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# Small Business Financing Session

# 4 papers...

- 3 papers focusing on small business finance
  - **Gartner et al:** funding sources for nascent entrepreneurs
  - **Penas & Cerqueiro:** financing for start-ups and the impact of state bankruptcy laws
  - **Moro & Fink:** funding for more established firms and the impact of perceived competence
- **West & Drnevich:** the impact of uncertainty

# 1. Funding of nascent entrepreneurs (Gartner et al)

- Data: PSED II
- Nascent entrepreneurs rely heavily on personal resources (not family/friends)
  - Similar findings in the KFS (Robb and Robinson)
  - → Recent loss of wealth could hamper entrepreneurship
- Registration and incorporation associated with acquisition of external funds

## 2. Bankruptcy laws and start-up financing (Penas & Cerqueiro)

- Data: KFS
- Debtor-friendly laws affect both credit supply and demand
  - Negative supply effect outweighs positive demand effect
  - Incorporation does not assuage lenders
  - Firms in debtor-friendly states less successful
- Debtor-friendly laws may encourage more start-ups, but they may not get much funding

# 3. Perceived competence and credit access (Moro & Fink)

- Data: Survey of bankers in northeast Italy
- Survey questions gauging lenders' views of borrowers' trustworthiness and competence
- Perceived competence...
  - Associated with lower interest rate on lines
  - Associated with more debt extended
  - Especially important for "low trust" firms

## 4. The effects of uncertainty (West & Drnevich)

- Uncertainty may hamper firm creation and performance, especially young and small firms
- Uncertainty has been cited as a big problem currently:
  - “The prospect of higher taxes, stricter rules and more regulations has employers sitting on their hands,” – John Boehner (R-Ohio)
- Are firms uncertain or just very pessimistic?

# Discover small-business watch

- “Generally speaking, are the economic conditions for your business getting better or worse in the next 6 months?”
  - 21% Better | 55% Worse | 20% Same | 4% Not Sure
- “Will financial reform make it easier or harder for small businesses to obtain financing from banks?”
  - 9% Easier | 55% Harder | 13% No impact | 22% Not sure