Amplifying Small Business Voices: New Findings from the Small Business Credit Survey

April 13, 2023
3:00 to 4:00 PM ET
Views expressed during this session are those of the speakers and are intended for informational purposes.

They do not necessarily represent the views of Fed Communities or the Federal Reserve System.
Today’s Moderator

Emily Wavering Corcoran, SBCS Program Manager
Federal Reserve Bank of Cleveland
About the SBCS

• The Small Business Credit Survey (SBCS) is an annual online survey administered through a collaboration of the 12 Reserve Banks.

• The 2022 survey was administered from September 8 to November 18, gathering responses from nearly 14,000 small businesses across the country.

• Nearly 8,000 employer firms responded to the 2022 survey.

• Today's presentation shares findings from the 2023 Report on Employer Firms: Findings from the 2022 Small Business Credit Survey.
Key findings for employer firms

• Revenue, employment, and profitability each improved from 2021, but expectations worsened year-over-year.

• Almost every firm in the survey experienced at least one operational or financial challenge in the prior 12 months.

• When asked about funding sources used over the past five years, firms were more likely to use personal and government sources than funding from financial institutions.

• The application rate for traditional financing rebounded to pre-pandemic levels. The share of firms fully approved increased from 2021 but remains lower than in 2019.
Firm performance improved in 2022, but revenue and employment growth remain below prepandemic levels

**EMPLOYER FIRM PERFORMANCE INDEX, Prior 12 Months** (% of employer firms)

- **Revenue growth**
  - 2017 Survey: 28%
  - 2018 Survey: 35%
  - 2019 Survey: 34%
  - 2020 Survey: -63%
  - 2021 Survey: -10%
  - 2022 Survey: 7%

- **Employment growth**
  - 2017 Survey: 19%
  - 2018 Survey: 23%
  - 2019 Survey: 21%
  - 2020 Survey: -33%
  - 2021 Survey: -9%
  - 2022 Survey: 6%
Firm profitability improved year-over-year across firm size categories

### SHARE OF FIRMS OPERATING PROFITABLY, By Survey Year
(% of employer firms)

<table>
<thead>
<tr>
<th></th>
<th>2021 Survey (profitability at the end of 2020)</th>
<th>2022 Survey (profitability at the end of 2021)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All employer firms</td>
<td>35%</td>
<td>45%</td>
</tr>
<tr>
<td>By firm revenue size</td>
<td></td>
<td></td>
</tr>
<tr>
<td>≤$100K</td>
<td>13%</td>
<td>21%</td>
</tr>
<tr>
<td>$100K–$1M</td>
<td>34%</td>
<td>44%</td>
</tr>
<tr>
<td>$1M–$10M</td>
<td>52%</td>
<td>63%</td>
</tr>
<tr>
<td>&gt;$10M</td>
<td>77%</td>
<td>83%</td>
</tr>
</tbody>
</table>
Firms’ self-reported financial condition remains little-changed

**FINANCIAL CONDITION, At Time of Survey (% of employer firms)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Poor</th>
<th>Fair</th>
<th>Good</th>
<th>Very Good</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 Survey</td>
<td>24%</td>
<td>34%</td>
<td>25%</td>
<td>11%</td>
<td>6%</td>
</tr>
<tr>
<td>2021 Survey</td>
<td>21%</td>
<td>38%</td>
<td>25%</td>
<td>11%</td>
<td>5%</td>
</tr>
<tr>
<td>2022 Survey</td>
<td>19%</td>
<td>38%</td>
<td>27%</td>
<td>11%</td>
<td>6%</td>
</tr>
</tbody>
</table>
Revenue and employment growth expectations declined from last year’s survey and remain lower than prepandemic levels.
Firms’ most common operational challenges were hiring or retaining workers and supply chain disruptions

**OPERATIONAL CHALLENGES, Prior 12 Months** (% of employer firms)

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hiring or retaining qualified staff</td>
<td>60%</td>
</tr>
<tr>
<td>Supply chain issues</td>
<td>60%</td>
</tr>
<tr>
<td>Reaching customers/growing sales</td>
<td>51%</td>
</tr>
<tr>
<td>Complying with government regulations</td>
<td>29%</td>
</tr>
<tr>
<td>Utilizing technology</td>
<td>27%</td>
</tr>
<tr>
<td>Ensuring health/safety of customers or employees</td>
<td>18%</td>
</tr>
<tr>
<td>Did not experience any operational challenges</td>
<td>6%</td>
</tr>
</tbody>
</table>

2023 Report on Employer Firms: Findings from the 2022 Small Business Credit Survey
While firms were about as likely to attempt to hire in 2022 as in 2021, a smaller share said hiring new workers was very difficult.

**DIFFICULTY HIRING NEW WORKERS, Prior 12 Months, By Survey Year (% of employer firms)**

- **2018 Survey**
  - Attempted to hire, very difficult: 27%
  - Attempted to hire, somewhat difficult: 27%
  - Attempted to hire, not difficult: 17%
  - Did not attempt to hire: 29%

- **2021 Survey**
  - Attempted to hire, very difficult: 44%
  - Attempted to hire, somewhat difficult: 24%
  - Attempted to hire, not difficult: 7%
  - Did not attempt to hire: 25%

- **2022 Survey**
  - Attempted to hire, very difficult: 40%
  - Attempted to hire, somewhat difficult: 27%
  - Attempted to hire, not difficult: 10%
  - Did not attempt to hire: 23%
Among firms facing hiring challenges, they most frequently cited reasons related to attracting applicants for open jobs.

**REASONS FOR DIFFICULTY HIRING WORKERS, 2022 Survey**
(% of employer firms reporting that hiring workers was very or somewhat difficult)

- Too few applicants: 72%
- Applicants lack job-specific skills, education or experience: 62%
- Competition from other employers: 40%
- Difficulty retaining newly hired workers: 34%
- Applicants unable to pass background check, credit check, or drug test: 16%
- Other reasons: 3%
Larger firms were more likely than smaller firms to increase wages in response to hiring challenges.

<table>
<thead>
<tr>
<th>All employer firms</th>
<th>2021 Survey</th>
<th>2022 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>59%</td>
<td>65%</td>
</tr>
</tbody>
</table>

**By firm revenue size**

<table>
<thead>
<tr>
<th>Firm revenue size</th>
<th>2021 Survey</th>
<th>2022 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-4 employees</td>
<td>46%</td>
<td>52%</td>
</tr>
<tr>
<td>5-49 employees</td>
<td>69%</td>
<td>75%</td>
</tr>
<tr>
<td>50-499 employees</td>
<td>84%</td>
<td>91%</td>
</tr>
</tbody>
</table>
Rising costs of goods, services, and wages were the most commonly reported financial challenge.

### FINANCIAL CHALLENGES, Prior 12 Months (% of employer firms)

- **81%**: Rising costs of goods, services, and/or wages
- **54%**: Paying operating expense
- **47%**: Weak sales
- **27%**: Credit availability
- **54%**: Uneven cash flow
- **32%**: Making payments on debt
- **6%**: None
In response to financial challenges, firms most often raised the prices their business charges.

**ACTIONS TAKEN IN RESPONSE TO FINANCIAL CHALLENGES, Prior 12 Months**

(% of employer firms with financial challenges)

<table>
<thead>
<tr>
<th>Action</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raised prices the business charges</td>
<td>56%</td>
</tr>
<tr>
<td>Used personal funds</td>
<td>53%</td>
</tr>
<tr>
<td>Used cash reserves</td>
<td>53%</td>
</tr>
<tr>
<td>Obtained funds that must be repaid</td>
<td>42%</td>
</tr>
<tr>
<td>Cut staff, hours, and/or downsized operations</td>
<td>32%</td>
</tr>
<tr>
<td>Made a late payment or did not pay</td>
<td>23%</td>
</tr>
<tr>
<td>Obtained funds that do not have to be repaid</td>
<td>18%</td>
</tr>
<tr>
<td>No action</td>
<td>5%</td>
</tr>
</tbody>
</table>
The share of firms holding larger amounts of debt—more than $100K—remains higher than prepandemic levels.

**AMOUNT OF OUTSTANDING DEBT, At Time of Survey, By Survey Year (% of employer firms)**

<table>
<thead>
<tr>
<th>Survey Year</th>
<th>No outstanding debt</th>
<th>≤$100K</th>
<th>&gt;$100K</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>30%</td>
<td>38%</td>
<td>32%</td>
</tr>
<tr>
<td>2019</td>
<td>29%</td>
<td>40%</td>
<td>31%</td>
</tr>
<tr>
<td>2020</td>
<td>21%</td>
<td>45%</td>
<td>40%</td>
</tr>
<tr>
<td>2021</td>
<td>26%</td>
<td>34%</td>
<td>40%</td>
</tr>
<tr>
<td>2022</td>
<td>28%</td>
<td>32%</td>
<td>40%</td>
</tr>
</tbody>
</table>
Banks are small firms’ most common financial services providers

**USE OF FINANCIAL SERVICES PROVIDERS** (% of employer firms)

- Large bank: 56%
- Small bank: 43%
- Financial company that is not a bank: 24%
- Credit union: 13%
- Other: 3%
- None, business does not use financial services: 4%

2023 Report on Employer Firms: Findings from the 2022 Small Business Credit Survey
Reliance on personal sources and government funding has increased since 2019

**SOURCES OF FUNDING, Past Five Years, By Survey Year (% of employer firms)**

- **Financial institution or lender**: 66% (2022) vs. 62% (2019)
- **Owner’s personal savings, friends, or family**: 55% (2022) vs. 56% (2019)
- **Did not obtain any funds from outside the business**: 8% (2022) vs. 5% (2019)
- **Nonprofit/community-based funding sources**: 5% (2022) vs. 4% (2019)
- **Other sources**: 1% (2022) vs. 1% (2019)
- **Government funding sources**: 1% (2022) vs. 4% (2019)

*Note: the “government funding sources” answer choice was added to the questionnaire in 2022; in 2019, government sources were accounted for in the “other source” category.*
Younger and smaller firms were more likely than older and larger firms to rely on funds from personal sources.

### SHARE OF FIRMS THAT RELIED ON FUNDS FROM THE OWNER’S PERSONAL SAVINGS, FRIENDS, OR FAMILY IN PAST FIVE YEARS, 2022 Survey (% of employer firms)

#### By age of firm

<table>
<thead>
<tr>
<th>Age of Firm</th>
<th>Reliance on Personal Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–5 years</td>
<td>83%</td>
</tr>
<tr>
<td>6–20 years</td>
<td>63%</td>
</tr>
<tr>
<td>21+ years</td>
<td>51%</td>
</tr>
</tbody>
</table>

#### By revenue size of firm

<table>
<thead>
<tr>
<th>Revenue Size</th>
<th>Reliance on Personal Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\leq$100K</td>
<td>81%</td>
</tr>
<tr>
<td>$100K–$1M</td>
<td>68%</td>
</tr>
<tr>
<td>$1M–$10M</td>
<td>53%</td>
</tr>
<tr>
<td>$&gt;10M</td>
<td>35%</td>
</tr>
</tbody>
</table>
Loans from the SBA’s EIDL program were the most common type of financial assistance sought in the prior 12 months.

### TYPES OF FINANCIAL ASSISTANCE SOUGHT, Prior 12 Months (% of employer firms)

- **EIDL loan**: 23%
- **Grant from state/local government fund**: 19%
- **EIDL advance**: 12%
- **Grant from nonprofit or foundation**: 6%
- **Loan from state/local government fund**: 5%
- **Did not seek pandemic-related financial assistance**: 66%
In 2022, applications for the most common types of traditional financing—loans, lines of credit, and cash advances—rose above prepandemic levels.

SHARE OF FIRMS THAT APPLIED FOR LOANS, LINES OF CREDIT, OR CASH ADVANCES, Prior 12 Months, By Survey Year (% of employer firms)
The top reason firms applied for financing was to cover their operating expenses

**REASONS FOR APPLYING, Prior 12 Months, By Survey Year** (% of loan, line of credit, and cash advance applicants)

- **Meet operating expenses**
  - 2018 Survey: 56%
  - 2019 Survey: 56%
  - 2020 Survey: 59%
  - 2021 Survey: 63%
  - 2022 Survey: 65%

- **Expand business, pursue new opportunity, or acquire business assets**
  - 2018 Survey: 47%
  - 2019 Survey: 45%
  - 2020 Survey: 39%
  - 2021 Survey: 44%
  - 2022 Survey: 53%

- **Replace capital assets or make repairs**
  - 2018 Survey: 29%
  - 2019 Survey: 32%
  - 2020 Survey: 35%
  - 2021 Survey: 33%
  - 2022 Survey: 32%

- **Refinance or pay down debt**
  - 2018 Survey: 20%
  - 2019 Survey: 18%
  - 2020 Survey: 22%
  - 2021 Survey: 29%
  - 2022 Survey: 28%
Firms most often turned to large and small banks when applying for financing

CREDIT SOURCES APPLIED TO, Prior 12 Months (% of loan, line of credit, and cash advance applicants)

- Large bank: 43%
- Small bank: 30%
- Online lender: 22%
- Finance company: 13%
- Credit union: 8%
- CDFI: 4%
The top factors influencing where firms applied were existing relationships and the expected speed of funding.

### TOP FACTORS INFLUENCING WHERE FIRMS APPLY (% of loan, line of credit, and cash advance applicants at source)

<table>
<thead>
<tr>
<th></th>
<th>Largest factor</th>
<th>Second largest factor</th>
<th>Third largest factor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Large bank</strong></td>
<td>63%</td>
<td>29%</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Small bank</strong></td>
<td>67%</td>
<td>34%</td>
<td>30%</td>
</tr>
<tr>
<td><strong>Online lender</strong></td>
<td>55%</td>
<td>48%</td>
<td>46%</td>
</tr>
</tbody>
</table>

- **Existing relationship with lender**
- **Chance of being funded**
- **Cost or interest rate**
- **Speed of decision or funding**
- **No collateral was required**

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2023 Report on Employer Firms: Findings from the 2022 Small Business Credit Survey
Approval rates improved year-over-year, but the share fully approved remains below pre-pandemic levels
Applicant firms owned by people of color were less likely to be approved than white-owned applicant firms.

**SHARE OF APPLICANTS THAT WERE FULLY APPROVED, By Survey Year**
(% of loan, line of credit, and cash advance applicants)

*By race/ethnicity of the owner(s)*

<table>
<thead>
<tr>
<th>Race/Ethnicity</th>
<th>2019 Survey</th>
<th>2022 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>58%</td>
<td>66%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>38%</td>
<td>46%</td>
</tr>
<tr>
<td>Asian</td>
<td>33%</td>
<td>46%</td>
</tr>
<tr>
<td>Black</td>
<td>20%</td>
<td>34%</td>
</tr>
</tbody>
</table>

2023 Report on Employer Firms: Findings from the 2022 Small Business Credit Survey
Applicants that sought financing at a small bank were more likely than other applicants to be approved.

<table>
<thead>
<tr>
<th>Source</th>
<th>Share of Applicants at Least Partially Approved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small bank</td>
<td>82%</td>
</tr>
<tr>
<td>Finance company</td>
<td>76%</td>
</tr>
<tr>
<td>Online lender</td>
<td>71%</td>
</tr>
<tr>
<td>Large bank</td>
<td>68%</td>
</tr>
<tr>
<td>Credit union</td>
<td>65%</td>
</tr>
<tr>
<td>CDFI</td>
<td>59%</td>
</tr>
</tbody>
</table>
Approval rates increased in 2022 across sources

SHARE OF APPLICANTS AT LEAST PARTIALLY APPROVED BY SOURCE, By Survey Year
(% of loan, line of credit, and cash advance applicants at source)

* Note: The change made to the 2022 questionnaire which allowed more precise identification of source types did not materially affect approval rates by source.
Satisfaction levels rose across sources in 2022

**NET SATISFACTION, By Survey Year**
(% of loan, line of credit, and cash advance applicants approved for at least some financing at source)

- Small bank
- Large bank
- Finance company
- Online lender

<table>
<thead>
<tr>
<th></th>
<th>2018 Survey</th>
<th>2019 Survey</th>
<th>2020 Survey</th>
<th>2021 Survey</th>
<th>2022 Survey*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small bank</td>
<td>74%</td>
<td>74%</td>
<td>76%</td>
<td>70%</td>
<td>77%</td>
</tr>
<tr>
<td>Large bank</td>
<td>57%</td>
<td>59%</td>
<td>60%</td>
<td>54%</td>
<td>52%</td>
</tr>
<tr>
<td>Finance company</td>
<td>35%</td>
<td>38%</td>
<td>49%</td>
<td>28%</td>
<td>29%</td>
</tr>
<tr>
<td>Online lender</td>
<td></td>
<td></td>
<td></td>
<td>4%</td>
<td></td>
</tr>
</tbody>
</table>

2023 Report on Employer Firms: Findings from the 2022 Small Business Credit Survey
Online lender applicants experienced challenges with interest rates and unfavorable repayment terms

CHALLENGES WITH LENDERS, Select Lenders (% of loan, line of credit, and cash advance applicants at source)

- Long wait for credit decision or funding
  - Large bank: 23%
  - Small bank: 19%
  - Online lender: 17%
  - Finance company: 16%

- Difficult application process
  - Large bank: 23%
  - Small bank: 18%
  - Online lender: 12%
  - Finance company: 17%

- High interest rate
  - Large bank: 21%
  - Small bank: 18%
  - Online lender: 43%
  - Finance company: 33%

- Lack of transparency
  - Large bank: 12%
  - Small bank: 7%
  - Online lender: 16%
  - Finance company: 12%

- Unfavorable repayment terms
  - Large bank: 11%
  - Small bank: 9%
  - Online lender: 34%
  - Finance company: 16%

2023 Report on Employer Firms: Findings from the 2022 Small Business Credit Survey
For more information

• The 2023 Report on Employer Firms: Findings from the 2022 Small Business Credit Survey, as well as detailed appendix data for firm demographics and the 2022 questionnaire are available at https://www.fedsmallbusiness.org/survey
  • Prior years’ reports are also available

• Forthcoming analysis from the 2022 SBCS will include reports on nonemployer firms and firms owned by people of color

• The 2023 survey will be fielded this fall; organizations that are interested in partnering on the distribution of the survey should contact their Federal Reserve District or visit https://www.fedsmallbusiness.org/partnership
The Policy Summit (clevelandfed.org)
Panel Discussion and Q & A

Maria Thompson
Outreach Manager, SBCS

Lucas Misera,
Policy Analyst, SBCS

Jordan Manes,
Policy Analyst, SBCS
Closing remarks and requests

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Thank you for joining us!