

## Structure of Household Debt of Small Business Owners in the United States: Findings from the Survey of Consumer Finances, 1998–2007

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An extensive body of research exists on the financial structure of small businesses, along with numerous studies that have focused on the profit maximization and risk tolerance of small business owners. Little has been done on the intermingling of business and family finances of small business-owning-households. This study utilizes the 1998 through 2007 Surveys of Consumer Finances (SCF) to examine the intermingling of financial resources between the household and the business. In particular, it addresses the following research questions:

- Are small business-owning households more likely to utilize personal financing sources, such as home equity loans, than households not owning a small business?
- Do small business-owning households have a larger share of debt in personal financing sources, such as home equity loans and credit cards, than households not owning a small business?
- Are small business-owning households with higher income and wealth more likely to utilize personal financing sources than those with lower income and wealth?

### Overall Findings

This descriptive analysis examines the importance of personal financing sources, especially mortgages secured by residential property, to small businesses from 1998 through 2007. About 80 percent of the total debt owned by small business-owning households is held in mortgages and installment loans. The likelihood of holding a residential mortgage increased from 64.7 percent in 1998 to over 73 percent in 2007, and the share of total debt held in residential mortgages increased from 67.3 percent

in 1998 to 70.6 percent in 2007 for small business-owning households. After controlling for owner characteristics, small business-owning households did not hold a larger share of total debt in residential mortgages than other households from 1998 through 2007. However, small business-owning households did hold a larger share of total debt in other loans secured by residential property and line of credit loans secured by residential property than other households. These loans comprise less than 18 percent of the value of total debt held by small business-owning households in 2007, suggesting that while financial intermingling does occur, it represents a relatively small share of total debt.

### Highlights

- In 2007, small business-owning households were most likely to hold debt in residential mortgages (73 percent), credit card balances (54 percent) and installment loans (51 percent).
- In 2007, small business-owning households held the largest shares of debt in residential mortgages (71 percent), other debt secured by residential property (16.3 percent) and installment loans (8.1 percent).
- After controlling for owner characteristics, small business-owning households had a higher probability of holding other debt secured by residential property and line of credit loans not secured by residential real estate than other households in 2004 and 2007.
- After controlling for owner characteristics, small business-owning households held a larger share of total debt in other loans secured by residential property and line of credit loans secured by residential property than other households in 2004 and 2007.

- After controlling for owner and business characteristics, small business-owning households with more financial resources (high income and high wealth) held a larger share of total debt in other loans secured by residential property and a smaller share of total debt in installment loans than small business-owning households with fewer financial resources.

## Scope and Methodology

This study utilizes the Federal Reserve's Surveys of Consumer Finances from 1998, 2001, 2004, and 2007 to examine the utilization of household debt. The primary variables of interest are the probability of holding each type of loan (mortgage secured by residential property, other debt secured by residential property, other lines of credit, credit card balances at the end of the month, installment loans and other debt) and the share of total debt held in each type of loan from 1998 through 2007. The study examines the differences in the utilization of debt by small business-owning households and non-business-owning households and by small business-owning households with greater and lesser financial resources (income and wealth). Small business-owning households are those households where at least one member of the household owned and managed a business with fewer than 500 employees.

The personal and demographic characteristics used as control variables include age, gender, race, education, marital status, stock ownership, and real estate holdings of \$50,000 or more. The business characteristics used as control variables include age of the business, number of employees, legal organization, industrial classification, and founding strategy. The study utilizes both univariate and multivariate techniques to analyze the data. Univariate analyses are employed to examine difference in the

likelihood of utilizing each type of loan and share of total loans held in each type of loan. Logistic regression analysis is used to examine the determinants of the likelihood of holding each type of loan. Least squares regression analysis is employed to examine the determinants of the share of total loans held in each type of loan.

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