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Small Business and Credit: How Small Business Uses Bank Credit, Trade Credit or No Credit

WASHINGTON, D.C. – Today the Office of Advocacy released a study examining the type of credit utilized by small business. *Bank Credit, Trade Credit or No Credit: Evidence from the Surveys of Small Business Finances*, by Rebel A. Cole, compares firms that use credit (leveraged) with those that do not (unleveraged). The study also looks at which kind of credit leveraged firms use—bank credit (loans or lines of credit) trade credit (from suppliers) or both. The study found that the two types of credit (bank credit and trade credit) used by small firms are complements, with many small firms using both types of credit simultaneously.

“Access to credit is one of the most important issues facing small business today” said Acting Chief Counsel for Advocacy Susan Walthall. “A study that provides a better understanding of the credit used by small business is invaluable to policymakers, small business and their suppliers.”

The study finds that small firms that use no credit are significantly smaller, more profitable, more liquid, and have better credit quality; yet they hold fewer tangible assets. The study also finds that those firms that use credit are larger, and the amount of credit used as a percentage of assets is positively related to the firm’s liquidity. In addition, three-fifths of the small firms that use credit use trade credit.

Businesses’ use of credit varies by industry, with firms using no credit found primarily in the service sector or wholesale and retail trade. Bank borrowing and trade credit is found more often in the manufacturing and construction sectors.

The study shows that firms that use trade credit tend to be larger and more liquid, but they also have lower credit scores. Small businesses that use bank credit are larger, younger, and less liquid. Companies that utilize neither bank nor trade credit are significantly smaller, more profitable, more liquid and of better credit quality.

For more information and a complete copy of the report, visit the Office of Advocacy website at www.sba.gov/advo.

The Office of Advocacy of the U.S. Small Business Administration (SBA) is an independent voice for small business within the federal government. The presidentially appointed Chief Counsel for Advocacy advances the views, concerns, and interests of small business before Congress, the White House, federal agencies, federal courts, and

state policymakers. For more information, visit www.sba.gov/advo, or call (202) 205-6533.

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