 - $50,000	19	16	15
$50,000 - $100,000	24	26	26
$100,000 - $500,000	19	22	25
> $500,000	6	7	8

* Type 1 are banking markets where only independent banks operate.
Type 2 are banking markets where only large in- or out-of-state banking institutions operate.
Type 3 are banking markets where both independent and large in- or out-of-state banks operate.

pendents having an average loan size of $47,000 vs. $58,000 for banks in markets dominated by affiliated banks and $100,000 for banks in markets with a mix of institutional types. However, minimum loans sizes for all three market types were similar. Based on these results, there is no evidence that bankers restrict credit to borrowers strictly on the basis of size of loan. In fact, they are willing to make very small loans to their commercial borrowers in spite of the fact that the bankers indicated that the "break even" loan size would average $14,400. Comments by bankers suggest that these small loans are made (1) to existing customers in need of a small loan or (2) to new customers the bank is trying to attract based on expected future growth potential.

When maximum loan size was considered, by market type, it appeared that banks operating in markets with a mix of institutional types, e.g., both independent and affiliated banks, have the potential to make larger loans. The average maximum loan banks in these markets could make was $3.5 million as compared to an average of $1 million in markets dominated by independents and $1.4 million in markets dominated by affiliated banks. Clearly, markets dominated by independent banks exhibited greater constraints in terms of credit limits because independent banks had less capacity or potential to make larger commercial loans. While this limitation is unlikely to affect most of the small businesses evaluated for this study, it does reflect a potential constraint on an independent bank's ability to meet the credit needs of businesses in its local market.

Banker Perceptions of Changing Local Financial Markets

The bankers interviewed painted a picture of increasingly competitive local financial markets,[18] with 82% of all bankers stating that the level of competition in their local markets was greater or much greater in 1989 than in 1985 (Appendix E, Table 8). Along with greater competition, 64% of bankers stated that the

18. These responses reflect the opinions of bankers who had been operating in the local market throughout the relevant time period.

variety of commercial loan products was greater or much greater now. This trend appears to be due to innovation within the industry that has resulted in the creation of new products along with the introduction of these products into rural markets as bankers attempt to keep up with their competitors. The majority of bankers, 77%, said they were making a greater or much greater number of visits to commercial borrowers than earlier. In terms of decision making, most bankers indicated that they had the same or greater flexibility in packaging loans (82%), the same or greater ability to tailor loans to their individual clients (90%), and the same or even less of their decision making authority removed from the local level (74%). Most bankers indicated they were doing the same or greater level of economic development lending (93%) and doing a greater or much greater level of small business lending (68%). Maine had the highest percent of bankers indicating a greater amount of small business lending with 82%.

Most of the perceptions about changing local financial markets were similar for independent and branch or holding company banks, with two important exceptions. A higher percent of branch or holding company bankers felt that lending decisions had been removed from the local level to a greater or much greater extent than earlier (Appendix E, Table 8). And, a higher percent of independent bankers indicated they had greater or much greater flexibility in packaging loans to individual needs than earlier. While these results do not address the absolute levels of these variables, they do suggest that branch or holding company banks have experienced a decrease in local lending authority over the past 3-5 years, perhaps associated with trends toward increased centralization of decision making out of local or regional banking offices into the central parent organization. There was some evidence gleaned from the interviews with bankers, particularly in Maine, that large statewide banking organizations, where most decisions were made at the regional level previously, were moving toward a more centralized statewide system. Whether this trend applies to banks in other states and what the impact will be on local decision making and local commercial lending remains to be evaluated.

Some differences in banker perceptions of changing financial markets were apparent when the responses were evaluated by market type. A higher percent of bankers in markets dominated by affiliated banks or with a mix of institutions characterized their markets as having greater or much greater levels of competition than markets dominated by independents (82% and 80%, respectively, vs. 66%). In addition, a higher percent of bankers in the former markets said there was a greater or much greater variety of loan products offered currently (53% and 71%, respectively, vs. 44%) and that the frequency of visits to potential business clients was greater or much greater in markets dominated by affiliated banks as compared to markets dominated by independents (83% vs. 66%, respectively). On the other hand, a higher percent of bankers in markets dominated by affiliated banks indicated greater or much greater removal of loan decision making from the local level than did bankers in markets dominated by independents (35% vs. 11%, respectively). These results support the findings by bank type described above. While markets dominated by affiliated banks may be more competitive, there is some indication that decision making authority is being removed from the local level. The implications for commercial credit availability remain to be evaluated.

Summary

The results of the commercial bank survey suggest that bankers respond to local economic conditions and provide commercial credit to a representative group of small businesses in their local markets. There was some evidence, however, that the capacity to do commercial lending, particularly for small businesses, may vary with bank type. Bankers felt that local credit markets were more competitive than in the past 3-5 years and (perhaps in response to this increased competition) that they had greater flexibility, decision making authority, and variety of commercial products to offer than in the past. Again, there appear to be differences across both bank and market types in terms of trends in local authority and flexibility.

Two additional trends may signal concern for future commercial credit availability in small rural markets and the banks that exist there. First, there was some indication from a number of bankers that smaller commercial loans were handled as consumer or installment loans in an effort to reduce administration costs. If these observations represent an industry trend, then it is possible that small commercial borrowers may face credit constraints in terms of their ability to work with trained commercial lenders as they apply for credit. It is unlikely that loan officers trained to handle personal loans will have the capacity to package commercial loans that meet the credit needs of small businesses. In addition, this trend will make future research more difficult since these small business loans will be reported to the FDIC as consumer rather than commercial loans. Second, there was some indication from bankers interviewed for this study that increased centralization of authority was occurring in larger banking organizations. As mentioned above, the impacts of a potential trend toward centralized decision making within larger organizations on small business lending in more isolated rural markets remain to be determined.

SAVINGS BANKS

Sixty percent of the savings banks selected for this study made commercial loans at the local branch level. Of those institutions that did not, only 25% indicated they planned to begin making commercial loans in the next 5 years. Most of these institutions expected to establish a commercial lending program by hiring trained commercial lenders from other institutions or training their own personnel to become commercial lenders.

An important question from the perspective of local credit markets is whether commercial banks and savings banks that make commercial loans are equivalent institutions. The results of this study suggest that there are some important differences in the capacity of savings banks to do commercial lending, but that these differences may disappear as the savings banks gain experience in this area. In addition, there are important differences across states. For example, all of the savings banks selected for this study in Maine currently did commercial lending, while only 26% of the savings banks in Massachusetts were involved in commercial lending.

For those savings banks that made commercial loans, a lower percent had trained commercial loan officers as compared to commercial banks (50%-67% for savings banks vs. 73%-93% for commercial banks) (Appendix F, Table 5). A lower percent of these savings banks used guaranteed loan programs, did loan participations, or sold their commercial loans. And, a lower percent provided a similar range of services to their business borrowers as did commercial banks (Appendix F, Table 2).

There was greater variation in decision making criteria among savings banks across the four states than was apparent with commercial banks. Character was a much more important criterion in accepting commercial loans in Maine than in the other states, while collateral was much more important in Vermont (Appendix F, Tables 3 and 4). These results may reflect greater variation in the capacity and experience of savings banks across the four states in terms of commercial lending. Many savings banks have only recently entered commercial lending and, therefore, may be more likely to rely on adequate collateral or capitalization of the business in making lending decisions. However, the profile of commercial borrowers and the commercial loan portfolio of savings banks as compared to commercial banks were quite similar (Appendix F, Tables 6 and 7), suggesting that savings banks do respond to local demand and economic conditions, as do the commercial banks.

In general, these results suggest that savings banks are an important component of the commercial lending market in many local areas, that their capacity to do commercial lending may be less than for commercial banks, particularly for savings banks that are new to commercial lending, and that a significant number of savings banks are likely to refrain from doing any commercial lending, maintaining their original market niche. As such, the role of savings banks in providing commercial credit to small businesses in rural markets should be determined on a case by case or institution by institution basis.[19]

19. Constance R. Dunham, "Recent Developments in Thrift Commercial Lending," *New England Economic Review*, Federal Reserve Bank of Boston, November/December 1985, 41-48.

CHAPTER 4

Putting It All Together: Supply and Demand Sides of Rural Capital Markets

GENERAL OBSERVATIONS

Several dimensions of small business credit availability were evaluated in this study. Observations regarding each of these dimensions are described below.

Unmet Credit Needs

Although this study has found evidence that rural capital markets meet the credit needs of many small businesses, the results do suggest some areas where unmet credit needs exist. Both short-term, unsecured loans and long-term loans, more than 5 years, were identified as important capital needs by business respondents. These types of loans fall within the domain of commercial banks and savings banks engaged in commercial lending. However, short-term, unsecured loans may present a problem for bankers doing more traditional, collateral-based lending. And, access to long-term credit may require structuring loans so that risk to the financial institution can be minimized. In any case, these results suggest that debt rather than equity capital is an important need and, consequently, small businesses could work with existing traditional financial institutions to meet the credit needs expressed, although an alternative intermediary may be needed to help reduce or share risk.

In addition, this study showed that some types of businesses had more difficulty obtaining commercial credit than others. Smaller, younger firms had more difficulty obtaining credit than larger, more established enterprises. And, firms that were expanding into new areas of operation may face greater credit constraints than firms seeking capital for their existing operations. These unmet credit needs, in terms of both type of credit and firm, should be the focus of future investigation and policy consideration.

Services

Responses to the bank survey suggest that independent and branch or holding company banks are different in terms of how changes in financial markets are affecting each type of institution. There is evidence of more centralization and less local authority expressed by branch or holding company banks which may not bode well for availability of key services to small business enterprises. As an example, businesses value personal attention to their business needs quite highly, but many bankers cited a lack of personal attention to small businesses as one negative aspect of deregulation in the industry. On the other hand, a positive aspect of deregulation frequently cited is the ability of larger banks to offer a wider range of services and inject new sources of capital into local markets. From the perspective of services, the results of this study suggest that small businesses use less sophisticated types of services more readily available from independent banks, e.g., financial counseling, and that, consequently, deregulation may not be associated with an increased supply of the types of services used most frequently by small business.

Market Structure

The structure of the local market, e.g., whether dominated by independent or affiliated banks, has an impact on several aspects of credit availability. First, small business lending by some rural independent banks is constrained by their small deposit base and limited loan participations and, consequently, markets dominated by independents have more limited capital to make larger commercial loans. To the extent that larger institutions have access to pools of nonlocal capital, geographic deregulation may indeed increase the amount of capital available for small business lending. However, there is more fluidity in these large, nonlocal institutions, suggesting that capital would be more likely to flow out of rural markets into either metropolitan centers within the state or region, or outside the New England region entirely, if local economic conditions deteriorated. While capital can flow out of local markets through nonlocal investments by independent banks, e.g., government securities, options for lending outside the local market are more limited for these banks. It appears that the next few years may provide an opportunity to investigate rural capital availability during a period of economic decline.

Second, greater credit constraints, in terms of the percent of respondents unable to obtain credit and those citing credit availability as limiting to expansion, were evident in markets dominated by large affiliated banks. Since there were no significant differences in the levels of market concentration, as measured by the Herfindahl Index, across market types, differences in the credit experience of small business borrowers are likely related to market structure, i.e., dominance by affiliated or independent banks, rather than the level of market concentration. To the extent that geographic deregulation leads to a local banking market structure dominated by large statewide or out-of-state institutions, results of this study suggest that credit access problems may be exacerbated.

Importance of Local Commercial Banks

Most of the businesses relied primarily upon the local market for their debt capital and most of the bankers conducted their commercial lending activities almost exclusively within their local service area. In addition, commercial banks were an important source of capital for small businesses, both at the start-up stage and in terms of loans as the business develops. For this reason, lending policies and practices of commercial banks and structural changes in commercial banking markets that may affect lending are important to understand.

While other institutions can provide capital to small businesses, e.g., finance companies, suppliers, their importance to the small business respondents in this study was minor. However, their role may change if commercial bank lending to small businesses were to decline. Further study of these other sources of small business credit may be needed.

Product Deregulation and Savings Banks

The role of savings banks in providing credit to small businesses appears to be highly variable. In general, savings banks had more limited capacity for commercial lending, in terms of trained loan officers and use of state and federal guarantee programs. With time, these institutions are likely to gain commercial lending experience and may enhance their capacity. However, there is still a sizeable percent of savings banks that are not engaged in commercial lending and have no plans to enter that market. Consequently, savings banks cannot be viewed as an important source of commercial loans, in general. Rather, it is important to evaluate their role in commercial lending on an institution by institution basis. Indeed, anecdotal evidence from this study suggests that some large statewide savings banks and some smaller institutions are actively involved in commercial lending, suggesting that product deregulation has had a positive effect on rural commercial lending. In addition, the growing involvement of credit unions may enhance this positive impact.

CONCLUSIONS

Results of this research project provide information useful for evaluating the three hypotheses set forth at the beginning of this report. First, this study provides some evidence that commercial credit availability differs by local banking market type, i.e., businesses indicated more credit problems in markets dominated by large affiliated banks. In addition, some differences in the lending practice of independent and branch or holding company banks were found, particularly in terms of the mix of services provided. Both independent and branch banks appear to respond to economic conditions in their local market in terms of their lending patterns. It is possible that market structure as well as institutional type influence bank lending behavior. When a mix of institutional types is present in the market and there is no dominance by larger institutions, these results suggest that local economic conditions, e.g., demand for credit from businesses, influence bank lending, regardless of institutional type. However, when larger banks have some market power, i.e., they dominate the local market, this market power may influence their behavior. At this point, these interpretations of this research should be taken as hypotheses that require further testing. However, the results do suggest some interesting policy implications, as discussed in the next chapter.

Second, evidence regarding the role played by bank management in the credit provision process is not conclusive. Most characteristics of bank commercial lending were similar, independent of the type of institution. Lending by independent and branch banks was similar in terms of both the business profile and loan portfolio. Criteria used in considering loan applications were not very different across banks and even across bank types, with one exception regarding the apparent bias against lending to new firms expressed by independent bankers. Banks appeared to be responsive to small business credit needs despite the fact that many banks, particularly independents, did not have formal marketing programs or even formal definitions of small businesses that guided their lending programs. The relatively high percent of banks with loan officers trained in commercial lending may contribute to this responsiveness, although the training was not uniform necessarily across banks.

However, it is clear from the anecdotal information gathered during interviews with the bankers that the loan officers are very different in terms of how they view their role in commercial lending and local economic development. Bankers ranged from very active to very passive commercial lenders. Some viewed themselves as niche bankers, meeting the needs of small businesses they felt were not being served by larger institutions within the local market. Others tried to bring the full range of services and loan products, available from their headquarters bank, to small business clients in the local market. Differences in the attitudes of loan officers cut across bank institutional types, suggesting that management remains an important element in defining bank commercial lending policy and practice.

Third, most small businesses are not affected negatively by changing local financial markets, based on these results, although it is not possible to attribute the positive conditions expressed by businesses to deregulation. The overall favorable economic conditions experienced in the New England region during the time period of this study likely influence business perceptions of changes in their local capital market so that deregulatory impacts are difficult to single out. There was some limited evidence that business perceptions of local markets are different in markets dominated by larger banks, but the differences were minor. A further test of how local market changes affect business credit availability should come by investigating small business credit availability during the period of economic decline that this region is experiencing at present. Whether market structure has a larger influence on credit access problems during this period, as suggested by a number of bankers concerned with how readily capital can flow out of the local market through large state or regional institutions, remains to be evaluated.

SUMMARY

This study has evaluated a large quantity of data on both the supply of and demand for commercial credit in four New England states, which was unavailable previously. The report provides a description of the results of the business and financial institution surveys to provide some initial insights into how rural capital markets are functioning within the region and how changes in those markets may be affecting small business capital availability, positively or negatively. Given the changes that have taken place in the region's economy in the past year, further study of rural capital availability is warranted. The results of this study suggest that unmet credit needs may exist for some types of firms and commercial credit, even in the best of economic times. The effect on rural commercial credit availability of a slow down in the overall regional economy should be evaluated, using the present study's findings as baseline data. However, a number of important policy implications can be suggested based on this initial analysis of the survey results. The input of an advisory group to this project, with representatives from the banking industry, academia, public policy, community, and regulatory organizations, and alternative financial institutions, forms the basis of the policy recommendations discussed in the final chapter.

CHAPTER 5
Policy Implications

CONTRIBUTIONS OF THE STUDY

This study has made at least three important contributions to the study of rural financial markets. First, the hypothesis that geographic deregulation creates capital gaps can be examined by looking at data from a large number of relatively homogeneous rural areas, in a region experiencing strong economic growth coupled with structural change in banking markets. The results are likely to be representative of other rural areas located relatively near to urban centers and with strong economies. However, given the design of the questionnaire, it was not possible to separate responses by race or gender and identify capital access problems that might be particular to minority- or women-owned businesses. In addition, it is likely that the sample contains few minority-owned businesses, since rural areas of New England have relatively small minority populations. The results of this study would have limited usefulness in rural areas with larger populations of minorities, such as areas in the South. The results provide information with which to judge our prior expectations about the impact of geographic deregulation relative to how rural markets are functioning currently.

Second, although it is likely that the results would be different if this research were repeated today, the study provides a baseline for comparison with future research, under different economic conditions, and helps to refine relevant areas of inquiry. Credit problems identified in this study are likely to be more severe during an economic downturn and, indeed, reports in the press suggest that credit constraints are already being experienced throughout the region.[20] To retain this study's value as a benchmark, any future investigation of the functioning of rural capital markets should evaluate the effect of market structure on commercial credit availability, concerns about reduced flexibility and increased centralization in larger institutions, deposit constraints faced by local independent banks, capacity problems facing both businesses and banks, and the information gap that exists for businesses, bankers, and policy makers.

20 Christopher J. Chipello and Paul Duke, Jr., "Overzealous Bank Regulators May Hurt New England's Economy More, Some Say," *The Wall Street Journal*, Monday, March 5, 1990, A7A.

Third, the study has provided useful information with which to suggest policy implications. The policy discussion to follow is based on input from the advisory group to this research project, whose members are listed in Appendix G. While this section is based on discussion held with the Advisory Group, it reflects the principal investigator's interpretation of this discussion and may not reflect the sentiments of all members of the group. No attempt was made to reach consensus on the various points raised during the meeting. Rather, the meeting was designed to solicit views about the project results from a range of perspectives so that the policy implications set forth in this report might be as balanced as possible.

POLICY IMPLICATIONS

Assuming that local banking institutions are important sources of small business credit, this study has important implications for national policy. A number of policy implications are described in detail below.

- **Regulatory change should be considered as one mechanism for encouraging greater bank lending to small businesses. In particular, guidelines for community reinvestment should be developed, based on studies such as this one, to assist bankers in meeting the credit needs of their communities.**

  Several specific guidelines are relevant based on the results presented here. First, an information gap is apparent between bankers and small businesses, at least in terms of commercial banking services. Better marketing programs including outreach to small businesses by local banks are needed so that businesses know the range of services available and can take advantage of the services that are useful to them. At the same time, banks should reconsider the mix of services offered to small businesses, since this study suggests that more sophisticated services are in less demand by these enterprises than counseling and referral services.

  An important question related to the issue of banking services is who should provide these services. For small businesses, particularly during their early stages, the quality of assistance they receive is critical. If banks are going to provide financial counseling and other forms of technical assistance to business borrowers, lenders must be willing to monitor the business closely and provide help before problems reach a critical stage. Existing mechanisms for providing these services should be evaluated, since it may be more effective for the bank to work with alternative service providers on a contractual or referral basis, rather than to provide services directly. Such an arrangement may be particularly important for management counseling services since bank concerns about liability for poor business decisions exist.

  Second, bank support of start-ups is limited, whether due to regulatory or bank policy constraints. To encourage more start-up lending, banks should be encouraged to work with alternative financial institutions, e.g., community development corporations, development banks or credit unions, in their community or state to minimize the risk involved in lending to new firms. Development of such an institutional partnership is important since banks are unlikely to engage in more start-up lending, particularly if the capital needs of business start-ups are for equity rather than debt. Regulators have recognized the value and legitimacy of this CDC-bank partnership by permitting banks to make investments in CDCs or establish their own CDC. Alternatively, regulatory policy could be altered to encourage greater bank lending to young businesses, particularly start-up enterprises (see below).

  Third, given the liquidity constraint many independent banks identified, these institutions should be encouraged to participate in federal guarantee programs, such as SBA, and to actively sell these loans on the secondary market. For other commercial loans, development of alternative mechanisms for enhancing liquidity, such as organizing a large group of independents to form a secondary market for commercial loans may be needed. An appropriate institution to provide leadership for these innovations may be the state or federal banker associations. For these independent banks, linked deposit programs, i.e., linking the deposit of public funds to a bank's performance in terms of reinvestment, may be an appropriate means of encouraging greater support for community development. The bank's deposit base would be augmented by public deposits while the bank would increase its development lending activities.

Fourth, requirements that banks identify "community credit needs" should be enforced so that better information about the demand side of local capital markets can be obtained. To do so, regulators should provide guidelines for efficiently gathering this information which banks can follow. Then, data on credit needs could be combined with commercial loan data (see below) to permit better evaluation of local credit markets.

- **Regulatory policy should be changed to encourage greater bank lending to young, start-up enterprises.**

One option might be the creation of an alternative commercial loan portfolio, comprised of a small proportion of the bank's total commercial loans, which would be evaluated by bank examiners separately from the overall loan portfolio, i.e., "entrepreneurial portfolios."[21] Banks could be encouraged to make more loans to young businesses and start-up enterprises by placing loans in this alternative portfolio, with less concern about the reaction of bank examiners to loans made to highly leveraged or inexperienced business borrowers. Such regulatory change would create a window of opportunity that bankers could use to address some of the credit needs identified in this study.

- **Regulatory policy should be designed to encourage a mix of institutional types at the local market level as a means of maintaining competitive market conditions and providing credit to small businesses.**

The results of this project suggest that markets with a mix of institutions may perform better in terms of small business credit availability than markets dominated by either independents or larger affiliated banks. And, although savings bank capacity for commercial lending appears to be highly variable across institutions and, thus, markets, the role of savings banks as providers of commercial credit must be evaluated on an individual institution basis. In some cases, the role of savings banks in terms of identifying a niche and providing small business credit has been great. However, further analysis of credit experience in markets that have undergone structural change is needed to refine the initial observations gained in this study.

- **Information about commercial lending at the local, branch level should be gathered by regulators on an annual basis and made publicly available so that community groups, researchers, and bankers can understand the functioning of local credit markets and make more informed decisions as a result.**

Before public policies can be designed to promote small business development or to increase credit availability to small busi-

21 Roger J. Vaughan, Robert Pollard, and Barbara Dyer, *The Wealth of States,* Washington, D.C.: Council of State Policy and Planning Agencies, 1984, 80.

nesses, it is essential that the functioning of local credit markets be understood. By collecting data from banks regarding their commercial lending activities, e.g., size and type of businesses served, size and type of commercial loans made, location of business borrowers, credit availability can be more clearly delineated. This information would be useful to bankers in making loan policy and lending decisions, particularly in terms of portfolio diversification and identifying potentially profitable lending opportunities. It would also help alternative institutions identify important credit niches that they could fill, in cooperation with local financial institutions.

Provision of commercial loan information would help to insure that effective public policy is designed to address specific credit needs. This study, along with the Wisconsin study referenced earlier, found evidence that particular types of small firms may face credit constraints, that some types of commercial credit are less available, and that structural change (both market and institutional) does affect the mix of services offered and responsiveness to small business credit needs. Since employment creation through small businesses is an important component of rural economic growth, commercial loan disclosure is a necessary precursor to understanding how rural commercial credit markets are functioning and to developing appropriate rural credit market policy.

- **Effective technical assistance programs should be evaluated and a model developed for increasing the management capacity of small businesses and the capacity of rural bankers to evaluate the risk inherent in small business enterprises. Public funding should be provided to extend model technical assistance programs throughout rural areas.**

As expressed by business respondents, management capacity was a critical limitation on their ability to expand. In addition to increasing management capacity, it is possible that technical assistance for the business may serve as a method of managing risk for a banker who knows that the business is working in partnership with a technical assistance provider, hence credit access may be increased. A number of business technical assistance models exist, both public and private.[22] An evaluation of these programs should focus on identifying the components or characteristics of a technical assistance program that make it effective. This information could be used to adapt existing technical assistance models, e.g., Small Business Development Centers, Cooperative Extension Service, to help them address the needs of small businesses in rural America.

The bankers' reluctance to lend to new firms, particularly for independent bankers, suggests some limitation on their ability to evaluate effectively the risk involved in a new enterprise. Learning how to evaluate risk and package loans to minimize that risk is likely to improve the bank's performance in the eyes of regulators and shareholders. However, there are few examples of programs designed to increase the capacity of small rural bankers. Programs such as the Minnesota Bankers' Association's Enterprise Network represent a starting point for analysis of effective technical assistance models for small bankers.

- **Banks are unlikely to be able to meet all the small business credit needs that exist in rural areas. Consequently, alternative**

22 For a review of some of these programs, see Deborah M. Markley, *Availability of Capital in Rural America: Problems and Options*, Background Paper Submitted to the Task Force on Rural Development, National Governors' Association, Washington, D.C., 1988. (A revised version of this paper is currently being prepared for publication by NGA.)

financial institutions, e.g., community development corporations (CDCs), development banks or credit unions, have an important role to play in rural credit markets as providers of risk capital in conjunction with entrepreneur and bank capital. Greater public support of these institutions is needed to permit them to be effective capital market participants.

Alternative financial institutions, with a specific focus on community development lending, can help meet the equity and risk capital needs of small businesses. However, these institutions are limited by their relatively small capital base and the need for subsidized capital, from some public or private source, in order to engage in higher risk (to them) or lower cost (to the business) lending to stimulate development. Examples of alternative institutions exist, but a comprehensive evaluation of those programs is needed. Some work in this area is currently underway, conducted by the Woodstock Institute and funded by the Ford Foundation.

Banks can enhance the role of these alternative institutions and the bank's own capacity to contribute to community economic development by establishing stronger ties to these organizations and providing capital to support their programs. In addition, since other institutions have control over capital derived from rural areas, e.g., pension funds and insurance companies, public policy should be designed to tap these sources of funds in support of alternative institutions. While these other institutions are unlikely to enter the commercial loan market directly, public policy should encourage their investment in alternative institutions. Investments would likely take the form of long-term capital committed to community financial institutions. Since a subsidy may be needed to accomplish community goals, community financial institutions should blend public funds with investments from these organizations to achieve the required mix of market rate and subsidized capital.

- **Finally, credit policy must be viewed as one component of an overall rural economic development strategy, whether designed at the national, state, or local level.**

While a number of policy implications specifically related to credit availability are discussed above, rural economic development policy may be the most appropriate mechanism for addressing rural capital market issues. As the economic structure of the U.S. and rural areas, in particular, changes, the approach to rural economic development must change. Strategies of encouraging rural economic development through industrial recruitment are gradually being replaced by attempts to look inward and develop the small business potential that exists in rural areas. Along with small business development must come recognition that local capital markets provide most of a small business's capital needs and that small business growth is dependent upon the availability of capital through local institutions.

At the same time, the role of bankers in rural economic development must be acknowledged. Bankers are one piece of rural capital markets. And, rural capital markets are one variable in the rural economic development equation. Bankers are not economic development practitioners and, in most cases, play a relatively passive role. Bankers respond to economic opportunities within the community rather than serving as instigators of economic change. Stimulation of rural economic development is likely to require another type of catalyst, such as an enterprise agent, whose role in the community is to cultivate opportunities for change and encourage active participation by community residents in the process of economic development. Enterprise agents may be local community entrepreneurs or trained development professionals, but the role of enterprise agent is not necessarily an appropriate role for a banker. Past models, such as extension agents in agricultural communities, should be evaluated and lessons learned for rural small business and economic development.

SUMMARY

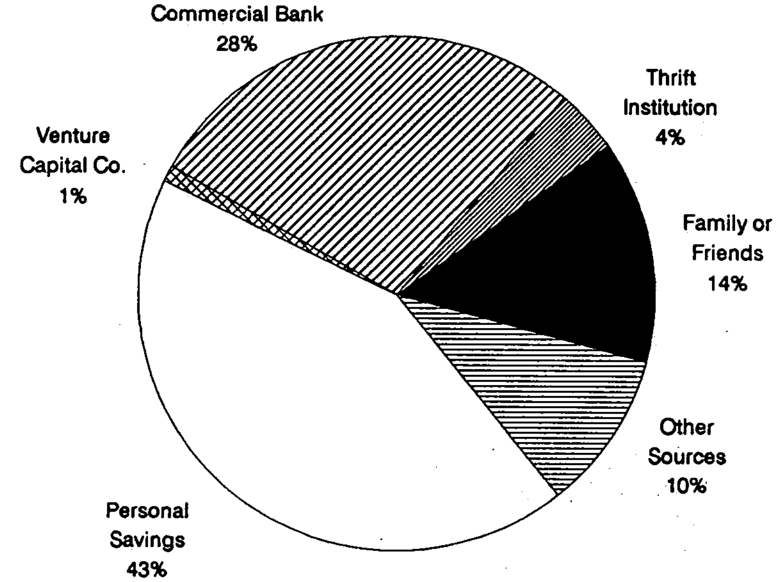
One consideration underlying the conception of this research project was the need to provide policy makers with more comprehensive data about both the supply and demand sides of rural credit markets to guide decision making. As one of the first attempts to provide such information, this study has been successful in achieving that end. This study has shown that a bank's loan portfolio provides only part of the information needed to evaluate rural credit markets. Information about the services a bank provides, its capacity to evaluate risk and provide assistance to business borrowers, along with bank characteristics such as flexibility, reliability, and personal attention to credit needs are critical determinants of the bank's ability to meet small business credit needs. In addition, the structure of the bank and its local market have an influence on lending that may not be adequately reflected in the loan portfolio.

The credit conditions described in this study may reflect the best conditions that exist in rural markets, given strong regional economic conditions and the sample bias against young start-ups and businesses that start but then fail. As the economic climate changes, credit access problems, particularly for entrepreneurs and young firms, should be viewed with increasing concern. Fortunately, these results provide valuable guidance and a benchmark for further investigation of rural credit markets. And, the policy suggestions set forth in this report are important under any economic conditions, since they are designed to provide a better understanding of rural capital markets and to encourage more active involvement of banks and other institutions in providing credit and assistance to small businesses.

APPENDIX A

Maine Business Tables

Figure 1.
Percent of Start Up Capital From the Following Sources



■ For All Firms:

% Equity Received From Sources Outside the State 4%

% Debt Received From Sources Outside the State 4%

■ By Firm Sales Size:

Source of Capital	<$500,000 in Gross Sales	$500,000 -$1 Million in Gross Sales	>$1 Million in Gross Sales
Family or Friends	14%	14%	10%
Commercial Bank	26	39	22
Thrift Institution	4	1	12
Credit Union	–	–	–
Venture Capital Company	–	3	–
Personal Savings	46	33	49
Other	10	10	12
% Equity Capital From Sources Outside the State	4	4	5
% Debt Capital From Sources Outside The State	4	3	10

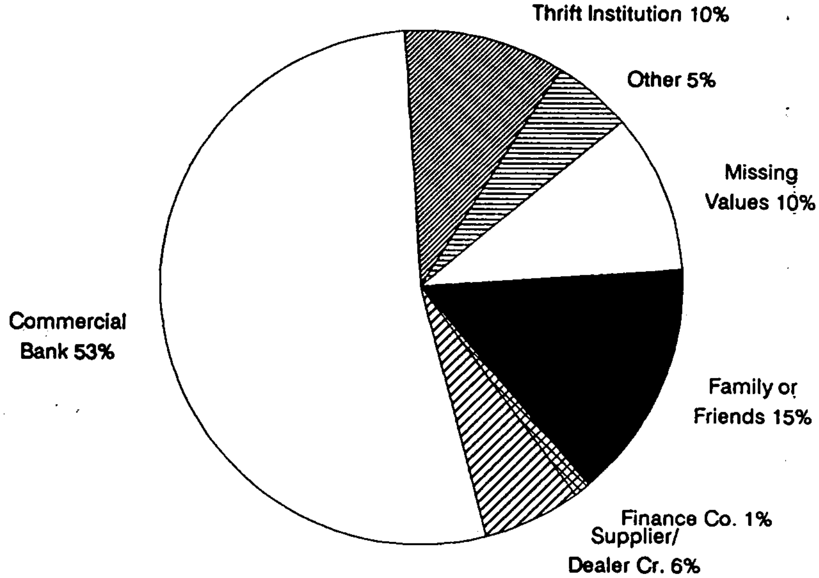
■ By Industry Type:

Source of Capital	Resource	Manufacturing	Trade	Service	Other
Family or Friends	15%	17%	11%	14%	20%
Commercial Bank	5	32	35	17	27
Thrift Institution	7	–	4	7	3
Credit Union	–	–	–	1	–
Venture Capital Company	–	–	1	1	–
Personal Savings	55	51	39	48	41
Other	25	–	11	11	–
% Equity Capital From Sources Outside the State	1	4	7	2	–
% Debt Capital From Sources Outside the State	11	5	5	2	1

Percents may not total 100 due to missing values.

Figure 2.
Percent of Loans Received From the Following Sources During Business's First 5 Years of Operation

■ **For All Firms:**



■ **By Firm Sales Size:**

Source of Capital	< $500,000 in Gross Sales	$500,000-$1 Million in Gross Sales	> $1 Million in Gross Sales
Family or Friends	16%	15%	13%
Commercial Bank	49	69	52
Thrift Institution	10	4	25
Credit Union	—	—	—
Finance Company	1	—	2
Venture Capital Company	—	—	—
Supplier/Dealer Credit	7	4	—
Other	7	3	—

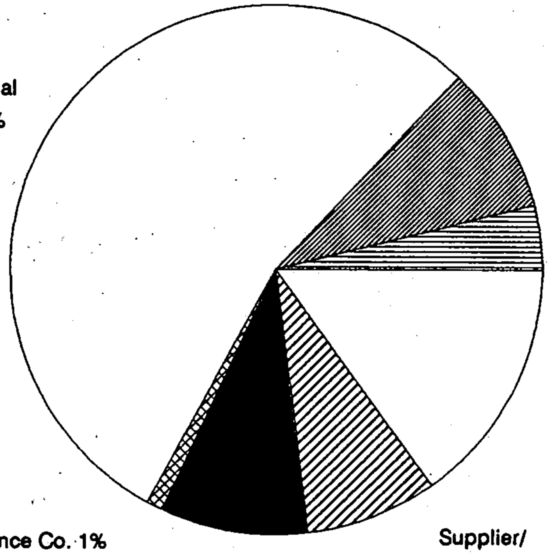
■ **By Industry Type:**

Source of Capital	Resource	Manufacturing	Trade	Service	Other
Family or Friends	5%	9%	18%	15%	15%
Commercial Bank	38	56	59	42	53
Thrift Institution	12	8	10	10	10
Credit Union	—	—	—	—	—
Finance Company	—	—	1	2	1
Venture Capital Co.	—	—	—	—	—
Supplier/Dealer Credit	—	2	7	4	9
Other	18	16	3	8	2

Percents may not total 100 due to missing values.

Figure 3.
Percent of Loans Received From the Following Sources During Period Up to the Present

■ **For All Firms:**



■ **By Firm Sales Size:**

Source of Capital	< $500,000 in Gross Sales	$500,000-$1 Million in Gross Sales	> $1 Million in Gross Sales
Family or Friends	8%	11%	14%
Commercial Bank	54	62	43
Thrift Institution	6	16	25
Credit Union	—	—	—
Finance Company	1	1	2
Venture Capital Company	—	1	—
Supplier/Dealer Credit	8	8	6
Other	4	3	—

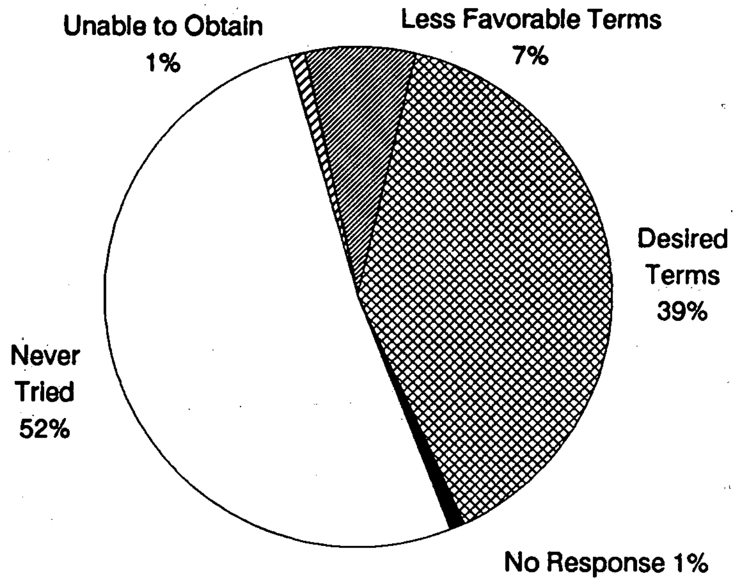
■ **By Industry Group:**

Source of Capital	Resource	Manufacturing	Trade	Service	Other
Family or Friends	2%	16%	10%	10%	4%
Commercial Bank	66	42	51	47	69
Thrift Institution	—	14	11	8	6
Credit Union	—	—	1	—	—
Finance Company	—	—	1	—	1
Venture Capital Co.	—	—	—	—	—
Supplier/Dealer Credit	—	1	9	6	10
Other	15	4	4	5	—

Percents may not total 100 due to missing values.

Figure 4.
Availability of Short-term Secured Loans to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	31%	46%	41%
Obtain on Less Favorable Terms	6	2	10
Unable to Obtain	6	—	1
Never Tried to Obtain	58	50	48

■ By Firm Sales Size:

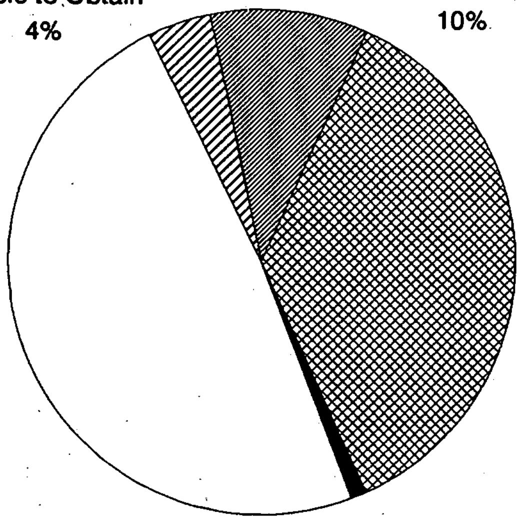
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	33%	68%	47%
Obtain on Less Favorable Terms	6	14	7
Unable to Obtain	2	—	—
Never Tried to Obtain	58	19	47

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain onTerms Desired	33%	39%	44%	27%	45%
Obtain on Less Favorable Terms	11	11	7	10	3
Unable to Obtain	—	—	1	2	3
Never Tried to Obtain	56	44	46	62	50

Figure 5.
Availability of Short-term Unsecured Loans to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	25%	36%	41%
Obtain on Less Favorable Terms	14	12	7
Unable to Obtain	14	—	3
Never Tried to Obtain	47	50	47

■ **By Firm Sales Size:**

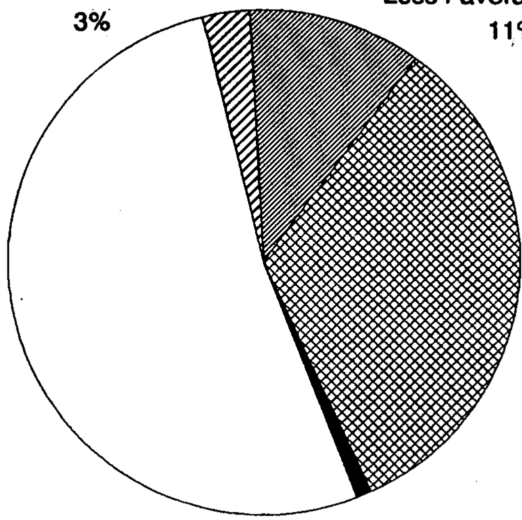
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	35%	46%	40%
Obtain on Less Favorable Terms	9	14	7
Unable to Obtain	4	3	7
Never Tried to Obtain	50	38	47

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	33%	22%	41%	25%	35%
Obtain on Less Favorable Terms	11	6	13	10	12
Unable to Obtain	11	11	3	4	6
Never Tried to Obtain	44	50	41	62	47

Figure 6.
Availability of Long-term (1-5 Years) Loans to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	33%	34%	33%
Obtain on Less Favorable Terms	14	10	10
Unable to Obtain	3	—	4
Never Tried to Obtain	50	54	53

■ By Firm Sales Size:

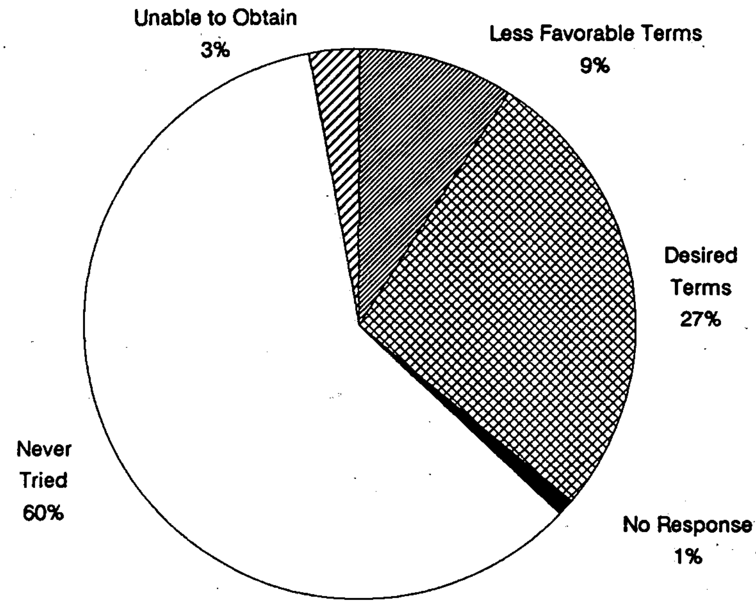
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	31%	43%	40%
Obtain on Less Favorable Terms	9	16	20
Unable to Obtain	4	—	—
Never Tried to Obtain	56	41	40

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	22%	28%	33%	25%	50%
Obtain on Less Favorable Terms	33	11	12	8	5
Unable to Obtain	—	6	1	6	3
Never Tried to Obtain	44	50	53	62	42

Figure 7.
Availability of Long-term (>5 Years) Loans to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	11%	26%	32%
Obtain on Less Favorable Terms	14	4	10
Unable to Obtain	6	2	2
Never Tried to Obtain	69	66	55

■ **By Firm Sales Size:**

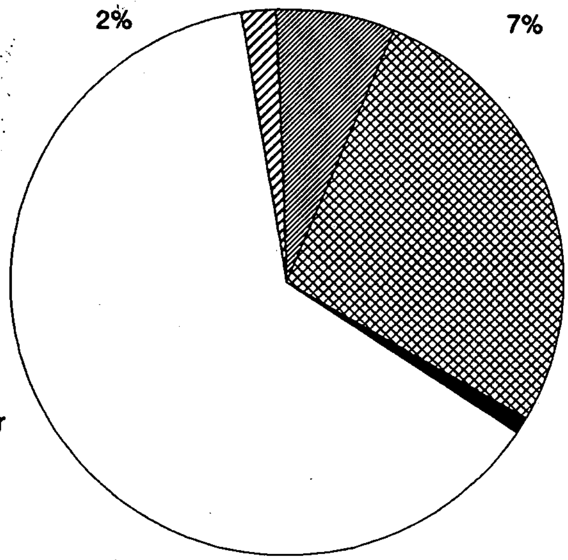
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	23%	46%	27%
Obtain on Less Favorable Terms	8	14	20
Unable to Obtain	4	—	—
Never Tried to Obtain	65	41	53

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	22%	11%	29%	17%	45%
Obtain on Less Favorable Terms	11	22	9	10	3
Unable to Obtain	—	6	4	—	3
Never Tried to Obtain	67	56	57	73	50

Figure 8.
Availability of Commercial Mortgages to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	22%	24%	28%
Obtain on Less Favorable Terms	17	12	3
Unable to Obtain	3	–	2
Never Tried to Obtain	58	62	66

■ **By Firm Sales Size:**

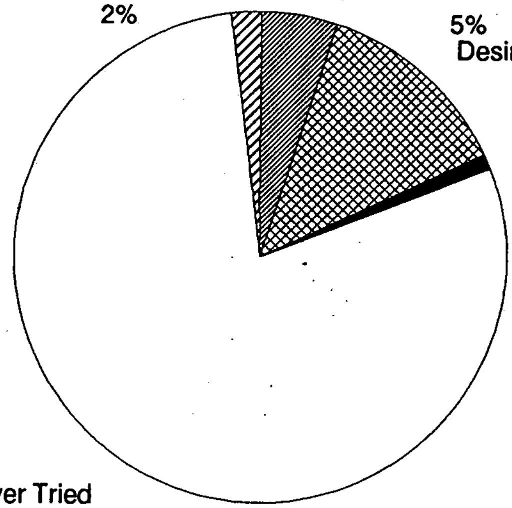
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	21%	54%	27%
Obtain on Less Favorable Terms	6	11	13
Unable to Obtain	3	–	–
Never Tried to Obtain	70	35	60

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	22%	17%	31%	21%	29%
Obtain on Less Favorable Terms	–	11	7	8	8
Unable to Obtain	–	–	3	2	–
Never Tried to Obtain	78	67	58	69	63

Figure 9.
Availability of Home Equity Loans for Business Purposes to Business Respondents

■ **For All Firms:**



■ By Age of Firm:

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	8%	18%	13%
Obtain on Less Favorable Terms	11	2	4
Unable to Obtain	–	6	2
Never Tried to Obtain	81	72	81

■ By Firm Sales Size:

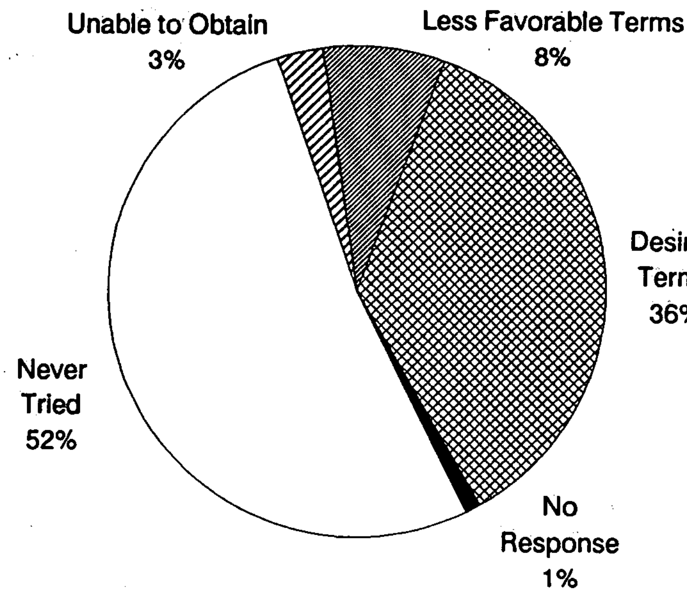
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	13%	19%	7%
Obtain on Less Favorable Terms	5	8	–
Unable to Obtain	3	3	–
Never Tried to Obtain	79	70	93

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	–	22%	15%	10%	11%
Obtain on Less Favorable Terms	–	–	5	8	5
Unable to Obtain	–	–	3	4	–
Never Tried to Obtain	100	72	75	79	84

Figure 10.
Availability of Revolving Lines of Credit to Business Respondents

For All Firms:



By Age of Firm:

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	25%	34%	40%
Obtain on Less Favorable Terms	14	10	6
Unable to Obtain	11	4	1
Never Tried to Obtain	50	50	53

By Firm Sales Size:

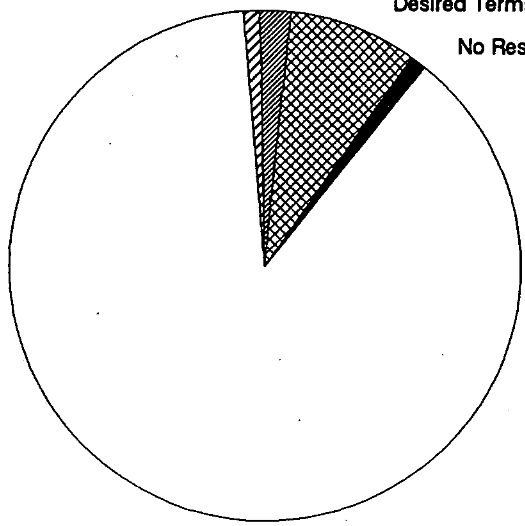
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	31%	57%	47%
Obtain on Less Favorable Terms	9	3	13
Unable to Obtain	4	3	—
Never Tried to Obtain	56	38	40

By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	22%	17%	38%	25%	58%
Obtain on Less Favorable Terms	22	11	8	8	3
Unable to Obtain	—	11	3	2	3
Never Tried to Obtain	56	56	49	6	37

Figure 11.
Availability of Asset Lines to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	6%	8%	9%
Obtain on Less Favorable Terms	8	2	1
Unable to Obtain	—	2	1
Never Tried to Obtain	86	86	88

■ **By Firm Sales Size:**

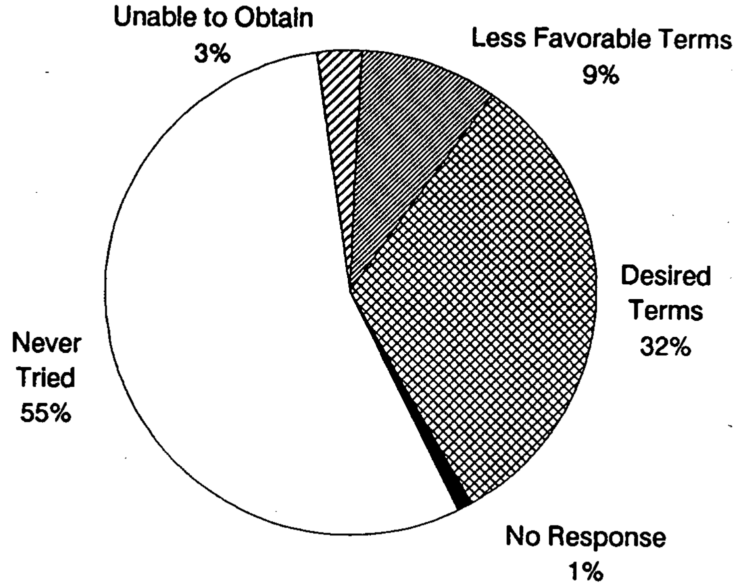
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	6%	16%	20%
Obtain on Less Favorable Terms	2	3	7
Unable to Obtain	1	—	—
Never Tried to Obtain	91	78	73

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	11%	—	9%	8%	11%
Obtain on Less Favorable Terms	—	6	2	2	3
Unable to Obtain	—	—	2	—	—
Never Tried to Obtain	89	89	86	90	84

Figure 12.
Availability of Equipment Financing to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	25%	36%	33%
Obtain on Less Favorable Terms	17	10	6
Unable to Obtain	3	4	2
Never Tried to Obtain	56	48	59

■ By Firm Sales Size:

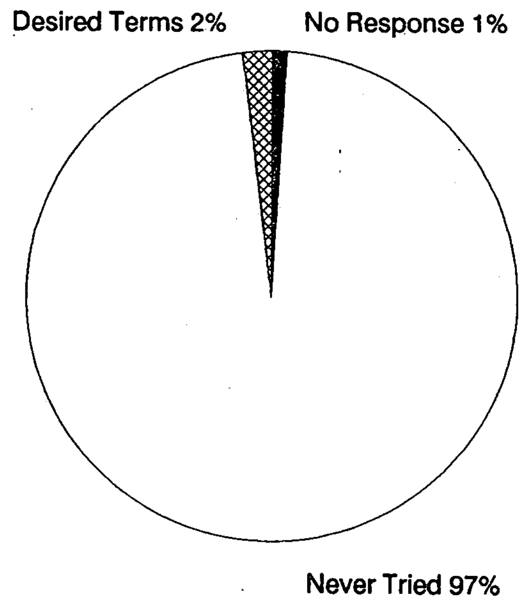
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	27%	51%	53%
Obtain on Less Favorable Terms	8	11	13
Unable to Obtain	3	—	7
Never Tried to Obtain	61	38	27

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	22%	22%	32%	21%	55%
Obtain on Less Favorable Terms	33	17	10	6	—
Unable to Obtain	—	11	2	4	—
Never Tried to Obtain	44	44	55	69	45

Figure 13.
Availability of Public Capital to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	3%	–	2%
Obtain on Less Favorable Terms	–	–	–
Unable to Obtain	–	–	1
Never Tried to Obtain	97	98	98

■ By Firm Sales Size:

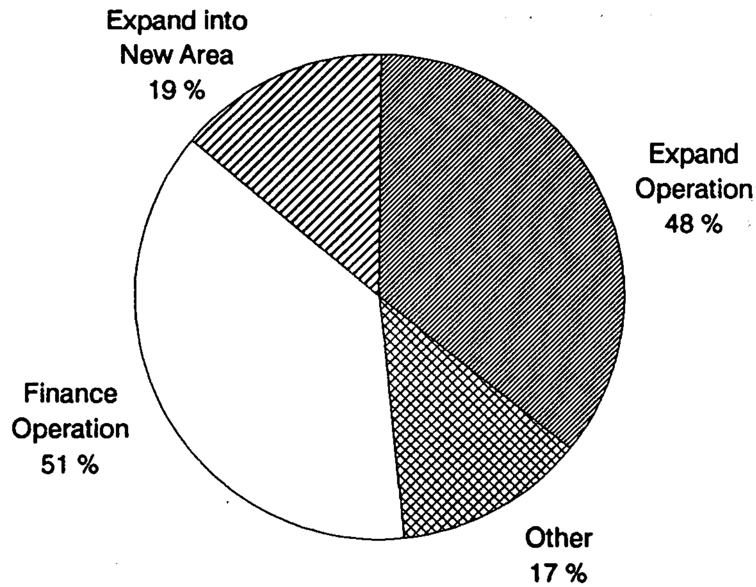
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	1%	5%	–
Obtain on Less Favorable Terms	–	–	–
Unable to Obtain	1	–	–
Never Tried to Obtain	97	95	100

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	–	–	2%	2%	3%
Obtain on Less Favorable Terms	–	–	–	–	–
Unable to Obtain	–	–	1	–	–
Never Tried to Obtain	100	94	96	98	97

Figure 14.
Use of Credit Received by Business

■ **For All Firms:**



■ **By Age of Firm:**

Use of Credit	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Finance Existing Operation	47%	36%	36%
Expand Existing Operation	25	42	39
Expand into New Area of Operation	17	20	12
Other	17	14	11
No Response	–	–	1

■ **By Firm Sales Size:**

Use of Credit	<$500,000 in Gross Sales	$500,000-$1 Million in Gross Sales	>$1 Million in Gross Sales
Finance Existing Operation	37%	49%	33%
Expand Existing Operation	29	62	60
Expand into New Area of Operation	10	27	33
Other	14	8	13
No Response	1	–	–

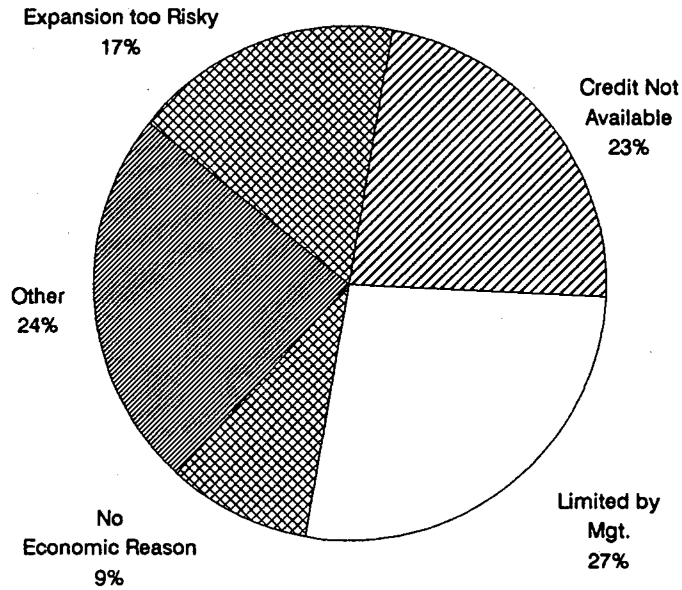
■ **By Industry Type:**

Use of Credit	Resource	Manufacturing	Trade	Service	Other
Finance Existing Operation	33%	39%	39%	31%	50%
Expand Existing Operation	44	50	38	35	26
Expand Into New Area of Operation	22	6	15	13	16
Other	11	6	11	13	18
No Response	–	–	–	8	–

Percents may total more than 100 since multiple responses were permitted.

Figure 15.
Reasons Why 33% of Respondents Decided Against Business Expansion

■ **For All Firms:**



■ **By Age of Firm:**

Reason	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
No Economic Reason to Expand Business	18%	–	11%
Expansion Limited by Mgt. Capacities	27	30	24
Felt Credit Was Not Available in Local Mkt.	9	20	29
Felt That Expansion Was too Risky	36	10	16
Other	9	40	21
No Response	–	–	–

■ **By Firm Sales Size:**

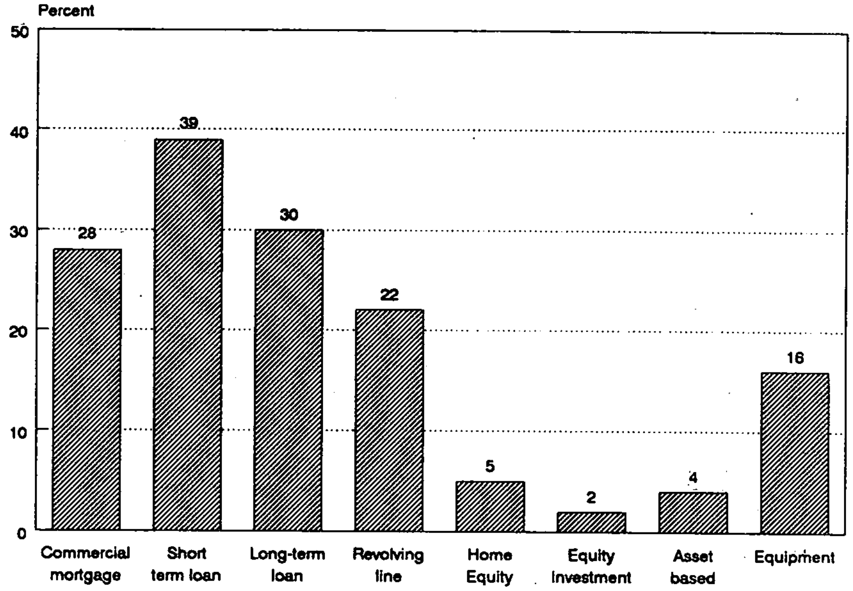
Reason	< $500,000 in Gross Sales	$500,000-$1 Million in Gross Sales	> $1 Million in Gross Sales
No Economic Reason to Expand Business	10%	–	–
Expansion Limited by Mgt. Capacities	23	50	50
Felt Credit Was Not Available in Local Mkt.	23	25	–
Felt That Expansion Was too Risky	20	–	–
Other	24	25	50
No Response	–	–	–

■ **By Industry Group:**

Reason	Resource	Manufacturing	Trade	Service	Other
No Economic Reason to Expand	–	17%	9%	12%	–
Expansion Limited by Mgt. Capacities	25	33	29	12	40
Credit Was Not Available in Local Mkt.	25	33	21	31	10
Felt That Expansion Was too Risky	–	–	21	19	20
Other	50	17	18	25	30
No Response	–	–	3	–	–

Figure 16.
Most Important Credit Need

■ **For All Firms:**



■ **By Firm Sales Size:**

Credit Need	<$500,000 in Gross Sales	$500,000-$1 Million in Gross Sales	>$1 Million in Gross Sales
Commercial Mortgage	27%	32%	23%
Short-term Secured	13	12	23
Short-term Unsecured	27	15	31
Long-term (1-5 years)	16	24	8
Long-term (>5 years)	13	21	8
Revolving Line	19	32	23
Home Equity	6	3	—
Equity	2	—	—
Asset-based	3	6	8
Equipment	18	12	15

■ **By Industry Type:**

Credit Need	Resource	Manufacturing	Trade	Service	Other
Commercial Mortgage	—	31%	33%	32%	13%
Short-term Secured	17	19	13	12	16
Short-term Unsecured	17	31	24	29	19
Long-term (1-5 years)	17	12	20	17	10
Long-term (>5 years)	—	6	13	17	19
Revolving Line	33	25	13	22	39
Home Equity	—	12	4	7	3
Equity	—	—	1	2	3
Asset-based	—	6	1	5	10
Equipment	17	19	9	22	29

Percents may total more than 100 since multiple responses were permitted, i.e., firm could rank more than one category as #1 credit need.

Figure 17.
Availability of Business Services Through Primary Commercial Lender

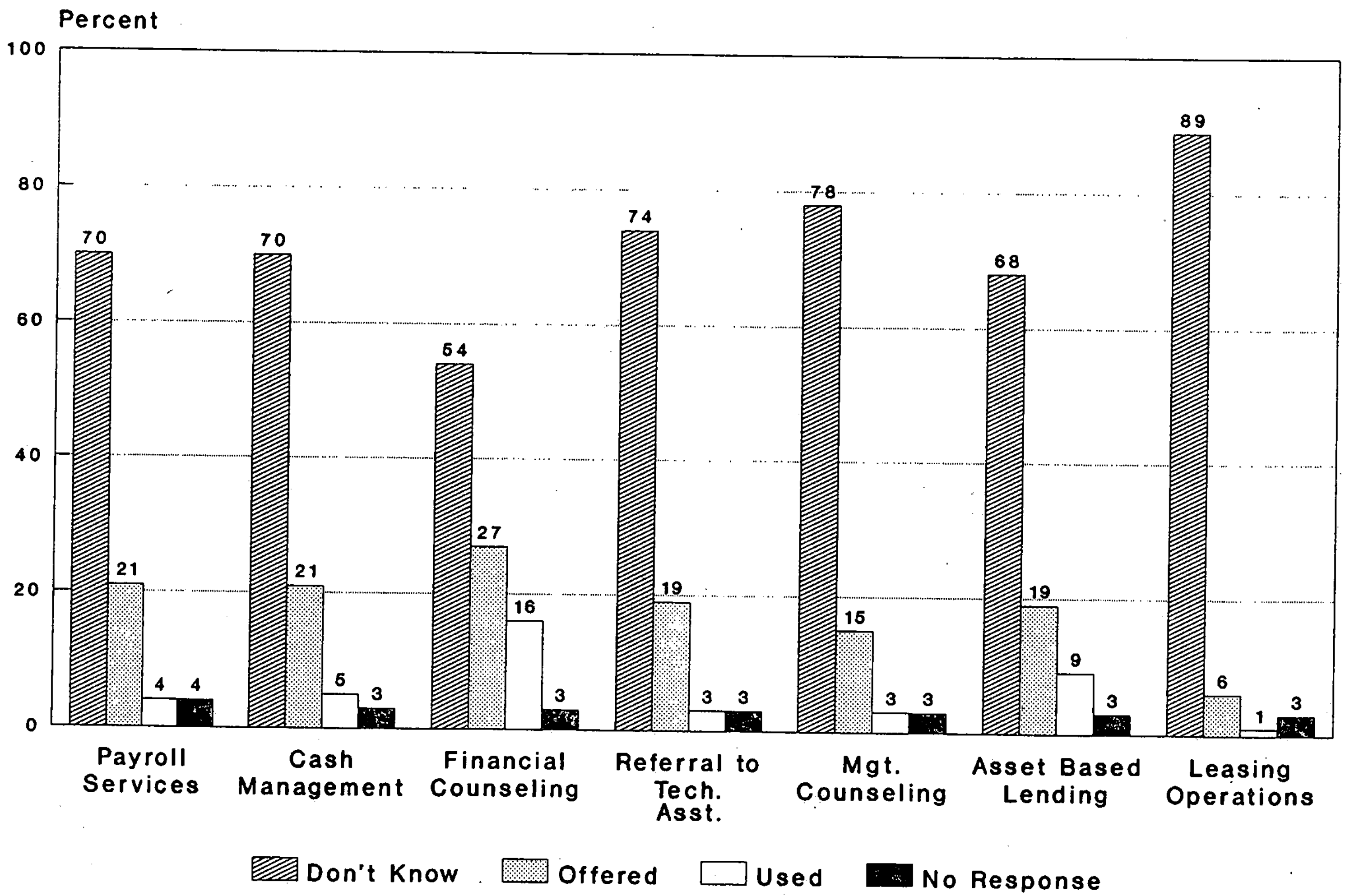
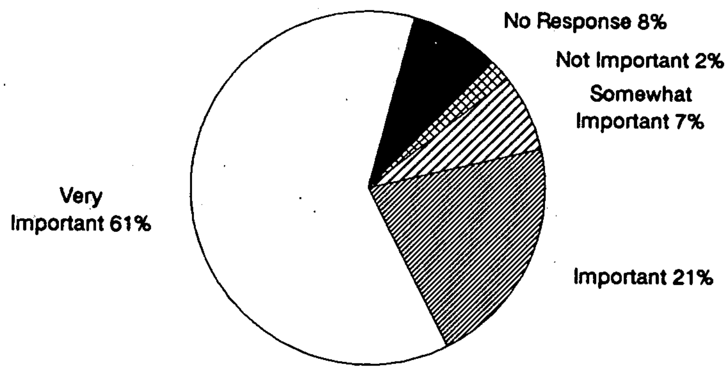


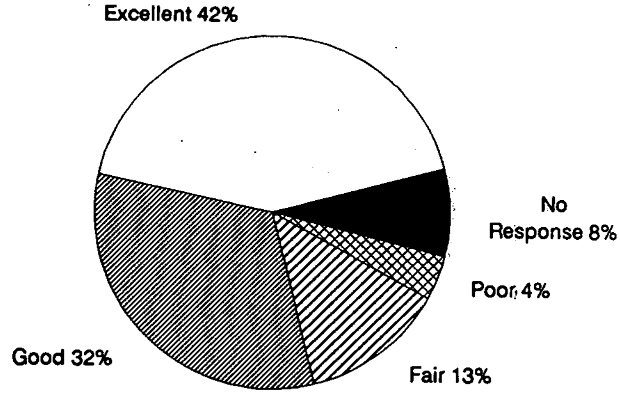
Figure 18.
Importance of Characteristics in Choosing a Financial Institution and Business Rating of Own Institution

■ Importance of "Personal Service or Attention to Business Needs:"

Choosing a Financial Institution

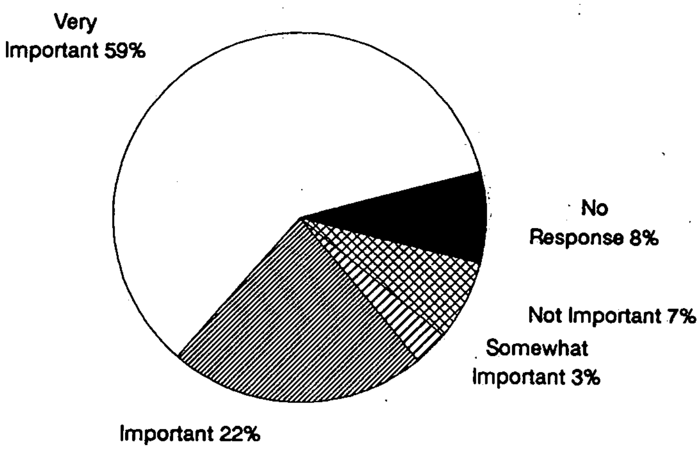


Rating of Own Institution



■ Importance of "Reliable and Consistent Source of Credit:"

Choosing a Financial Institution



Rating of Own Institution

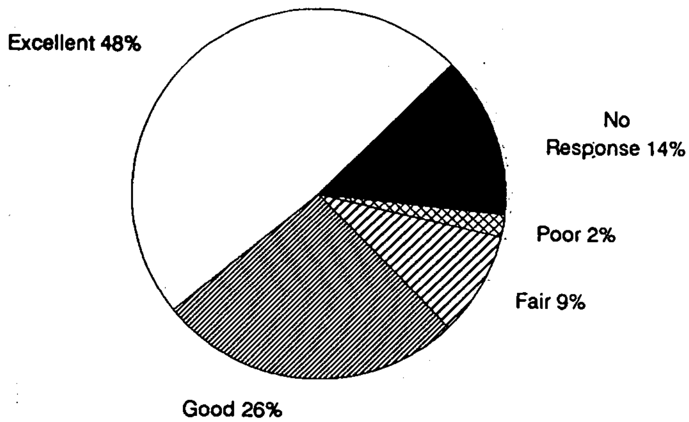
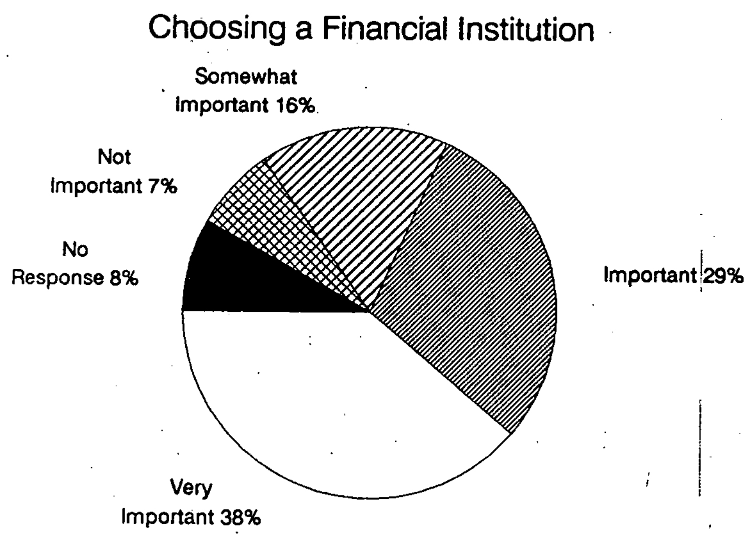
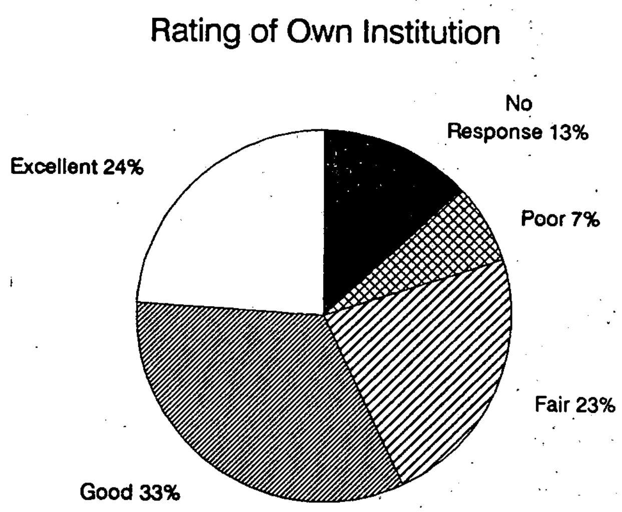


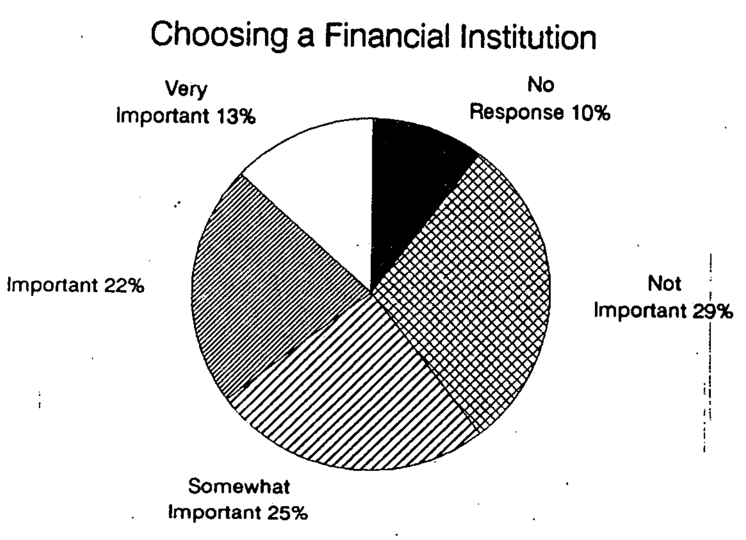
Figure 18 (continued).
Importance of Characteristics in Choosing a Financial Institution and Business Rating of Own Institution

■ Importance of "Knowledge of You and Your Industry:"





■ Importance of "Types of Business Services:"



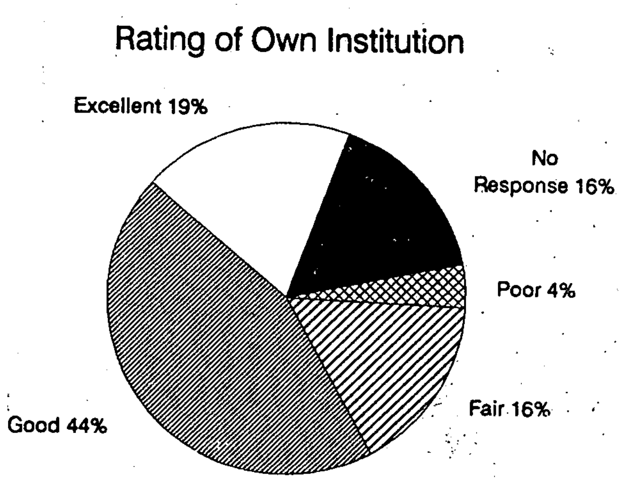
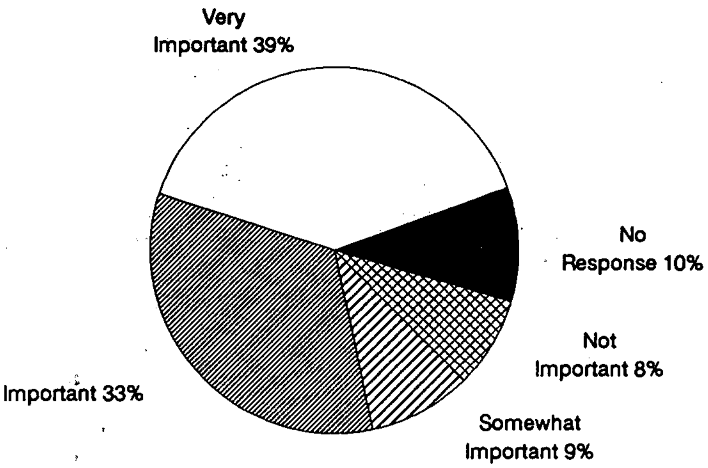


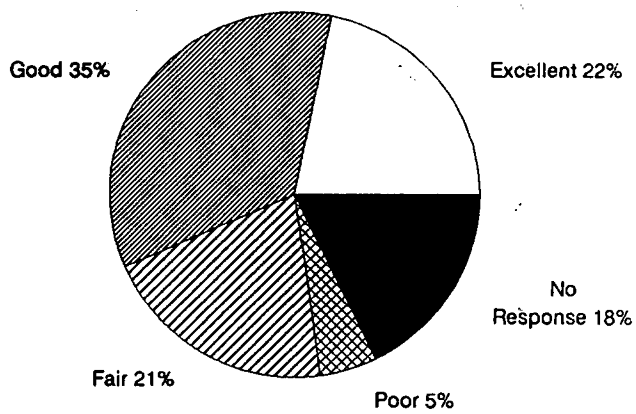
Figure 18 (continued).
Importance of Characteristics in Choosing a Financial Institution and Business Rating of Own Institution

■ Importance of "Flexible Terms and Conditions on Loans:"

Choosing a Financial Institution

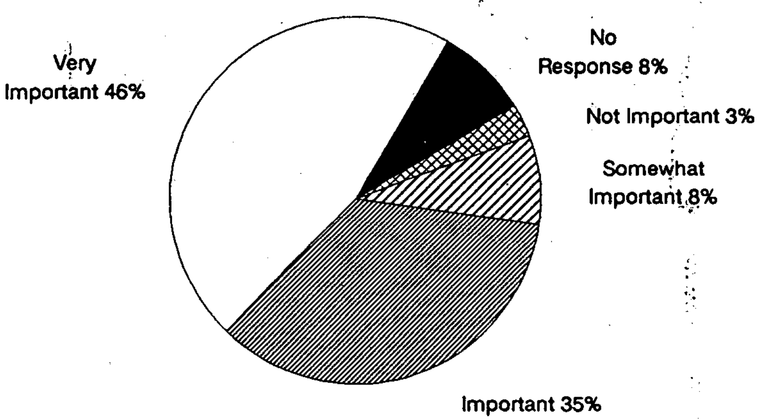


Rating of Own Institution



■ Importance of "Your Knowledge of Bank and Confidence in Them:"

Choosing a Financial Institution



Rating of Own Institution

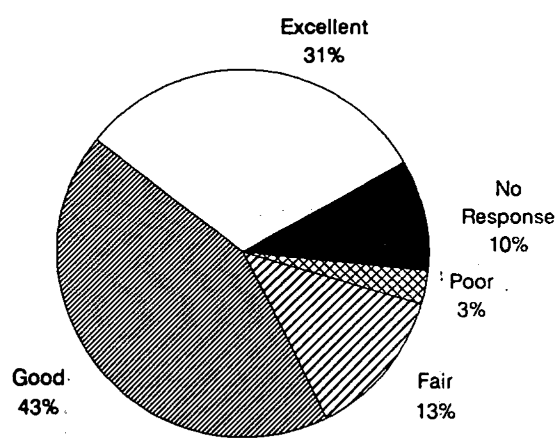
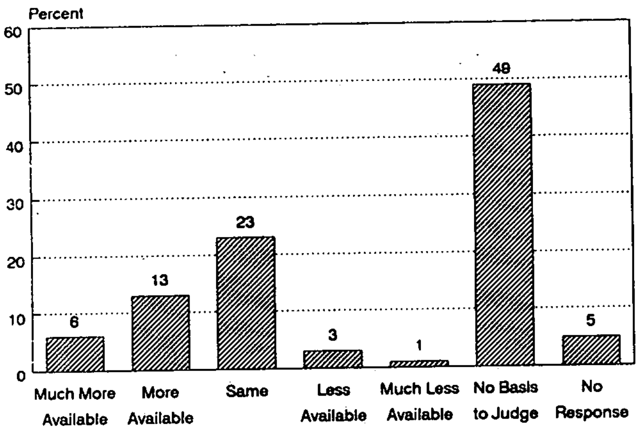
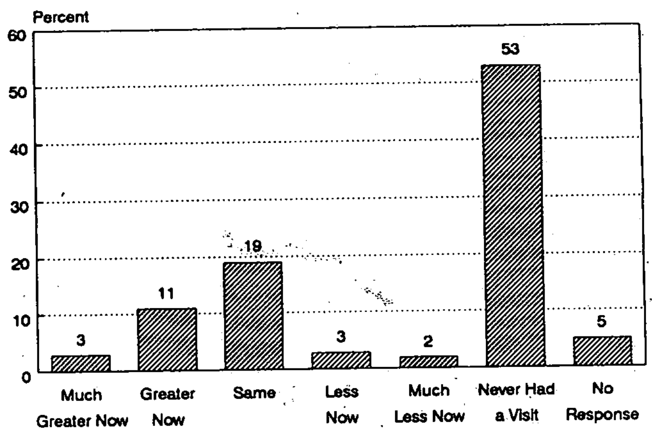


Figure 19.
Business Respondents' Perceptions of How the Local Business Credit Market Has Changed Since 1984

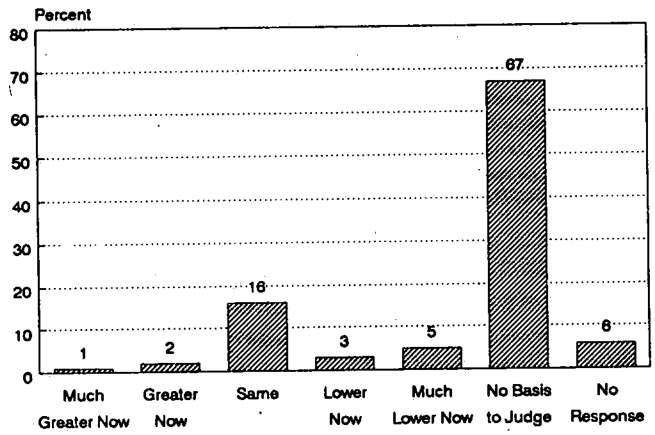
■ Availability of Asset-based Loan Products:



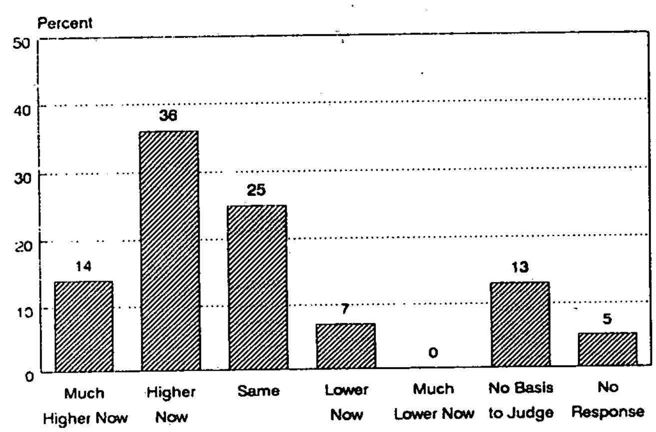
■ Frequency of Visits by Local Financial Institutions to Solicit Loan Business:



■ Frequency of Loan Denials:



■ Cost of Bank Services:



■ Length of Time Required to Process and Decide on Loan Applications:

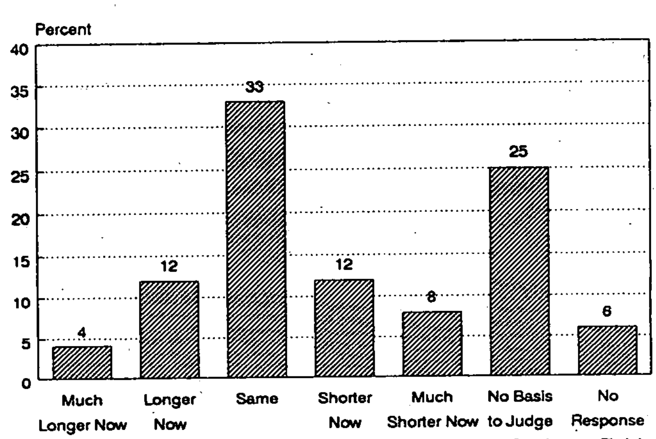
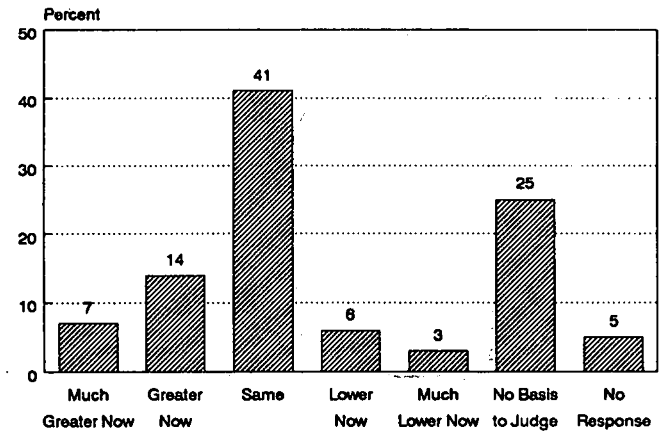
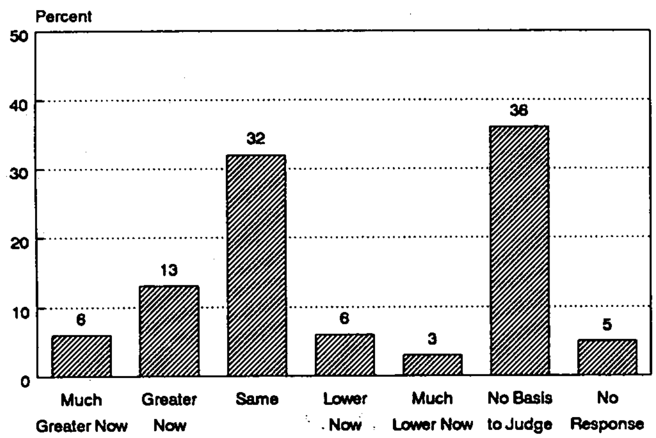


Figure19 (continued). Business Respondents' Perceptions of How The Local Business Credit Market Has Changed Since 1984

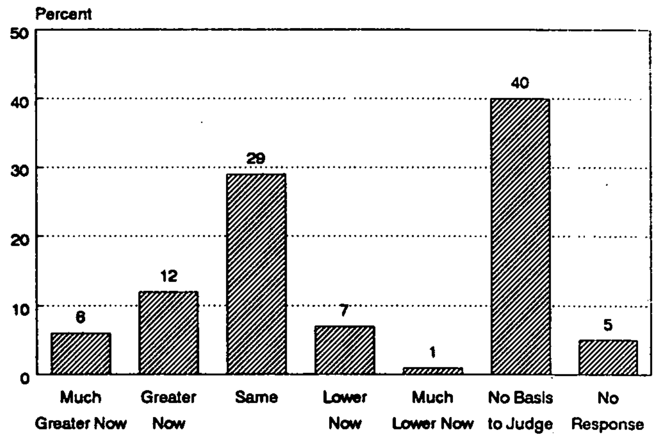
■ Personal Attention to Credit Needs:



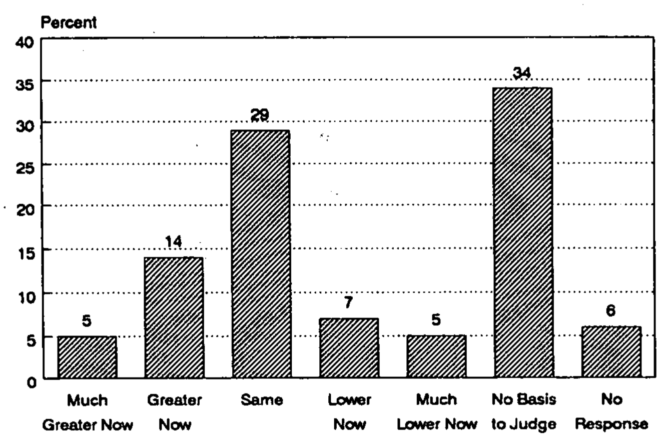
■ Flexibility in Terms Offered on Short-term Financing From Your Bank:



■ Flexibility in Terms Offered on Long-term Financing From Your Bank:



■ Extent to Which Lending Decisions are Tailored to Your Needs:



APPENDIX B

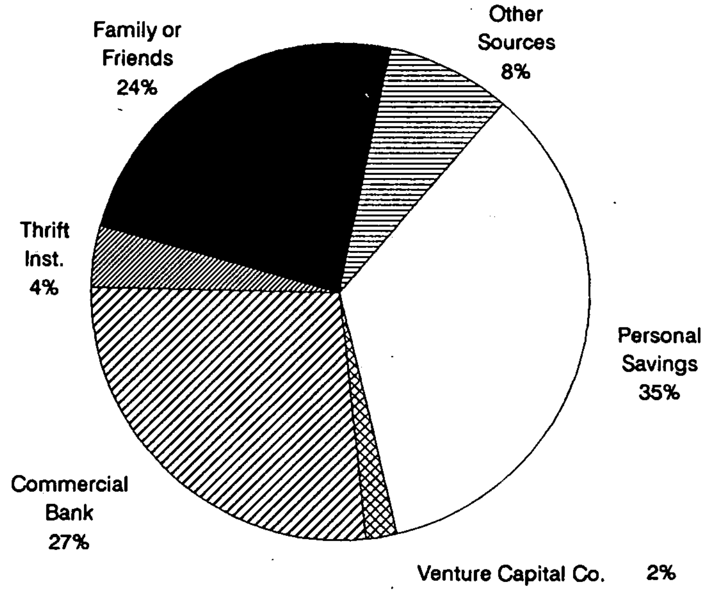
Massachusetts Business Tables

Figure 1.
Percent of Start Up Capital From the Following Sources

■ For All Firms:

% Equity Received From Sources Outside the State 5%

% Debt Received From Sources Outside the State 4%



■ By Firm Sales Size:

Source of Capital	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Family or Friends	14%	14%	10%
Commercial Bank	26	39	22
Thrift Institution	4	1	12
Credit Union	—	—	—
Venture Capital Company	—	3	—
Personal Savings	46	33	—
Other	10	10	12
% Equity Capital From Sources Outside the State	4	4	5
% Debt Capital From Sources Outside The State	4	3	10

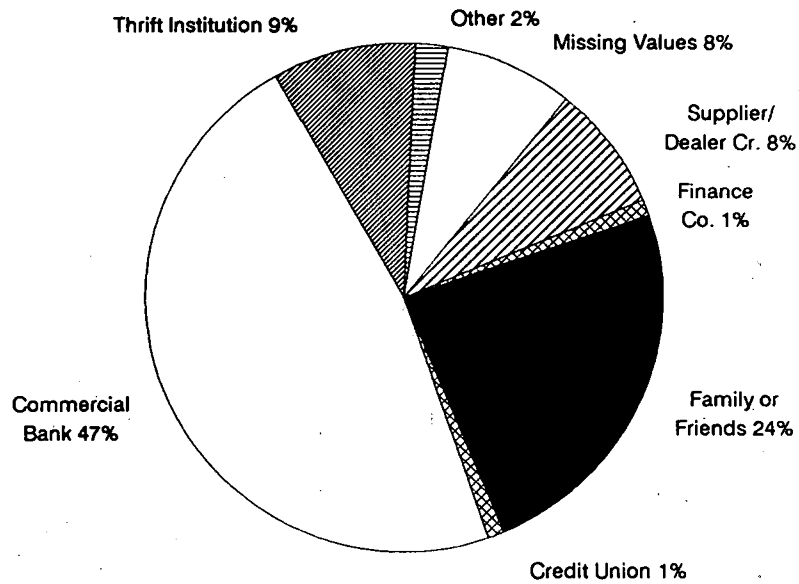
■ By Industry Type:

Source of Capital	Resource	Manufacturing	Trade	Service	Other
Family or Friends	2%	25%	27%	24%	16%
Commercial Bank	33	23	28	32	17
Thrift Institution	16	—	3	4	9
Credit Union	—	—	—	—	—
Venture Capital Company	—	—	2	4	4
Personal Savings	48	50	33	29	40
Other	1	2	8	5	—
% Equity Capital From Sources Outside the State	—	4	7	2	5
% Debt Capital From Sources Outside the State	—	4	4	—	9

Percents may not total 100 due to missing values.

Figure 2.
Percent of Loans Received From the Following Sources During Business's First 5 Years of Operation

■ For All Firms:



■ By Firm Sales Size:

Source of Capital	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Family or Friends	24%	38%	12%
Commercial Bank	45	44	58
Thrift Institution	10	3	13
Credit Union	1	6	—
Finance Company	—	—	2
Venture Capital Company	—	—	—
Supplier/Dealer Credit	9	4	6
Other	3	—	—

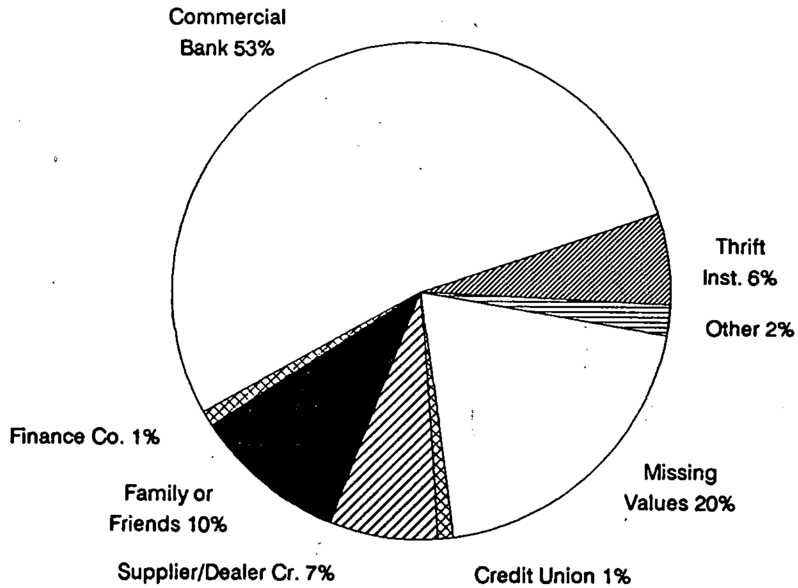
■ By Industry Group:

Source of Capital	Resource	Manufacturing	Trade	Service	Other
Family or Friends	2%	39%	22%	33%	13%
Commercial Bank	41	42	48	46	50
Thrift Institution	33	6	6	8	18
Credit Union	—	—	1	—	4
Finance Company	—	—	1	—	2
Venture Capital Co.	—	—	—	—	—
Supplier/Dealer Credit	26	1	9	3	8
Other	—	—	2	4	—

Percents may not total 100 due to missing values.

Figure 3.
Percent of Loans Received From the Following Sources During Period Up to the Present

■ For All Firms:



■ By Firm Sales Size:

Source of Capital	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Family or Friends	10%	21%	—
Commercial Bank	48	57	69
Thrift Institution	7	5	5
Credit Union	2	—	—
Finance Company	1	—	—
Venture Capital Company	—	—	—
Supplier/Dealer Credit	7	4	8
Other	1	—	6

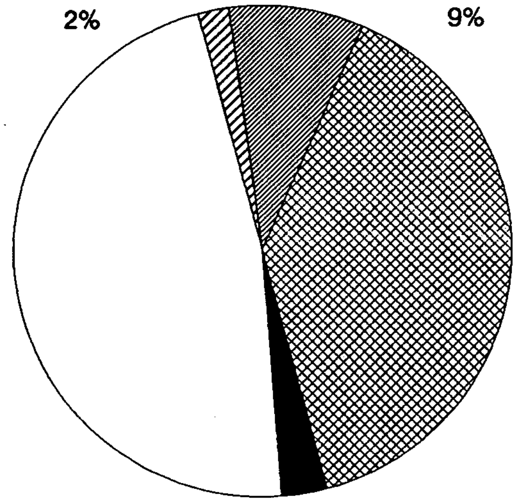
■ By Industry Group:

Source of Capital	Resource	Manufacturing	Trade	Service	Other
Family or Friends	5%	5%	9%	19%	8%
Commercial Bank	82	78	52	44	50
Thrift Institution	10	—	4	13	12
Credit Union	—	—	—	—	8
Finance Company	—	2	1	—	—
Venture Capital Co.	—	—	—	—	—
Supplier/Dealer Credit	2	11	6	2	12
Other	—	3	3	—	—

Percents may not total 100 due to missing values.

Figure 4.
Availability of Short-term Secured Loans to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desire	36%	38%	42%
Obtain on Less Favorable Terms	11	14	7
Unable to Obtain	–	3	2
Never Tried to Obtain	50	46	49

■ **By Firm Sales Size:**

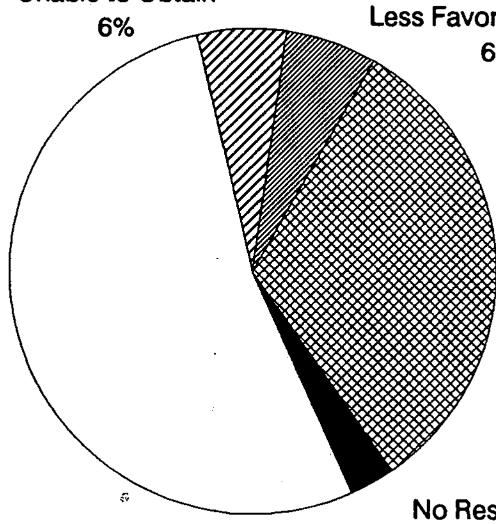
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	34%	40%	67%
Obtain on Less Favorable Terms	9	8	8
Unable to Obtain	1	8	–
Never Tried to Obtain	54	44	25

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain onTerms Desired	60%	50%	41%	26%	45%
Obtain on Less Favorable Terms	—	14	7	11	9
Unable to Obtain	—	7	1	—	5
Never Tried to Obtain	40	29	48	60	41

Figure 5.
Availability of Short-term Unsecured Loans to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	29%	30%	34%
Obtain on Less Favorable Terms	11	14	6
Unable to Obtain	–	8	4
Never Tried to Obtain	57	49	55

■ **By Firm Sales Size:**

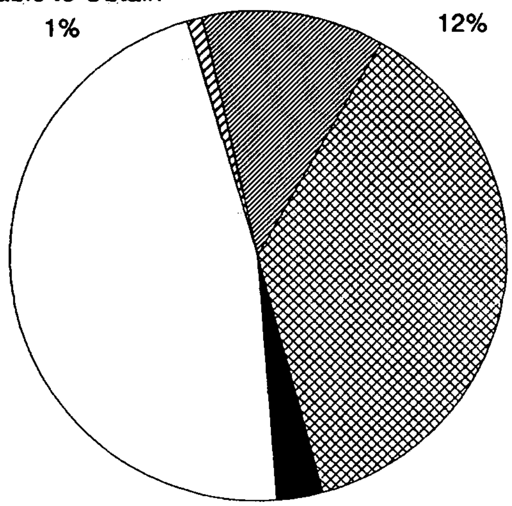
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	27%	32%	54%
Obtain on Less Favorable Terms	7	8	4
Unable to Obtain	7	8	–
Never Tried to Obtain	57	52	42

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	20%	50%	30%	31%	32%
Obtain on Less Favorable Terms	–	14	5	9	5
Unable to Obtain	–	7	5	3	14
Never Tried to Obtain	80	29	56	54	50

Figure 6.
Availability of Long-term (1-5 Years) Loans to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	39%	27%	43%
Obtain on Less Favorable Terms	11	27	7
Unable to Obtain	—	3	—
Never Tried to Obtain	46	43	50

■ By Firm Sales Size:

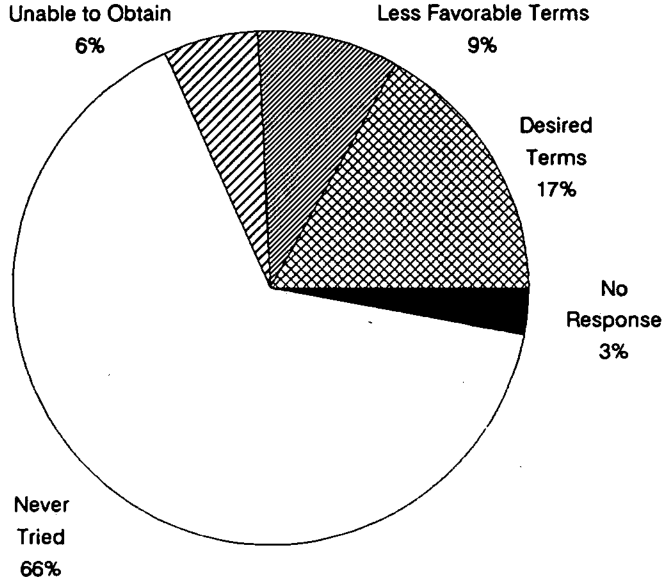
Credit Experience	≤$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	36%	48%	50%
Obtain on Less Favorable Terms	11	20	8
Unable to Obtain	51	4	—
Never Tried to Obtain	2	28	42

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	40%	43%	36%	31%	55%
Obtain on Less Favorable Terms	—	7	9	17	18
Unable to Obtain	—	—	1	—	—
Never Tried to Obtain	60	50	50	49	27

Figure 7.
Availability of Long-term (>5 Years) Loans to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	18%	5%	20%
Obtain on Less Favorable Terms	14	16	5
Unable to Obtain	7	11	4
Never Tried to Obtain	57	48	70

■ **By Firm Sales Size:**

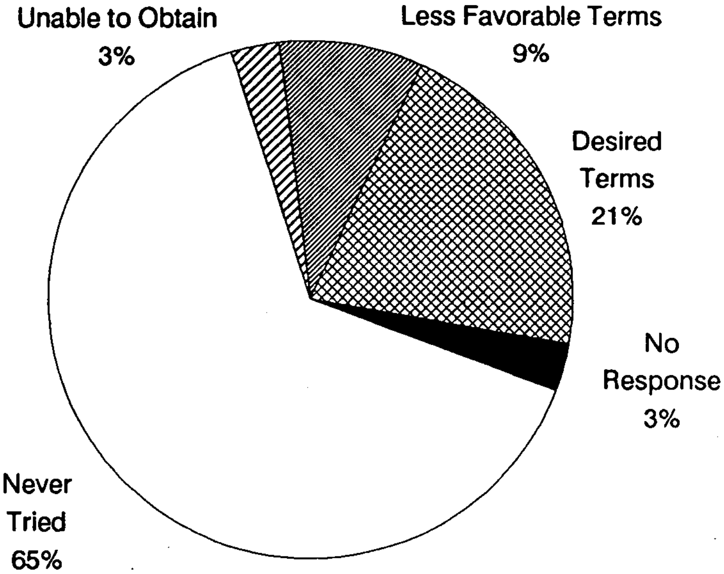
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	11%	28%	38%
Obtain on Less Favorable Terms	9	12	8
Unable to Obtain	6	8	4
Never Tried to Obtain	73	52	50

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	20%	29%	16%	14%	18%
Obtain on Less Favorable Terms	–	–	9	14	5
Unable to Obtain	–	–	3	9	18
Never Tried to Obtain	80	71	69	60	59

Figure 8.
Availability of Commercial Mortgages to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	18%	14%	25%
Obtain on Less Favorable Terms	7	22	5
Unable to Obtain	4	8	1
Never Tried to Obtain	68	57	68

■ **By Firm Sales Size:**

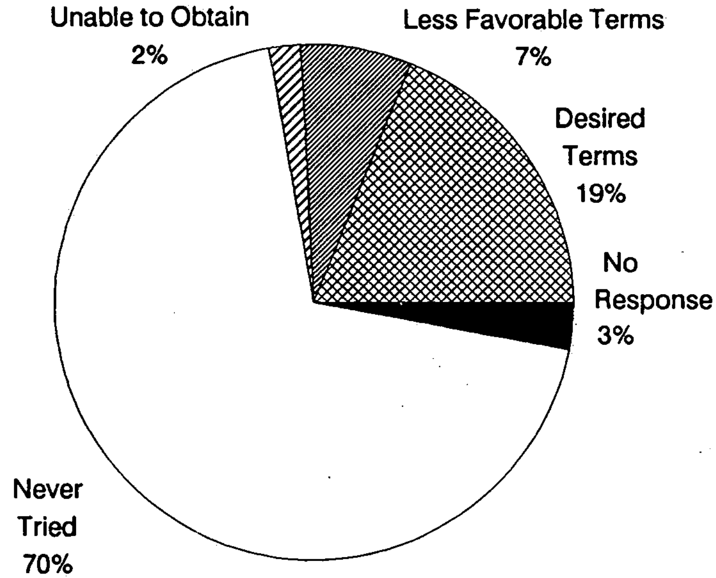
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	17%	24%	42%
Obtain on Less Favorable Terms	8	20	4
Unable to Obtain	3	4	—
Never Tried to Obtain	70	52	54

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	—	43%	17%	20%	32%
Obtain on Less Favorable Terms	20	14	8	9	5
Unable to Obtain	—	—	2	3	9
Never Tried to Obtain	80	43	70	66	55

Figure 9.
Availability of Home Equity Loans for Business Purposes to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	18%	19%	19%
Obtain on Less Favorable Terms	11	16	3
Unable to Obtain	—	3	2
Never Tried to Obtain	68	59	75

■ **By Firm Sales Size:**

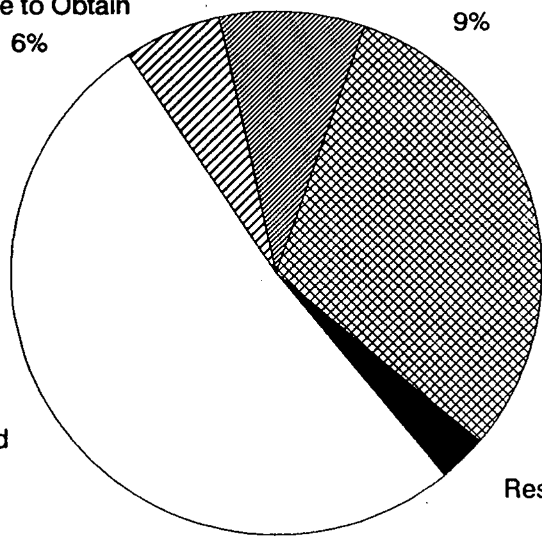
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	19%	20%	21%
Obtain on Less Favorable Terms	7	12	4
Unable to Obtain	2	4	—
Never Tried to Obtain	70	64	75

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	20%	14%	18%	23%	18%
Obtain on Less Favorable Terms	—	7	5	11	9
Unable to Obtain	—	—	1	3	5
Never Tried to Obtain	80	79	73	57	68

Figure 10.
Availability of Revolving Lines of Credit to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	21%	22%	38%
Obtain on Less Favorable Terms	11	19	5
Unable to Obtain	7	11	4
Never Tried to Obtain	57	49	52

■ **By Firm Sales Size:**

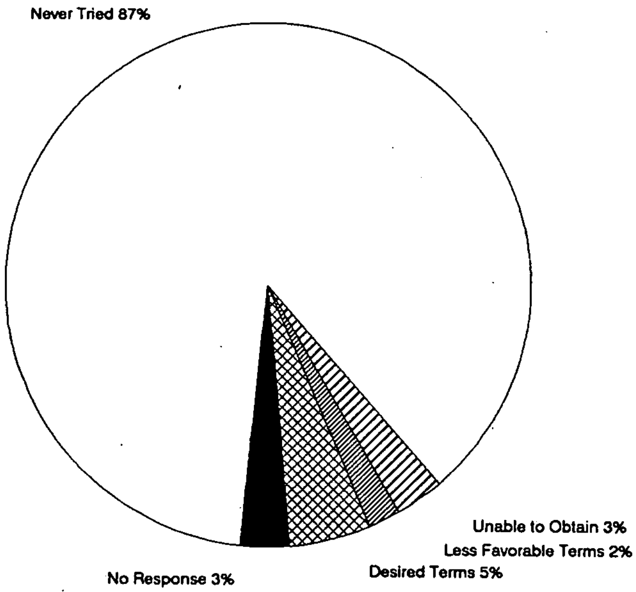
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	24%	36%	67%
Obtain on Less Favorable Terms	10	8	4
Unable to Obtain	7	8	—
Never Tried to Obtain	57	48	29

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	20%	43%	34%	26%	23%
Obtain on Less Favorable Terms	20	7	5	17	9
Unable to Obtain	—	7	5	6	9
Never Tried to Obtain	60	43	52	49	59

Figure 11.
Availability of Asset Lines to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	–	3%	7%
Obtain on Less Favorable Terms	7	3	1
Unable to Obtain	7	3	3
Never Tried to Obtain	82	92	88

■ By Firm Sales Size:

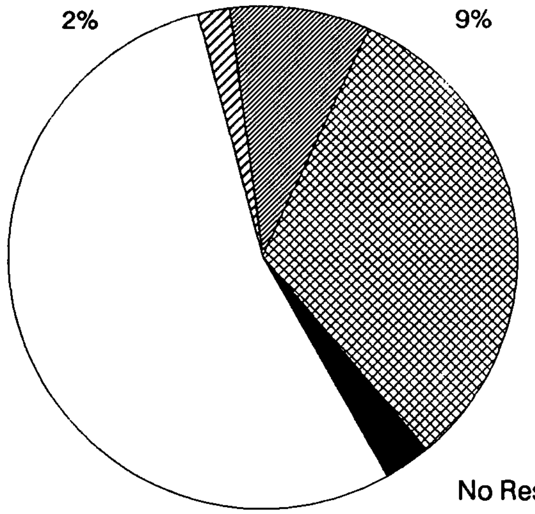
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	4%	4%	12%
Obtain on Less Favorable Terms	3	–	4
Unable to Obtain	4	4	–
Never Tried to Obtain	87	92	83

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	–	–	6%	3%	9%
Obtain on Less Favorable Terms	–	–	1	9	–
Unable to Obtain	–	–	5	–	5
Never Tried to Obtain	100	100	84	86	86

Figure 12.
Availability of Equipment Financing to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	21%	27%	37%
Obtain on Less Favorable Terms	11	19	6
Unable to Obtain	4	3	2
Never Tried to Obtain	61	51	54

■ By Firm Sales Size:

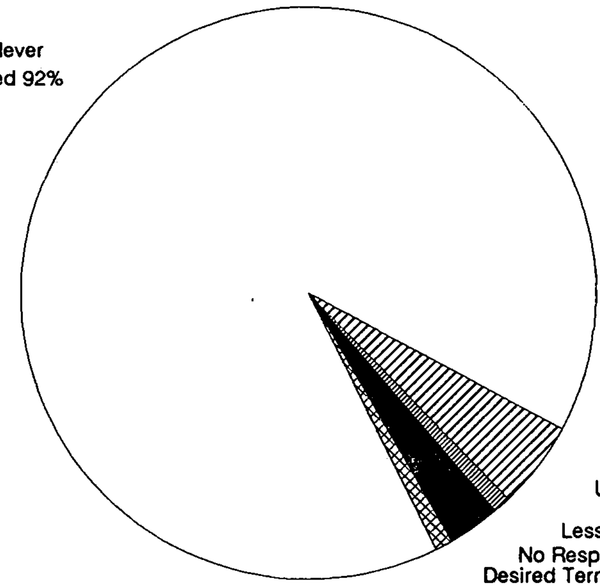
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	28%	40%	42%
Obtain on Less Favorable Terms	11	4	8
Unable to Obtain	3	4	—
Never Tried to Obtain	56	52	50

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	20%	43%	27%	26%	59%
Obtain on Less Favorable Terms	—	—	8	20	5
Unable to Obtain	—	—	4	—	—
Never Tried to Obtain	80	57	57	51	36

Figure 13.
Availability of Public Capital to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	–	3%	–
Obtain on Less Favorable Terms	–	3	–
Unable to Obtain	4	5	5
Never Tried to Obtain	93	89	94

■ **By Firm Sales Size:**

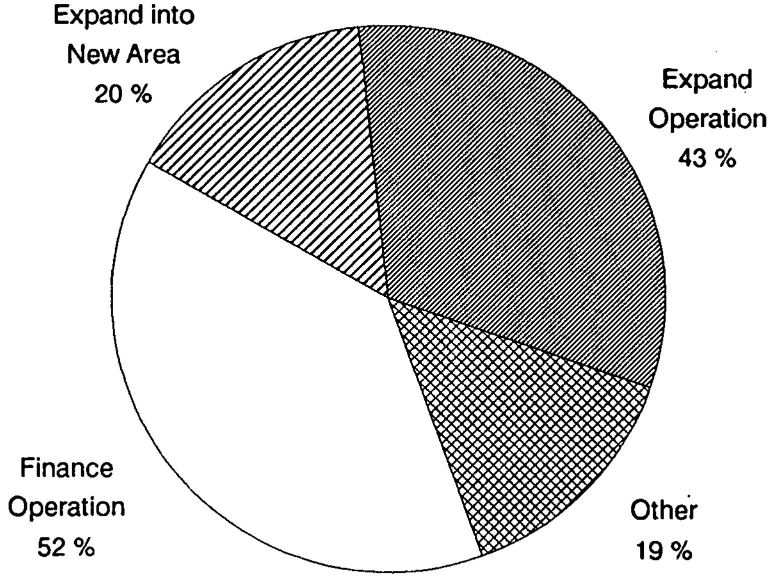
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	–	–	4%
Obtain on Less Favorable Terms	1	–	–
Unable to Obtain	4	8	4
Never Tried to Obtain	93	92	92

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	–	–	1%	–	–
Obtain on Less Favorable Terms	–	–	–	3	–
Unable to Obtain	–	–	6	3	5
Never Tried to Obtain	100	100	90	91	95

Figure 14.
Use of Credit Received by Business

■ **For All Firms:**



■ By Age of Firm:

Use of Credit	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Finance Existing Operation	54%	35%	35%
Expand Existing Operation	25	35	31
Expand into New Area of Operation	14	19	14
Other	11	19	13
No Response	4	3	1

■ By Firm Sales Size:

Use of Credit	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Finance Existing Operation	38%	40%	38%
Expand Existing Operation	23	60	46
Expand into New Area of Operation	15	16	12
Other	15	8	17
No Response	3	—	—

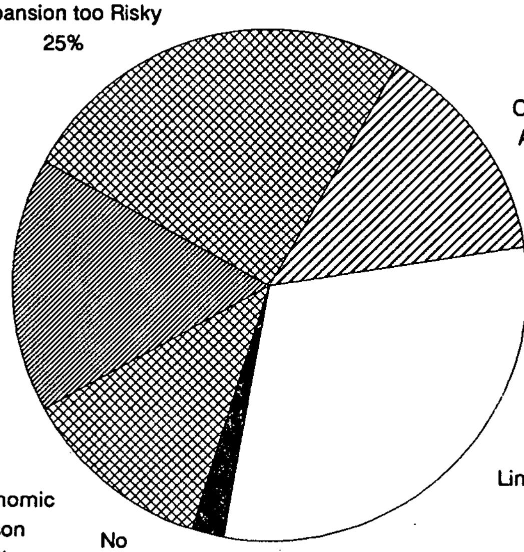
■ By Industry Type:

Use of Credit	Resource	Manufacturing	Trade	Service	Other
Finance Existing Operation	20%	36%	40%	29%	45%
Expand Existing Operation	—	50	28	29	41
Expand Into New Area of Operation	40	21	10	14	23
Other	—	7	17	9	14
No Response	40	—	5	20	—

Percents may total more than 100 since multiple responses were permitted.

Figure 15.
Reasons Why 33% of Respondents Decided Against Business Expansion

■ For All Firms:



■ By Age of Firm:

Reason	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
No Economic Reason to Expand Business	20%	17%	7%
Expansion Limited by Mgt. Capacities	20	22	41
Felt Credit Was Not Available in Local Mkt.	20	22	7
Felt That Expansion Was too Risky	40	11	30
Other	–	22	15
No Response	–	6	–

■ By Firm Sales Size:

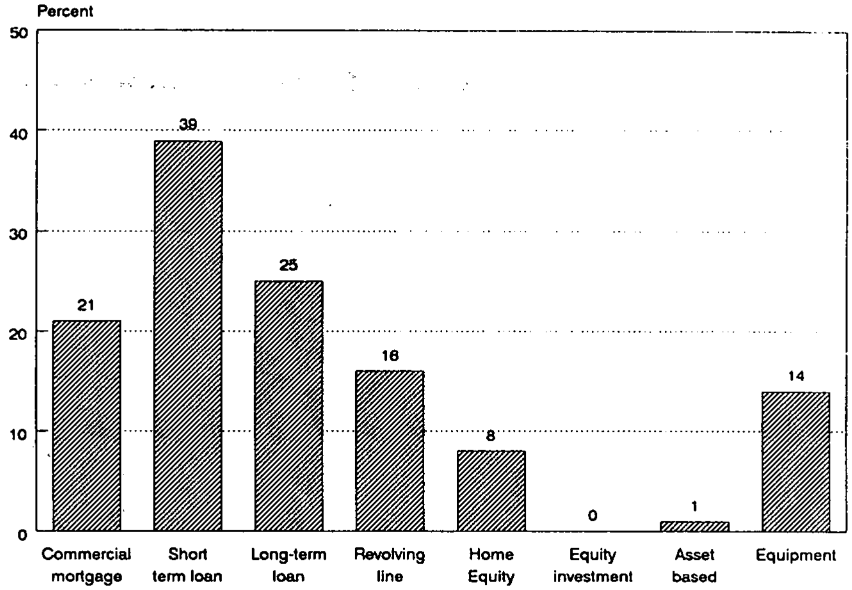
Reason	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
No Economic Reason to Expand Business	17%	–	–
Expansion Limited by Mgt. Capacities	28	44	40
Felt Credit Was Not Available in Local Mkt.	17	–	20
Felt That Expansion Was too Risky	23	44	20
Other	12	11	20
No Response	3	–	–

■ By Industry Type:

Reason	Resource	Manufacturing	Trade	Service	Other
No Economic Reason to Expand	–	–	16%	15%	–
Expansion Limited by Mgt. Capacities	50	50	29	23	33
Credit Was Not Available in Local Mkt.	–	–	16	15	17
Felt That Expansion Was too Risky	–	25	26	15	50
Other	50	25	13	23	–
No Response	–	–	–	8	–

Figure 16.
Most Important Credit Need

For All Firms:



By Firm Sales Size:

Credit Need	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Commercial Mortgage	23%	24%	17%
Short-term Secured	19	5	13
Short-term Unsecured	23	24	22
Long-term (1-5 years)	14	10	13
Long-term (>5 years)	13	10	22
Revolving Line	14	19	22
Home Equity	10	5	4
Equity	—	—	—
Asset-based	1	—	—
Equipment	10	24	22

By Industry Type:

Credit Need	Resource	Manufacturing	Trade	Service	Other
Commercial Mortgage	33%	23%	24%	16%	16%
Short-term Secured	33	15	21	8	11
Short-term Unsecured	—	15	25	32	11
Long-term (1-5 years)	—	15	12	12	16
Long-term (>5 years)	—	15	12	20	11
Revolving Line	33	23	15	16	11
Home Equity	—	—	7	12	11
Equity	—	—	—	—	—
Asset-based	—	—	—	4	—
Equipment	—	—	18	4	26

Percents may total more than 100 since multiple responses were permitted, i.e., firm could rank more than one category as #1 credit need.

Figure 17.
Availability of Business Services Through Primary Commercial Lender

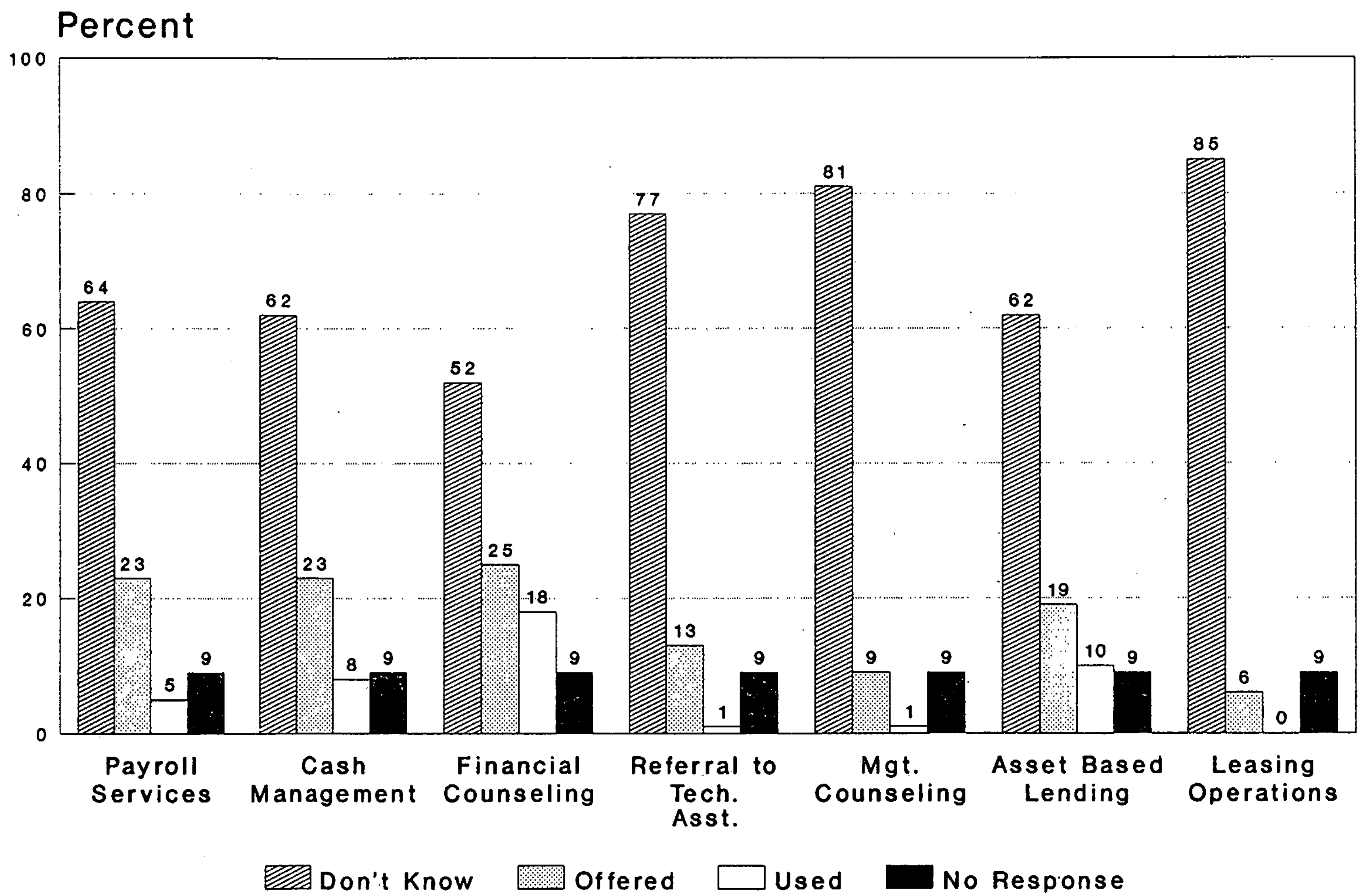
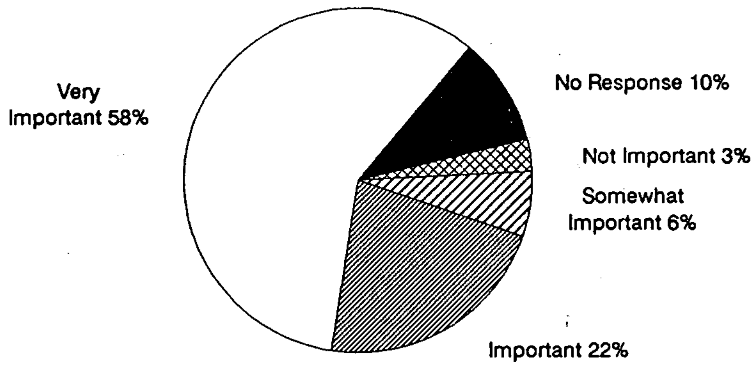


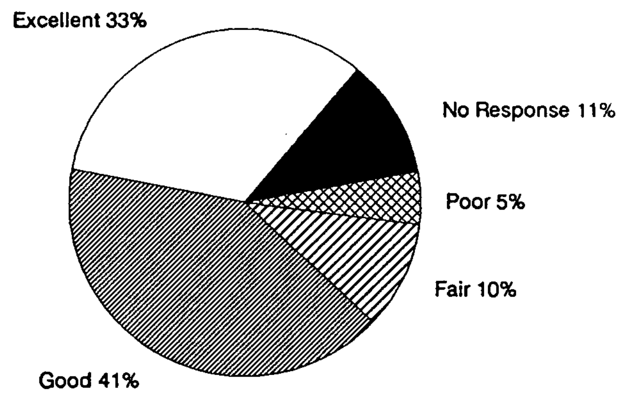
Figure 18.
Importance of Characteristics in Choosing a Financial Institution and Business Rating of Own Institution

■ Importance of "Personal Service or Attention to Business Needs:"

Choosing a Financial Institution

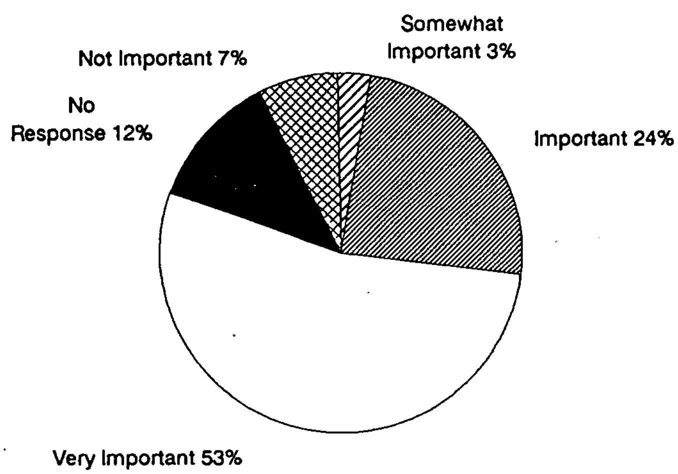


Rating of Own Institution



■ Importance of "Reliable and Consistent Source of Credit:"

Choosing a Financial Institution



Rating of Own Institution

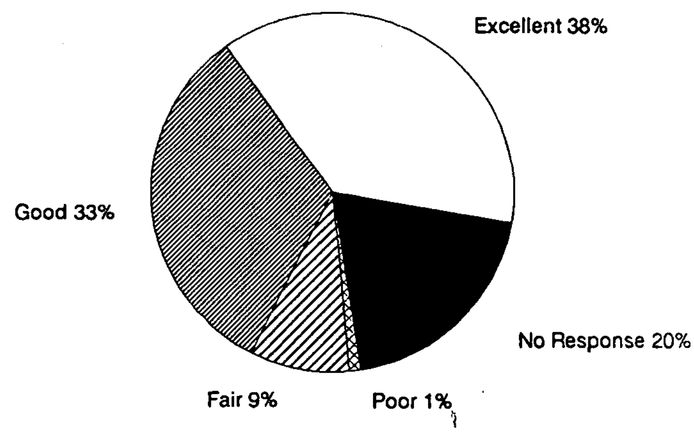
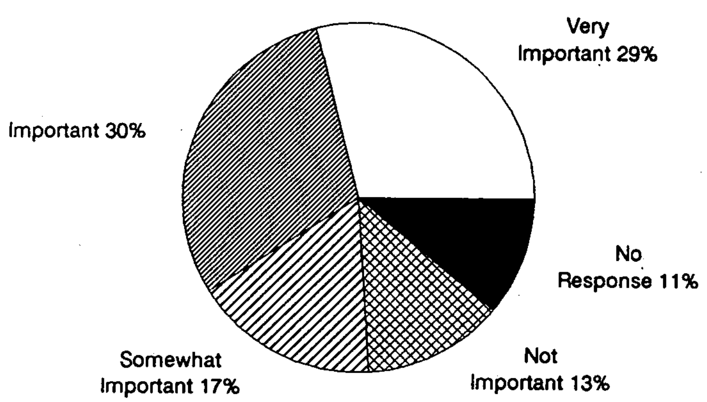


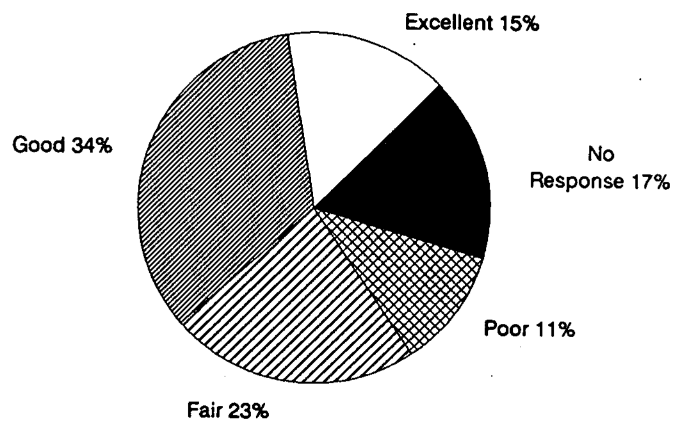
Figure 18 (continued).
Importance of Characteristics in Choosing a Financial Institution and Business Rating of Own Institution

■ Importance of "Knowledge of You and Your Industry:"

Choosing a Financial Institution

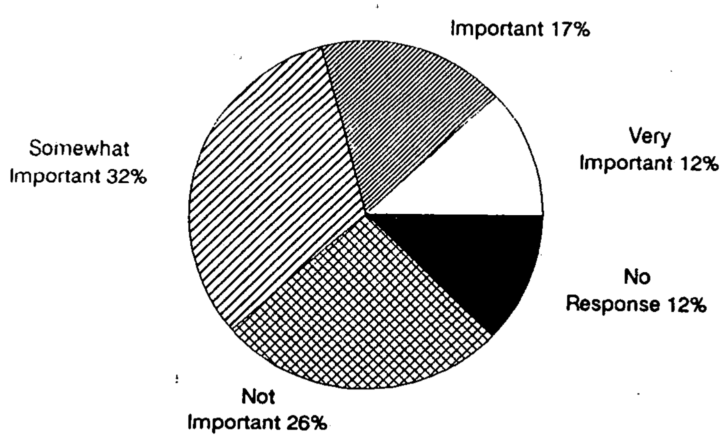


Rating of Own Institution



■ Importance of "Types of Business Services:"

Choosing a Financial Institution



Rating of Own Institution

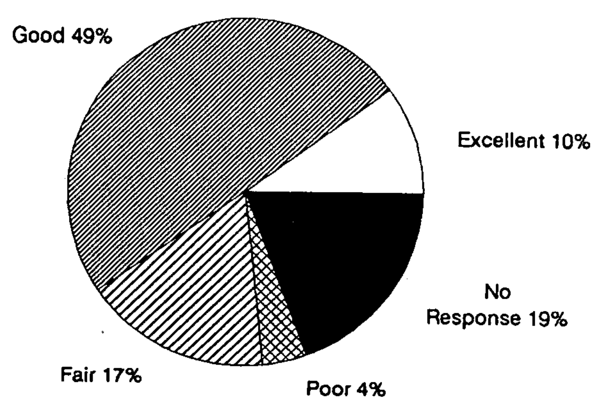
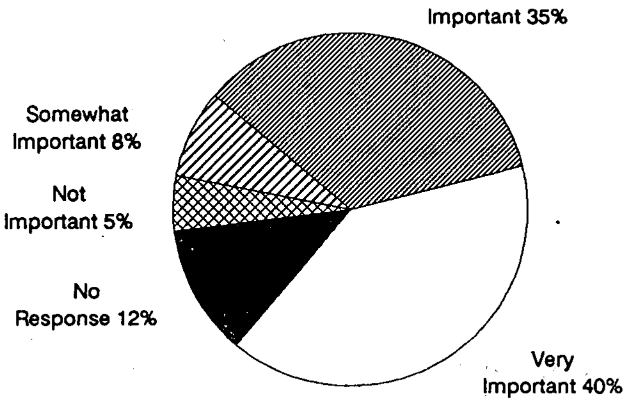


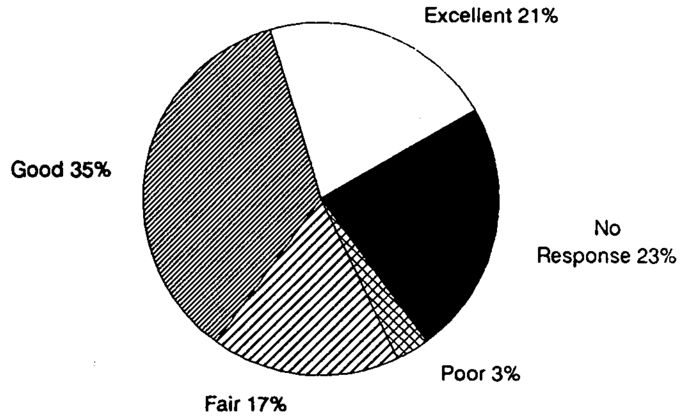
Figure 18 (continued).
Importance of Characteristics in Choosing a Financial Institution and Business Rating of Own Institution

■ Importance of "Flexible Terms and Conditions on Loans:"

Choosing a Financial Institution

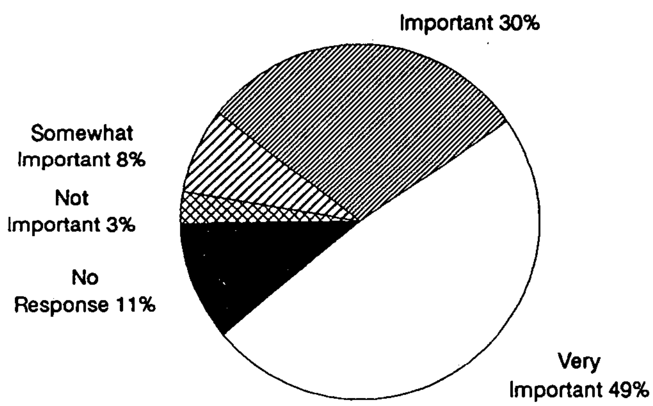


Rating of Own Institution



■ Importance of "Your Knowledge of Bank and Confidence in Them:"

Choosing a Financial Institution



Rating of Own Institution

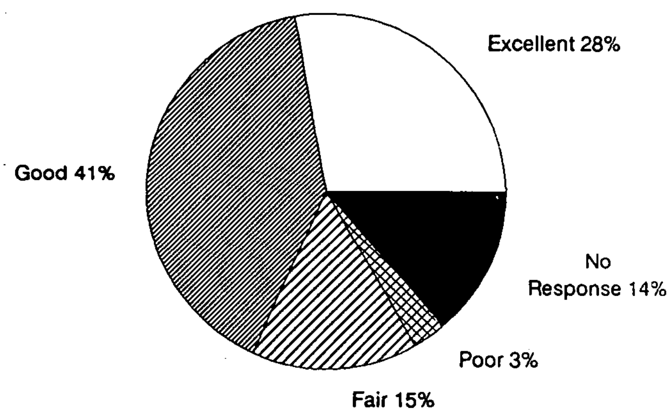
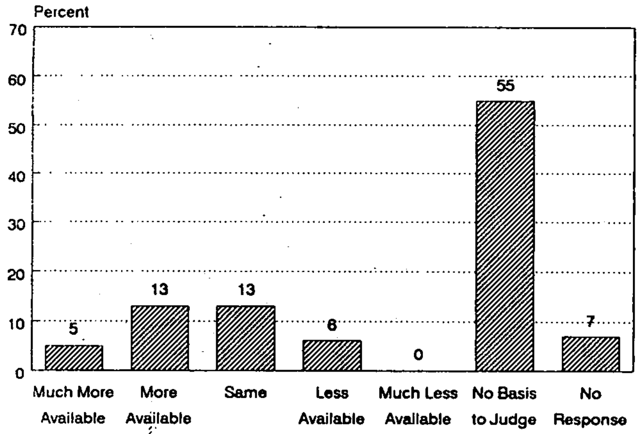
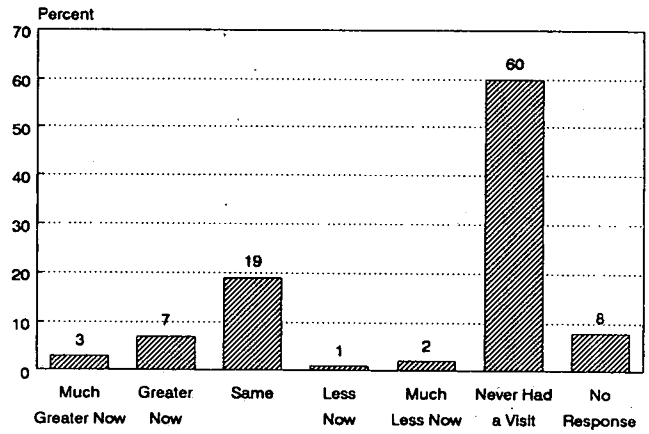


Figure 19.
Business Respondents' Perceptions of How the Local Business Credit Market has Changed Since 1984

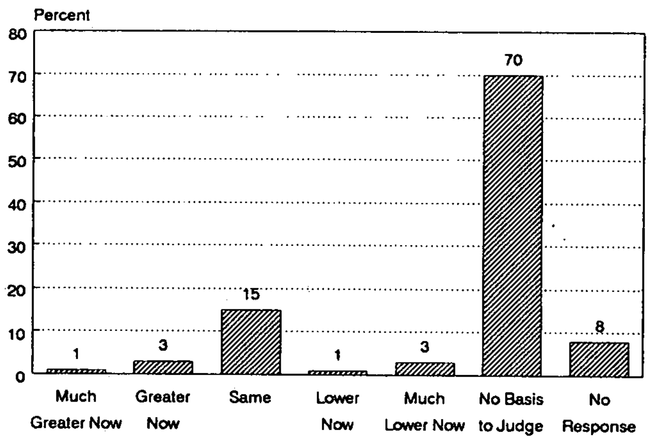
■ Availability of Asset-based Loan Products:



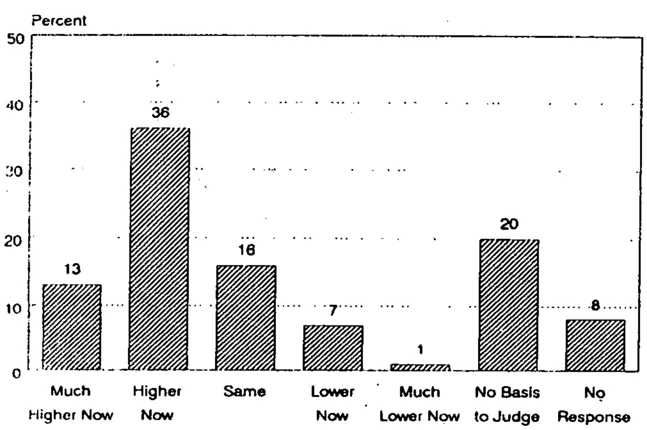
■ Frequency of Visits by Local Financial Institutions to Solicit Loan Business:



■ Frequency of Loan Denials:



■ Cost of Bank Services:



■ Length of Time Required to Process and Decide on Loan Applications:

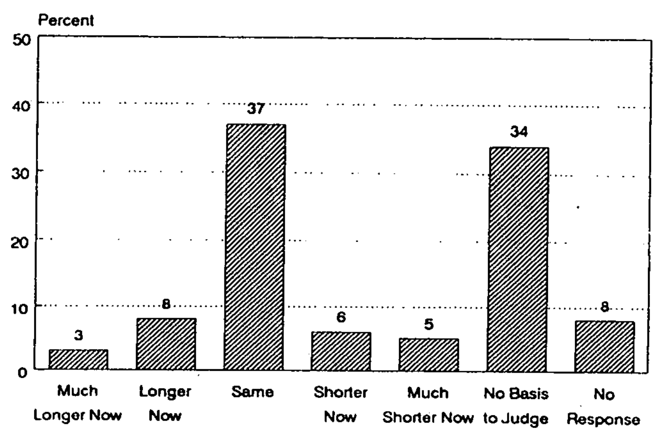
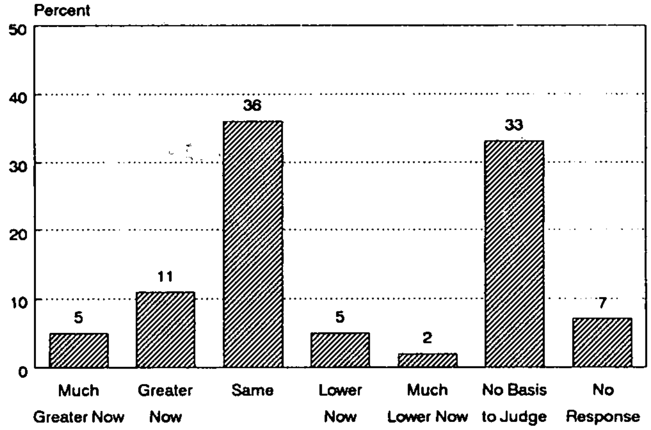
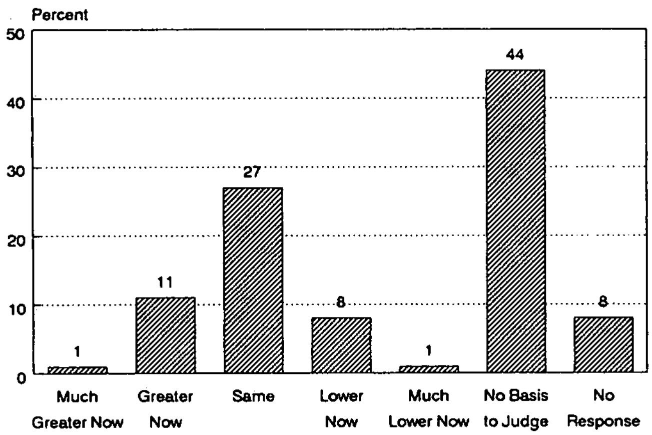


Figure19 (continued).
Business Respondents' Perceptions of How the Local Business Credit Market has Changed Since 1984

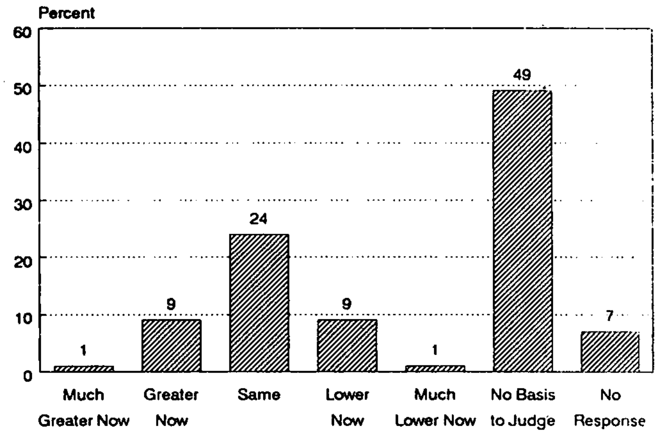
Personal Attention to Credit Needs:



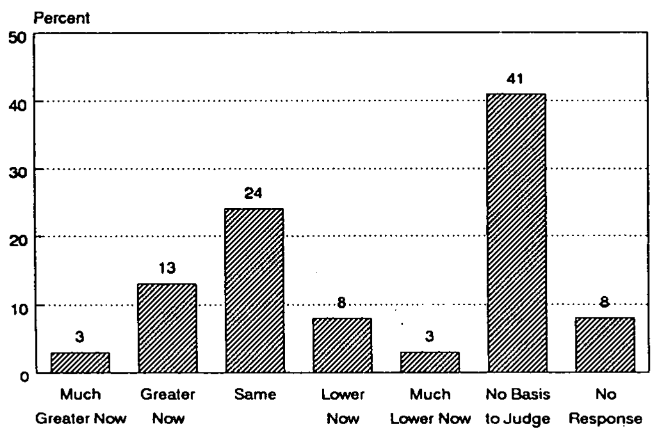
Flexibility in Terms Offered on Short-term Financing From Your Bank:



Flexibility in Terms Offered on Long-term Financing From Your Bank:



Extent to Which Lending Decisions are Tailored to Your Needs:



APPENDIX C

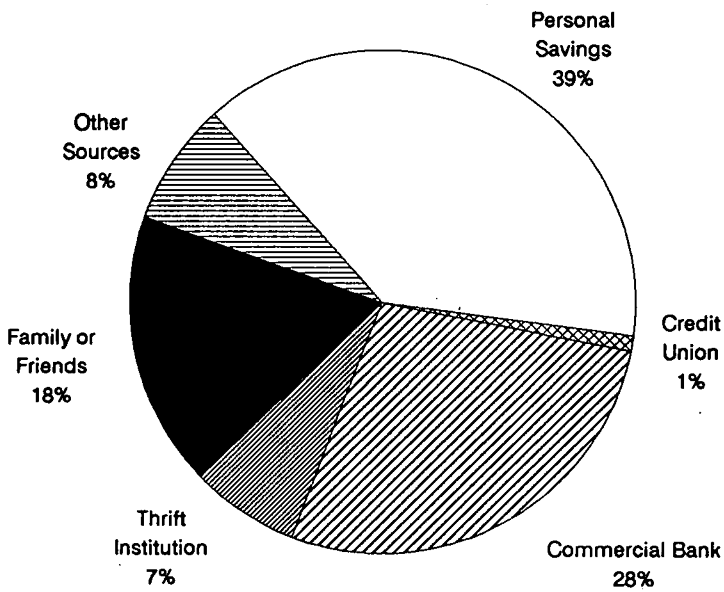
New Hampshire Business Tables

Figure 1.
Percent of Start Up Capital From the Following Sources

■ For All Firms:

% Equity Received From Sources Outside the State 6%

% Debt Received From Sources Outside the State 6%



■ By Firm Sales Size:

Source of Capital	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Family or Friends	18%	7%	26%
Commercial Bank	27	13	46
Thrift Institution	8	12	–
Credit Union	2	–	–
Venture Capital Company	–	–	–
Personal Savings	40	52	29
Other	7	20	–
% Equity Capital From Sources Outside the State	6	–	8
% Debt Capital From Sources Outside The State	7	–	5

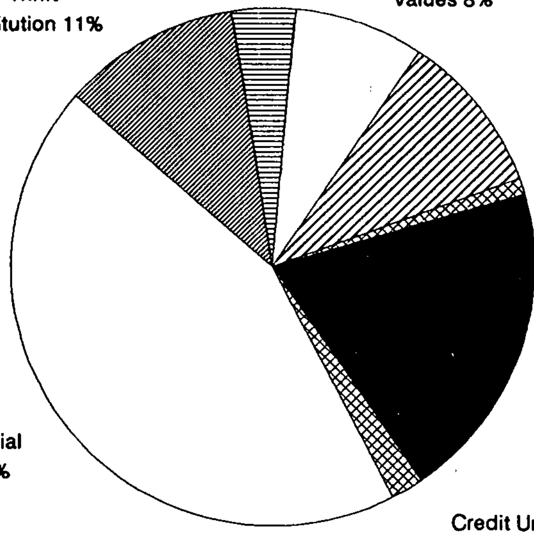
■ By Industry Type:

Source of Capital	Resource	Manufacturing	Trade	Service	Other
Family or Friends	–	19%	19%	19%	17%
Commercial Bank	14	56	25	23	38
Thrift Institution	12	–	4	15	18
Credit Union	–	–	2	–	–
Venture Capital Company	–	–	–	–	–
Personal Savings	33	25	38	48	35
Other	40	–	12	–	–
% Equity Capital From Sources Outside the State	10	11	8	2	–
% Debt Capital From Sources Outside the State	12	–	10	–	–

Percents may not total 100 due to missing values.

Figure 2.
Percent of Loans Received From the Following Sources During Business's First 5 Years of Operation

■ For All Firms:



■ By Firm Sales Size:

Source of Capital	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Family or Friends	20%	21%	20%
Commercial Bank	41	52	55
Thrift Institution	12	7	9
Credit Union	2	–	–
Finance Company	2	–	–
Venture Capital Company	–	–	–
Supplier/Dealer Credit	11	14	3
Other	4	7	–

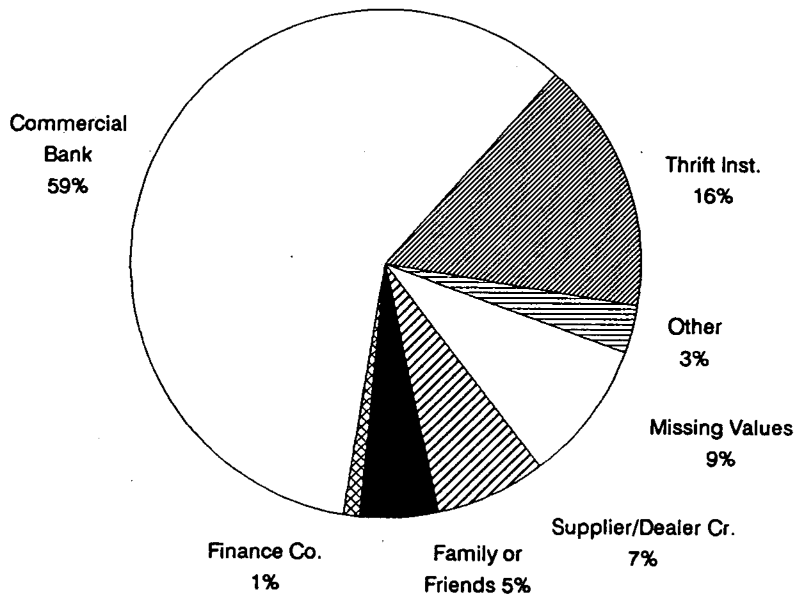
■ By Industry Group:

Source of Capital	Resource	Manufacturing	Trade	Service	Other
Family or Friends	10%	–	23%	19%	21%
Commercial Bank	47	88	42	44	38
Thrift Institution	–	–	11	18	9
Credit Union	–	–	3	–	–
Finance Company	12	–	–	–	2
Venture Capital Co.	–	–	–	–	–
Supplier/Dealer Credit	6	12	16	4	–
Other	4	–	3	4	–

Percents may not total 100 due to missing values.

Figure 3.
Percent of Loans Received From the Following Sources During Period Up to the Present

■ **For All Firms:**



■ **By Firm Sales Size:**

Source of Capital	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Family or Friends	6%	3%	5%
Commercial Bank	49	87	68
Thrift Institution	18	8	17
Credit Union	—	—	—
Finance Company	1	—	—
Venture Capital Company	—	—	—
Supplier/Dealer Credit	10	4	2
Other	3	4	—

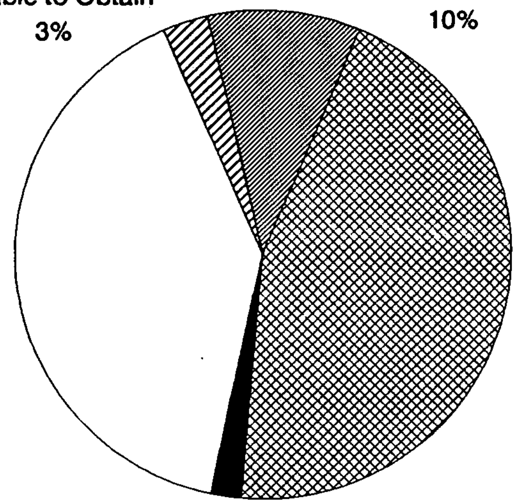
■ **By Industry Group:**

Source of Capital	Resource	Manufacturing	Trade	Service	Other
Family or Friends	—	—	9%	3%	—
Commercial Bank	—	78	61	46	69
Thrift Institution	—	12	15	27	4
Credit Union	—	—	—	—	—
Finance Company	—	—	—	3	—
Venture Capital Co.	—	—	—	—	—
Supplier/Dealer Credit	100	12	8	1	—
Other	—	—	4	3	—

Percents may not total 100 due to missing values.

Figure 4.
Availability of Short-term Secured Loans to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	38%	42%	50%
Obtain on Less Favorable Terms	10	12	8
Unable to Obtain	10	–	2
Never Tried to Obtain	43	46	40

■ By Firm Sales Size:

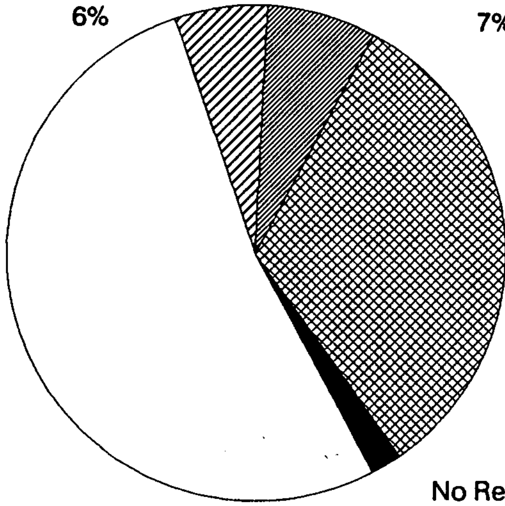
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	43%	56%	50%
Obtain on Less Favorable Terms	12	6	9
Unable to Obtain	3	–	5
Never Tried to Obtain	43	38	36

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	75%	33%	46%	32%	55%
Obtain on Less Favorable Terms	–	17	9	16	5
Unable to Obtain	–	–	4	4	–
Never Tried to Obtain	25	50	41	44	35

Figure 5.
Availability of Short-term Unsecured Loans to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	24%	36%	33%
Obtain on Less Favorable Terms	5	12	8
Unable to Obtain	10	–	7
Never Tried to Obtain	62	50	52

■ **By Firm Sales Size:**

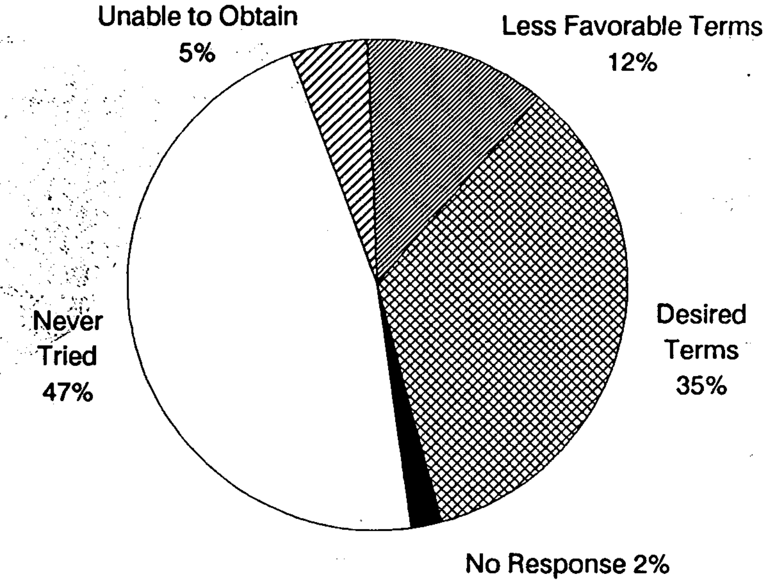
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	31%	25%	45%
Obtain on Less Favorable Terms	10	–	5
Unable to Obtain	7	6	5
Never Tried to Obtain	51	69	45

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	50%	50%	24%	36%	40%
Obtain on Less Favorable Terms	–	–	7	12	5
Unable to Obtain	–	–	6	12	5
Never Tried to Obtain	50	50	63	36	45

Figure 6.
Availability of Long-term (1-5 Years) Loans to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	24%	25%	43%
Obtain on Less Favorable Terms	10	21	8
Unable to Obtain	5	4	5
Never Tried to Obtain	62	50	43

■ **By Firm Sales Size:**

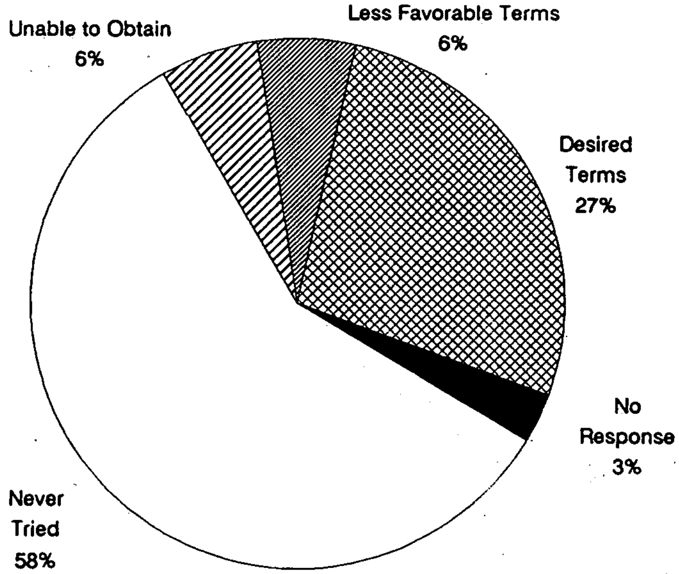
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	28%	44%	55%
Obtain on Less Favorable Terms	16	6	5
Unable to Obtain	6	—	5
Never Tried to Obtain	50	50	36

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	—	50%	31%	28%	55%
Obtain on Less Favorable Terms	25	17	13	12	5
Unable to Obtain	—	—	4	12	—
Never Tried to Obtain	75	33	52	44	35

Figure 7.
Availability of Long-term (>5 Years) Loans to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	19%	12%	35%
Obtain on Less Favorable Terms	5	8	7
Unable to Obtain	5	8	5
Never Tried to Obtain	71	67	53

■ By Firm Sales Size:

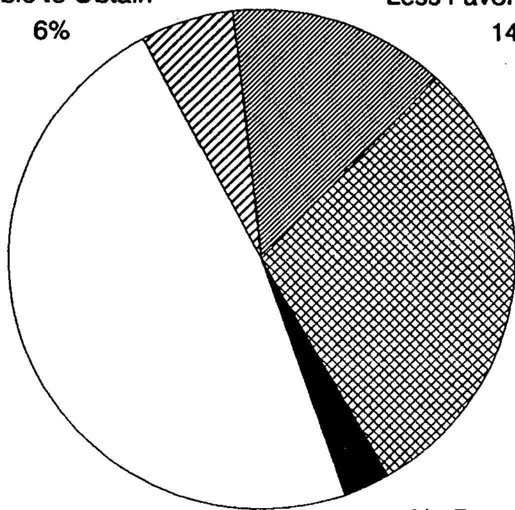
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	22%	25%	45%
Obtain on Less Favorable Terms	4	19	5
Unable to Obtain	9	–	5
Never Tried to Obtain	65	50	45

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	–	17%	26%	32%	30%
Obtain on Less Favorable Terms	–	–	11	–	5
Unable to Obtain	–	17	6	12	–
Never Tried to Obtain	100	67	56	52	60

Figure 8
Availability of Commercial Mortgages to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	19%	29%	35%
Obtain on Less Favorable Terms	14	12	15
Unable to Obtain	—	12	5
Never Tried to Obtain	67	42	45

■ **By Firm Sales Size:**

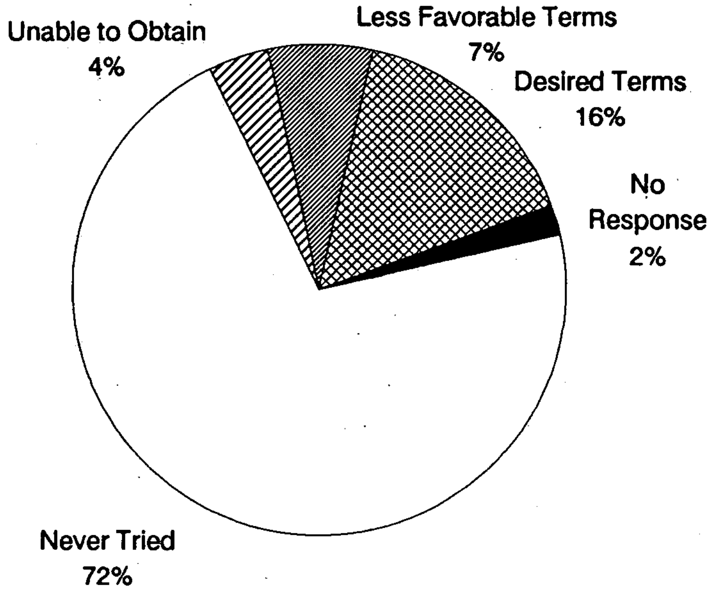
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	21%	38%	59%
Obtain on Less Favorable Terms	12	19	18
Unable to Obtain	9	—	—
Never Tried to Obtain	59	38	23

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	25%	67%	26%	21%	35%
Obtain on Less Favorable Terms	—	—	20	8	5
Unable to Obtain	25	—	4	2	5
Never Tried to Obtain	50	33	48	69	50

Figure 9.
Availability of Home Equity Loans for Business Purposes to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	14%	12%	15%
Obtain on Less Favorable Terms	14	—	8
Unable to Obtain	—	4	5
Never Tried to Obtain	71	83	72

■ By Firm Sales Size:

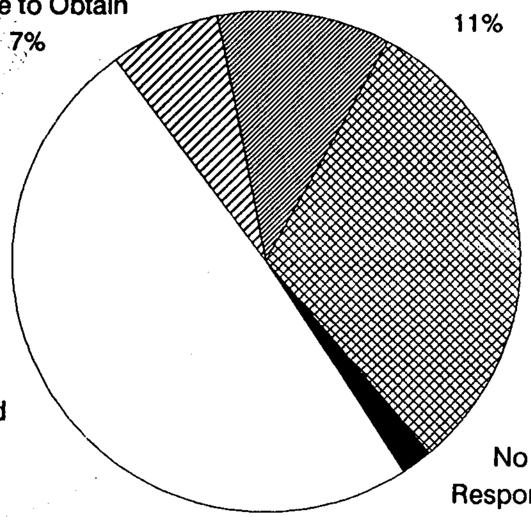
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	15%	19%	18%
Obtain on Less Favorable Terms	9	6	5
Unable to Obtain	6	—	—
Never Tried to Obtain	71	75	77

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	—	33%	17%	4%	25%
Obtain on Less Favorable Terms	—	—	9	4	10
Unable to Obtain	—	—	4	8	—
Never Tried to Obtain	100	67	70	80	60

Figure 10
Availability of Revolving Lines of Credit to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms ≥ 10 Years Old
Obtain on Terms Desired	19%	33%	35%
Obtain on Less Favorable Terms	—	17	12
Unable to Obtain	10	8	7
Never Tried to Obtain	71	42	47

■ **By Firm Sales Size:**

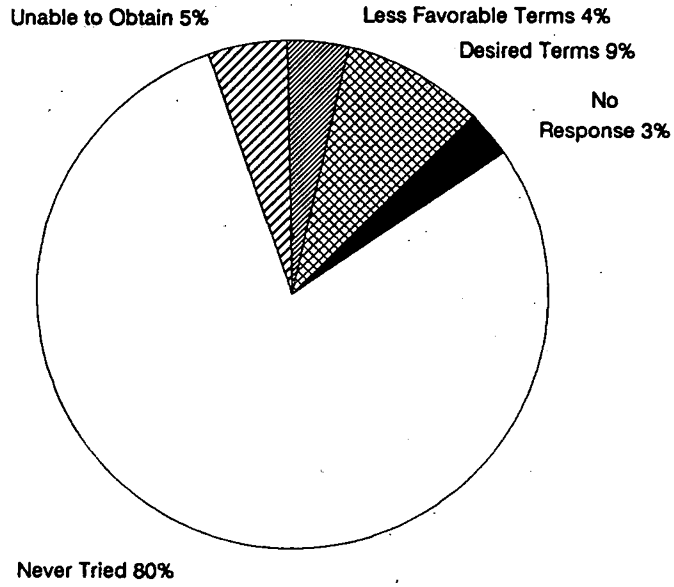
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	22%	50%	50%
Obtain on Less Favorable Terms	9	19	14
Unable to Obtain	9	6	5
Never Tried to Obtain	60	25	32

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	25%	67%	30%	36%	20%
Obtain on Less Favorable Terms	—	17	13	4	15
Unable to Obtain	—	—	9	12	—
Never Tried to Obtain	75	17	48	44	60

Figure 11.
Availability of Asset Lines to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	5%	12%	10%
Obtain on Less Favorable Terms	5	4	3
Unable to Obtain	5	4	5
Never Tried to Obtain	86	75	82

■ **By Firm Sales Size:**

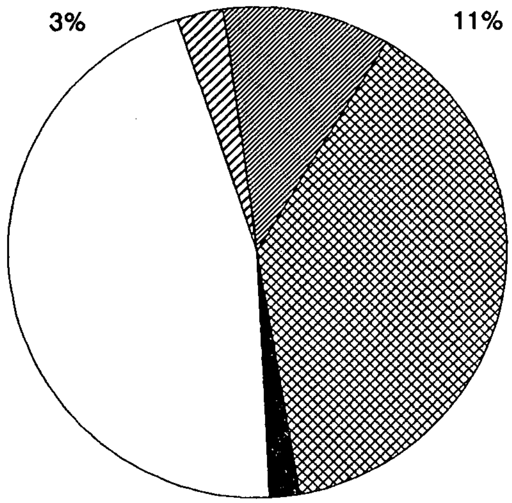
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	4%	6%	27%
Obtain on Less Favorable Terms	1	12	5
Unable to Obtain	6	—	5
Never Tried to Obtain	88	75	64

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	—	17%	11%	—	15%
Obtain on Less Favorable Terms	—	—	4	8	—
Unable to Obtain	—	—	6	8	—
Never Tried to Obtain	100	83	78	80	80

Figure 12.
Availability of Equipment Financing to Business Respondents

For All Firms:



By Age of Firm:

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	24%	33%	45%
Obtain on Less Favorable Terms	10	12	12
Unable to Obtain	—	4	3
Never Tried to Obtain	67	50	40

By Firm Sales Size:

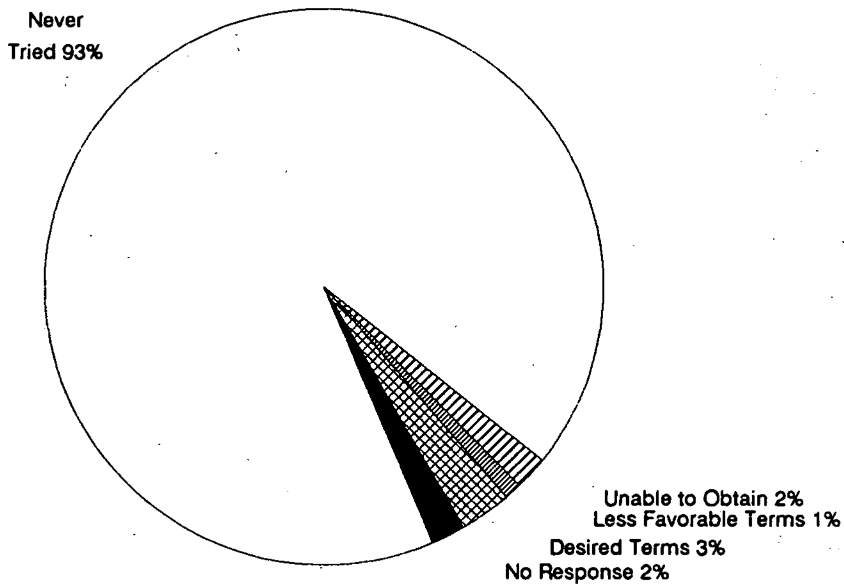
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	32%	38%	64%
Obtain on Less Favorable Terms	9	19	14
Unable to Obtain	4	—	—
Never Tried to Obtain	54	44	23

By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	75%	83%	33%	24%	50%
Obtain on Less Favorable Terms	—	—	7	20	15
Unable to Obtain	—	—	2	8	—
Never Tried to Obtain	25	17	57	44	30

Figure 13.
Availability of Public Capital to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	—	—	5%
Obtain on Less Favorable Terms	—	4	—
Unable to Obtain	—	—	3
Never Tried to Obtain	100	96	92

■ By Firm Sales Size:

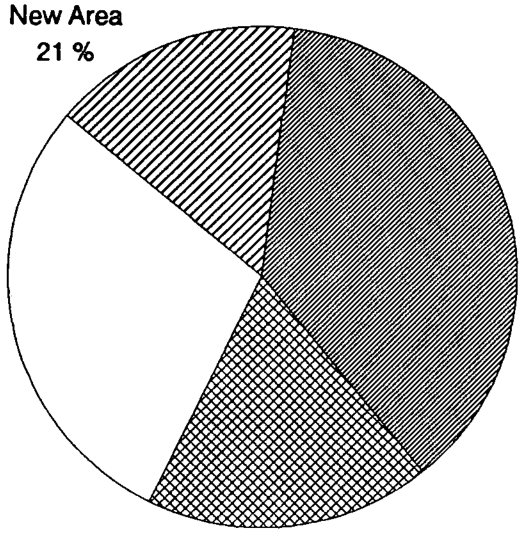
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	1%	—	9%
Obtain on Less Favorable Terms	—	—	5
Unable to Obtain	3	—	—
Never Tried to Obtain	96	100	86

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	—	17%	2%	—	5%
Obtain on Less Favorable Terms	—	—	—	—	5
Unable to Obtain	—	—	—	8	—
Never Tried to Obtain	100	83	98	88	85

Figure 14.
Use of Credit Received by Business

■ For All Firms:



■ By Age of Firm:

Use of Credit	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Finance Existing Operation	19%	33%	33%
Expand Existing Operation	38	50	33
Expand into New Area of Operation	14	21	15
Other	14	17	23
No Response	–	–	–

■ By Firm Sales Size:

Use of Credit	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Finance Existing Operation	22%	50%	45%
Expand Existing Operation	35	44	50
Expand into New Area of Operation	16	19	18
Other	21	12	23
No Response	–	–	–

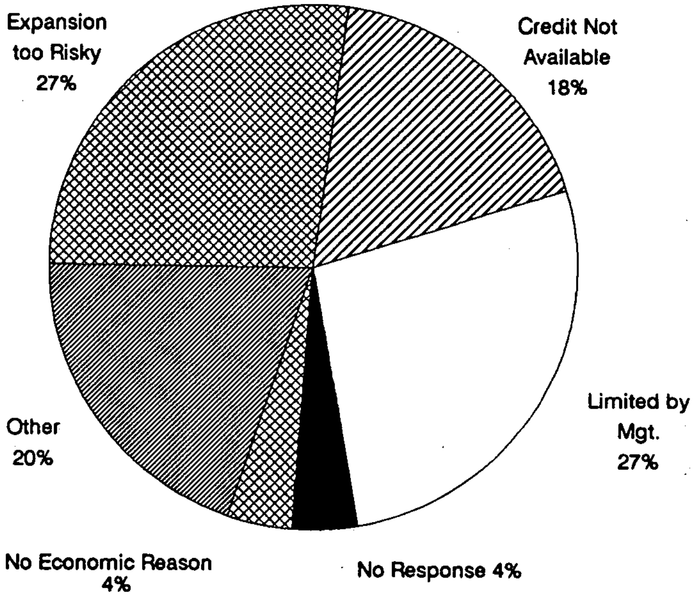
■ By Industry Type:

Use of Credit	Resource	Manufacturing	Trade	Service	Other
Finance Existing Operation	–	33%	28%	24%	50%
Expand Existing Operation	50	50	43	36	25
Expand Into New Area of Operation	50	50	15	12	10
Other	–	–	17	24	30
No Response	–	–	–	4	–

Percents may total more than 100 since multiple responses were permitted.

Figure 15.
Reasons Why 41% of Respondents Decided Against Business Expansion

■ **For All Firms:**



■ **By Age of Firm:**

Reason	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
No Economic Reason to Expand Business	–	–	8%
Expansion Limited by Mgt. Capacities	25	17	33
Felt Credit Was Not Available in Local Mkt.	38	25	8
Felt That Expansion Was too Risky	12	33	29
Other	12	25	17
No Response	12	–	4

■ **By Firm Sales Size:**

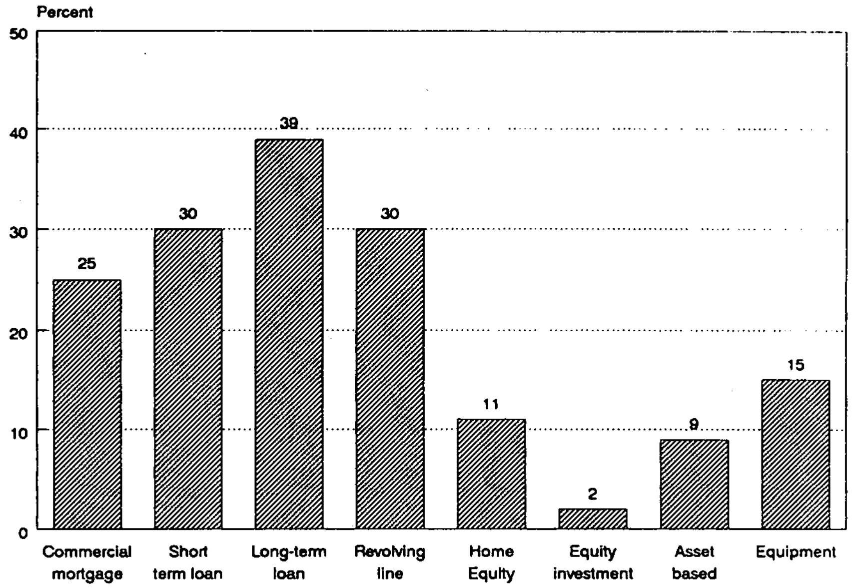
Reason	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
No Economic Reason to Expand Business	6%	–	–
Expansion Limited by Mgt. Capacities	23	25	50
Felt Credit Was Not Available in Local Mkt.	16	12	33
Felt That Expansion Was too Risky	26	38	17
Other	26	12	–
No Response	3	12	–

■ **By Industry Group:**

Reason	Resource	Manufacturing	Trade	Service	Other
No Economic Reason to Expand	33%	–	–	9%	–
Expansion Limited by Mgt. Capacities	–	–	32	9	57
Credit Was Not Available in Local Mkt.	–	–	23	27	–
Felt That Expansion Was too Risky	33	50	23	36	14
Other	33	–	18	18	14
No Response	–	50	5	–	14

Figure 16.
Most Important Credit Need

For All Firms:



By Firm Sales Size:

Credit Need	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Commercial Mortgage	23%	38%	24%
Short-term Secured	4	15	10
Short-term Unsecured	21	38	19
Long-term (1-5 years)	30	15	14
Long-term (>5 years)	11	15	24
Revolving Line	26	31	38
Home Equity	13	8	10
Equity	2	—	5
Asset-based	9	8	10
Equipment	11	23	19

By Industry Type:

Credit Need	Resource	Manufacturing	Trade	Service	Other
Commercial Mortgage	67%	—	26%	25%	21%
Short-term Secured	—	—	14	—	—
Short-term Unsecured	33	25	17	20	37
Long-term (1-5 years)	—	—	19	30	37
Long-term (>5 years)	67	—	17	15	5
Revolving Line	—	75	36	25	16
Home Equity	—	—	14	5	16
Equity	—	—	2	5	—
Asset-based	33	—	12	5	5
Equipment	33	—	12	5	32

Percents may total more than 100 since multiple responses were permitted, i.e., firm could rank more than one category as #1 credit need.

Figure 17.
Availability of Business Services Through Primary Commercial Lender

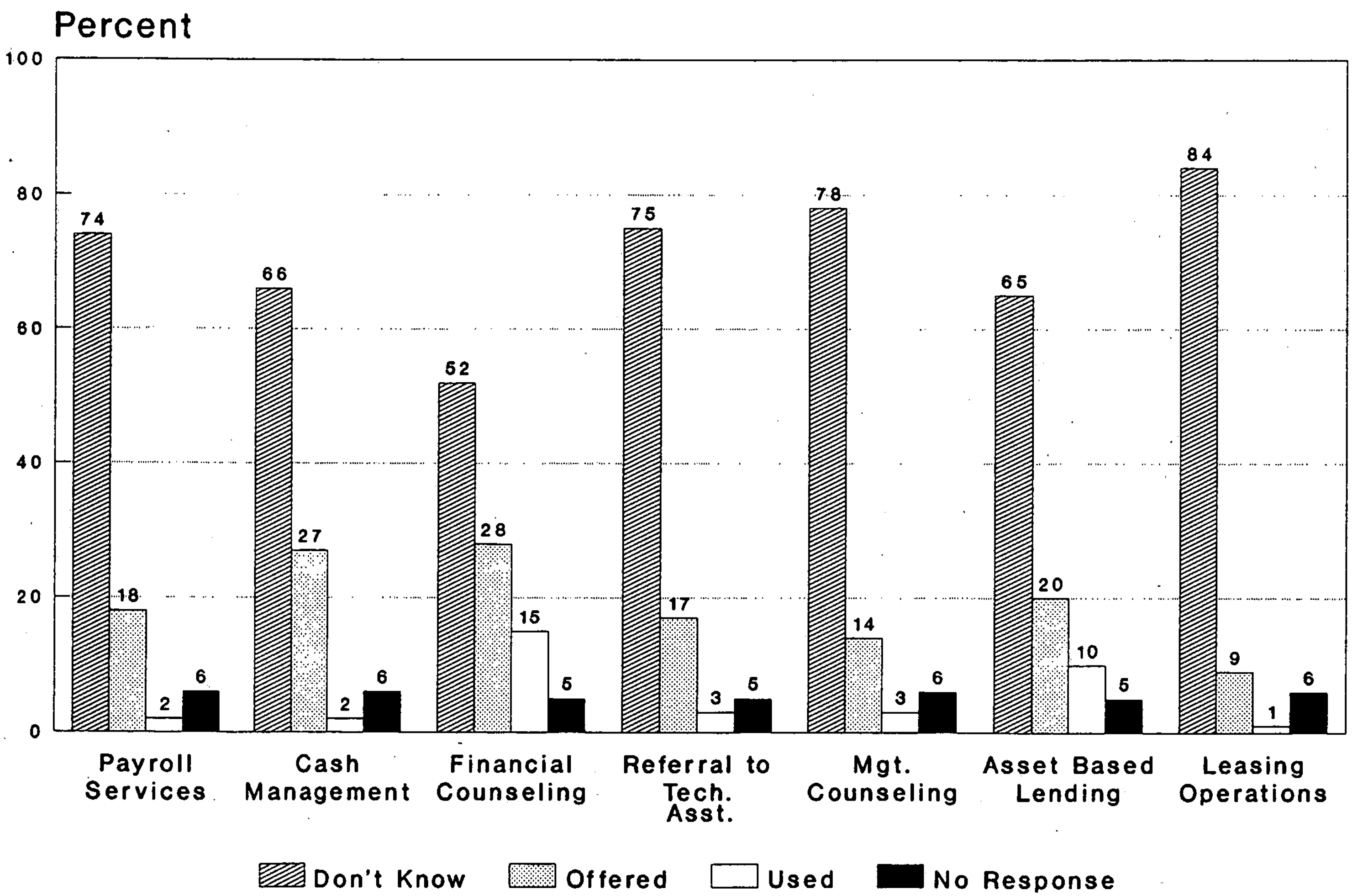
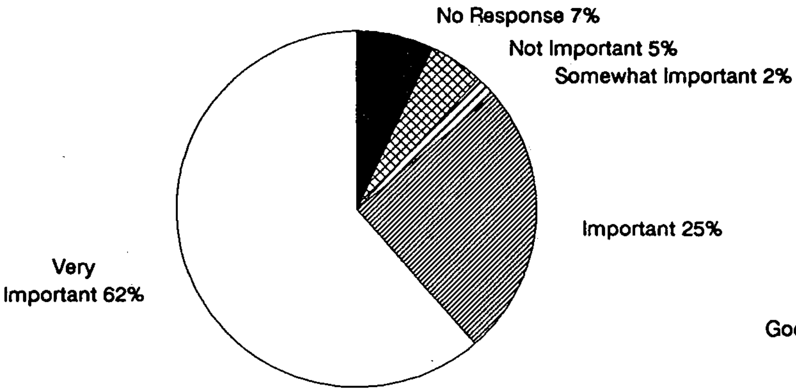


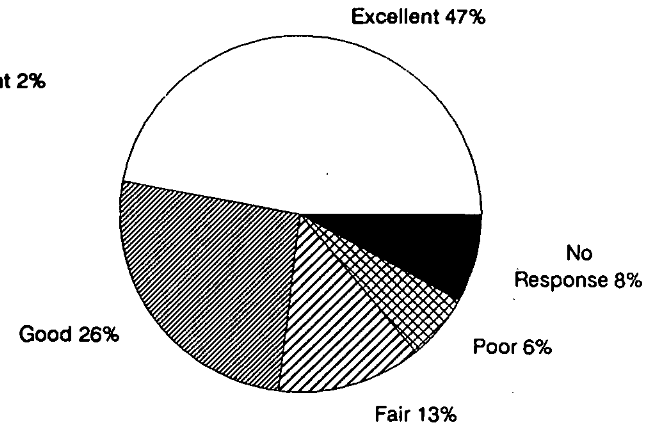
Figure 18.
Importance of Characteristics in Choosing a Financial Institution and Business Rating of Own Institution

■ Importance of "Personal Service or Attention to Business Needs:"

Choosing a Financial Institution

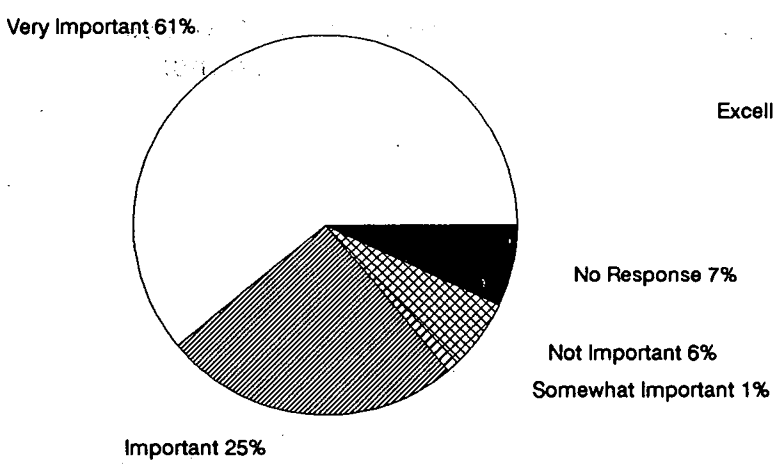


Rating of Own Institution



■ Importance of "Reliable and Consistent Source of Credit:"

Choosing a Financial Institution



Rating of Own Institution

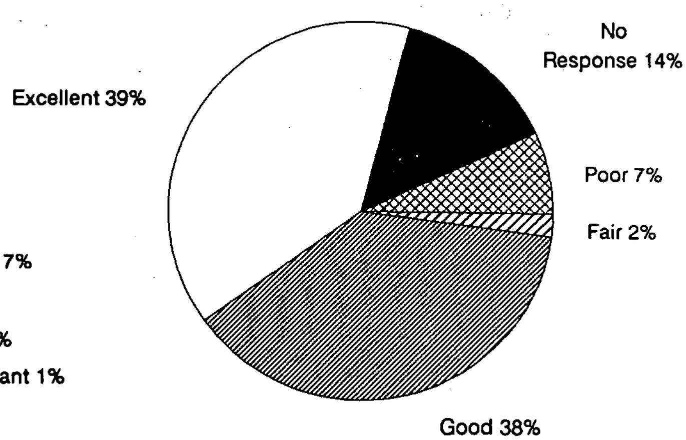
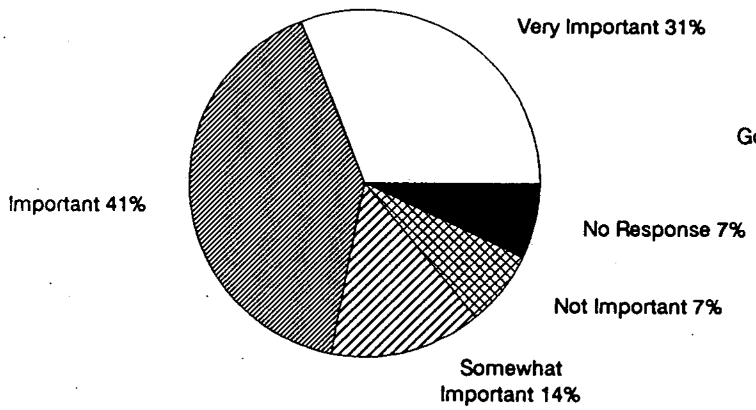


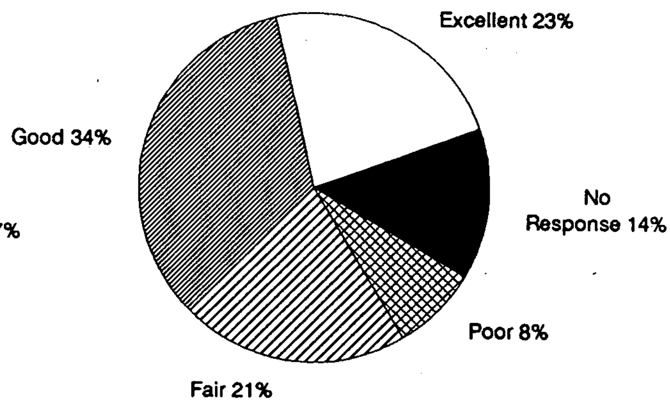
Figure 18 (continued).
Importance of Characteristics in Choosing a Financial Institution and Business Rating of Own Institution

■ Importance of "Knowledge of You and Your Community:"

Choosing a Financial Institution

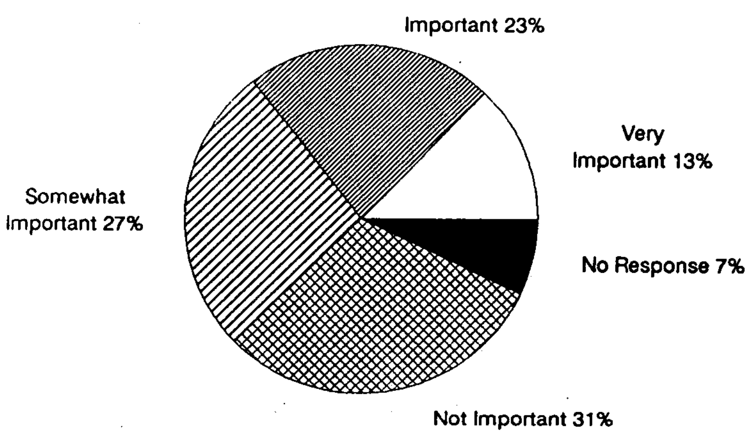


Rating of Own Institution



■ Importance of "Types of Business Services:"

Choosing a Financial Institution



Rating of Own Institution

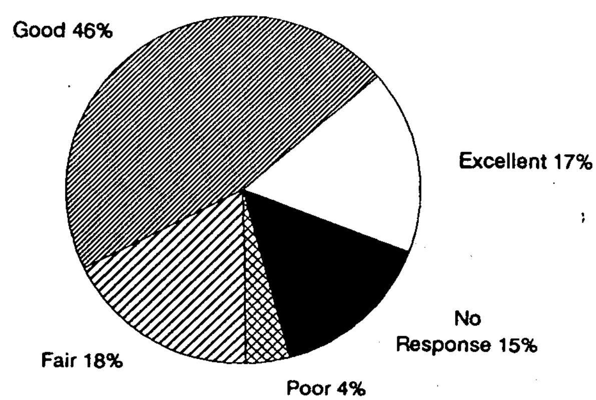
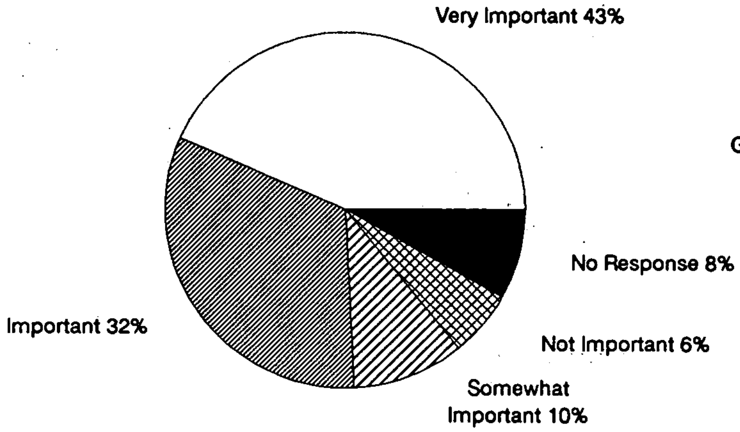


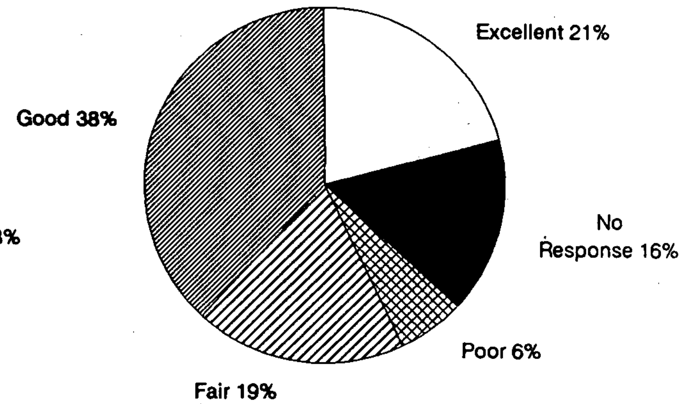
Figure 18 (continued).
Importance of Characteristics in Choosing a Financial Institution and Business Rating of Own Institution

■ Importance of "Flexible Terms and Conditions on Loans:"

Choosing a Financial Institution

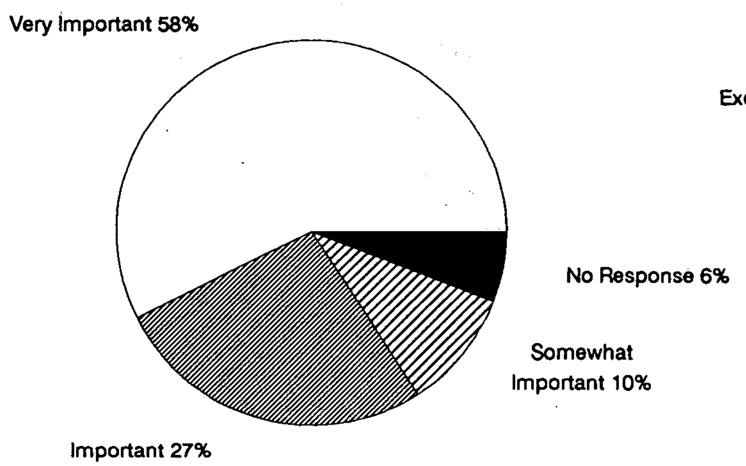


Rating of Own Institution



■ Importance of "Your Knowledge of Bank and Confidence in Them:"

Choosing a Financial Institution



Rating of Own Institution

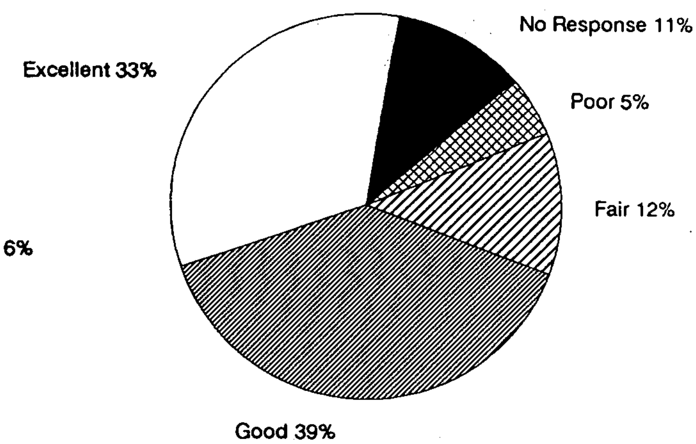
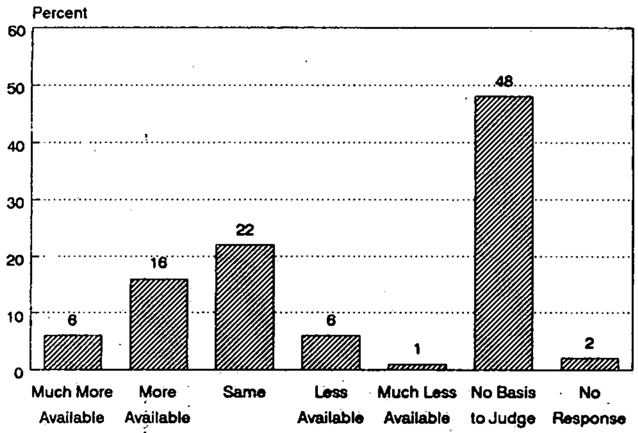
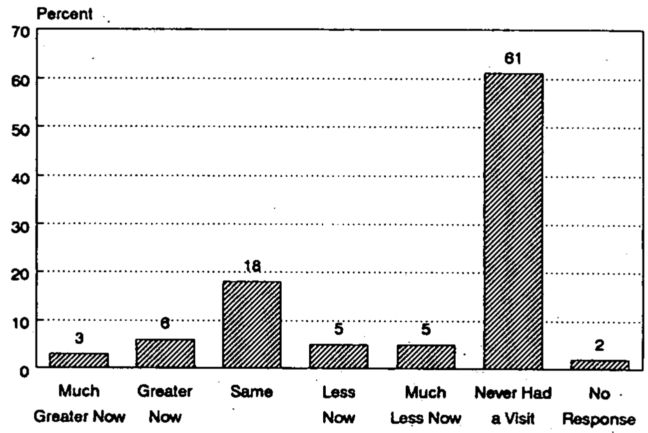


Figure 19.
Business Respondents' Perceptions of How the Local Business Credit Market has Changed Since 1984

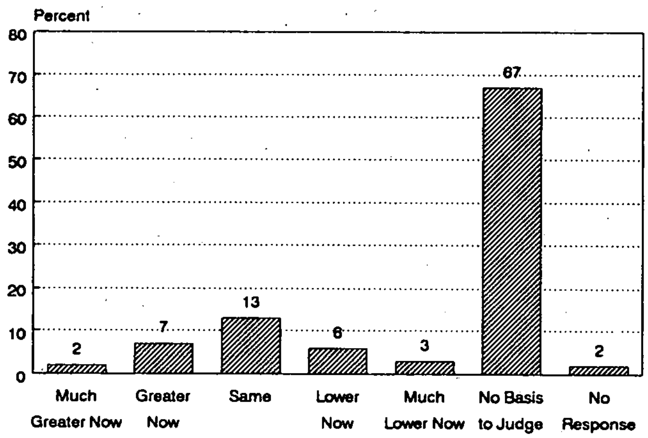
■ Availability of Asset-based Loan Products:



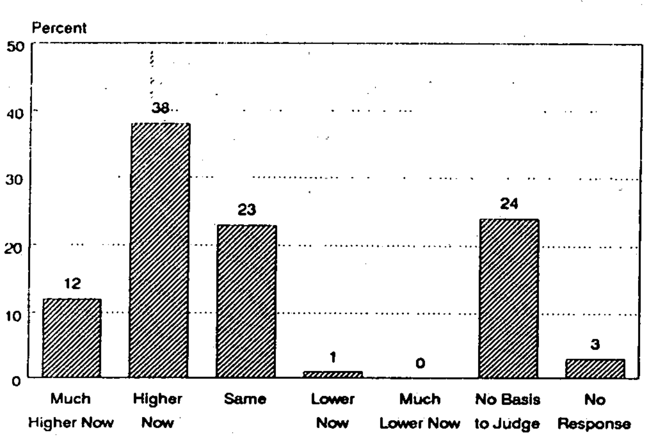
■ Frequency of Visits by Local Financial Institutions to Solicit Loan Business:



■ Frequency of Loan Denials:



■ Cost of Bank Services:



■ Length of Time Required to Process and Decide on Loan Applications:

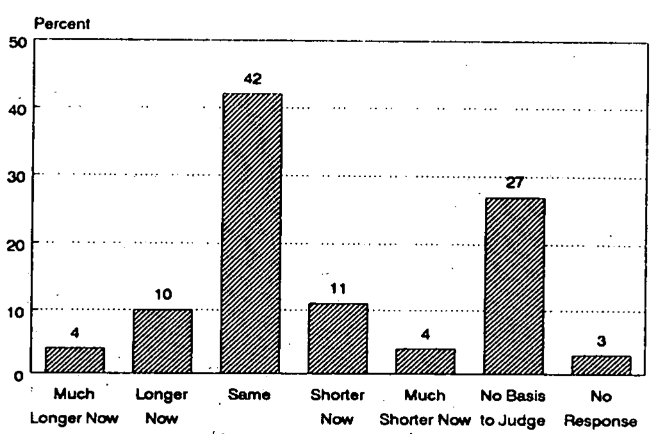
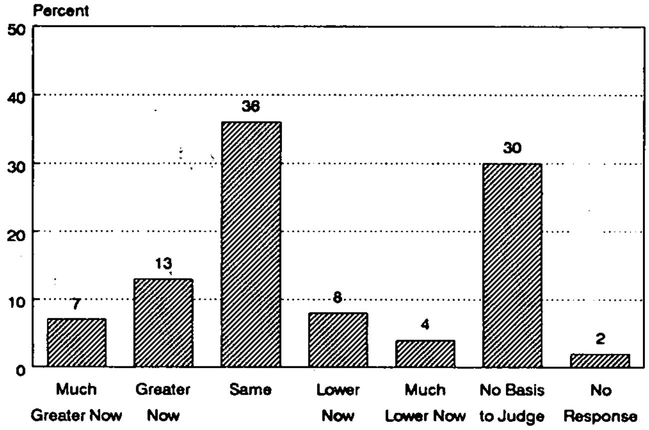
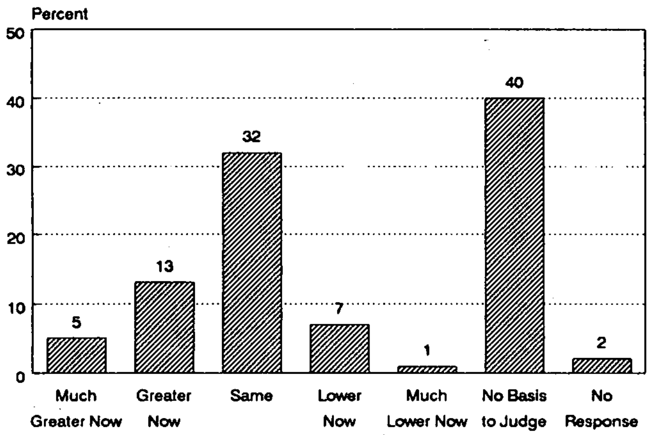


Figure19 (continued).
Business Respondents' Perceptions of How the Local Business Credit Market has Changed Since 1984

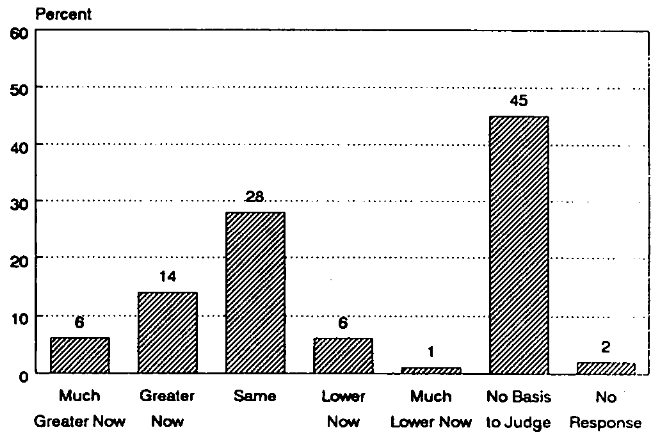
■ Personal Attention to Credit Needs:



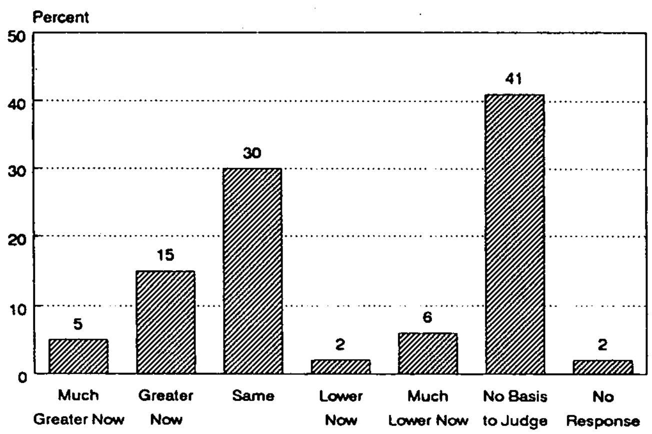
■ Flexibility in Terms Offered on Short-term Financing From Your Bank:



■ Flexibility in Terms Offered on Long-term Financing From Your Bank:



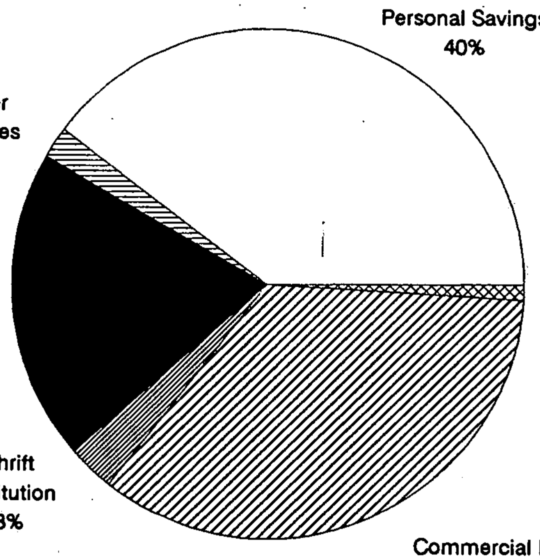
■ Extent to Which Lending Decisions are Tailored to Your Needs:



APPENDIX D

Vermont Business Tables

Figure 1.
Percent of Start Up Capital From the Following Sources



■ For All Firms:

% Equity Received From Sources Outside the State 5%

% Debt Received From Sources Outside the State 3%

■ By Firm Sales Size:

Source of Capital	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Family or Friends	19%	3%	26%
Commercial Bank	30	85	36
Thrift Institution	4	7	—
Credit Union	1	—	—
Venture Capital Company	—	—	—
Personal Savings	44	5	35
Other	2	—	4
% Equity Capital From Sources Outside the State	7	—	1
% Debt Capital From Sources Outside The State	4	—	2

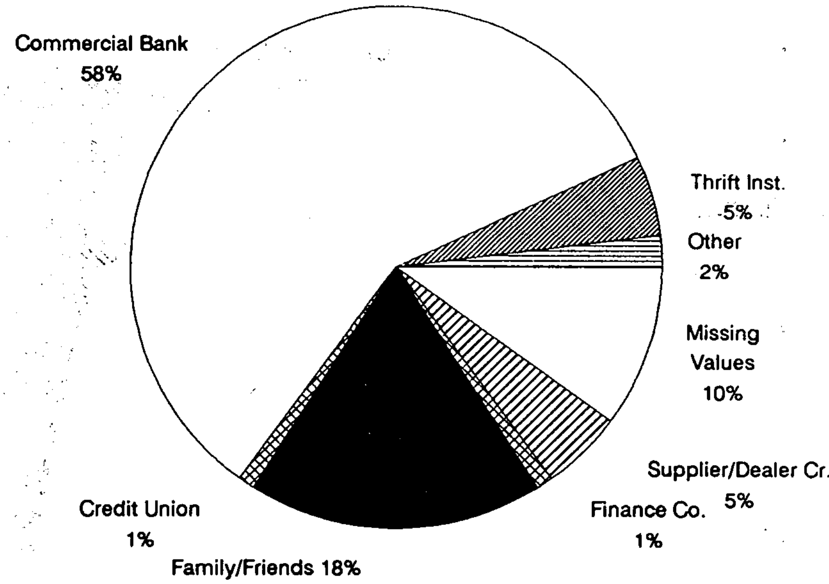
■ By Industry Type:

Source of Capital	Resource	Manufacturing	Trade	Service	Other
Family or Friends	38%	33%	23%	11%	14%
Commercial Bank	5	16	43	41	22
Thrift Institution	—	—	1	7	5
Credit Union	—	—	—	—	—
Venture Capital Company	—	—	—	—	—
Personal Savings	58	43	31	38	56
Other	—	7	2	3	—
% Equity Capital From Sources Outside the State	8	17	4	7	—
% Debt Capital From Sources Outside the State	—	14	2	1	—

Percents may not total 100 due to missing values.

Figure 2.
Percent of Loans Received From the Following Sources During Business's First 5 Years of Operation

■ For All Firms:



■ By Firm Sales Size:

Source of Capital	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Family or Friends	23%	—	5%
Commercial Bank	49	100	75
Thrift Institution	8	—	—
Credit Union	1	—	—
Finance Company	1	—	4
Venture Capital Company	—	—	—
Supplier/Dealer Credit	7	—	1
Other	3	—	—

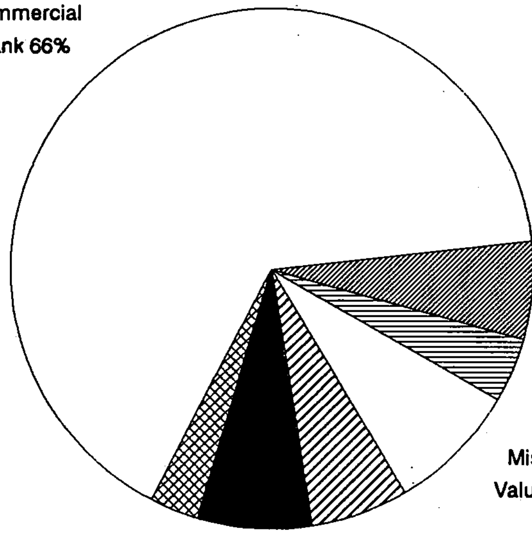
■ By Industry Group:

Source of Capital	Resource	Manufacturing	Trade	Service	Other
Family or Friends	20%	25%	21%	11%	9%
Commercial Bank	25	15	61	67	58
Thrift Institution	—	25	—	8	9
Credit Union	—	—	2	—	—
Finance Company	25	10	—	1	—
Venture Capital Co.	—	—	—	—	—
Supplier/Dealer Credit	30	25	—	4	11
Other	—	—	4	—	—

Percents may not total 100 due to missing values.

Figure 3.
Percent of Loans Received From the Following Sources During Period Up to the Present

■ For All Firms:



■ By Firm Sales Size:

Source of Capital	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Family or Friends	10%	8%	1%
Commercial Bank	60	17	79
Thrift Institution	7	–	3
Credit Union	–	–	–
Finance Company	4	–	1
Venture Capital Company	–	–	–
Supplier/Dealer Credit	8	–	1
Other	3	75	–

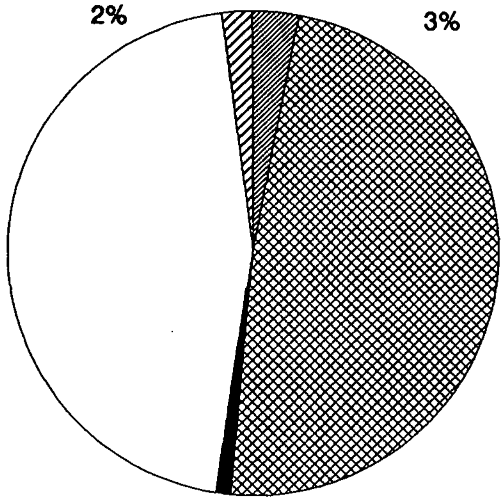
■ By Industry Group:

Source of Capital	Resource	Manufacturing	Trade	Service	Other
Family or Friends	–	2%	7%	14%	–
Commercial Bank	–	39	65	65	75
Thrift Institution	–	34	–	9	2
Credit Union	–	–	–	–	–
Finance Company	–	–	–	1	–
Venture Capital Co.	–	–	–	–	–
Supplier/Dealer Credit	–	25	2	1	12
Other	–	–	8	–	–

Percents may not total 100 due to missing values.

Figure 4.
Availability of Short-term Secured Loans to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms < 5 Years Old	5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	40%	65%	44%
Obtain on Less Favorable Terms	—	6	4
Unable to Obtain	—	—	4
Never Tried to Obtain	60	24	48

■ **By Firm Sales Size:**

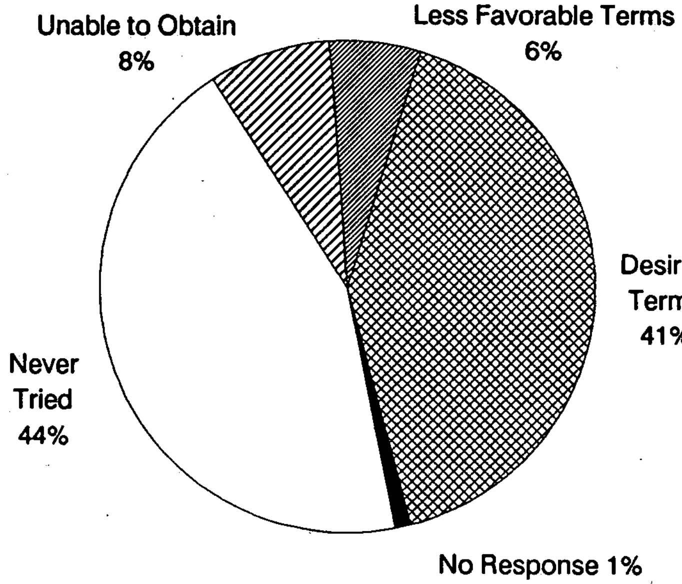
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	44%	100%	58%
Obtain on Less Favorable Terms	3	—	5
Unable to Obtain	3	—	—
Never Tried to Obtain	49	—	37

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	100%	78%	42%	37%	53%
Obtain on Less Favorable Terms	—	—	7	—	—
Unable to Obtain	—	—	5	—	—
Never Tried to Obtain	—	22	42	63	47

Figure 5.
Availability of Short-term Unsecured Loans to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	40%	33%	42%
Obtain on Less Favorable Terms	–	8	6
Unable to Obtain	7	4	12
Never Tried to Obtain	53	54	40

■ **By Firm Sales Size:**

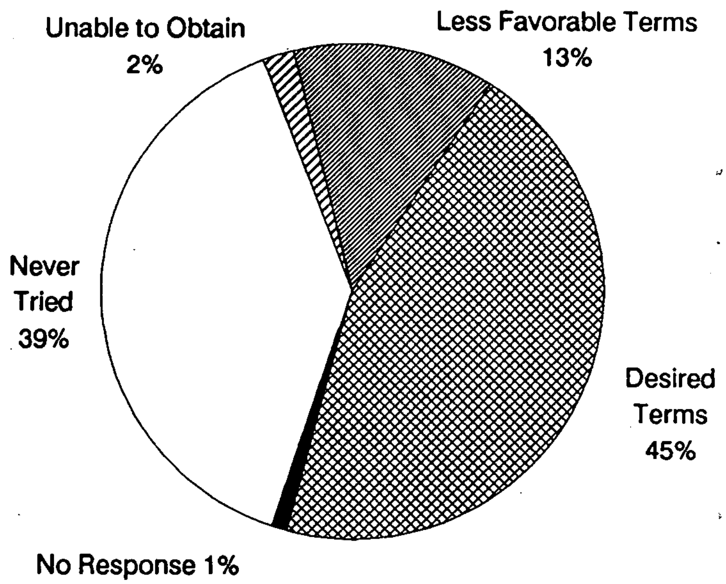
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	38%	100%	47%
Obtain on Less Favorable Terms	5	–	11
Unable to Obtain	11	–	–
Never Tried to Obtain	46	–	42

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	100%	78%	35%	37%	35%
Obtain on Less Favorable Terms	–	11	5	–	12
Unable to Obtain	–	–	10	11	6
Never Tried to Obtain	–	11	47	53	47

Figure 6.
Availability of Long-term (1-5 Years) Loans to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	47%	24%	50%
Obtain on Less Favorable Terms	13	24	10
Unable to Obtain	—	—	4
Never Tried to Obtain	40	47	37

■ By Firm Sales Size:

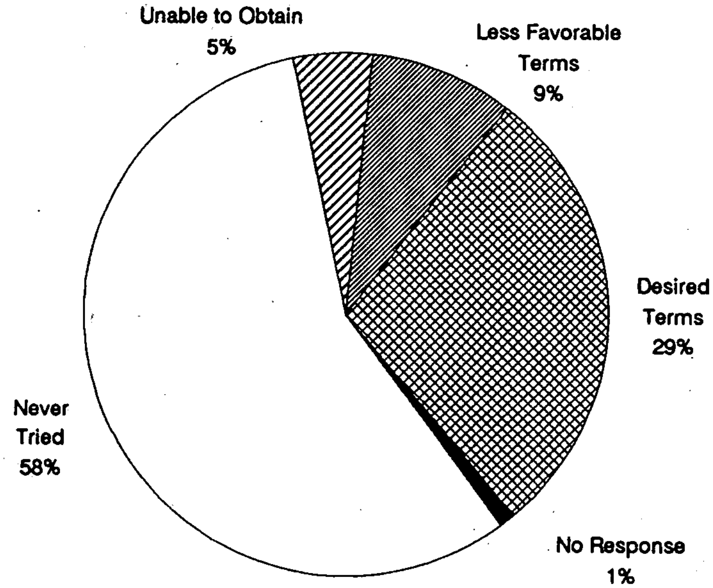
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	43%	67%	53%
Obtain on Less Favorable Terms	11	—	21
Unable to Obtain	3	—	—
Never Tried to Obtain	43	33	26

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	—	67%	40%	42%	53%
Obtain on Less Favorable Terms	50	11	15	11	6
Unable to Obtain	—	—	5	—	—
Never Tried to Obtain	50	22	38	47	41

Figure 7.
Availability of Long-term (>5 Years) Loans to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	27%	24%	33%
Obtain on Less Favorable Terms	13	12	8
Unable to Obtain	—	—	8
Never Tried to Obtain	60	59	52

■ By Firm Sales Size:

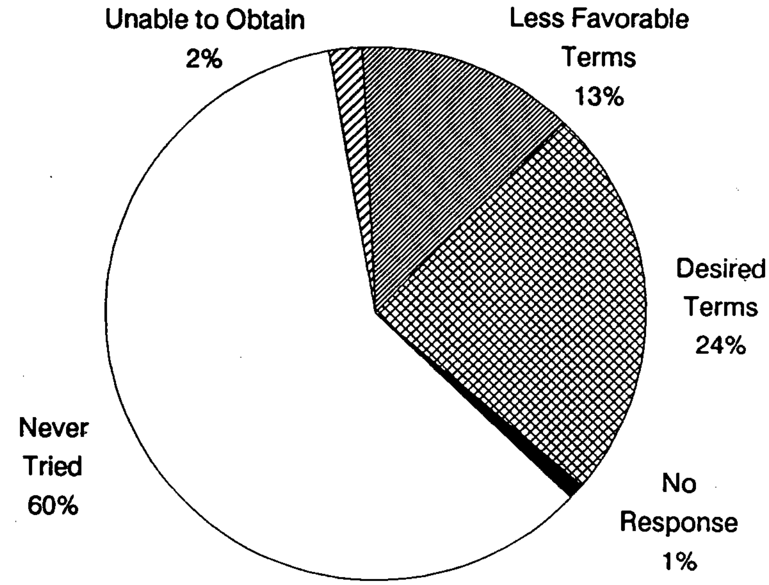
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	22%	67%	47%
Obtain on Less Favorable Terms	8	—	16
Unable to Obtain	5	—	5
Never Tried to Obtain	65	33	32

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	—	56%	28%	32%	24%
Obtain on Less Favorable Terms	50	—	10	—	6
Unable to Obtain	—	—	7	12	—
Never Tried to Obtain	50	44	53	52	71

Figure 8.
Availability of Commercial Mortgages to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	20%	12%	31%
Obtain on Less Favorable Terms	13	29	6
Unable to Obtain	–	6	2
Never Tried to Obtain	67	47	62

■ **By Firm Sales Size:**

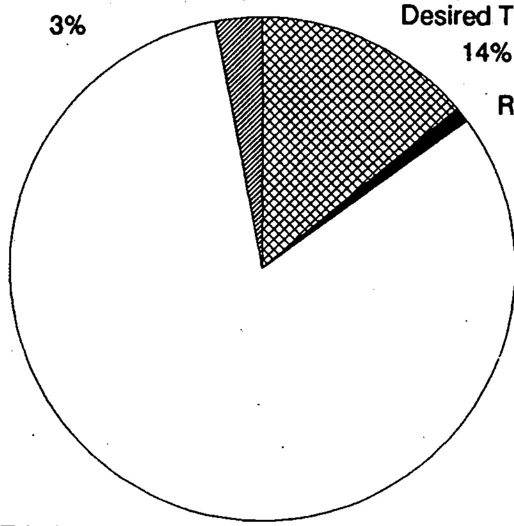
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	16%	67%	47%
Obtain on Less Favorable Terms	11	–	21
Unable to Obtain	3	–	–
Never Tried to Obtain	70	33	32

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	–	33%	23%	32%	18%
Obtain on Less Favorable Terms	50	11	10	16	12
Unable to Obtain	–	–	5	–	–
Never Tried to Obtain	50	56	60	53	71

Figure 9.
Availability of Home Equity Loans for Business Purposes to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	13%	6%	17%
Obtain on Less Favorable Terms	–	6	4
Unable to Obtain	–	–	–
Never Tried to Obtain	87	82	79

■ By Firm Sales Size:

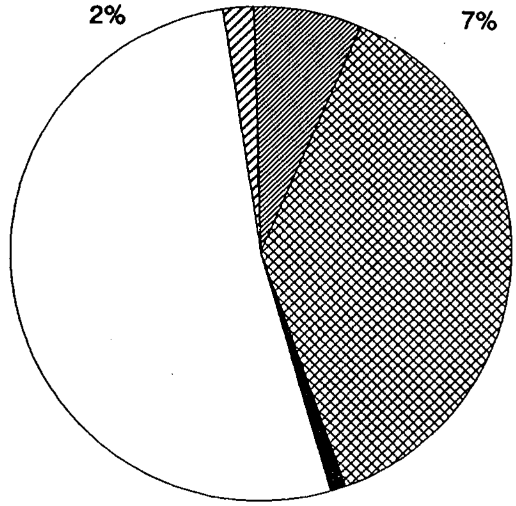
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	15%	33%	11%
Obtain on Less Favorable Terms	9	–	5
Unable to Obtain	6	–	–
Never Tried to Obtain	71	67	84

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	–	22%	12%	16%	12%
Obtain on Less Favorable Terms	–	–	3	5	6
Unable to Obtain	–	–	–	–	–
Never Tried to Obtain	100	78	82	79	82

Figure 10.
Availability of Revolving Lines of Credit to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	33%	41%	37%
Obtain on Less Favorable Terms	—	6	10
Unable to Obtain	—	—	4
Never Tried to Obtain	67	47	50

■ By Firm Sales Size:

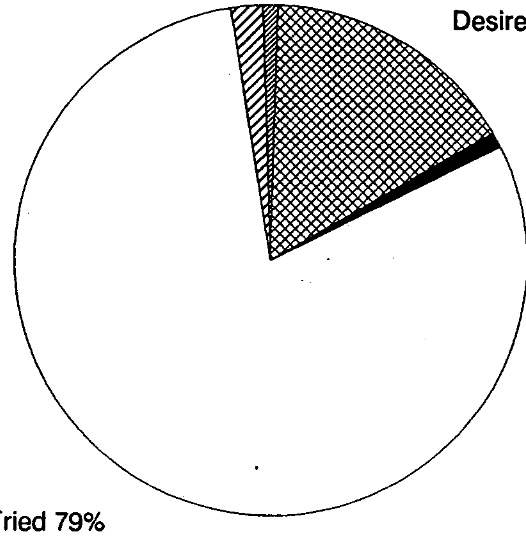
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	29%	100%	63%
Obtain on Less Favorable Terms	5	—	16
Unable to Obtain	3	—	—
Never Tried to Obtain	63	—	21

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	50%	89%	33%	26%	35%
Obtain on Less Favorable Terms	—	—	7	11	6
Unable to Obtain	—	—	5	—	—
Never Tried to Obtain	50	11	53	63	59

Figure 11.
Availability of Asset Lines to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	–	6%	25%
Obtain on Less Favorable Terms	–	6	–
Unable to Obtain	–	–	4
Never Tried to Obtain	100	82	71

■ **By Firm Sales Size:**

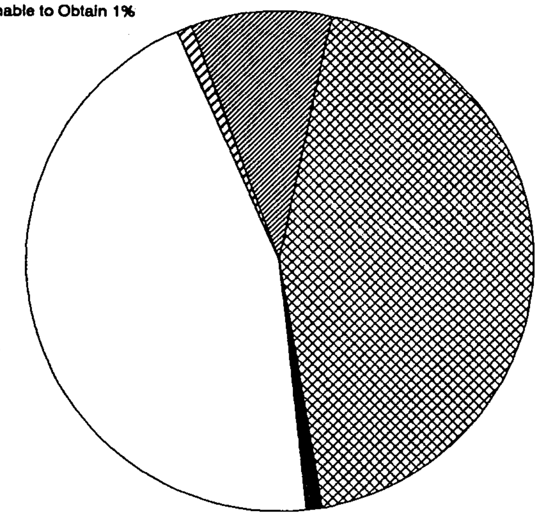
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	11%	33%	32%
Obtain on Less Favorable Terms	–	–	5
Unable to Obtain	3	–	–
Never Tried to Obtain	86	67	63

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	–	33%	23%	11%	–
Obtain on Less Favorable Terms	–	–	–	5	–
Unable to Obtain	–	–	5	–	–
Never Tried to Obtain	100	67	70	84	100

Figure 12.
Availability of Equipment Financing to Business Respondents

■ For All Firms:



■ By Age of Firm:

Credit Experience	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Obtain on Terms Desired	40%	41%	46%
Obtain on Less Favorable Terms	7	12	10
Unable to Obtain	—	—	2
Never Tried to Obtain	53	41	42

■ By Firm Sales Size:

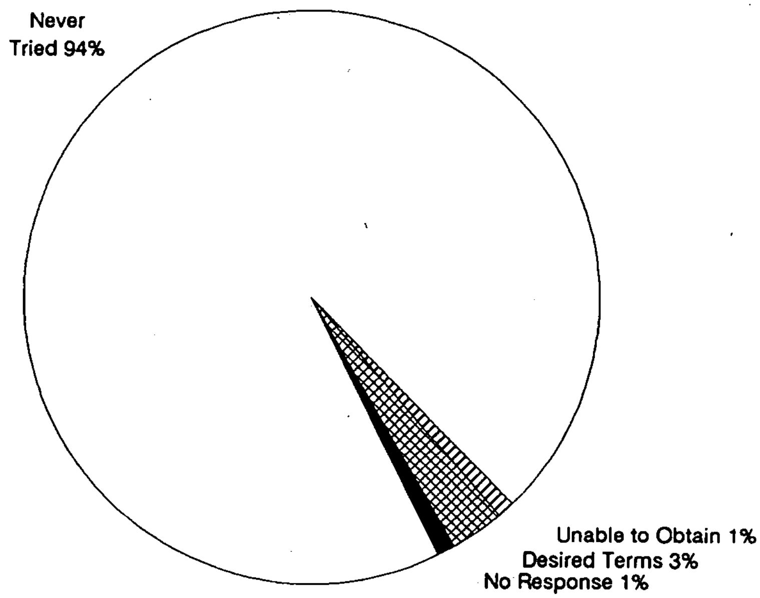
Credit Experience	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Obtain on Terms Desired	38%	100%	58%
Obtain on Less Favorable Terms	8	—	16
Unable to Obtain	2	—	—
Never Tried to Obtain	52	—	26

■ By Industry Type:

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	50%	89%	40%	21%	53%
Obtain on Less Favorable Terms	50	—	7	16	6
Unable to Obtain	—	—	3	—	—
Never Tried to Obtain	—	11	47	63	41

Figure 13.
Availability of Public Capital to Business Respondents

■ **For All Firms:**



■ **By Age of Firm:**

Credit Experience	Firms < 5 Years Old	Firms 5-10 Years Old	Firms > 10 Years Old
Obtain on Terms Desired	–	–	6%
Obtain on Less Favorable Terms	–	–	–
Unable to Obtain	–	–	2
Never Tried to Obtain	100	94	92

■ **By Firm Sales Size:**

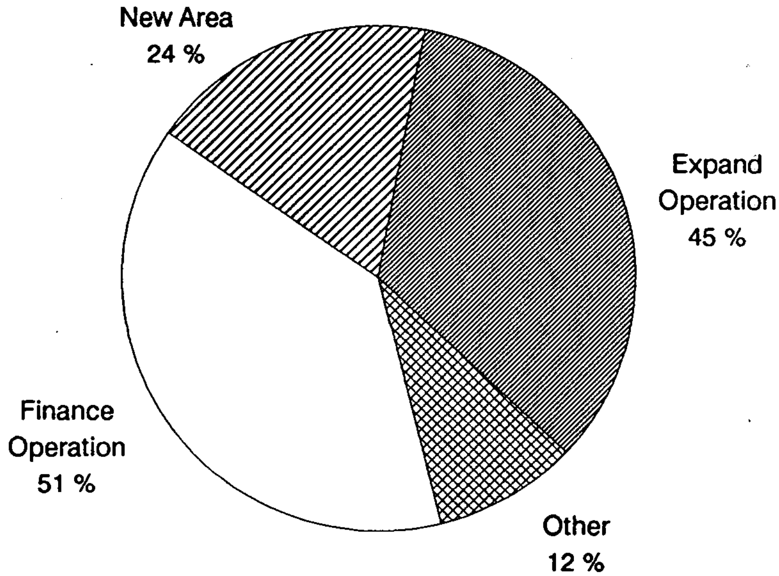
Credit Experience	< $500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	> $1 Million in Gross Sales
Obtain on Terms Desired	2%	33%	5%
Obtain on Less Favorable Terms	–	–	–
Unable to Obtain	2	–	–
Never Tried to Obtain	97	67	95

■ **By Industry Type:**

Credit Experience	Resource	Manufacturing	Trade	Service	Other
Obtain on Terms Desired	–	11%	3%	5%	–
Obtain on Less Favorable Terms	–	–	–	–	–
Unable to Obtain	–	–	3	–	–
Never Tried to Obtain	100	89	93	95	100

Figure 14.
Use of Credit Received by Business

■ For All Firms:



■ By Age of Firm:

Use of Credit	Firms <5 Years Old	Firms 5-10 Years Old	Firms >10 Years Old
Finance Existing Operation	27%	41%	38%
Expand Existing Operation	33	41	35
Expand into New Area of Operation	20	12	19
Other		20	6 8
No Response	–	6	–

■ By Firm Sales Size:

Use of Credit	$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Finance Existing Operation	38%	33%	47%
Expand Existing Operation	25	67	63
Expand into New Area of Operation	17	33	21
Other	11	–	5
No Response	–	–	–

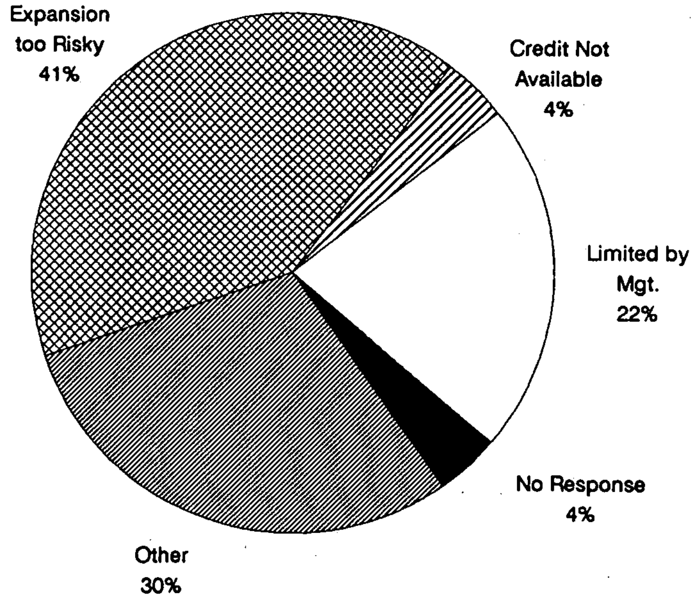
■ By Industry Type:

Use of Credit	Resource	Manufacturing	Trade	Service	Other
Finance Existing Operation	–	67%	35%	21%	59%
Expand Existing Operation	100	33	33	42	24
Expand Into New Area of Operation	–	22	20	26	6
Other	–	–	12	5	12
No Response	–	–	–	5	–

Percents may total more than 100 since multiple responses were permitted.

Figure 15.
Reasons Why 31% of Respondents Decided Against Business Expansion

■ For All Firms:



■ By Age of Firm:

Reason	Firms Firms <5 Years	Firms 5-10 Years	Firms >10 Years
No Economic Reason to Expand Business	—	—	—
Expansion Limited by Mgt. Capacities	—	33	18
Felt Credit Was Not Available in Local Mkt.	—	—	6
Felt That Expansion Was too Risky	33	50	41
Other	67	17	30
No Response	—	—	6

■ By Firm Sales Size:

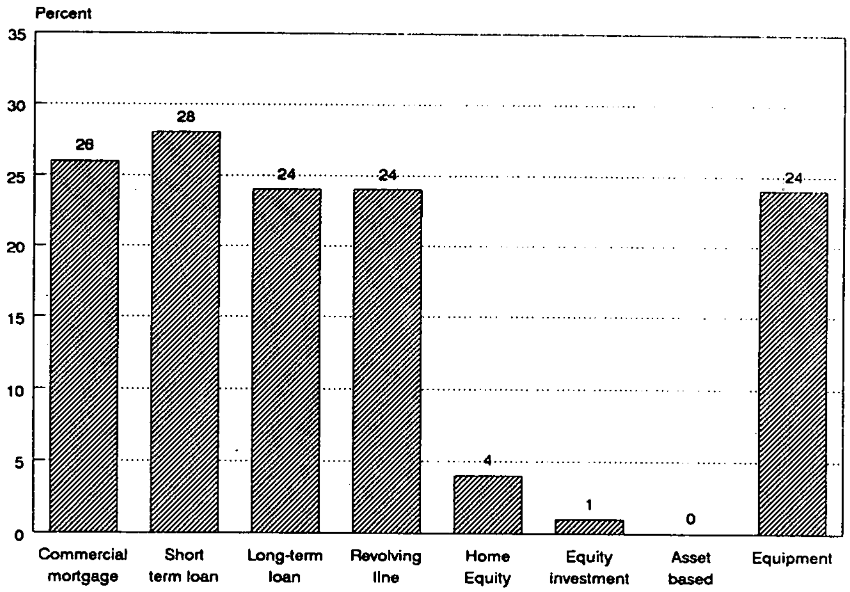
Reason	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
No Economic Reason to Expand Business	—	—	—
Expansion Limited by Mgt. Capacities	18	—	40
Felt Credit Was Not Available in Local Mkt.	5	—	—
Felt That Expansion Was too Risky	45	—	20
Other	28	—	40
No Response	5	—	—

■ By Industry Group:

Reason	Resource	Manufacturing	Trade	Service	Other
No Economic Reason to Expand	—	—	—	—	—
Expansion Limited by Mgt. Capacities	—	50	25	17	20
Credit Was Not Available in Local Mkt.	—	—	—	—	20
Felt That Expansion Was too Risky	100	50	42	50	—
Other	—	—	25	17	60
No Response	—	—	8	17	—

Figure 16.
Most Important Credit Need

■ For All Firms:



■ By Firm Sales Size:

Credit Need	<$500,000 in Gross Sales	$500,000 - $1 Million in Gross Sales	>$1 Million in Gross Sales
Commercial Mortgage	28%	67%	7%
Short-term Secured	10	—	—
Short-term Unsecured	24	33	7
Long-term (1-5 years)	22	—	7
Long-term (>5 years)	8	—	—
Revolving Line	20	—	43
Home Equity	6	—	—
Equity	2	—	—
Asset-based	—	—	—
Equipment	22	33	29

■ By Industry Type

Credit Need	Resource	Manufacturing	Trade	Service	Other
Commercial Mortgage	—	12%	24%	57%	9%
Short-term Secured	—	25	9	—	—
Short-term Unsecured	—	12	21	21	27
Long-term (1-5 years)	—	25	24	7	9
Long-term (>5 years)	—	12	6	7	—
Revolving Line	50	12	30	14	18
Home Equity	—	12	6	—	—
Equity	—	—	3	—	—
Asset-based	—	—	—	—	—
Equipment	50	38	18	7	45

Percents may total more than 100 since multiple responses were permitted, i.e., firm could rank more than one category as #1 credit need.

Figure 17.
Availability of Business Services Through Primary Commercial Lender

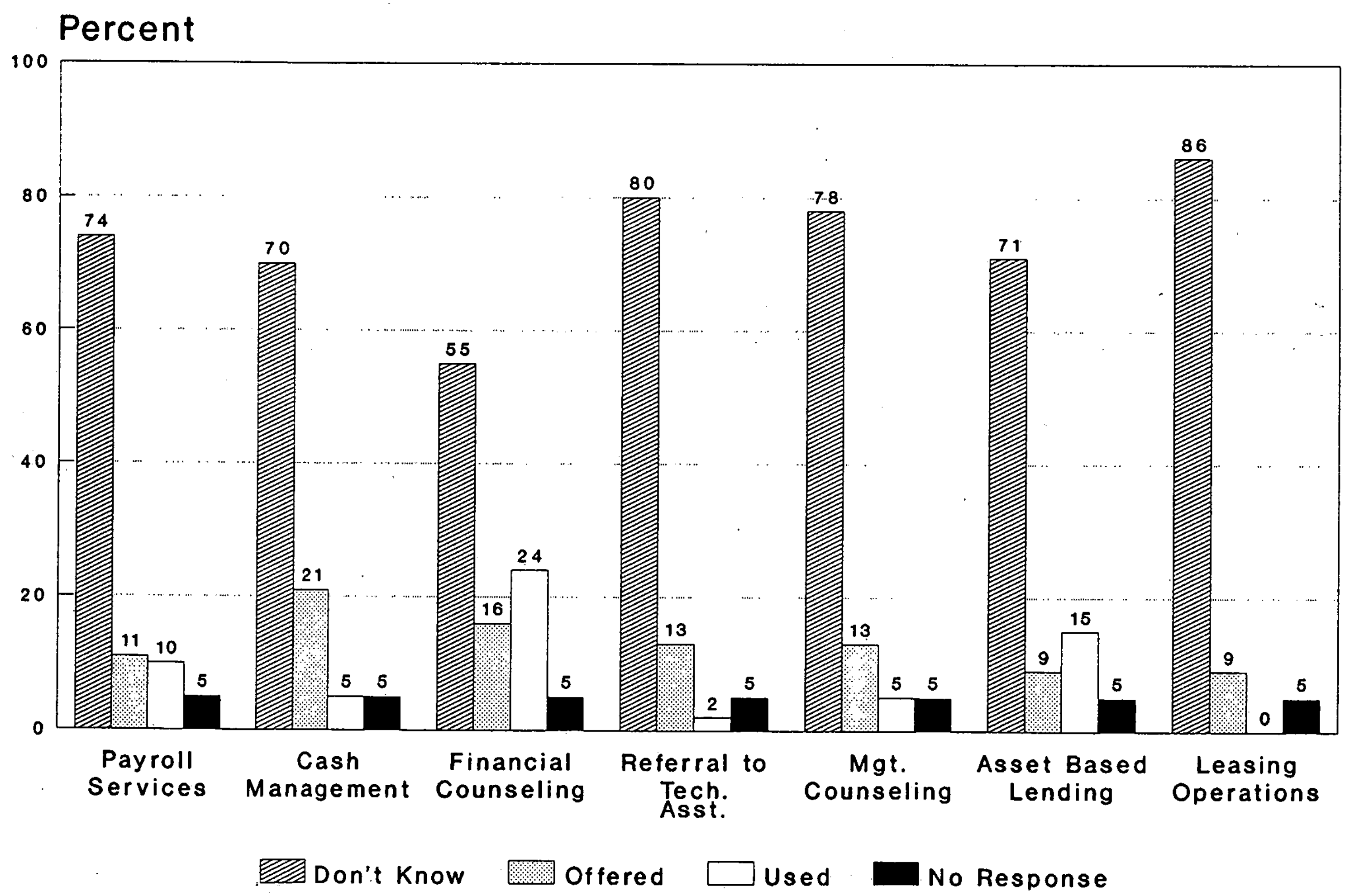
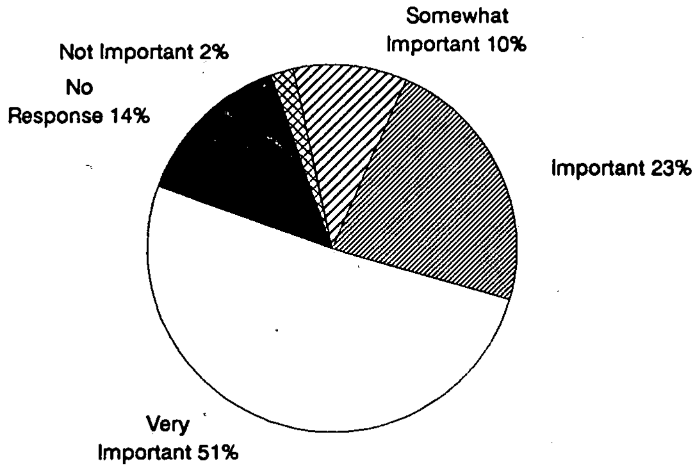


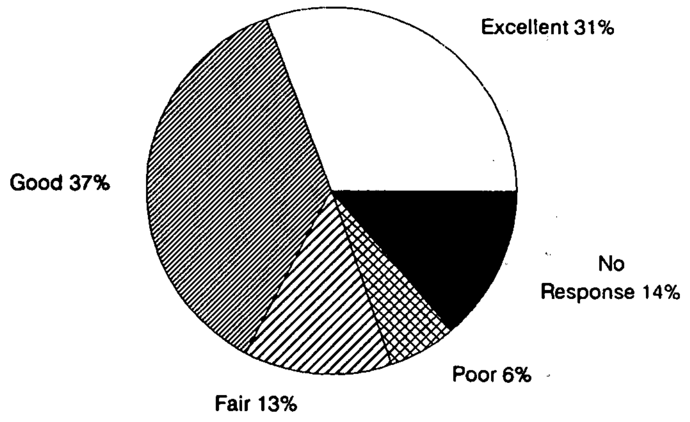
Figure 18.
Importance of Characteristics in Choosing a Financial Institution and Business Rating of Own Institution

■ Importance of "Personal Service or Attention to Business Needs:"

Choosing a Financial Institution

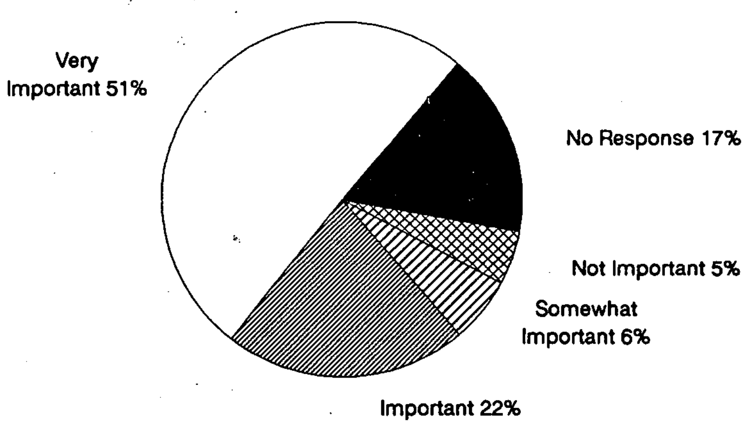


Rating of Own Institution



■ Importance of "Reliable and Consistent Source of Credit:"

Choosing a Financial Institution



Rating of Own Institution

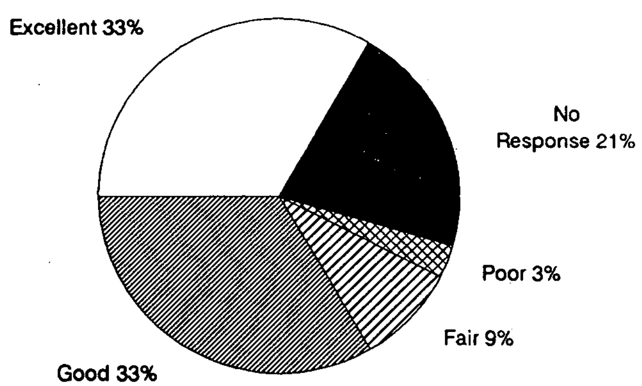
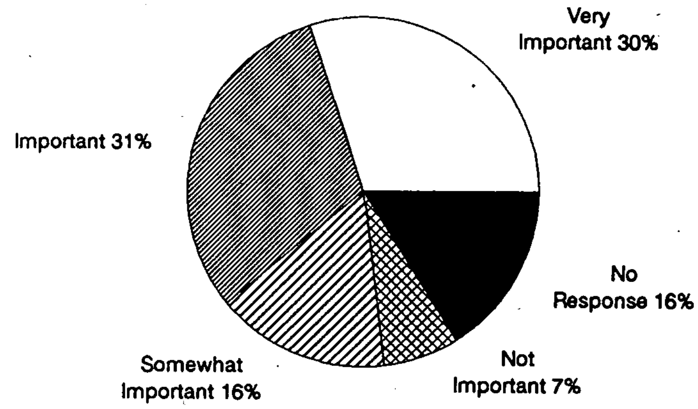


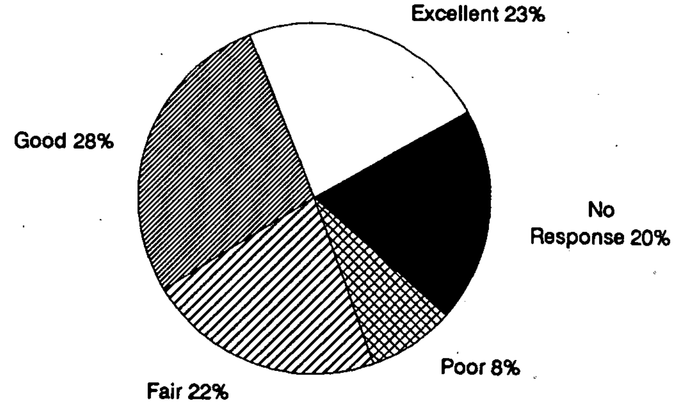
Figure 18 (continued).
Importance of Characteristics in Choosing a Financial Institution and Business Rating of Own Institution

■ Importance of "Knowledge of You and Your Industry:"

Choosing a Financial Institution

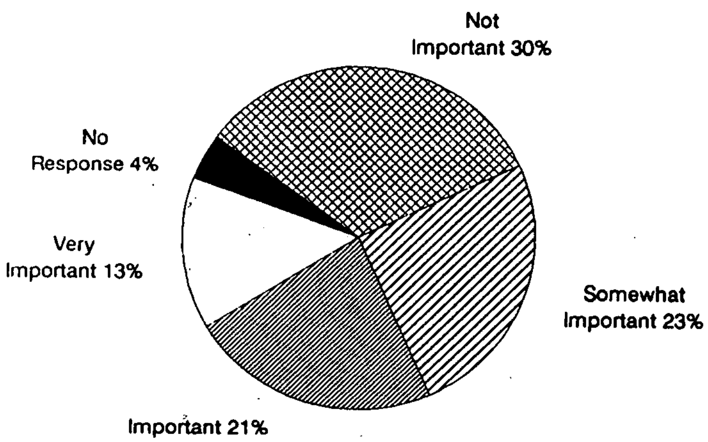


Rating of Own Institution



■ Importance of "Types of Business Services:"

Choosing a Financial Institution



Rating of Own Institution

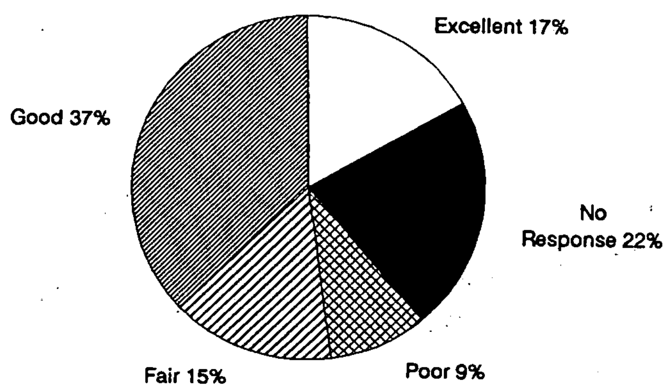
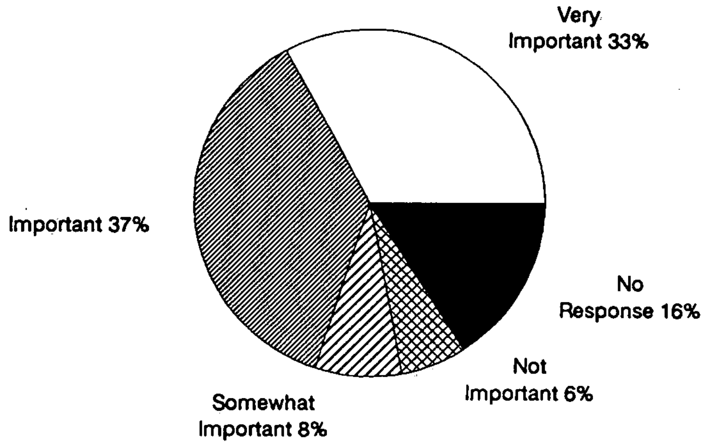


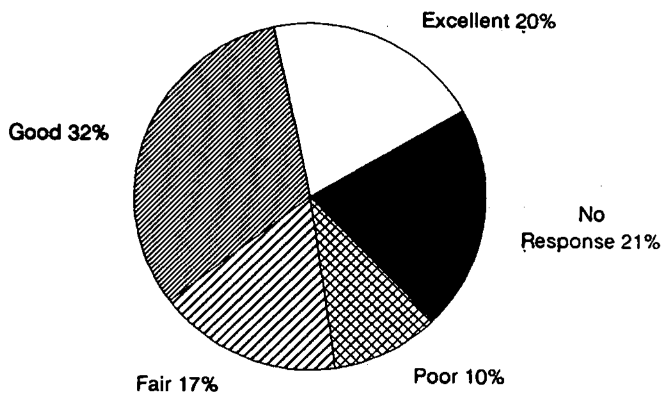
Figure 18 (continued). Importance of Characteristics in Choosing a Financial Institution and Business Rating of Own Institution

■ Importance of "Flexible Terms and Conditions on Loans:"

Choosing a Financial Institution

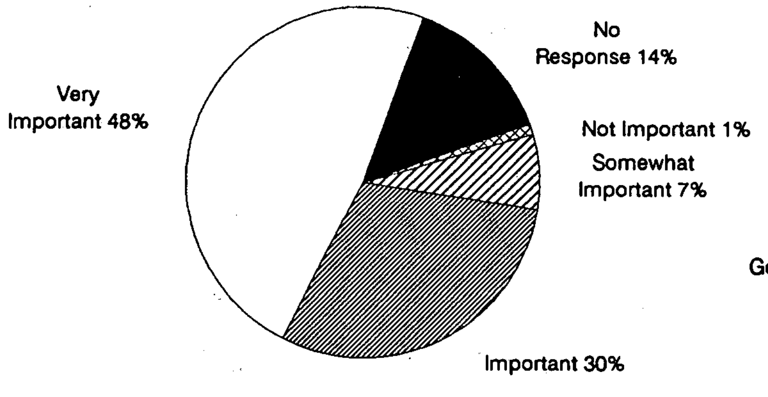


Rating of Own Institution



■ Importance of "Your Knowledge of Bank and Confidence in Them:"

Choosing a Financial Institution



Rating of Own Institution

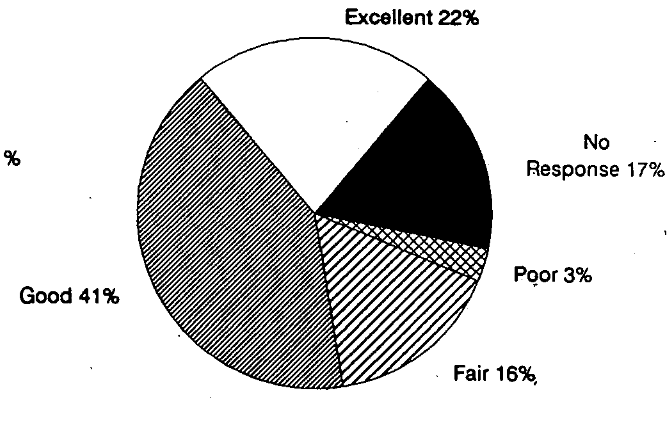
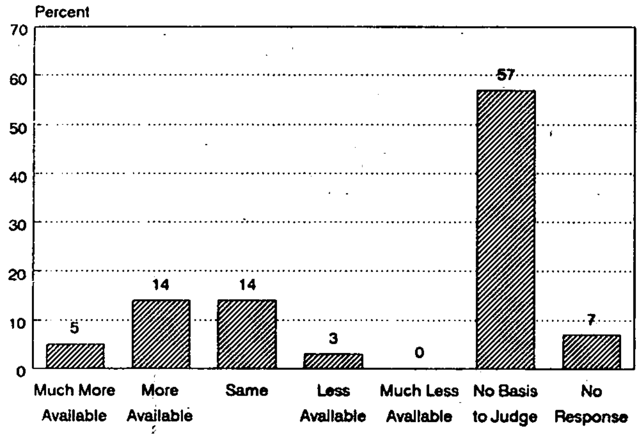
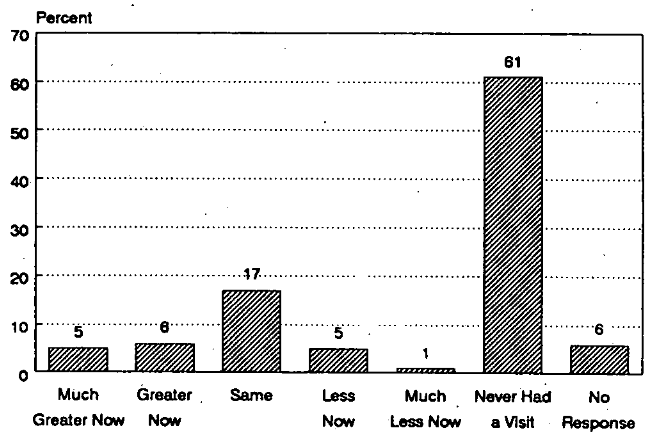


Figure 19.
Business Respondents' Perceptions of How the Local Business Credit Market Has Changed Since 1984

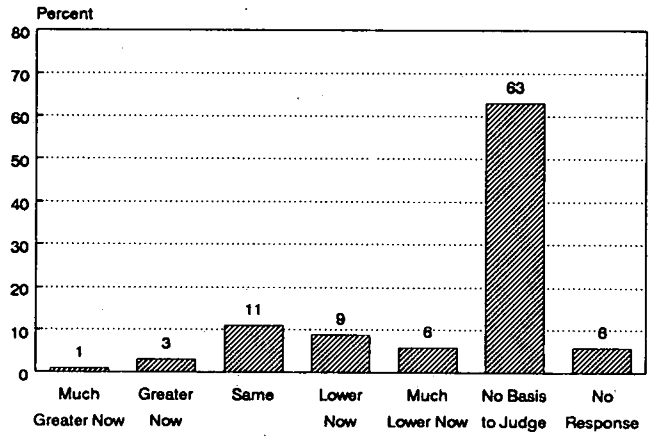
Availability of Asset-based Loan Products:



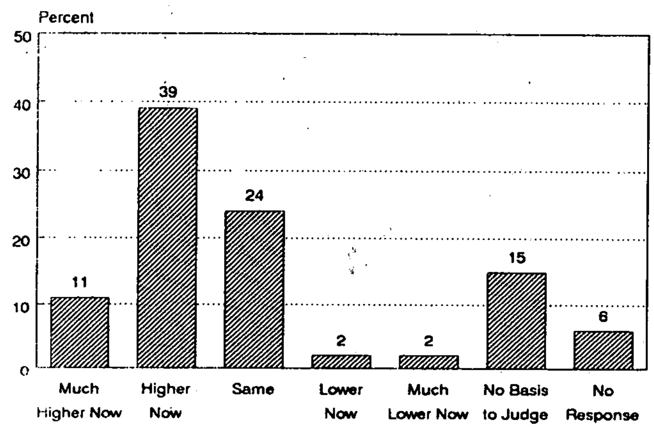
Frequency of Visits by Local Financial Institutions to Solicit Loan Business:



Frequency of Loan Denials:



Cost of Bank Services:



Length of Time Required to Process and Decide on Loan Applications:

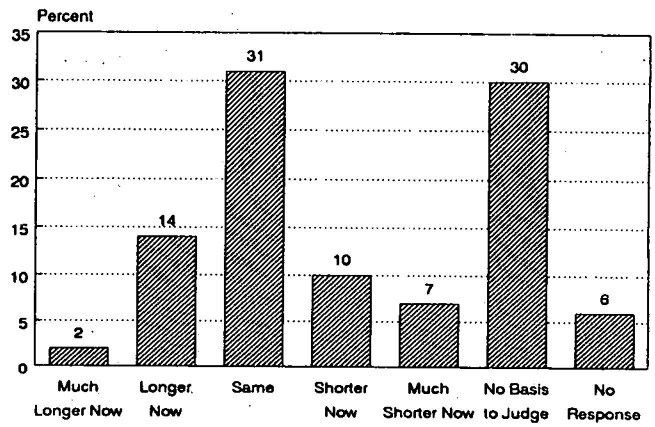
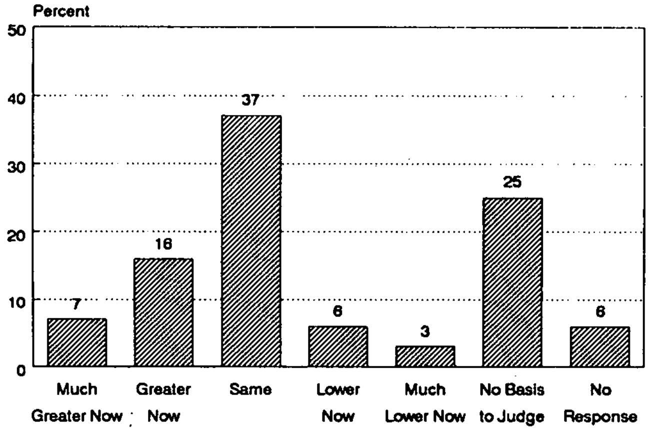
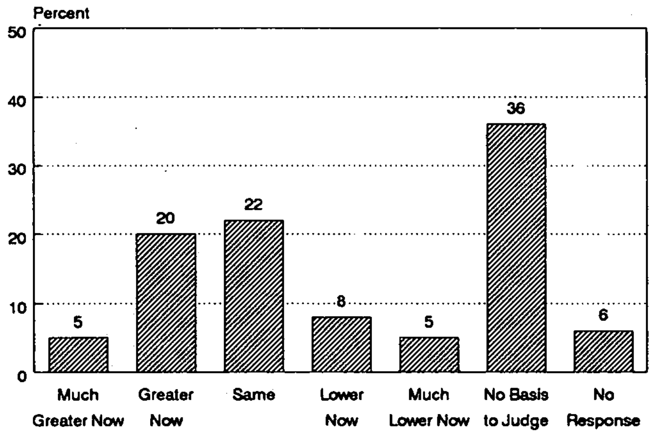


Figure 19 (continued).
Business Respondents' Perceptions of How the Local Business Credit Market Has Changed Since 1984

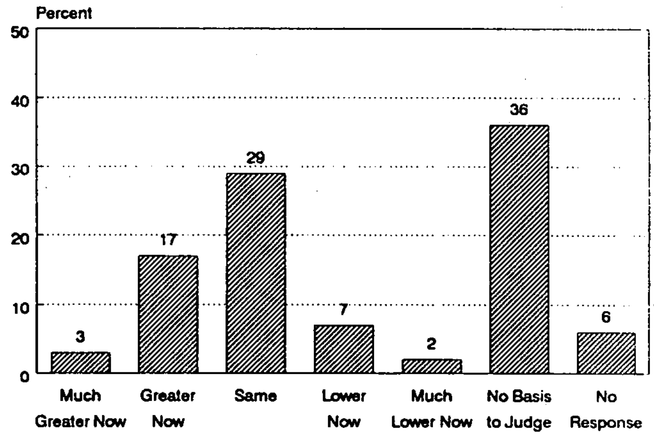
Personal Attention to Credit Needs:



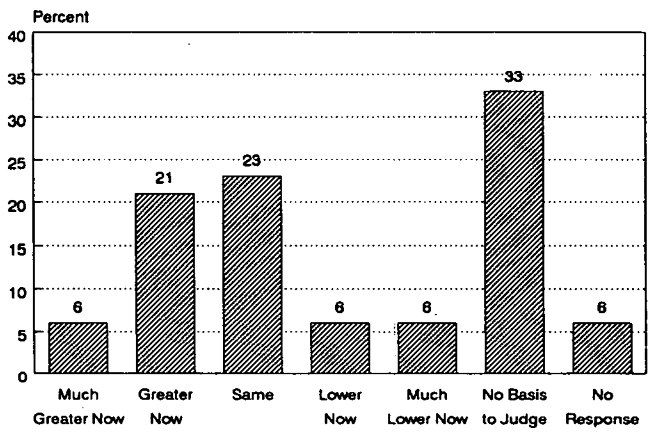
Flexibility in Terms Offered on Short-term Financing From Your Bank:



Flexibility in Terms Offered on Long-term Financing From Your Bank:



Extent to Which Lending Decisions are Tailored to Your Needs:



APPENDIX E
Commercial Bank Tables

Table 1.
Description of Bank's Small Business Lending Program

	By State					By Bank Type	
	All Banks	MA	ME	NH	VT	Independent Banks	Branch or Holding Company Banks
Definition of Small Business for Lending Purposes:							
Yes	26%	70%	18%	13%	21%	15%	32%
No	74	30	82	87	79	85	68
Marketing Program to Promote Lending:							
Yes	51	60	50	33	64	25	63
No	49	40	50	67	36	75	37
Visitation Program:							
Yes	88	80	86	87	93	79	93
No	12	20	9	13	7	21	7
Referral of Small Business Person to Other Sources of Capital:							
Yes	82	70	95	80	71	90	78
No	18	30	5	20	29	10	22

Table 2.
Constraints on Greater Bank Lending to Small Business

	By State					By Bank Type	
	All Banks	MA	ME	NH	VT	Independent Banks	Branch or Holding Company Banks
Could Bank Increase Small Business Lending?							
Yes	90%	100%	86%	87%	93%	85%	93%
No	10	—	14	13	7	15	7
Constraints:							
Poor Quality Loan Applications	28%	43%	22%	23%	28%	24%	32%
Lack of Expertise in Making Loans	8	—	22	8	—	—	16
Poor Business Climate	31	28	22	46	14	24	37
Lack of Capital/ Deposit Base	33	28	33	23	57	53	16

Table 3.
Percent of Banks Providing the Following Services to Business Clients

	By State					By Bank Type	
	All Banks	MA	ME	NH	VT	Independent Banks	Branch or Holding Company Banks
Payroll	80%	80%	95%	47%	93%	70%	85%
Cash Management Accounts	69	90	64	53	79	30	88
Financial Counseling	75	60	73	80	86	90	68
Referral to Technical Asst. Agencies	82	80	86	87	71	85	80
Management Counseling	23	50	14	20	21	30	20
Asset Based Lending	67	60	77	60	64	45	78
Equipment Financing	97	100	100	100	86	95	98
Leasing	38	30	32	47	43	25	44

Table 4.
Most Important Criteria in Commercial Loan Decision Making

	By State					By Bank Type	
	All Banks	MA	ME	NH	VT	Independent Banks	Branch or Holding Company Banks
Percent of Banks Ranking Each Criterion as the Most Important in <u>Accepting</u> a Loan Application							
Character	48%	50%	45%	53%	43%	50%	46%
Collateral	5	10	—	7	7	—	7
Capitalization	5	—	5	7	7	—	8
Management Capacity	8	10	—	7	21	5	10
Industry Conditions	5	10	5	—	7	11	3
Cash Flow	43	40	50	27	50	35	47
Percent of Banks Ranking Each Criterion as the Most Important in <u>Rejecting</u> a Loan Application							
Poor Quality Application	7%	20%	5%	—	7%	11%	6%
Inadequate Collateral	5	—	5	7	7	5	5
New Firm	20	10	23	13	21	28	16
Inadequate Equity	16	30	14	13	14	5	22
No Relationship With Bank	—	—	—	—	—	—	—
Poor Earning's Record	33	20	36	27	36	26	36
Manager Has Only Limited Understanding of Business	28	30	23	27	29	15	34

Table 5.
Measures of Bank's Capacity for Commercial Lending

	By State					By Bank Type	
	All Banks	MA	ME	NH	VT	Independent Banks	Branch or Holding Company Banks
Trained Commercial Loan Officer:							
Yes	82%	80%	82%	73%	93%	80%	83%
No	18	20	18	27	7	20	17
Home Equity Loans:							
Yes	90	100	95	67	100	70	100
No	10	—	5	33	—	30	—
Estimated % for Business Use	18	23	15	23	14	21	17
Use Loan Guarantee Programs:							
Yes:	95	90	100	93	93	85	100
No	5	10	—	7	7	15	—
Commercial Loan Participations:							
Yes	53	60	27	67	64	53	54
No	47	30	68	33	29	47	46
Sell Commercial Loans:							
Yes	50	40	27	67	64	53	54
No	50	50	64	33	29	47	46

Table 6.
Location, Size, and Industry Profile of Bank's Commercial Borrowers

	By State					By Bank Type	
	All Banks	MA	ME	NH	VT	Independent Banks	Branch or Holding Company Banks
Location:							
Within Market	97%	98%	98%	94%	98%	97%	96%
Outside Market	3	2	2	4	2	2	3
Out-of-state	—	1	—	1	—	—	1
Size:							
Start up	7%	5%	6%	6%	8%	5%	7%
< $100,000 Sales	28	18	42	22	23	36	24
$100,000 - $500,000 Sales	41	53	30	38	49	36	44
$500,000 - $1 Million Sales	17	20	16	23	13	15	19
$1 Million - $5 Million Sales	6	4	5	8	5	6	5
> $5 Million Sales	1	—	1	2	2	2	1
Industry:							
Resource Based	16%	4%	29%	10%	8%	14%	17%
Manufacturing	12	18	7	11	14	10	13
Retail	30	47	21	32	26	34	27
Wholesale	7	7	7	5	8	7	6
Construction	14	7	11	20	17	14	13
Business Services	11	9	13	9	10	13	9
Personal Services	10	6	8	13	14	7	11
TCU*	3	2	4	1	3	2	3

* Transportation, communication, and other utilities.

Table 7.
Type and Size of Commercial Loans In Bank's Portfolio

	By State					By Bank Type	
	All Banks	MA	ME	NH	VT	Independent Banks	Branch or Holding Company Banks
Type:							
Asset Line	5%	3%	3%	10%	5%	6%	5%
ST, Secured	15	20	17	11	13	20	13
ST, Unsecured	12	10	15	9	11	12	11
LT (1-5 years)	22	32	22	17	21	20	23
LT (>5 years)	17	11	17	14	26	15	18
Revolving Line	15	12	10	25	13	14	15
Equipment	13	9	14	14	13	11	14
Industrial Revenue Bonds	1	2	—	—	1	1	—
Size Outstanding:							
<$10,000	11%	8%	18%	8%	10%	10%	12%
$10,000 - $25,000	16	15	26	8	14	20	15
$25,000 - $50,000	16	21	16	12	17	17	16
$50,000 - $100,000	26	33	17	27	31	23	27
$100,000 - $500,000	23	16	20	31	23	26	21
>$500,000	8	4	7	14	5	5	9

Table 8.
Banker Perceptions of Local Market Conditions at Present as Compared to 1985

	By State					By Bank Type	
	All Banks	MA	ME	NH	VT	Independent Banks	Branch or Holding Company Banks
Competition:							
Much Greater	36%	30%	36%	27%	43%	26%	40%
Greater	46	30	55	33	50	53	42
Same	10	10	5	20	7	11	10
Less	3	20	—	—	—	5	3
Much Less	5	—	5	13	—	5	5
Variety of Financial Products:							
Much Greater	17	20	18	27	—	15	17
Greater	47	40	41	53	50	40	50
Same	37	30	41	20	50	45	33
Smaller	—	—	—	—	—	—	—
Much Smaller	—	—	—	—	—	—	—
Willingness to Offer New Commerical Loan Types:							
Much Greater	5	10	5	—	7	5	5
Greater	34	30	50	20	21	40	31
Same	54	40	45	67	57	50	56
Less	7	10	—	13	7	5	8
Much Less	—	—	—	—	—	—	—
Alternative Sources of Financing:							
Much Greater	2	—	5	—	—	—	3
Greater	45	20	68	33	36	65	35
Same	45	60	27	47	57	30	53
Smaller	8	10	—	20	7	5	10
Much Smaller	—	—	—	—	—	—	—
Visits to Potential Borrowers:							
Much Greater	36	50	45	13	29	25	41
Greater	39	20	36	47	43	50	33
Same	17	10	18	27	7	15	18
Less	8	10	—	13	14	10	8
Much Less	—	—	—	—	—	—	—

(continued on next page)

Table 8 (continued.)
Banker Perceptions of Local Market Conditions at Present as Compared to 1985

	By State					By Bank Type	
	All Banks	MA	ME	NH	VT	Independent Banks	Branch or Holding Company Banks
Lending Decisions Removed From Local Office:							
Much Greater	5%	10%	–	7%	7%	–	8
Greater	15	30	9	7	14	–	21
Same	58	30	50	67	57	88	46
Less	16	–	18	13	21	12	18
Much Less	5	10	9	–	–	–	8
Flexibility in Packaging Loans:							
Much Greater	8	–	5	20	7	15	5
Greater	30	20	50	13	21	45	23
Same	52	50	41	60	57	40	57
Less	10	20	5	7	14	–	15
Much Less	–	–	–	–	–	–	–
Service Charges:							
Much Higher	13	10	14	20	7	5	17
Higher	63	60	68	47	71	65	62
Same	20	20	18	33	7	25	17
Lower	3	–	–	–	14	5	3
Much Lower	–	–	–	–	–	–	–
Ability to Tailor Loans:							
Much Greater	7	10	9	7	–	–	10
Greater	38	40	41	20	43	58	28
Same	52	30	41	67	57	42	56
Less	3	10	–	7	–	–	5
Much Less	–	–	–	–	–	–	–
Lending for Economic Development:							
Much Greater	4	–	5	7	–	–	5
Greater	36	30	32	33	36	42	32
Same	57	40	59	40	64	58	57
Lower	4	10	–	7	–	–	5
Much Lower	–	–	–	–	–	–	–
Lending to Small Business:							
Much Greater	20	20	23	20	14	25	17
Greater	48	50	59	27	50	50	47
Same	25	20	18	33	29	25	25
Lower	5	–	–	13	7	–	7
Much Lower	2	–	–	7	–	–	3

APPENDIX F
Savings Bank Tables

Table 1.
Description of Savings Bank's Small Business Lending Program, By State*

	MA	ME	NH	VT
Definition of Small Business for Lending Purposes:				
Yes	25%	27%	33%	29%
No	75	73	67	71
Marketing Program to Promote Lending:				
Yes	—	50	17	25
No	100	50	83	75
Visitation Program:				
Yes	—	80	100	88
No	100	20	—	12
Referral of Small Business Person to Other Sources of Capital:				
Yes	40	83	100	38
No	40	17	—	50

*Percents may not total 100 due to missing values.

Table 2.
Percent of Savings Banks Providing the Following Services to Business Clients, by State

	MA	ME	NH	VT
Payroll	40%	50%	50%	88%
Cash Management Accounts	40	58	33	38
Financial Counseling	20	50	33	62
Referral to Technical Asst. Agencies	40	58	67	62
Management Counseling	—	17	—	—
Asset Based Lending	20	25	33	50
Equipment Financing	80	83	100	75

Table 3.
Percent of Savings Banks Ranking Each Criterion as the Most Important in Accepting a Loan Application, by State*

	MA	ME	NH	VT
Character	20%	67%	50%	12%
Collateral	—	—	—	25
Capitalization	—	25	—	12
Management Capacity	20	8	17	—
Industry Conditions	—	—	17	—
Cash Flow	40	33	—	25

*Percents may not total 100 due to missing values.

Table 4.
Percent of Savings Banks Ranking Each Criterion as the Most Important in Rejecting a Loan Application, by State*

	MA	ME	NH	VT
Poor Quality Application	—	—	—	12%
Inadequate Collateral	—	—	—	—
New Firm	—	25	—	—
Inadequate Equity	40	—	17	12
No Relationship With Bank	—	—	—	12
Poor Earning's Record	20	17	17	25
Manager Has Only Limited Understanding of Business	—	42	33	25

*Percents may not total 100 due to missing values.

Table 5.
Measures of Savings Bank's Capacity for Commercial Lending, by State*

	MA	ME	NH	VT
Trained Commercial Loan Officer:				
Yes	60%	67%	67%	50%
No	20	33	17	50
Home Equity Loans:				
Yes	100	91	83	88
No	–	9	17	12
Estimated % for Business Use	17	14	18	14
Commercial Loan Participations:				
Yes	20	23	67	25
No	60	77	17	50
Sell Commercial Loans:				
Yes	–	17	17	12
No	80	83	83	75

*Percents may not total 100 due to missing values.

Table 6.
Location, Size, and Industry Profile of Savings Bank's Commercial Borrowers, by State

	MA	ME	NH	VT
Location:				
Within Market	95%	94%	97%	98%
Outside Market	2	6	3	1
Out-of-state	3	—	—	1
Size:				
Start up	5%	8%	4%	7%
<$100,000 Sales	18	41	37	40
$100,000 - $500,000 Sales	52	44	48	33
$500,000 - $1 Million Sales	25	8	12	16
Industry:				
Resource Based	5%	18%	22%	17%
Manufacturing	12	9	10	13
Retail	28	18	20	25
Wholesale	5	3	3	3
Construction	15	18	7	16
Business Services	12	14	14	11
Personal Services	15	11	24	13
TCU*	5	6	—	1

*Transportation, communication, and other utilities.

Table 7.
Type and Size of Commercial Loans In Savings Bank's Portfolio, by State

	MA	ME	NH	VT
Type:				
Asset Line	3%	7%	6%	7%
ST, Secured	9	111	15	20
ST, Unsecured	35	15	9	3
LT (1-5 years)	28	20	7	20
LT (>5 years)	14	20	3	5
Revolving Line	6	14	22	17
Equipment	5	13	14	29
Other	–	–	24	–
Size Outstanding:				
<$10,000	6%	7%	52%	15%
$10,000 - $25,000	12	12	15	36
$25,000 - $50,000	23	21	25	25
$50,000 - $100,000	12	28	8	15
$100,000 - $500,000	15	32	1	6
>$500,000	8	3	–	3

APPENDIX G

List of Advisory Group Members

Members of the Advisory Group to the New England Banking Project

Blake Brown,
Ellen Golden,
Ron Phillips*
Coastal Enterprises, Inc.

Cynthia Duncan*
Department of Sociology
University of New Hampshire

Connie Dunham
The Urban Institute

Mary Houghton
South Shore Bank and
Southern Development Bancorp

Andrew Isserman*
Regional Research Institute
West Virginia University

Maureen Kennedy
Rural Economic Policy Program
The Aspen Institute

Steve McConnell
Northern Communities Investment Corp.

Mary O'Hara*
Massachusetts Urban Reinvestment Advisory Group

Joseph Pietroski
Maine Bankers' Assn.

Jean Pogge
Woodstock Institute

Ron Shaffer
Department of Agricultural Economics
University of Wisconsin-Madison

William Springs
Federal Reserve Bank of Boston

Robert Stumberg
National Center for Policy Alternatives

* These members of the Advisory Group provided input during the project but did not participate in the final meeting upon which the policy implications are based.

APPENDIX H
Questionnaires Used in Study

UNIVERSITY OF MASSACHUSETTS
AT AMHERST

Department of Resource Economics

Draper Hall
Amherst, MA 01003

Our region's financial markets are undergoing major changes. Some people say that these changes will increase the supply of capital for small businesses like yours. Others suggest that capital will be less available in the future. In this project, funded by the Ford Foundation, we are interested in finding out how changes such as interstate banking have affected the supply of capital to small businesses in rural areas. This study is designed to understand the rural capital situation in New England and, to do that, we would like to know more about your experience in financing your business.

Your business has been selected as part of a sample of rural small businesses in New England. Only a few businesses have been asked to be part of this study. Your cooperation is needed in completing this survey so that an accurate picture of small business credit needs and experience can be obtained. Your business's experience will represent similar businesses in the region, so your participation is truly important.

The survey takes only a few minutes to complete. Please respond now and mail the survey back in the enclosed prepaid envelope.

The information you supply will be kept strictly confidential and the results of the study will be published in such a way that individual business responses are not identified. (Note: The identification number on the return envelope is for mailing purposes only. Your name will be checked off the mailing list when your survey is returned. **Your name will not be placed on the survey.**)

If you are interested in receiving a summary of the results of this project, please be sure to check the space at the end of the survey. Your cooperation in this study is greatly appreciated. Thank you for your assistance.

Sincerely,

Deborah M. Markley

Deborah M. Markley
Adjunct Assistant Professor and
Principle Investigator

Questions 1-9 are designed to provide information about your firm and your credit experience.

1. What is the organizational structure of your business? (Please check correct response.)

   ___ Sole proprietorship
   ___ Family owned
   ___ Partnership
   ___ Private corporation
   ___ Public corporation
   ___ Other (Please specify.) ________________

2. In what year was your business started? _____

3. Approximately what percent of the capital used to start your business came from the following sources?

   ___% Family or friends

   ___% Commercial bank

   ___% Thrift institution (e.g., savings and loan, savings bank)

   ___% Credit union

   ___% Venture capital group

   ___% Personal savings

   ___% Other sources (Please specify.) ________________

   ____

4. How many employees do you have? ________

5. What were your gross sales for the year ending December 31, 1987? (Please check correct response.)

- ___ Less than $50,000
- ___ Between $50,000 and $100,000
- ___ Between $100,000 and $500,000
- ___ Between $500,000 and $1 million
- ___ Between $1 and $5 million
- ___ Over $5 million

How have your gross sales changed from 1984 to 1987? (Please check correct response.)

- ___ More than 25% increase
- ___ 10% to 25% increase
- ___ Less than 10% increase
- ___ Less than 10% decrease
- ___ 10% to 25% decrease
- ___ More than 25% decrease

6. Please provide information on your firm's credit experience for the past three years in each of the following categories. (Please check correct response.)

	Able to obtain on terms desired	Able to obtain on less favorable terms	Unable to obtain	Never tried to obtain
Short term loans (less than one year), secured	___	___	___	___
Short term loans (less than one year), unsecured	___	___	___	___
Long term loans (one to five years)	___	___	___	___
Long term loans (more than five years)	___	___	___	___
Commercial mortgage	___	___	___	___
Home equity loan for business purposes	___	___	___	___
Revolving line of credit	___	___	___	___
Asset line	___	___	___	___
Equipment financing	___	___	___	___
Public capital (e.g., industrial revenue bonds)	___	___	___	___

7. If you have received credit in the past three years, for what purpose(s) did you use the money? (Please check all that apply.)

___ Financing existing operations

___ Expansion of existing business operations

___ Expansion of business into new areas of operation

___ Other (Please specify.) ______________________________

8. In the two time periods specified, what percent of the total dollar amount of your loans did you received from the following sources?

	First 5 years of operation	Period up to the present
Family or friends	___%	___%
Commercial bank	___%	___%
Thrift institution (e.g., savings and loan, savings bank)	___%	___%
Credit union	___%	___%
Finance company	___%	___%
Venture capital company	___%	___%
Supplier/dealer credit	___%	___%
Other (Please specify.) ______________________	___%	___%

9. Have you wanted to expand your business in the past 5 years, but decided against it? (Please check correct response.) Yes ___ No ___

If yes, which of the following best explains your decision against expansion?

___ No economic reason to expand business
___ Expansion limited by management capacities
___ Felt that credit to finance expansion was not available in the local market
___ Felt that expansion was too risky during this period
___ Other (Please specify.) ______________________________

____

Questions 10-26 are designed to provide information about the financial institution from which you receive most of your commercial credit.

10. Which institution provides most of your business credit?

    Name: ______________________________

11. Is your financial institution (or the branch with which you do most of your business) located:

    ___ Within the community in which your firm is located
    ___ Within 10 miles of this community
    ___ Within 50 miles of this community
    ___ Other (Please specify.) ______________________

12. Do you do business with more than one branch of this institution?

    Yes ___ No ___

    If yes, please explain the services you receive from the different branches you use (e.g., commercial lending services at main branch; deposit services at another branch.)

    ____

    ____

13. Has your primary lender recently merged with or been acquired by another institution? Yes ___ No ___

    If yes, would you briefly describe any changes that have taken place since the merger/acquisition in terms of your relationship with the bank and/or the cost and availability of credit?

    ____

    ____

    ____

    ____

14. Which of the following services are offered by your institution and used by your business? (Please check all that apply.)

	Offered	Used	Don't Know
Payroll services	______	____	________
Cash management accounts	______	____	________
Financial counseling (e.g., preparing loan applications, evaluating credit needs)	______	____	________
Referral to technical assistance agencies (e.g., SBA)	______	____	________
Management counseling (e.g., preparing business plans, long range planning)	______	____	________
Asset based lending (commercial finance, accounts receivable lending)	______	____	________
Leasing operations	______	____	________
Other (Please specify.)			
______________________________	______	____	________
______________________________	______	____	________

15. If another business person sought your advice on financial institutions, would you recommend this financial institution? (Please check correct response.) ___ Yes ___ No

Please explain your answer briefly. ______________________________

____

____

We recognize that financial markets have undergone major changes in recent years. Please check the correct response to each of the following in terms of how your local business credit market today compares to 1984.

16. Availability of asset-based loan products, such as asset lines

___ Much more available
___ More available
___ Same availability
___ Less available
___ Much less available
___ No basis to judge

17. Frequency of visits by local financial institutions to solicit your loan business

___ Much greater now
___ Greater now
___ Same as past
___ Less now
___ Much less now
___ Never had a visit from a financial institution

18. Cost of the banking services your business receives

___ Much higher now
___ Higher now
___ Same as past
___ Lower now
___ Much lower now
___ No basis to judge

19. Length of time required for the institution to process and decide on your loan applications

___ Much longer now
___ Longer now
___ Same as past
___ Shorter now
___ Much shorter now
___ No basis to judge

20. Frequency of loan denials

___ Much greater now
___ Greater now
___ Same as past
___ Lower now
___ Much lower now
___ No basis to judge

21. Personal attention by the loan officer to your business's credit needs

___ Much greater now
___ Greater now
___ Same as past
___ Less now
___ Much less now
___ No basis to judge

22. Flexibility in the terms offered on short-term financing from your bank

___ Much greater now
___ Greater now
___ Same as past
___ Less now
___ Much less now
___ No basis to judge

23. Flexibility in the terms offered on long-term financing from your bank

___ Much greater now
___ Greater now
___ Same as past
___ Less now
___ Much less now
___ No basis to judge

24. Extent to which lending decisions are tailored to your individual situation rather than based on a standard formula

___ Much greater now
___ Greater now
___ Same as past
___ Less now
___ Much less now
___ No basis to judge

If there has been a change, how has this change affected your business's credit experience? ____

____

____

25. How important are each of the following characteristics in your choice of a financial institution? (Please check correct response.)

a. Personal service or attention to your business needs

___ Very important
___ Important
___ Somewhat important
___ Not important

b. Reliable and consistent source of credit

___ Very important
___ Important
___ Somewhat important
___ Not important

c. Knowledge of you and your industry

___ Very important
___ Important
___ Somewhat important
___ Not important

d. Types of business services offered (e.g., management counseling, financial planning)

___ Very important
___ Important
___ Somewhat important
___ Not important

e. Flexible terms and conditions on loans

___ Very important
___ Important
___ Somewhat important
___ Not important

f. Your knowledge of the bank and confidence in them

___ Very important
___ Important
___ Somewhat important
___ Not important

26. Based on your business's experience, how would you rate your own institution in terms of the following characteristics? (Please check correct response.)

a. Personal service or attention to your business needs

___ Excellent
___ Good
___ Fair
___ Poor

b. Reliable and consistent source of credit

___ Excellent
___ Good
___ Fair
___ Poor

c. Knowledge of you and your industry

___ Excellent
___ Good
___ Fair
___ Poor

d. Variety of financial services useful to your business

___ Excellent
___ Good
___ Fair
___ Poor

e. Flexible terms and conditions on loans

___ Excellent
___ Good
___ Fair
___ Poor

f. Your knowledge of the bank and confidence in them

___ Excellent
___ Good
___ Fair
___ Good

27. Rank the following types of financing in terms of the importance of your current credit needs. (Example: 1=most important credit need; 2=next most important credit need, etc.)

___ Commercial mortgage

___ Short term (less than one year) loans, secured

___ Short term (less than one year) loans, unsecured

___ Long term (one to five years) loans

___ Long term (more than five years) loans

___ Revolving lines of credit

___ Home equity loan for business purposes

___ Equity investment

___ Asset-based financing

___ Equipment financing

28. Overall, what is your perception of the level of services offered by banks now as compared to five years ago? (Please explain.)

____

____

____

____

____

29. In your opinion, have changes in financial markets affected your business's ability to grow, either positively or negatively?

Yes ___ No ___

Please explain your response. ______________________________________

____

____

____

Please feel free to comment on any aspect of your commercial credit needs and experience that have not been addressed in this survey. All comments are welcomed.

Thank you for your cooperation in completing this survey. Your participation is appreciated and will contribute greatly to the study. If you would like to receive a summary of the results of this research project, please check below. Thanks again for your help in making this project a success!

___ I would like to receive a summary of the results.

Survey of Commercial Lending Behavior of Rural New England Banks

Our region's financial markets are undergoing significant changes. Many people are interested in finding out what is happening in rural credit markets as a result of such changes. Your bank has been selected as part of a sample of banks operating in rural areas of New England. Your cooperation is needed in completing this survey so that an accurate representation of rural credit availability can be obtained. The information you supply will be kept strictly confidential and the results of the study will be published in such a way that individual bank responses are not identified. Your cooperation in this study is greatly appreciated.

For the purposes of this study, we define commercial loans as business loans not secured by real estate. Please answer the following questions with that definition in mind.

The first set of questions (1-4) refer to your bank's lending to small business.

1. Does the bank have a definition of a "small business" used for the purposes of commercial lending? Yes ___ No ___

   If yes, what is that definition? ______________________________
   ____

2. Does your bank have a marketing program to promote lending to this class of businesses? Yes ___ No ___

   If yes, does this program include visits to small businesses in your service area? Yes ___ No ___

3. If your bank decides not to make a loan to a small business person, do you refer the person elsewhere? Yes ___ No ___

   If yes, to what other institutions do you refer small business people?
   ____
   ____
   ____

4. Does your bank provide any of the following services to your small business clients? (Check all that apply.)

___ Payroll services
___ Cash management accounts
___ Financial counseling (e.g., preparing loan applications, evaluating credit needs)
___ Referral to technical assistance agencies
___ Management counseling (e.g., preparing business plans, long range planning)
___ Asset based lending (commercial finance, accounts receivable lending)
___ Equipment financing
___ Leasing operations
___ Other (Please specify.) ______________________________

The following questions (5-18) refer to overall lending practices of your bank.

5. Do you or does any member of the bank actively participate in a local economic development agency or other activities promoting economic development?

Yes ___ No ___

If yes, briefly describe this participation. ______________________________

6. We recognize that a number of considerations go into any loan decision. Please rank each of the following criteria in terms of their importance in evaluating a commercial loan application. (1=most important)

___ Borrower's character
___ Collateral pledged against the loan
___ Capitalization of business seeking loan
___ Management capacity within business
___ Industry conditions and expectations for the future
___ Cash flow
___ Other (Please specify.) ______________________________

In the past five years, has the relative importance of any of these criteria changed?

Yes ___ No ___

Please explain briefly. ______________________________

7. What is the largest loan authority given to any of your loan officers handling commercial loans? $ ___________

For loans above this limit, which of the following most frequently occurs?

___ Decision made by more senior officer or loan committee at this location
___ Decision made at another location
___ Other (Please specify.) ______________________________

If decisions are made at another location, is that location:

___ Main branch of the bank
___ Headquarters of the bank holding company
___ Regional affiliate of the bank holding company
___ Other (Please specify.) ______________________________

8. Does your bank have a commercial and industrial loan officer with training in commercial lending other than real estate lending?

Yes ___ No ___

If yes, how many such loan officers does the bank have? _____

9. Please rank each of the following in terms of their importance in rejecting a commercial and industrial loan? (1=most important)

___ Poor quality of loan application
___ Inadequate collateral to support loan
___ New firm with no earnings record
___ Inadequate owner's equity
___ Borrower had no established relationship with bank
___ Poor earning's record in the past
___ Borrower has only a limited understanding of business involved
___ Other (Please specify.) ______________________________

10. Does the bank provide home equity loans?

Yes ___ No ___

If yes, what percent would you estimate are used for business purposes?
_____%

11. Do you use any state or federal guaranteed loan programs, e.g., SBA program?

Yes ___ No ___

If yes, what percent of your loans are guaranteed through such programs?

Percent of total number of loans _____%
Percent of total value of loans _____%

12. If your bank is affiliated with a bank holding company or is a branch of a larger bank, what type of support do you get from the central office for commercial and industrial lending? (Check all that apply.)

___ Training programs for your personnel on lending techniques
___ Central office professionals who provide technical assistance on commercial lending as needed
___ Research and support staff to help evaluate loan applications
___ Other (Please specify.) ________________

13. Please provide the following information on your commercial and industrial loan borrowers.

a. Percent of borrowers located:

within service area (defined in CRA statement)	_____%
outside service area but within state	_____%
out-of-state	_____%

b. Percent of borrowers in the following size groups:

Start ups	_____%
Less than $100,000 in sales	_____%
Between $100,000 and $500,000 in sales	_____%
Between $500,000 and $1 million in sales	_____%
Between $1 and $5 million in sales	_____%
Greater than $5 million in sales	_____%

c. Estimated percent of borrowers from the following industry groups:

Resource based (farming, mining, forestry, fishing)	_____%
Manufacturing	_____%
Retail trade	_____%
Wholesale trade	_____%
Construction	_____%
Services--business	_____%
Services--personal	_____%
Transportation, communications, and other utilities	_____%

14. We are interested in finding out about your commercial lending activities over the past year (ending December 31, 1987). Please provide the following information for commercial and industrial loans (those business loans not secured by real estate.)

	Number	Dollars
Total number of loan applications	_____	
Total number of loans approved	_____	
Typical size of loan made		_____
Largest loan bank will make		_____
Smallest loan bank will make		_____
Total value of commercial and industrial loans		_____

a. Does the total dollar value of commercial and industrial loans include any loan participations with other banks?

Yes ___ No ___

If yes, what was the total value of loans originated by your bank?
$__________

If yes, what was the total value of loans purchased by your bank?
$__________

b. Do you sell any of your commercial and industrial loans?

Yes ___ No ___

If yes, what percent? ___%

15. What would you say is the commercial and industrial loan amount below which the processing costs begin to exceed expected returns?
$__________

If an applicant's loan request is below this minimum size, which of the following do you do? (Check all that apply.)

___ Refer to another financial institution
___ Make a personal loan
___ Set up a revolving line of credit
___ Make a home equity loan
___ Other (Please specify.) ______________________________

16. What percent of your total value outstanding of commercial and industrial loans would you classify as:

Asset based line	_____%
Short term loans (less than one year), secured	_____%
Short term loans (less than one year), unsecured	_____%
Long term loans (one-five years)	_____%
Long term loans (more than five years)	_____%
Revolving lines of credit	_____%
Equipment financing	_____%
Industrial revenue bonds	_____%
Other (Please specify.) ____________________	_____%

17. What percent of your total value outstanding of commercial and industrial loans fall into the following size groups?

Less than $10,000	_____%
Between $10,000 and $25,000	_____%
Between $25,000 and $50,000	_____%
Between $50,000 and $100,000	_____%
Between $100,000 and $500,000	_____%
Greater than $500,000	_____%

The following questions (18-28) refer to changes in your commercial lending behavior and the local banking market during the past three years. Please respond to each of the following in terms of how the situation has changed as compared to 1985. (Example: "Greater" means greater today than in 1985.)

18. Amount of competition from financial institutions (e.g., banks, savings and loans) in terms of commercial lending in your market

___ Much greater
___ Greater
___ Same
___ Less
___ Much less

Comments: ____
____
____

19. Variety of financial products you offer business borrowers (e.g., lines of credit, unsecured loans, etc.)

___ Much greater
___ Greater
___ Same
___ Smaller
___ Much smaller

Comments: ____
____
____

20. Your willingness to offer new types of commercial loans, such as receivables financing, that you previously did not make

___ Much greater
___ Greater
___ Same
___ Less
___ Much less

Comments: ____
____
____

21. Number of alternative sources of financing (e.g., government programs, nonprofit agencies, etc.) for businesses in your market

___ Much greater
___ Greater
___ Same
___ Smaller
___ Much smaller

Comments: ____

____

____

22. Frequency of visits by bank personnel to potential commercial and industrial borrowers to solicit loan activity

___ Much greater
___ Greater
___ Same
___ Less
___ Much less

Comments: ____

____

____

23. Extent to which lending decisions on large loans are removed from your local office to another location

___ Much greater
___ Greater
___ Same
___ Less
___ Much less

Comments: ____

____

____

24. Flexibility of loan officers to package terms and conditions on loans in response to individual business needs (e.g., making deferred interest loans, seasonal loans, etc.)

___ Much greater
___ Greater
___ Same
___ Less
___ Much less

Comments: ____

____

____

25. Level of service charges associated with business lending activities in your bank

___ Much higher
___ Higher
___ Same
___ Lower
___ Much lower

Comments: ____

____

____

26. Extent to which lending decisions in your bank can be tailored to the individual situation rather than limited to a standard formula

___ Much greater
___ Greater
___ Same
___ Less
___ Much less

Comments: ____

____

____

27. Volume of lending by your bank to support economic development activities initiated by a nonprofit agency or public entity (e.g., Industrial Revenue Bonds, participation in Community Development Corporation programs, etc.)

___ Much greater
___ Greater
___ Same
___ Lower
___ Much lower

Comments: ____

____

____

28. Volume of lending by your bank to small businesses

___ Much greater
___ Greater
___ Same
___ Lower
___ Much lower

Comments: ____

____

____

29. Could your bank increase its commercial lending to small business?

Yes ___ No ___

If yes, what constraints do you face that limit your ability to increase small business lending?

___ Poor quality of loan applications received
___ Lack of expertise in making small business loans
___ Poor business climate in your local market
___ Lack of capital/deposit base to support increased lending
___ Other (Please specify.) ____________________

If no, please explain why not. ____________________

30. What do you see as the important positive changes in financial markets as a result of the passage of interstate banking legislation?

31. What do you see as the important negative changes in financial markets as a result of passage of interstate banking legislation?

32. Please feel free to comment on any other aspects of your bank's commercial and small business lending behavior that have not been addressed in this survey. All comments are welcome.

Survey of Commercial Lending Behavior of Rural New England Thrifts

Our region's financial markets are undergoing significant changes. Many people are interested in finding out what is happening in rural credit markets as a result of such changes, particularly thrift deregulation. Your thrift has been selected as part of a sample of thrifts operating in rural areas of New England. Your cooperation is needed in completing this survey so that an accurate representation of rural credit availability can be obtained. The information you supply will be kept strictly confidential and the results of the study will be published in such a way that individual thrift responses are not identified. Your cooperation in this study is greatly appreciated.

For the purposes of this study, a commercial loan is a business loan not secured by real estate. In answering the following questions, please keep that definition in mind.

1. Does your thrift institution make commercial loans?

   Yes ___ No ___

(If the answer to Question 1 is "YES", fill out SECTION A. If the answer to Question 1 is "NO", skip to SECTION B.)

SECTION A (To be filled out for thrifts that make commercial loans)

2. What is the current dollar value of commercial and industrial loans?
   $ ___________

   Does this total dollar value of commercial and industrial loans include any loan participations with other thrifts or banks?

   Yes ___ No ___

   If yes, what was the total value of loans originated by your bank?
   $ __________

   If yes, what was the total value of loans purchased by your thrift?
   $ __________

3. We are interested in finding out about your commercial lending activities over the past year (ending December 31, 1987). Please provide the following information for commercial and industrial loans.

Commercial and industrial loans:

	Number	Dollars
Total number of loan applications	____	
Total number of loans approved	____	
Typical size of loan made		____
Largest loan thrift will make		____
Smallest loan thrift will make		____

4. What would you say is the commercial and industrial loan amount below which the processing costs begin to exceed expected returns?
$______________

If an applicant's loan request is below this minimum size, which of the following do you do? (Check all that apply).

___ Refer to another financial institution
___ Make a personal loan
___ Make a home equity loan
___ Set up a revolving line of credit
___ Other (Please specify). ______________________________

5. What percent of your commercial and industrial loans would you classify as :

Asset based line	____%
Short term loans (less than one year), secured	____%
Short term loans (less than one year), unsecured	____%
Long term loans (one-five years)	____%
Long term loans (more than five years)	____%
Revolving lines of credit	____%
Equipment Financing	____%
Other (Please specify)______________________	____%

6. What percent of your total value outstanding of commercial and industrial loans fall into the following size groups?

Less than $10,000	____%
Between $10,000 and $25,000	____%
Between $25,000 and $50,000	____%
Between $50,000 and $100,000	____%
Between $100,000 and $500,000	____%
Greater than $500,000	____%

7. Do you sell any of your commercial and industrial loans?

Yes ___ No ___

If yes, what percent? ___%

8. Please provide the following information on your commercial loan borrowers.

a. Percent of borrowers located:

Within service area	_____%
Outside of service area but within the state	_____%
Out-of-state	_____%

Please define your service area

____

b. Percent of borrowers in the following size groups:

Start ups	_____%
Less than $100,000 in sales	_____%
Between $100,000 and 500,000 in sales	_____%
Between $500,000 and $1 million in sales	_____%

c. Estimated percent of borrowers from the following industry groups:

Resource based (farming, mining, forestry, fishing)	_____%
Manufacturing	_____%
Retail trade	_____%
Wholesale trade	_____%
Construction	_____%
Services--business	_____%
Services--personal	_____%
Transportation, communications, and other utilities	_____%

9. What is the largest loan authority given to any of your loan officers handling commercial loans? $ ____________________

For loans above this limit, which of the following most frequently occurs?

___ Decision made by more senior officer or loan committee at this location
___ Decision made at another location (Please specify. ____________________)

10. Does your thrift have a commercial loan officer with training in commercial lending other than real estate lending?

Yes ___ No ___

If yes, how many such loan officers does the thrift have? _____

If yes, for how many years have you had loan officers with this expertise? __________ years.

If no, do you anticipate adding a person with such experience to your staff in the next 3-5 years?

Yes ___ No ___

11. We recognize that a number of considerations go into any loan decision. Please rank the following criteria in terms of their importance in evaluating a commercial loan application. (1=most important)

___ Borrower's character
___ Collateral pledged against the loan
___ Capitalization of business seeking loan
___ Management capacity within business
___ Industry conditions and expectations for the future
___ Cash flow
___ Other (Please specify). ________________________

12. Rank each of the following in terms of importance in rejecting a commercial loan. (1=most important)

___ Poor quality of loan application
___ Inadequate collateral to support loan
___ New firm with no earnings record
___ Inadequate owner's equity
___ Borrower had no established relationship with thrift
___ Poor earnings record in the past
___ Borrower has only a limited understanding of business involved
___ Other (Please specify).
____

13. If your thrift is a branch of a larger thrift, what type of support do you get from the central office for commercial lending? (Check all that apply).

___ Training programs for your personnel on lending techniques
___ Central office personnel who provide technical assistance on commercial lending as needed
___ Research and support staff to help evaluate loans
___ Other (Please specify).
____

14. Does the thrift provide home equity loans?

Yes ___ No ___

If yes, what percent would you estimate are used for business purposes? ______%

15. Does the thrift have a definition of "small business" used for the purpose of commercial lending?

Yes ___ No ___

If yes, what is that definition? ____

____

16. Does your thrift have a marketing program to promote lending to this class of businesses?

Yes ___ No ___

If yes, does this program include visits to small businesses in your service area?

Yes ___ No ___

17. If your thrift decides not to make a loan to a small business person, do you refer the person elsewhere?

Yes ___ No ___

If yes, to what other institutions do you refer small business people?

____

____

____

18. Do you provide any of the following services to your small business clients? (Check all that apply).

_____ Payroll services
_____ Cash management accounts
_____ Financial counseling (e.g., preparing loan applications, evaluating credit needs)
_____ Referral to technical assistance agencies
_____ Management counseling (e.g., preparing business plans, long range planning)
_____ Asset based lending (commercial finance, accounts receivable lending)
_____ Equipment financing
_____ Other (Please specify ______________________________)

SECTION B (To be filled out for thrifts that do not make commercial loans)

2. If a borrower approaches the thrift for a commercial loan, which of the following do you do? (Check all that apply).

_____ Refer the borrower to a commercial bank
_____ Make a personal loan
_____ Make a home equity loan
_____ Refer the borrower to another lending institution (Please specify. _________________)
_____ Other (Please specify. ______________________________________)

3. Does the thrift provide home equity loans?
Yes ___ No ___

If yes, what percent do you estimate are used for business purposes?
____%

4. Are you planning to expand your lending activity into commercial and industrial loans in the next 3-5 years?

Yes ___ No ___

If yes, how will you acquire the level of expertise needed to do commercial lending?

_____ Hire experienced commercial loan officers
_____ Train some of your current loan officers in commercial lending techniques
_____ No plans for additional training
_____ Other (Please specify. ______________________________________)

If no, what is preventing your thrift from expanding?

____ Limited deposit base
____ No expertise in commercial lending
____ Thrift has all the loans it can handle currently
____ Commercial lending is too risky
____ Other (Please specify. ______________________________________)

5. In 5 years, what do you expect your commercial and industrial loan to asset ratio to be?
____%

APPENDIX I

Industry and Employee Size Distribution by State

Industry and Employee Size Distribution of Firms, by State*

	ME	MA	NH	VT
Employee Size Distribution:				
< 20 Employees	92%	88%	82%	92%
20 - 99 Employees	8	12	18	8
Industry Distribution:				
Resource Based	1%	1%	1%	1%
Manufacturing	29	26	29	27
Trade	30	28	31	28
Service	27	35	26	30
Other	13	11	14	14

* U.S. Department of Commerce, *County Business Patterns, Maine, Massachusetts, New Hampshire, and Vermont,* Washington, D.C., 1986.