

Memo

To: Interested Small Business Researchers
From: Arthur Kennickell and Traci Mach, Federal Reserve Board
Date: November 6, 2009
Re: New business questions for the 2010 SCF

Over the summer, NORC, the contractor for the 2010 Survey of Consumer Finances (SCF), conducted two pretests of the new questions to be asked of owners of personal businesses in the survey. The questions are intended explore the value, structure and financing of such businesses. Following feedback from the interviewers and respondents, some changes were made to the questions. This memo summarizes the final version of the questions and the questions and an outline of the questions flow are included in the appendix.

The majority of changes to the questions were minor wording changes intended to clarify the intent of the questions. The changes were made after the first pretest and the questions were re-tested. Evidence from the second pretest indicated that these changes eliminated the problems in the first pretest. Such minor changes were made after the second pretest that an additional test was deemed unnecessary. The following list details the most significant changes.

- There was some confusion about who should be considered employees of the firm, particularly in the case of sole proprietorships. The revised question is more streamlined and offers clearer guidance about including everyone who works at the business, regardless of ownership status.
- Determining what fraction of the business was owned by the respondent, as opposed to the partner or spouse of the respondent, also proved initially confusing. The final question fills in the percent of the firm owned by the household altogether and then asks what portion of this share the respondent personally owns. New probes were also added to clarify the intent.
- The largest confusion for the smallest business owners came in distinguishing net sales from net income. These questions were substantially simplified and new probes and instructions were added for additional clarification.

Because so little is known about the overlap of institutions and financial services when a household owns multiple businesses, it was decided to ask the new questions on financing, institutions, and services will be asked for each of up to two businesses with fewer than 500 employees (rather than limited to the first business reported, as originally intended). However, since this addition is likely to make the interview longer for households that already have lengthy interviews, these and other details will only be collected for the two most valuable actively managed businesses; in the 2007 SCF, detailed questions were asked on up to three businesses. The credit history questions will still be asked jointly of all small businesses actively managed by the household.

This past spring, the Board authorized a re-interview of the 2007 SCF respondents to determine how they have fared during the recent economic downturn. This panel survey will provide some unique information on businesses owned by households in 2007. First, households that reported actively managing a business in the 2007 survey were asked what had happened to the business if they did not also report an actively-managed business in 2009. This information will provide insight into the churning that occurred over this most recent period. Second, households that reported actively managing a business in 2009 with fewer than 500 employees were asked the new series of credit access questions.

ATTACHMENT A
Flow of questions in business section for 2010 SCF

1. Own any portion of business that is not publicly traded?
2. Have a management role in any of these businesses?
3. How many actively managed businesses?
4. Type of industry?
5. How acquired?
6. Year acquired?
7. Number of employees?
8. Who in household works there?
9. How many hours worked by family outside of respondent and spouse/partner?
10. Legal form of organization?
11. Household guaranteeing or collateralizing any loans for the business?
12. Which one?
13. How much guaranteed or collateralized?
14. Reported elsewhere in the interview?
15. Where?
16. Business owes household any (other) money?
17. How much?
18. Household owes the business any money?
19. How much?
20. Reported elsewhere in the interview?
21. Where?
- 22. If business has fewer than 500 employees, ask:**
Sources of funds used to start/acquire the business?
- 23. Sources of funds used for operation or expansion of the business in the past year?**
- 24. Main financial institution used by the business one of the household's financial institutions?**
- 25. IF YES: Which one?**
- 26. IF NO, ASK: Type of institution?**
- 27. How far away?**
- 28. What business services used?**
29. Share of business owned by the household?
- 30. If respondent is married or living with a partner, ask:**
Share respondent owns personally?
31. Value of the business?
32. Tax basis of the business?
33. Gross receipts or sales?
34. Net income?
- Repeat 4-34 up to one additional time, if more than 2 businesses, ask 35-37**
35. Value of all other businesses with an active interest?

36. Tax basis of all other businesses with an active interest?
37. Net income of all other businesses with an active interest?
- If at least one business with fewer than 500 employees, ask:**
38. Business applied for loan or credit in past 5 years?
39. Business turned down or got less than applied for?
40. Business eventually obtained full amount requested
41. Reasons given for being turned down/denied amount requested?
42. In past 5 years, did business decided not to apply for loan because thought would be turned down?
43. Why thought would be turned down?
44. Have any businesses where household does not have a management role?
45. How many?
46. Types of business?
For each of the following: limited partnerships, other partnerships, s corporations, other corporations, sole proprietorships, LLCs and other business types ask:
47. Total value of investment?
48. Total tax basis of investment?
49. Total net income from investment?
50. Ever had an active management role in any of these businesses?

Questions noted in red: New questions to be asked for the first two actively managed businesses if the businesses have fewer than 500 employees.

Questions noted in blue: New questions to be asked jointly for all actively managed businesses together if any business has fewer than 500 employees.

ATTACHMENT B

Business questions: R has at least on actively managed business

4. What kind of business is it—that is, what does the business make or do?
5. How did you first acquire this business; was it bought or invested in, started by you, inherited, given to you, or some other way?
 1. BOUGHT/INVEST
 2. STARTED
 3. INHERITED
 4. GIVEN
 5. JOINED/BECAME PARTNER/PROMOTION
 - 7. OTHER (SPECIFY) _____
 98. DK
 99. REF
6. In what year did you (start/acquire) the business?
7. How many people work in this business, including you, members of your family or anyone who is working without pay?
8. Which members of your family living here work in or participate in the operation of the business?
9. Other than you and your (spouse/partner), how many hours does the other family member work in this business in a normal week?
10. Is it a partnership, a sole-proprietorship, a subchapter S corporation, another type of corporation, an LLC, or some other type?
11. These next few questions are about the relationship between your household's finances and the finances of your business.

Are you using personal assets as collateral or did you have to cosign or guarantee any loans for this business?

COLLATERAL: A SPECIFIC ASSET PLEDGED AGAINST A LOAN.

GUARANTEE: A PROMISE TO PAY A LOAN IF THE BORROWER DEFAULTS.

1. YES
 5. NO → SKIP TO 16
 98. DK → SKIP TO 16
 99. REF → SKIP TO 16
12. Which of these did you do? Collateralize a loan, guarantee a loan, or both?
 1. COLLATERALIZE
 2. GUARANTEE
 3. BOTH
 98. DK
 99. REF
 13. How much is (collateralized/guaranteed/guaranteed or collateralized)?

14. Did I record this earlier?

15. Which loan was that?

16. (Other than guarantees, does/Does) the business owe you any money?

- 1. YES
- 5. NO → SKIP TO 18
- 98. DK → SKIP TO 18
- 99. REF → SKIP TO 18

17. How much is owed?

18. Do you (or your family living here) owe the business any money?

- 1. YES
- 5. NO → SKIP TO 22
- 98. DK → SKIP TO 22
- 99. REF → SKIP TO 22

19. How much do you owe?

20. Did I record this earlier?

21. When was it mentioned?

If business has fewer than 500 employees, go to 22, else go to 29

22. What sources of money were used to (start/acquire) this business?

CODE ALL THAT APPLY

- 1. Personal savings or assets
- 2. Credit card (personal of business)
- 3. Personal loan from a bank or savings institution
- 4. Personal loan from a credit union
- 5. Personal loan from some other type of institution or investor
- 6. Business loan from a bank or savings institution
- 7. Business loan from a credit union
- 8. Business loan from some other type of institution or investor
- 9. NO MONEY WAS NEEDED TO START THE BUSINESS
- 7. OTHER: SPECIFY _____
- 98. DK
- 99. REF

23. What external sources of money were used to finance the ongoing operations or improvements in this business during the past year?

CODE ALL THAT APPLY

- 1. Personal savings or assets
- 2. Credit card (personal of business)
- 3. Personal loan from a bank or savings institution
- 4. Personal loan from a credit union

- 5. Personal loan from some other type of institution or investor
- 6. Business loan from a bank or savings institution
- 7. Business loan from a credit union
- 8. Business loan from some other type of institution or investor
- 9. NO EXTERNAL MONEY WAS NEEDED TO FINANCE THE ONGOING OPERATIONS OR IMPROVEMENTS OF THE BUSINESS
- 7. OTHER: SPECIFY _____
- 98. DK
- 99. REF

24. Thinking about the financial institution where the business does the most business, it is (one of) the main institution(s) you listed in the beginning of the interview?

“FINANCIAL INSTITUTION” INCLUDES ANY TYPE OF ORGANIZATION WHERE THE BUSINESS COULD BORROW MONEY, MAKE DEPOSITS, OR USE TRANSACTION SERVICES.

- 1. Yes
- 5. No → SKIP TO 26
- 9. NO FINANCIAL INSTITUTIONS USED → SKIP TO 29
- 98. DK → SKIP TO 26
- 99. REF → SKIP TO 26

25. Which one?

- 1. INSTITUTION 1
- 2. INSTITUTION 2
- 3. INSTITUTION 3
- 98. DK
- 99. REF

SKIP TO 27

26. What kind of institution is this? (Is it a commercial bank, a savings and loan or savings bank, a credit union, a finance or loan company, a brokerage, a mortgage company, or something else?)

MOST “BANKS” ARE COMMERCIAL BANKS, UNLESS THEY HAVE “SAVINGS BANK” AS A PART OF THEIR NAME.

- 11. COMMERCIAL BANK
- 12. SAVINGS AND LOAN OR SAVINGS BANK
- 13. CREDIT UNION
- 14. FINANCE OR LOAN COMPANY
- 16. BROKERAGE
- 18. MORTGAGE COMPANY
- 19. OTHER: SPECIFY _____
- 98. DK
- 99. REF

27. Roughly, how many miles from the headquarters office of the business is the office of the primary institution that the business uses most frequently?

28. What types of business services or products are currently used or obtained from this institution?

CODE ALL THAT APPLY

1. Business checking or share draft accounts
2. Business savings accounts
3. Business lines of credit
4. Business mortgages
5. Other business loans or leases
6. Business credit cards
7. Credit or debit card payment processing
- 7. OTHER: SPECIFY _____
98. DK
99. REF

IF SOLE PROPRIETORSHIP, SKIP TO 30, ELSE ASK 29

29. What percentage of the business does your household own?

R IS NOT MARRIED/DOES NOT LIVE WITH A PARTNER → SKIP TO 31
R MARRIED OR LIVING WITH A PARTNER → SKIP TO 30

30. (What fraction of this [percent at 29] share do you personally own?/What fraction of the business do you personally own?)

PROBE IF NECESSARY: Sometimes spouses/partners share ownership in a business. We are interested in knowing the share owned by each person. What is YOUR share in this business?

IF R SAYS OWNERSHIP IS NOT SHARED WITH SPOUSE/PARTNER, CODE AS 100%

31. What is the net worth of (your household's share of) this business?

PROBE: What could you sell it for?

THE VALUE SHOULD BE NET OF ALL LOANS.

32. If you sold the business now, what would be the cost basis for tax purposes of this share?

PROBE ONLY IF NECESSARY: What was your original investment?

33. What were the gross sales of the business as a whole in 2008?

READ ONLY IF NECESSARY: What was the total income received for goods sold or services performed by the business in 2008?

IF BUSINESS NEW SINCE LAST YEAR CODE ZERO.

34. What was the business's total pre-tax net income in 2008?

READ ONLY IF NECESSARY: What was the pre-tax profit of the business in 2008?

ONLY ONE BUSINESS → SKIP TO 38
R HAS SECOND BUSINESS → ASK 4-34 AGAIN
R HAS THREE OR MORE BUSINESSES AND 4-34 ANSWERED TWO TIMES → SKIP TO 35

35. For the remaining business(es) you own and actively manage, what could you sell your share for?

PROBE: What is your share worth?

36. If you sold these businesses now, what would be the cost basis for tax purposes of your share?

PROBE IF R UNSURE: What was your original investment?

37. What was the total net income you received from these businesses in 2008?

38. [Has the business/Have any of the businesses] applied for any type of credit or loan in the last five years?

INCLUDE PRE-APPROVED CREDIT THAT BUSINESS ACCEPTED.

- 1. Yes
- 5. No → SKIP TO B85
- 98. DK → SKIP TO B85
- 99. REF → SKIP TO B85

39. In the past five years, has a particular lender or creditor turned down any request [the business/any of your businesses] made for credit, or not given the business as much credit as requested?

IF YES, PROBE: Turned down, or not as much credit?

IF TURNED DOWN AND NOT AS MUCH CREDIT, ASK WHICH IS MORE RECENT.

- Yes, turned down
- Yes, not as much credit
- No → SKIP TO 42
- DK → SKIP TO 42
- REF → SKIP TO 42

40. Did the business later obtain the full amount requested, either by reapplying to the same institution or by applying elsewhere?

- YES, BY REAPPLYING
- YES, BY APPLYING ELSEWHERE
- DID NOT REAPPLY
- NO
- DK
- REF

41. On the most recent occasion, what reasons were given for [being turned down for credit?/being unable to get as much credit as the business applied for?]

42. Was there any time in the past five years that [the business/any of your businesses] thought of applying for credit at a particular place, but decided not to because it was thought it might be turned down?

- YES
- NO → SKIP TO QUESTIONS ON NONACTIVELY MANAGED BUSINESSES
- DK → SKIP TO QUESTIONS ON NONACTIVELY MANAGED BUSINESSES
- REF → SKIP TO QUESTIONS ON NONACTIVELY MANAGED BUSINESSES

43. On the most recent occasion, why did you expect to be turned down?

Questions on nonactively managed businesses