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2023 REPORT ON EMPLOYER FIRMS:

FINDINGS FROM THE 2022 **SMALL BUSINESS CREDIT SURVEY**

PUBLISHED MARCH 2023

FEDERAL RESERVE BANKS *of*

Atlanta • Boston • Chicago • Cleveland • Dallas • Kansas City • Minneapolis
New York • Philadelphia • Richmond • St. Louis • San Francisco

ACKNOWLEDGMENTS

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The Small Business Credit Survey is made possible through collaboration with business and civic organizations in communities across the United States. The Federal Reserve Banks thank the national, regional, and community partners who share valuable insights about small business financing needs and collaborate with us to distribute and promote the survey.[2]

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2 *For a full list of community partners, please visit www.fedsmallbusiness.org.*

TABLE OF CONTENTS

i EXECUTIVE SUMMARY

iii NOTES AND DEFINITIONS

1 PERFORMANCE AND CHALLENGES
1 Firm Performance, Prior 12 Months
2 Firm Profitability
3 Revenue and Employment Expectations, Next 12 Months
4 Operational Challenges
5 Workforce Challenges
7 Financial Challenges

8 DEBT AND FINANCING
8 Debt Outstanding
9 Financial Services Providers
10 Use of Personal Funding Sources
11 Demand for Financing

12 PANDEMIC-RELATED FINANCIAL ASSISTANCE
12 Funding Sought and Received

13 FINANCING APPLICATIONS
13 Applications for Loans, Lines of Credit, and Cash Advances
14 Loan/Line of Credit/Cash Advance Products and Sources
15 Loan/Line of Credit/Cash Advance Sources
17 Loan/Line of Credit/Cash Advance Application Outcomes
18 Loan/Line of Credit/Cash Advance Approval Over Time
19 Loan/Line of Credit/Cash Advance Approval Rates by Source
21 Satisfaction with Lenders
22 Challenges with Lenders

23 DEMOGRAPHICS

26 METHODOLOGY

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EXECUTIVE SUMMARY

INTRODUCTION

The Small Business Credit Survey (SBCS), a collaboration of all 12 Federal Reserve Banks, provides timely information about small business conditions to policymakers and service providers. In 2022, the survey reached nearly 8,000 employer small businesses, collecting information about the performance, challenges, and credit-seeking experiences of firms across the United States.

Fielded September through November 2022, the most recent SBCS was the third conducted since the COVID-19 pandemic began in early 2020. While the 2020 and 2021 surveys highlighted the devastating effects of the pandemic on small employer firms, the 2022 survey shows promising signs that some trends are returning to prepandemic norms. For the first time since the 2020 survey, firms in the SBCS were more likely to report that revenues and employment levels increased rather than decreased in the past 12 months, and the share of firms reporting that they were operating profitably rose substantially year-over-year.

Still, there are signs of uncertainty among respondents: Firms in the most recent survey remain less likely than firms in prepandemic surveys to expect revenue or employment growth in the coming year. Additionally, firms reported the persistence of challenges, both financial and operational. Financially, around four in five firms cited challenges related to rising costs, and close to half of firms reported difficulties paying operating expenses or navigating uneven cash flows. Nearly all firms also reported some type of operational challenge. Specifically, firms most often struggled to hire or retain qualified staff or deal with issues in their supply chains.

The 2022 survey also marks the first since 2020 in which firms were more likely to say they sought traditional financing rather than pandemic-related funding. As pandemic-related funding programs ended, the data show an accompanying rise in the share of firms that sought traditional financing in the form of loans, lines of credit, or merchant cash advances. The share of these applicants that were fully approved rose year-over-year but lags prepandemic levels.

SURVEY FINDINGS

The 2022 SBCS yielded 7,864 responses from a nationwide convenience sample of small employer firms with 1–499 full- or part-time employees (hereafter "firms") across all 50 states and the District of Columbia. This publication summarizes data for firms that were currently operating or temporarily closed at the time of the survey. Permanently closed firms are not included in the sample for this report.

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

- For the second consecutive year, performance indices for revenue and employment growth increased from lows in the 2020 survey. Still, both performance indices remain substantially beneath those from prepandemic surveys.
- The share of firms operating at a profit rose from 35% in the 2021 survey to 45% in the 2022 survey. Profitability improved for both the smallest- and largest-revenue firms in the survey, and firms within nearly every industry classification were more likely to report operating at a profit in the 2022 survey than in the prior survey.
- Despite increases in performance indices and profitability year-over-year, firms' self-reported financial condition remains little-changed from 2021. Seventeen percent of firms reported that they were in "very good" or "excellent" financial condition in the 2022 survey, an increase of just one percentage point from 2021.
- Between 2021 and 2022, the net share of firms expecting revenue growth in the next 12 months fell from 42% to 35% and remains significantly below prepandemic levels. The net share of firms anticipating growth in employment levels also declined, falling from 31% in 2021 to 27% in 2022.

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

- Ninety-four percent of firms reported an operational challenge. Sixty percent reported challenges associated with hiring or retaining qualified staff, and 60% reported supply chain issues.
- Additionally, 94% of firms experienced a financial challenge in the 12 months prior to the survey. Most commonly, firms reported challenges with rising costs of goods, services, and/or wages (81%), followed by difficulties paying operating expenses (54%) and navigating uneven cash flows (54%).
- In response to hiring challenges, firms were more likely in 2022 than in 2021 to make changes to employee compensation (for example, raising wages or enhancing non-wage compensation) and less likely to reduce business operations or add to their employees' workload.

EXECUTIVE SUMMARY
(Continued)

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.

- Two-thirds of firms (66%) used the owner's personal savings or funding from friends or family in the past five years. Over half of firms (55%) used government funding over the same period, and another 51% funded their business through a financial institution or lender.
- Younger, smaller-revenue firms were more likely than their counterparts to rely on funding from an owner's personal savings or funding from friends or family, as were women-owned firms and firms owned by people of color.[1]
- Reliance on government funding sources declined as pandemic-related funding programs ended. While 91% and 77% of firms sought pandemic-related financial assistance in 2020 and 2021, respectively, just 34% of firms sought assistance in 2022.
- The most common program from which firms sought assistance in the prior 12 months was the Small Business Administration's Economic Injury Disaster Loan (EIDL) program. Twenty-three percent of firms sought an EIDL loan in 2022.[2]

The application rate for traditional financing rebounded to prepandemic levels. The share of firms fully approved increased from 2021 but remains lower than in 2019.

- While applications for pandemic-related financial assistance declined, the share of firms that applied for a traditional loan, line of credit, or merchant cash advance increased to 40% in 2022, up from 25% in 2021. Firms' top reason for seeking credit was to meet operating expenses, though the reason with the biggest year-over-year increase was business expansion.
- The share of loan, line of credit, and cash advance applicants that were fully approved rose to 53% in 2022 from 46% in 2021. Still, the share of applicants that were fully approved remains below the 62% that were fully approved in 2019.
- Applicants at small banks were most likely to receive at least partial approval of their applications (82%), followed by applicants at finance companies and online lenders (76% and 71%, respectively).
- Among applicants that were approved, firms that applied to small banks were most satisfied, as 81% reported they were satisfied with their lending experiences. Conversely, online lender applicants were least satisfied, with just 48% reporting they were satisfied with their experiences at their lenders.

ABOUT THE SURVEY

The SBCS is an annual survey of firms with fewer than 500 employees. These types of firms represent 99.7% of all employer establishments in the United States.[3] Respondents are asked to report information about their business performance, financing needs and choices, and borrowing experiences. Responses to the SBCS provide insights on the dynamics behind lending trends and shed light on various segments of the small business population. The SBCS is not a random sample; results should be analyzed with awareness of potential biases that are associated with convenience samples. For detailed information about the survey design and weighting methodology, please consult the Methodology section.

1 *The SBCS uses US Census-defined categories of race and ethnicity. Throughout this report, we use simplified, mutually exclusive race/ethnicity labels to indicate that more than 50% of the business is held by owner(s) of the given race/ethnicity. "White" refers to non-Hispanic white, Middle Eastern, or North African; "Black" refers to non-Hispanic Black or African American; "Asian" refers to non-Hispanic Asian or Pacific islander; "American Indian or Alaskan Native" refers to non-Hispanic American Indian or Alaskan Native; and "Hispanic" refers to all firms owned by individuals of Hispanic or Latino ethnicity, regardless of their race.*

2 *Since the start of the pandemic, the SBA distributed $390 billion in EIDL loans, though applications for pandemic-affected applicants closed in early 2022. Unlike the SBA's Paycheck Protection Program loans, EIDL loans are not forgivable and carry an interest rate of 3.75%. For more on the COVID-19 EIDL program, see the SBA website.*

3 *US Census Bureau, County Business Patterns, 2020.*

NOTES AND DEFINITIONS

TIME REFERENCES

Survey questions in the SBCS ask respondents to reference specific time periods. Most questions ask about respondents' experiences in the 12 months prior to the time of their response. In some cases, questions ask about conditions at the time of their response. Finally, some questions ask about respondents' expectations in the 12 months following the time of their response. The time periods referenced in the survey are defined as follows throughout this report:

Prior 12 Months. The 12 months prior to the fielding of the survey. For the 2022 SBCS, this is approximately September–November 2021 through September–November 2022.

At Time of Survey. September through November 2022.

Next 12 Months. The 12 months following the fielding of the survey. For the 2022 SBCS, this is approximately September–November 2022 through September–November 2023.

FINANCIAL SERVICES PROVIDERS AND LENDERS

Questions in the SBCS ask respondents about their use of and experiences with lenders and other financial services providers. Because respondents may not have a uniform understanding of the terms used in the SBCS, the questionnaire provides examples and explanatory information about the response options.[1] The financial services providers, lenders, and lender categories referenced in the survey are defined as follows:

Large bank, small bank. Large banks are defined as those with at least $10B in total deposits; small banks are those with less than $10B in total deposits. For applicable questions, respondents are shown a list of large banks operating in their state to assist them with proper classification of their institution.

Finance company. Finance companies are nonbanks that provide loans, leases, and other financial services. Examples include mortgage companies, equipment dealers, insurance companies, and auto finance companies.

Financial company that is not a bank. Examples include payroll services and payments processing companies, fintech lenders, and finance companies.

Financial institution or lender. This category includes all bank or nonbank financial intermediaries, such as banks, finance companies, online lenders, and credit unions.

Government funding sources. Examples include the Small Business Administration (SBA), the US Department of Agriculture (USDA), and state agencies.

Online lender/fintech lender. Online lenders/fintech lenders are nonbanks that operate online. Examples include OnDeck, CAN Capital, Paypal Working Capital, and Kabbage.

Community development financial institution (CDFI). CDFIs are financial institutions that provide credit and financial services to underserved markets and populations. CDFIs are certified by the CDFI Fund at the US Department of the Treasury.

CREDIT RISK

Credit risk is determined by the self-reported business credit score or personal credit score, depending on which is used to obtain financing for the business. If a firm uses both, the weaker score is used. "Low credit risk" is an 80–100 business credit score or 720+ personal credit score. "Medium credit risk" is a 50–79 business credit score or a 620–719 personal credit score. "High credit risk" is a 1–49 business credit score or a <620 personal credit score.

1 *See SBCS questionnaire for more details.*

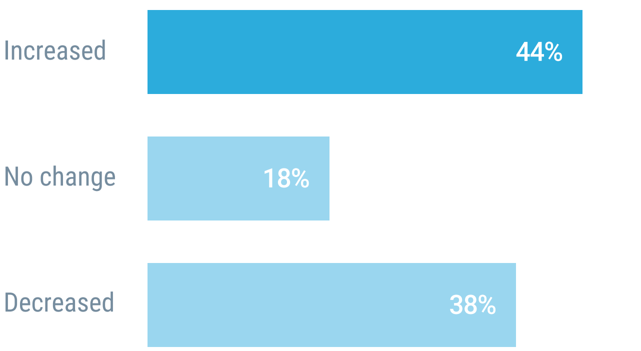
PERFORMANCE AND CHALLENGES

Firm Performance, Prior 12 Months

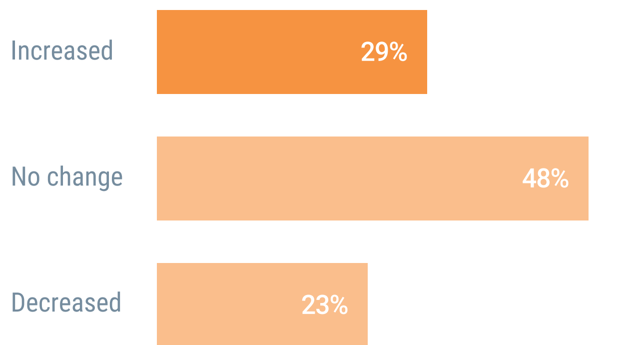
Firm performance improved in 2022, but revenue and employment growth remain below prepandemic levels.

EMPLOYER FIRM PERFORMANCE, *2022 Survey*[1] (% of employer firms)

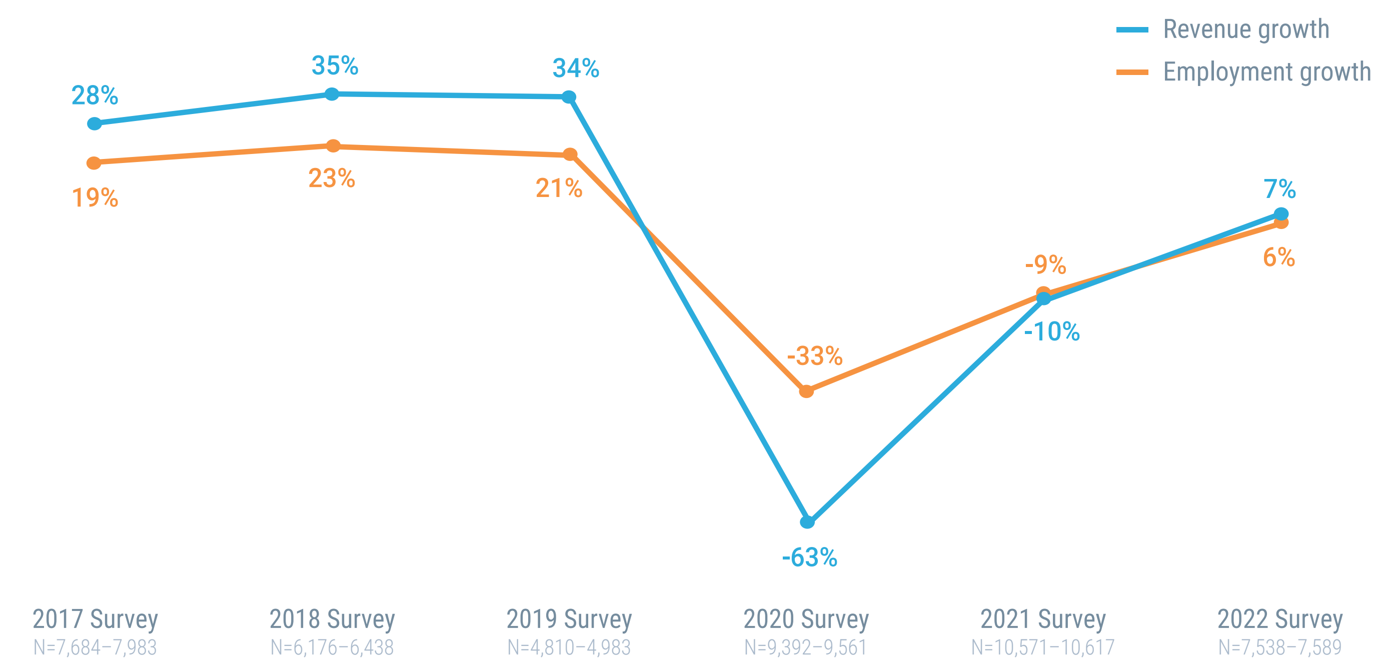
REVENUE CHANGE, *Prior 12 Months* N=7,589



EMPLOYMENT CHANGE, *Prior 12 Months* N=7,538



EMPLOYER FIRM PERFORMANCE INDEX, *Prior 12 Months*[1,2] (% of employer firms)

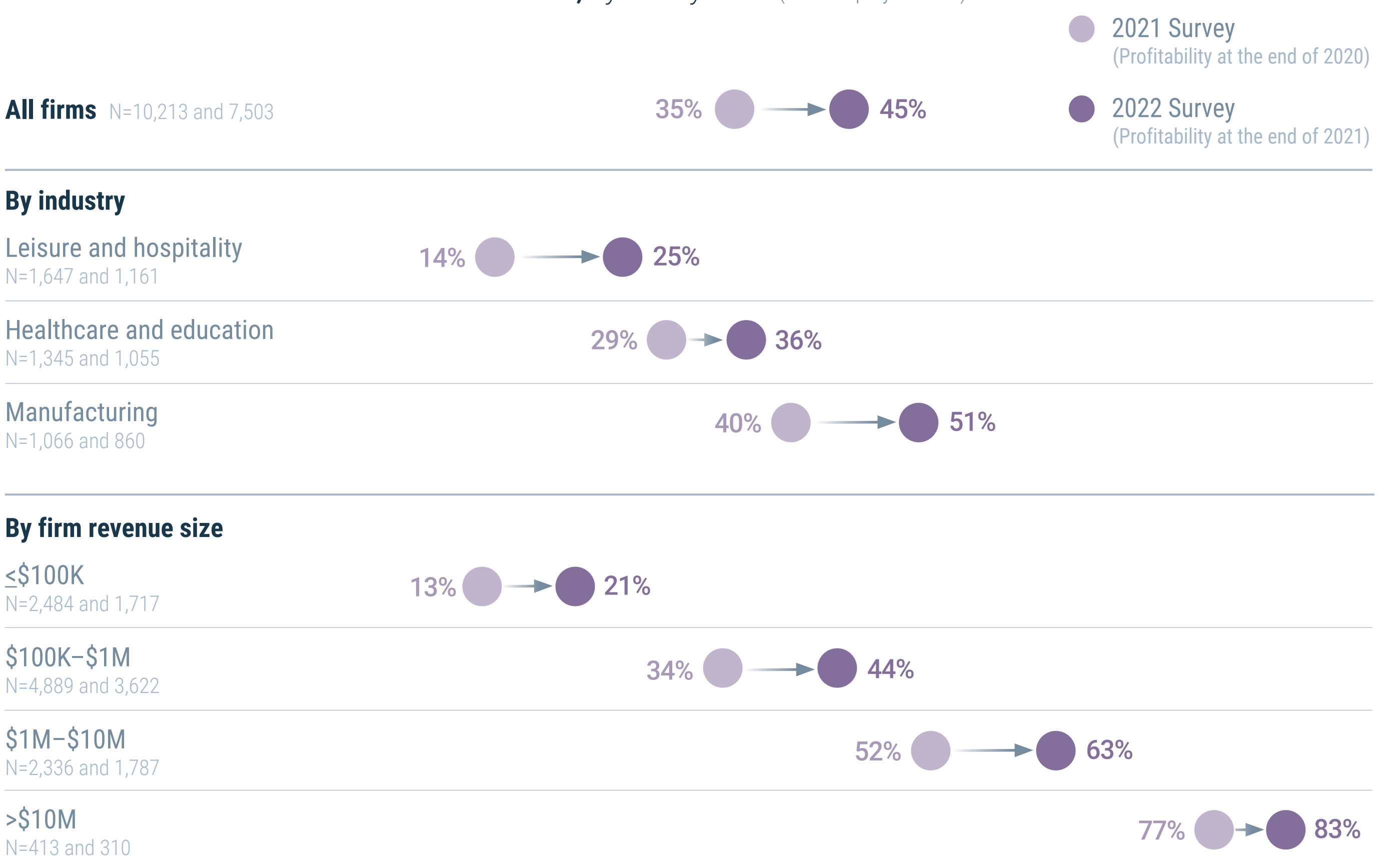


1 *See Notes and Definitions for details on time period definitions used in the SBCS.*
2 *The index is the share reporting growth minus the share reporting a reduction in the prior 12 months. Because of rounding, the 2022 revenue index is not equal to the difference between the shares shown for firms reporting growth and firms reporting a reduction. Questions were asked separately; therefore, the number of observations may differ slightly between questions.*

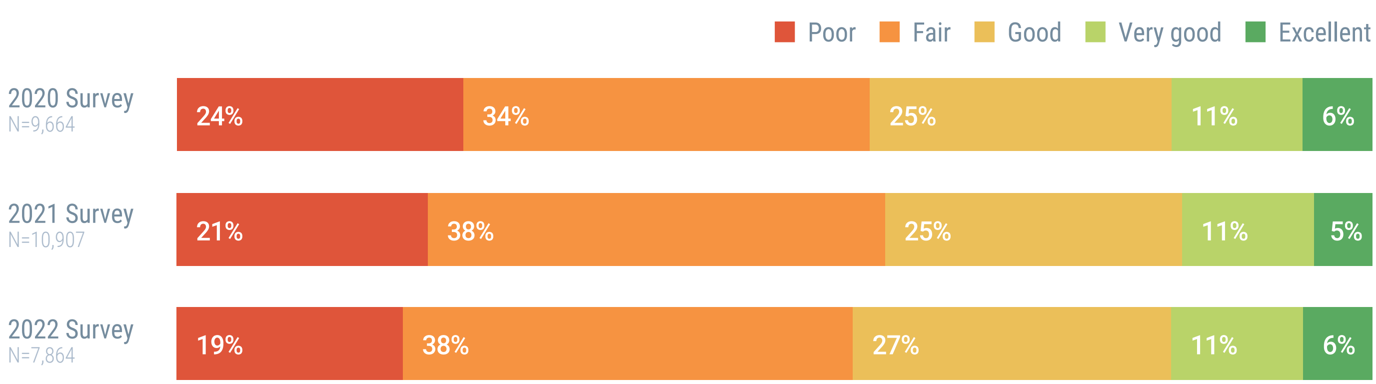
Source: Small Business Credit Survey, Federal Reserve Banks

Firm profitability improved year-over-year between the 2021 and 2022 surveys, but firms' self-reported financial condition is little-changed.

SHARE OF FIRMS OPERATING PROFITABLY, *By Survey Year*[1] (% of employer firms)



FINANCIAL CONDITION, *At Time of Survey*[2] (% of employer firms)



1 *Select industries shown. Revenue size categories have been condensed and simplified for readability. Actual categories are ≤$25K, $25,001–$50K, $50,001–$100K, $100,001–$250K, $250,001– $500K, $500,001–$1M, $1,000,001–$5M, $5,000,001–$10M, and >$10M. See Appendix for more details. Number of observations varies by year; number of observations for 2021 shown first.*

2 *Self-reported financial condition at time of survey. See Notes and Definitions for details on time period definitions used in the SBCS. Percentages may not sum to 100 because of rounding.*

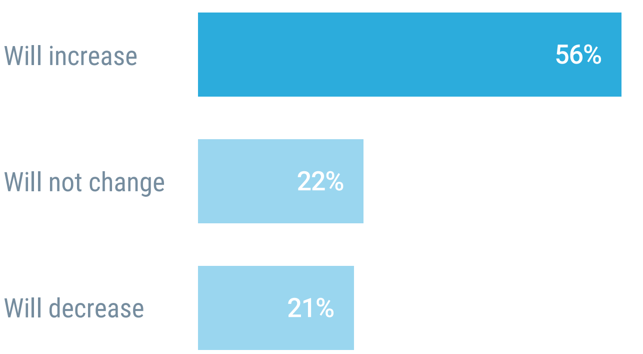
PERFORMANCE AND CHALLENGES

Revenue and Employment Expectations, Next 12 Months

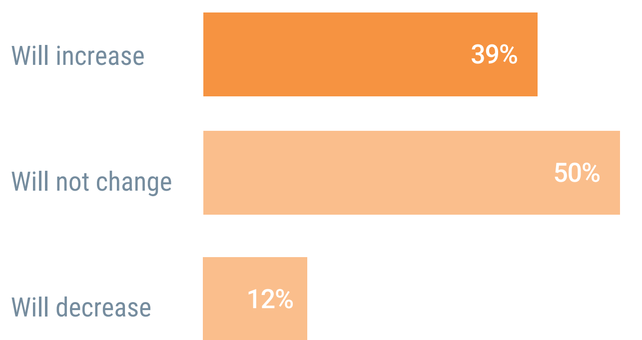
Expectations for revenue and employment growth in the next 12 months declined from last year's survey and remain lower than prepandemic levels.

EMPLOYER FIRM EXPECTATIONS, *2022 Survey*[1,2] (% of employer firms)

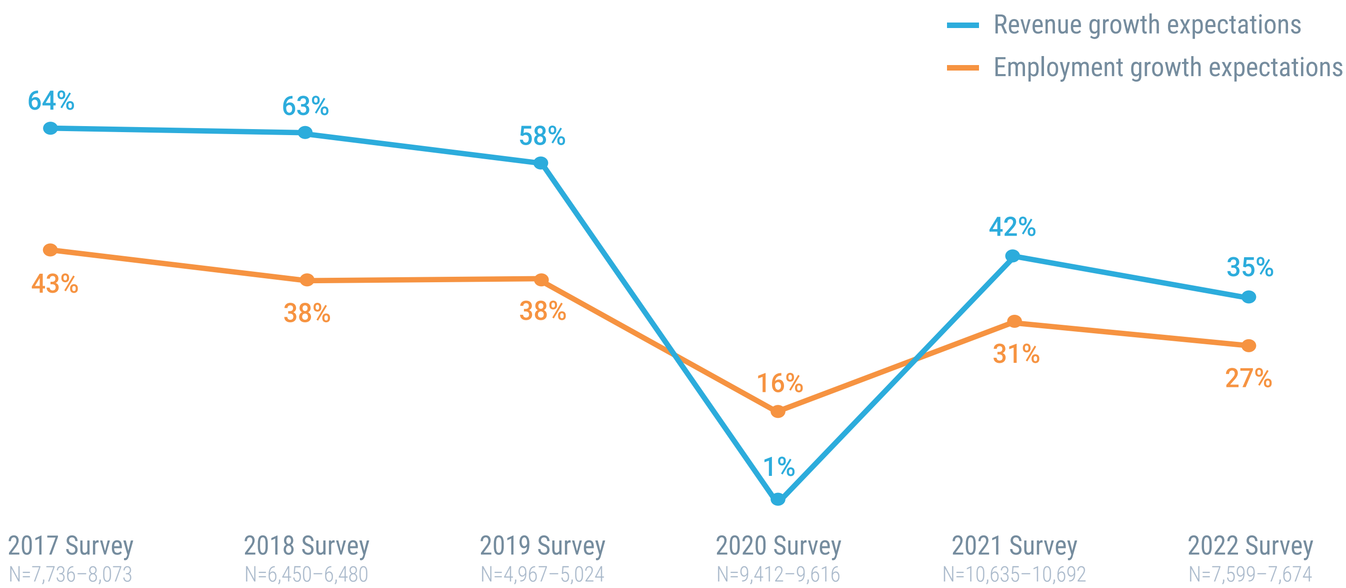
EXPECTED REVENUE CHANGE, *Next 12 Months* N=7,674



EXPECTED EMPLOYMENT CHANGE, *Next 12 Months* N=7,599



EMPLOYER FIRM EXPECTATIONS INDEX, *Next 12 Months*[2,3] (% of employer firms)



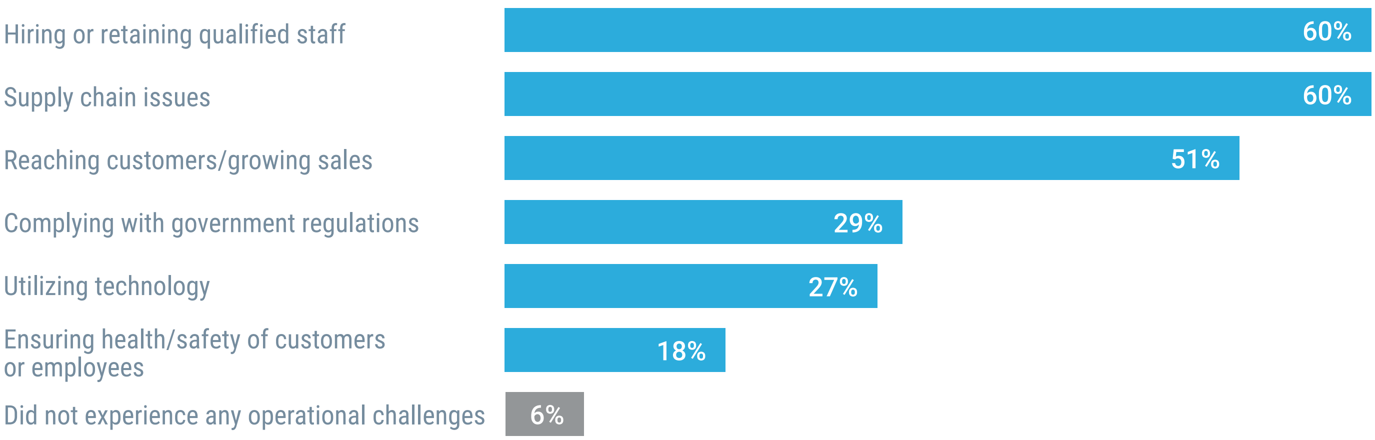
1 *Percentages may not sum to 100 because of rounding.*
2 *See Notes and Definitions for details on time period definitions used in the SBCS.*
3 *The index is the share expecting growth minus the share expecting a reduction in the next 12 months. Questions were asked separately; therefore, the number of observations may differ slightly between questions.*

Source: Small Business Credit Survey, Federal Reserve Banks

PERFORMANCE AND CHALLENGES
Operational Challenges

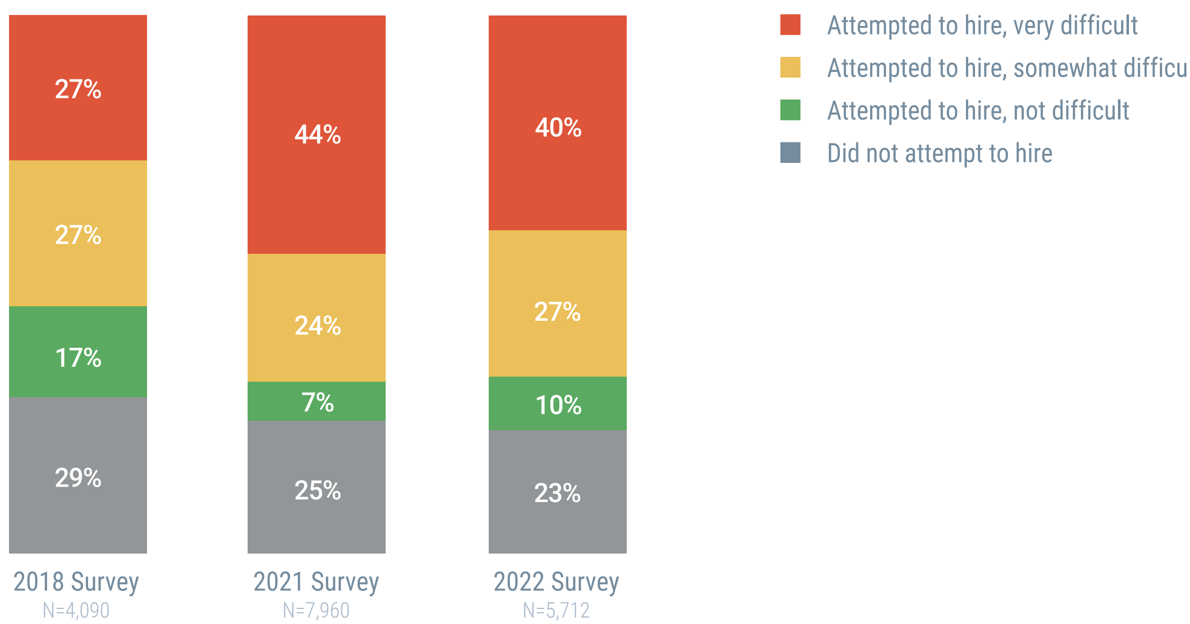
Firms' most common operational challenges were hiring or retaining workers and supply chain disruptions.

OPERATIONAL CHALLENGES, *Prior 12 Months*[1,2] (% of employer firms) N=7,817



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.

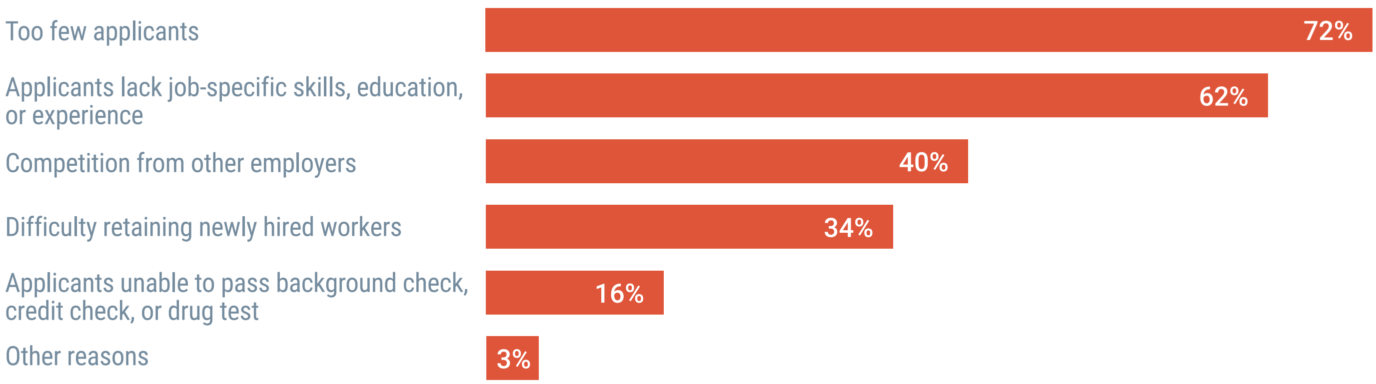
DIFFICULTY HIRING NEW WORKERS, *Prior 12 Months, By Survey Year*[2,3] (% of employer firms)



1 *"Complying with government regulations" includes pandemic-related mandates. "Utilizing technology" includes e-commerce, cyber security, social media, and website issues. Respondents could select multiple options. Response option "other" not shown. See Appendix for more details.*
2 *See Notes and Definitions for details on time period definitions used in the SBCS.*
3 *Data on hiring and related challenges were drawn from an optional end-of-survey workforce module (78% of employer firm respondents opted to answer in 2022). This subset of respondents is re-weighted to be reflective of the overall small-firm population. Workforce module questions were not asked in 2019 or 2020.*

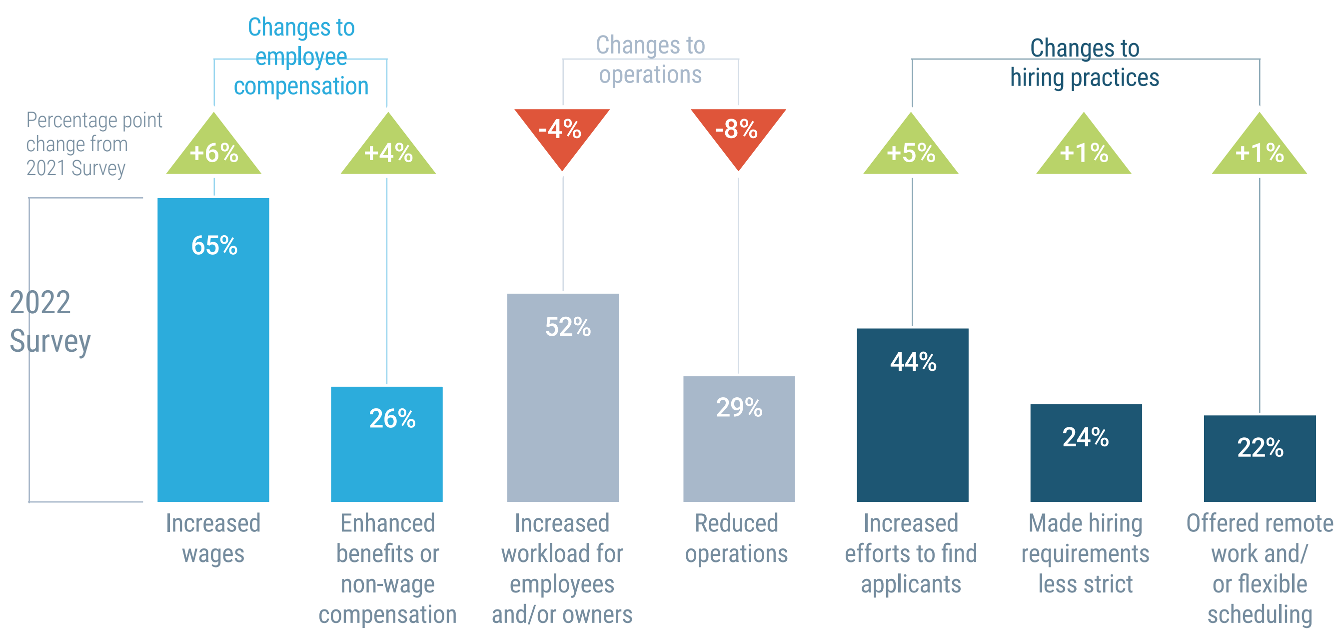
Among firms facing hiring challenges, the most frequently cited reasons centered on attracting applicants for open positions.

REASONS FOR DIFFICULTY HIRING WORKERS, *2022 Survey*[1] N=4,093
(% of employer firms reporting that hiring workers was very or somewhat difficult)



The share of firms that increased wages in response to hiring challenges rose year-over-year, while the share of firms that made operational changes declined.

ACTIONS TAKEN IN RESPONSE TO DIFFICULTIES HIRING OR RETAINING WORKERS, *Prior 12 Months*[1,2] (% of employer firms reporting that hiring and/or retaining workers was very or somewhat difficult) N=4,702



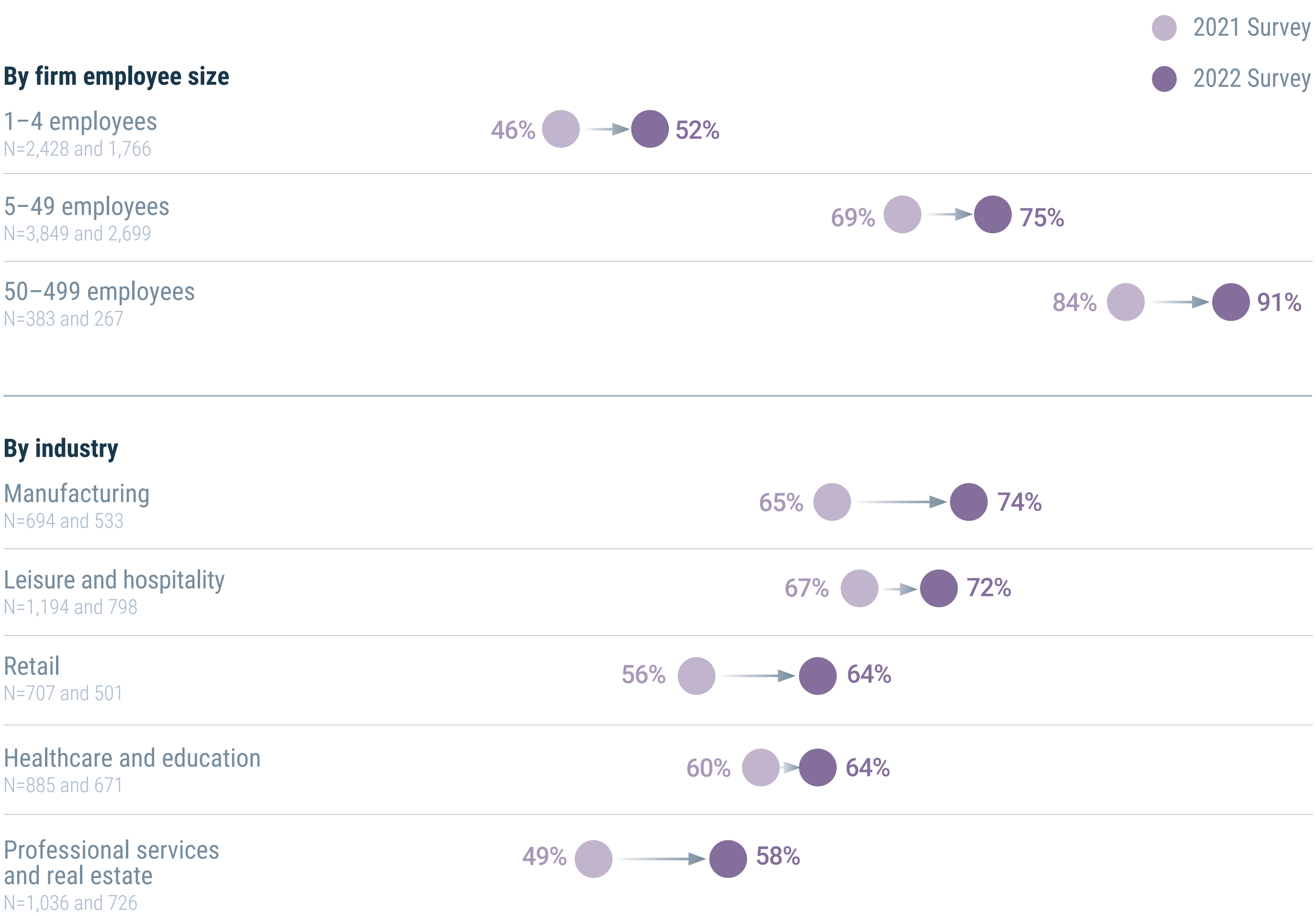
1 *Data on hiring and related challenges were drawn from an optional end-of-survey workforce module (78% of employer firm respondents opted to answer in 2022). This subset of respondents is re-weighted to be reflective of the overall small-firm population. Respondents could select multiple options.*
2 *Select response options shown. See Appendix for more details.*

PERFORMANCE AND CHALLENGES

Workforce Challenges (Continued)

Across firm size and industry categories, firms were more likely in 2022 to increase wages in response to hiring challenges than they were in 2021. Larger firms were more likely than smaller firms to increase wages.

SHARE OF FIRMS THAT RAISED WAGES IN RESPONSE TO DIFFICULTIES HIRING OR RETAINING WORKERS, *Prior 12 Months*[1] (% of employer firms reporting that hiring and/or retaining workers was very or somewhat difficult)



1 *Select industries shown. See Appendix for more details. See Notes and Definitions for details on time period definitions used in the SBCS. Data on hiring and related challenges were drawn from an optional end-of-survey workforce module (78% of employer firm respondents opted to answer in 2022). This subset of respondents is re-weighted to be reflective of the overall small-firm population. Number of observations varies by year; number of observations for 2021 shown first.*

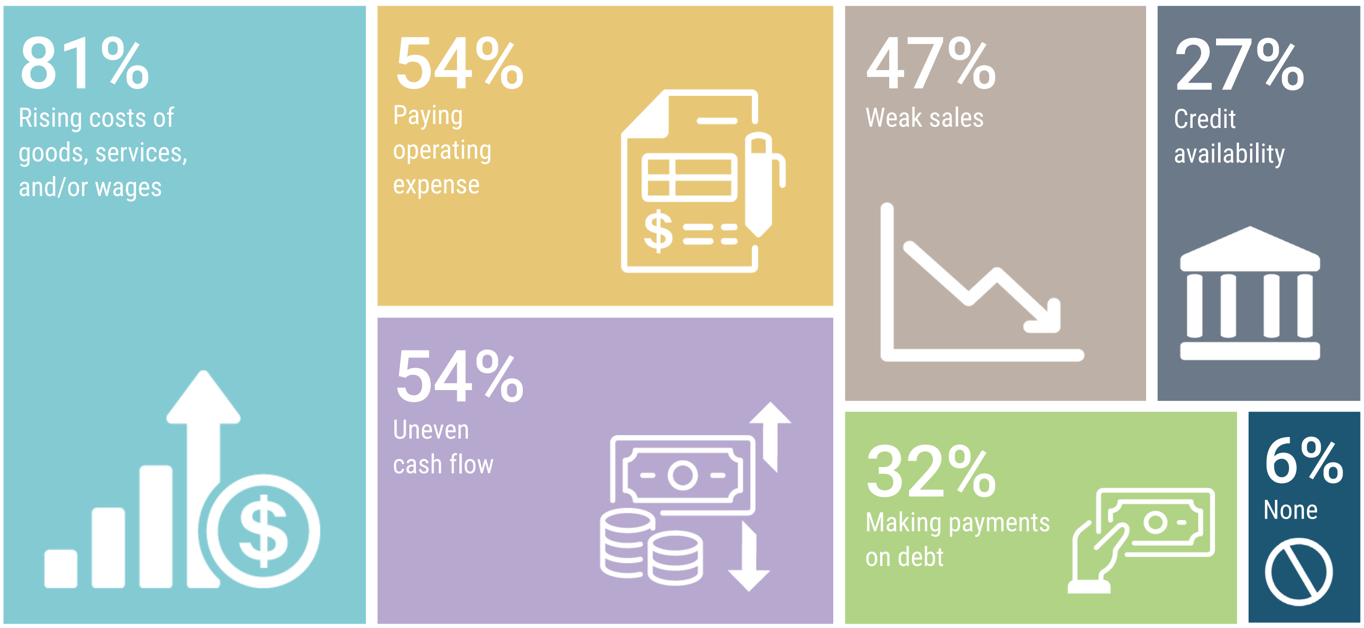
Source: Small Business Credit Survey, Federal Reserve Banks

PERFORMANCE AND CHALLENGES
Financial Challenges

Rising costs of goods, services, and wages were the most commonly reported financial challenge.

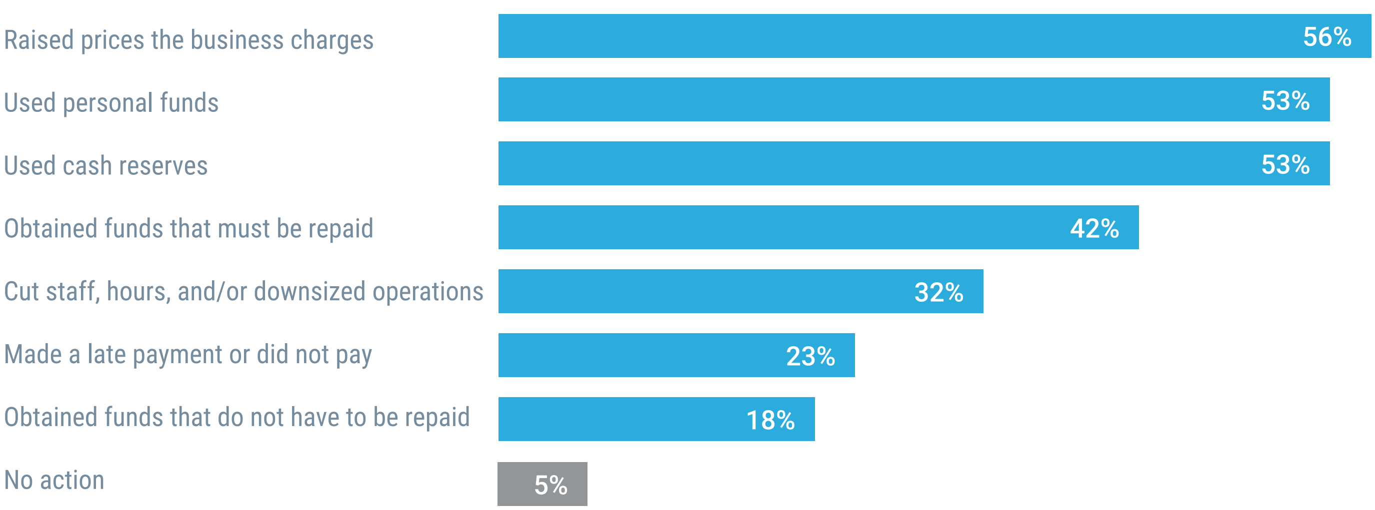
FINANCIAL CHALLENGES, *Prior 12 Months*[1] (% of employer firms)

N=7,837



ACTIONS TAKEN IN RESPONSE TO FINANCIAL CHALLENGES, *Prior 12 Months*[1]
(% of employer firms with financial challenges)

N=7,493

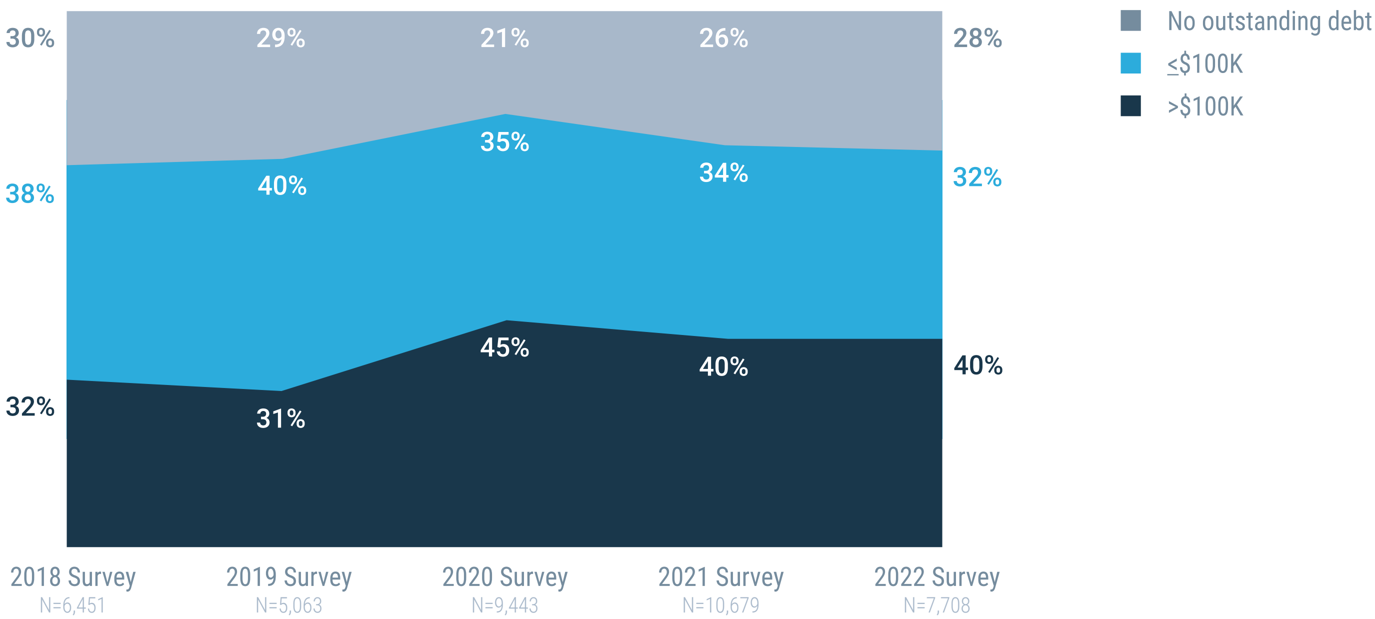


1 *See Notes and Definitions for details on time period definitions used in the SBCS. Respondents could select multiple options. Response option "other" not shown. See Appendix for more details.*

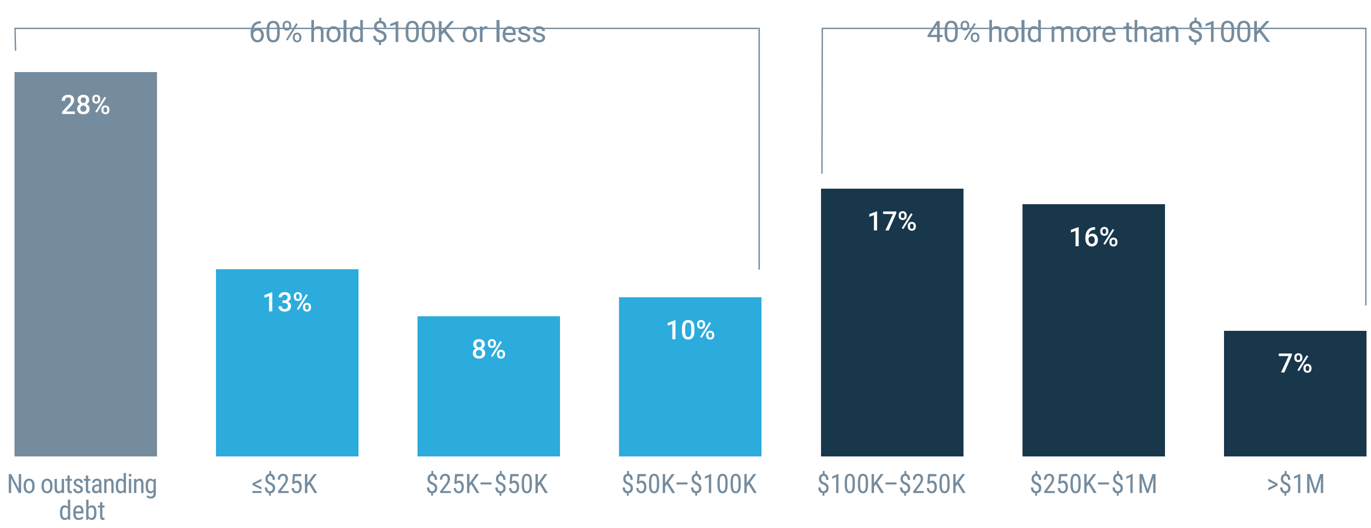
DEBT AND FINANCING
Debt Outstanding

Though the share of firms with outstanding debt has nearly returned to prepandemic levels, the share of firms holding larger amounts of debt—more than $100K—remains higher than in 2019.

AMOUNT OF OUTSTANDING DEBT, *At Time of Survey, By Survey Year*[1,2] (% of employer firms)



AMOUNT OF OUTSTANDING DEBT, *At Time of 2022 Survey*[1,2] (% of employer firms) N=7,708



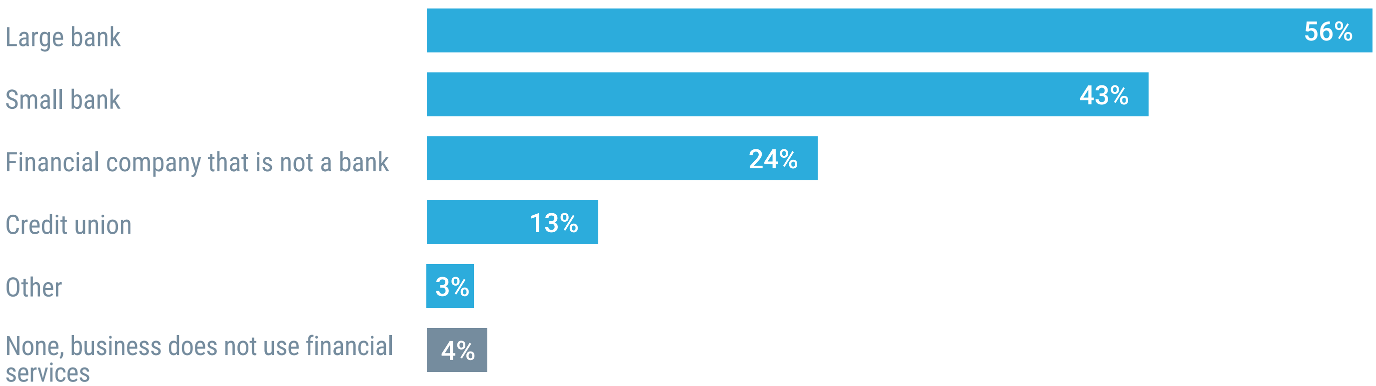
1 *Respondents were instructed to exclude loans they expected would be forgiven from their outstanding debt (for example, PPP loans). See Notes and Definitions for details on time period definitions used in the SBCS.*

2 *Categories have been simplified for readability. Actual categories are ≤$25K, $25,001–$50K, $50,001–$100K, $100,001–$250K, $250,001–$1M, and >$1M. Percentages may not sum to 100 because of rounding.*

DEBT AND FINANCING
Financial Services Providers

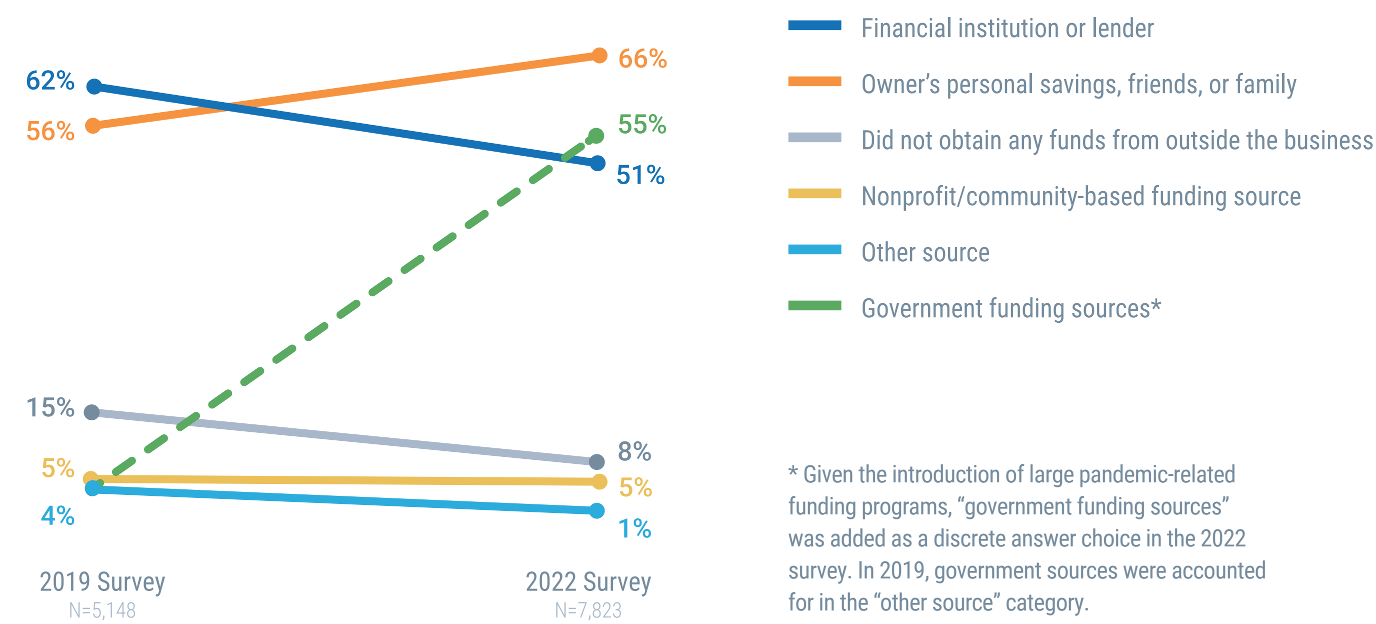
87% of firms use either a large or small bank as a financial services provider.

USE OF FINANCIAL SERVICES PROVIDERS[1,2] (% of employer firms) N=7,835



Reliance on personal sources and government funding has increased since 2019.

SOURCES OF FUNDING, *Past Five Years, By Survey Year*[2,3] (% of employer firms)



* Given the introduction of large pandemic-related funding programs, "government funding sources" was added as a discrete answer choice in the 2022 survey. In 2019, government sources were accounted for in the "other source" category.

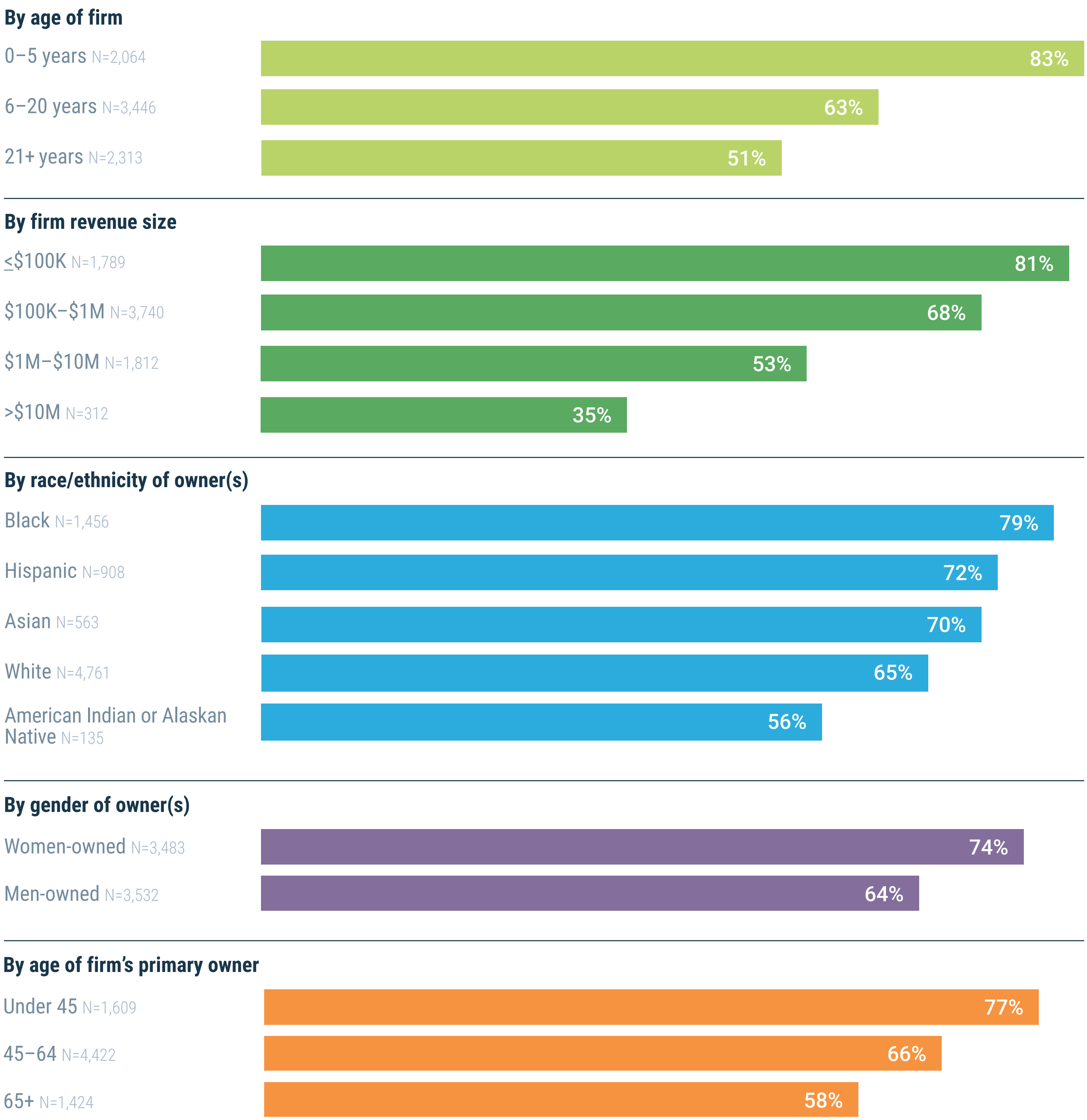
1 *Financial services providers are those at which the firm has an account or uses other financial services, including loans and payments processing. See Notes and Definitions for details on financial services provider definitions used in the SBCS.*
2 *Respondents could select multiple options.*
3 *The question about sources of funding used in the past five years was asked most recently in the 2019 SBCS. The response options were updated in 2022, so some source categories are combined to show the comparison across years.*

DEBT AND FINANCING

Use of Personal Funding Sources

Younger, smaller-revenue firms were more likely than their counterparts to rely on funds from an owner's personal savings or funds from friends or family.

SHARE OF FIRMS THAT RELIED ON FUNDS FROM THE OWNER'S PERSONAL SAVINGS, FRIENDS, OR FAMILY IN PAST FIVE YEARS, *2022 Survey*[1] (% of employer firms)



1 *Select firm categories shown. See Appendix for more details. Revenue size categories have been condensed and simplified for readability. Actual categories are ≤$25K, $25,001–$50K, $50,001–$100K, $100,001–$250K, $250,001–$500K, $500,001–$1M, $1,000,001–$5M, $5,000,001–$10M, and >$10M.*

DEBT AND FINANCING

Demand for Financing

APPLICATIONS FOR FINANCING

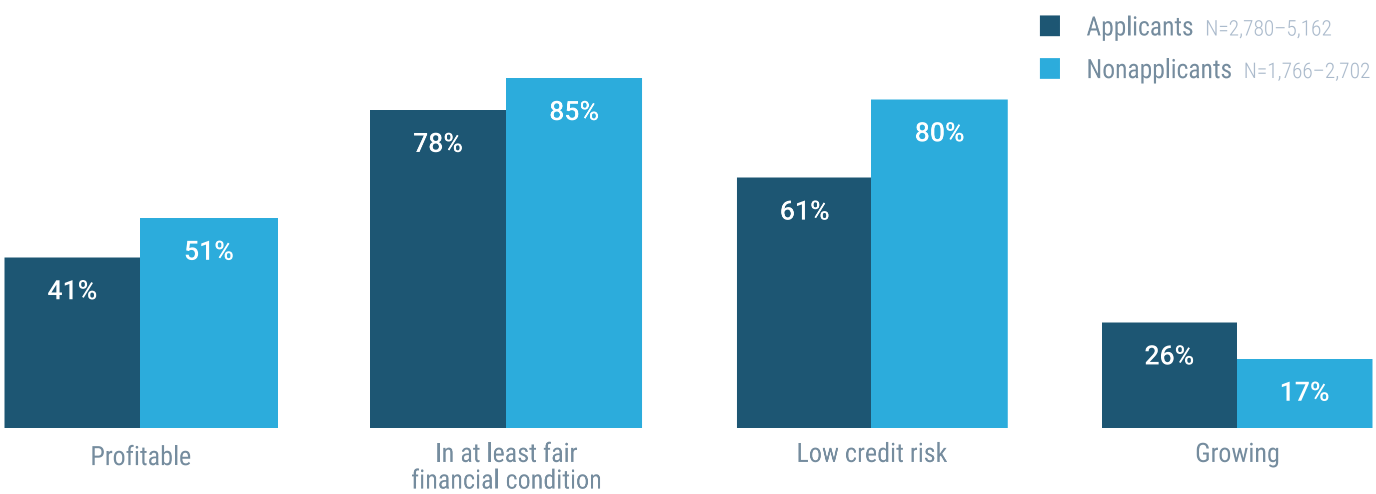
As shown on page 9, small businesses turned to a wide range of funding sources during the last five years, and these sources have changed considerably since 2019. During the COVID-19 pandemic, firms sought and received funds through various large government programs. At the same time, the financial struggles of many small businesses meant that some were unable to qualify for traditional financing. Additionally, firms engaging with financial services providers interacted with their providers in new ways—and in some cases, with new providers—as services were increasingly offered online.

With the changes in the small business credit environment, the Small Business Credit Survey questionnaire has evolved to better assess small firms' experiences.[1] Changes to the questionnaire affect the year-over-year comparability of certain metrics. In some cases, questions yielded unexpected results that require deeper investigation. As such, this report focuses on findings for firms' experiences with the most common forms of financing—specifically, applications for loans, lines of credit, and merchant cash advances—as that portion of the questionnaire was little-changed from past years.[2]

40% of employer firms sought **loans, lines of credit,** or **cash advances** in the prior 12 months.

34% of employer firms sought **pandemic-related financial assistance** in the prior 12 months.

PERFORMANCE OF APPLICANT AND NONAPPLICANT FIRMS[3] (% of applicants and nonapplicants)



1 See Methodology for an explanation of changes to the 2022 questionnaire.
2 For brevity, merchant cash advances are referred to as cash advances throughout the report.
3 Applicant firms include only those firms that sought loans, lines of credit, or cash advances in the prior 12 months. Profitability is as of the end of 2021. See Notes and Definitions for details on credit risk definitions used in the SBCS. Growing firms are defined as those that increased revenues and employees in the prior 12 months and that plan to increase or maintain their number of employees over the next 12 months. Number of observations varies by question.

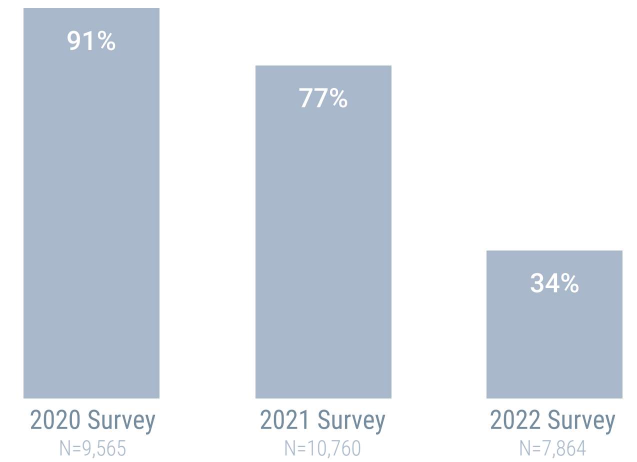
Source: Small Business Credit Survey, Federal Reserve Banks

PANDEMIC-RELATED FINANCIAL ASSISTANCE

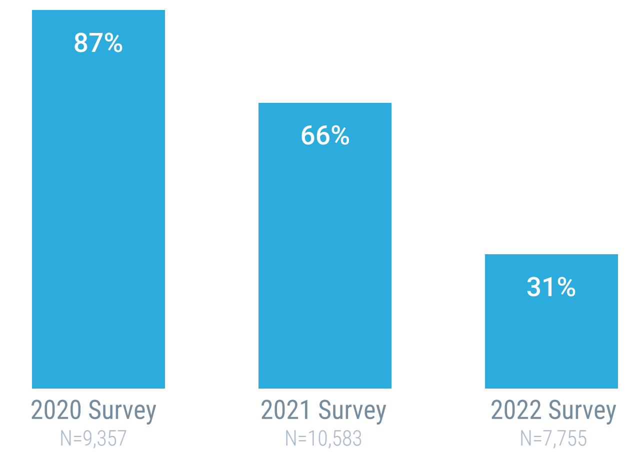
Funding Sought and Received

Firms continued to rely on pandemic-related financial assistance, though as programs became less available, fewer firms turned to these programs than in the past two years.

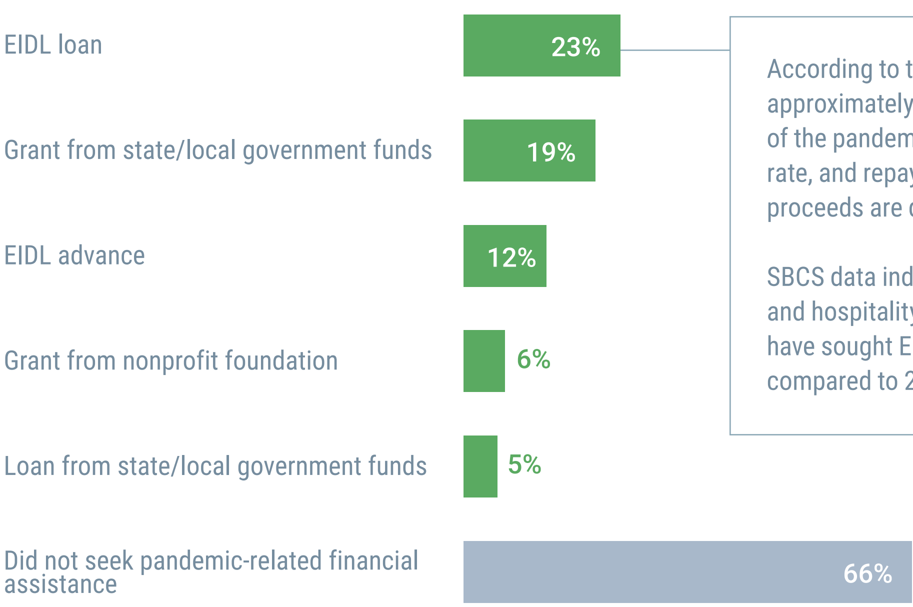
SHARE OF FIRMS THAT SOUGHT FINANCIAL ASSISTANCE, *Prior 12 Months*[1] (% of employer firms)



SHARE OF FIRMS THAT RECEIVED FINANCIAL ASSISTANCE, *Prior 12 Months*[1] (% of employer firms)



TYPES OF FINANCIAL ASSISTANCE SOUGHT, *Prior 12 Months*[1,2] (% of employer firms) N=7,864



According to the SBA, small businesses have received approximately $390 billion in EIDL loans since the start of the pandemic. These loans have a 3.75% interest rate, and repayment begins 24 months after the proceeds are disbursed.

SBCS data indicate that Asian-owned firms and leisure and hospitality firms are among the most likely to have sought EIDL loans (36% and 37%, respectively, compared to 23% of all employer firms).

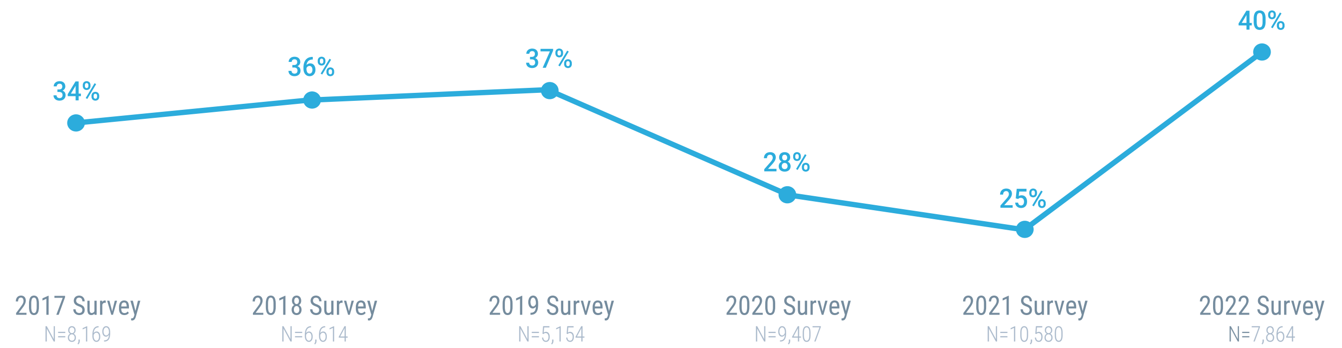
1 *"Financial assistance" includes all forms of pandemic-related financial assistance available in the 12 months prior to the survey (for example, PPP, EIDL, state/local loan and grant programs). See Notes and Definitions for details on time period definitions used in the SBCS.*
2 *Respondents could select multiple options.*

FINANCING APPLICATIONS

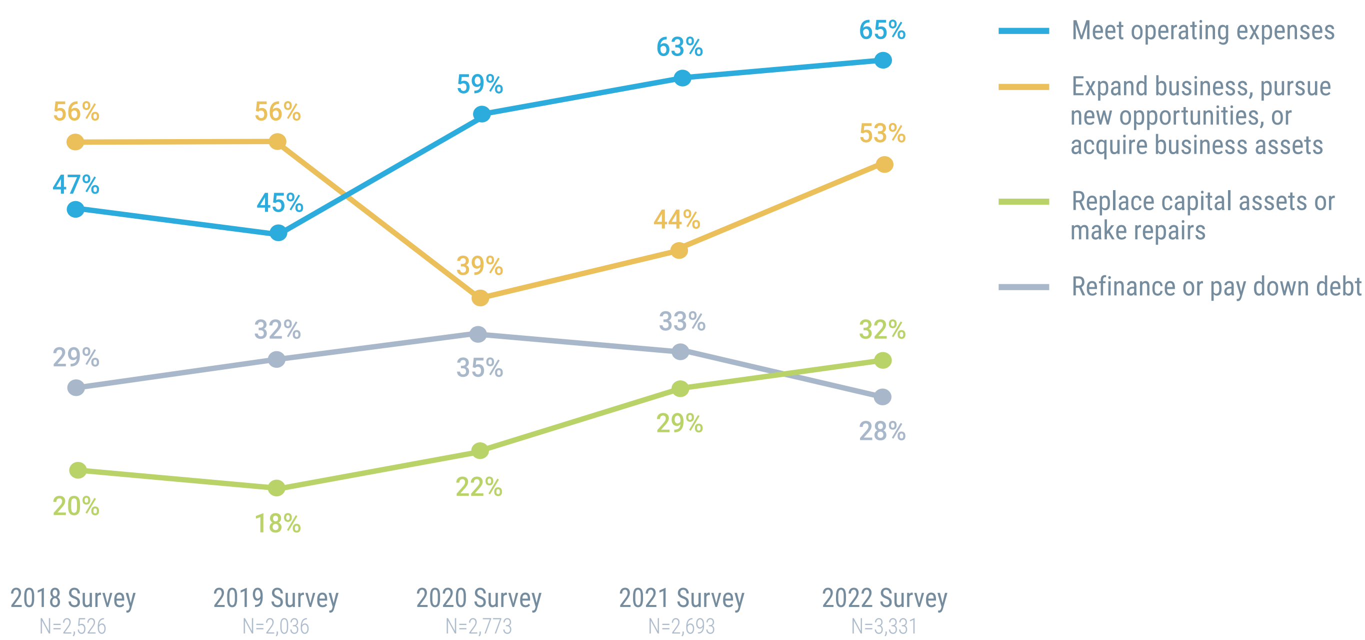
Applications for Loans, Lines of Credit, and Cash Advances

In 2022, applications for the most common types of traditional financing—loans, lines of credit, and cash advances—rebounded above prepandemic levels.

SHARE OF FIRMS THAT APPLIED FOR LOANS, LINES OF CREDIT, OR CASH ADVANCES, *Prior 12 Months, By Survey Year*[1] (% of employer firms)



REASONS FOR APPLYING, *Prior 12 Months, By Survey Year*[1,2] (% of loan, line of credit, and cash advance applicants)



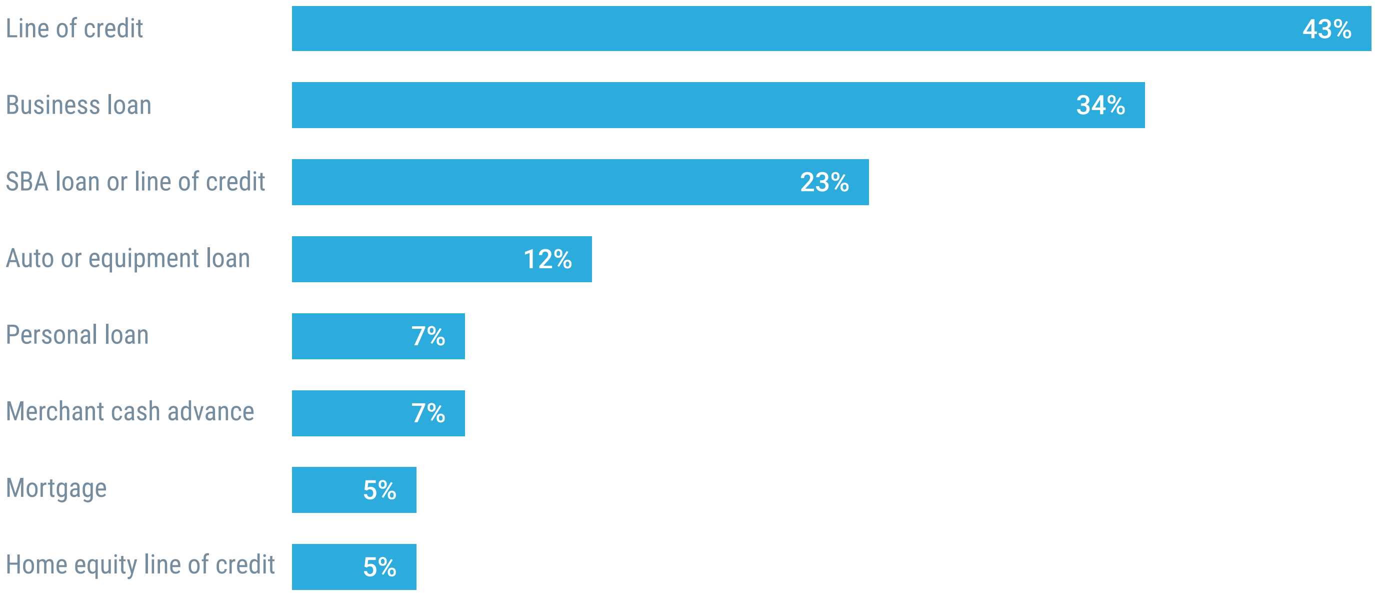
1 Excludes pandemic-related financial assistance applications. See Notes and Definitions for details on time period definitions used in the SBCS.
2 Respondents could select multiple options. For comparability of 2022 data with past survey years, this chart shows experiences of loan, line of credit, and cash advance applicants and, as such, may differ slightly from similar charts in past reports that showed findings for all applicants.

Source: Small Business Credit Survey, Federal Reserve Banks

FINANCING APPLICATIONS

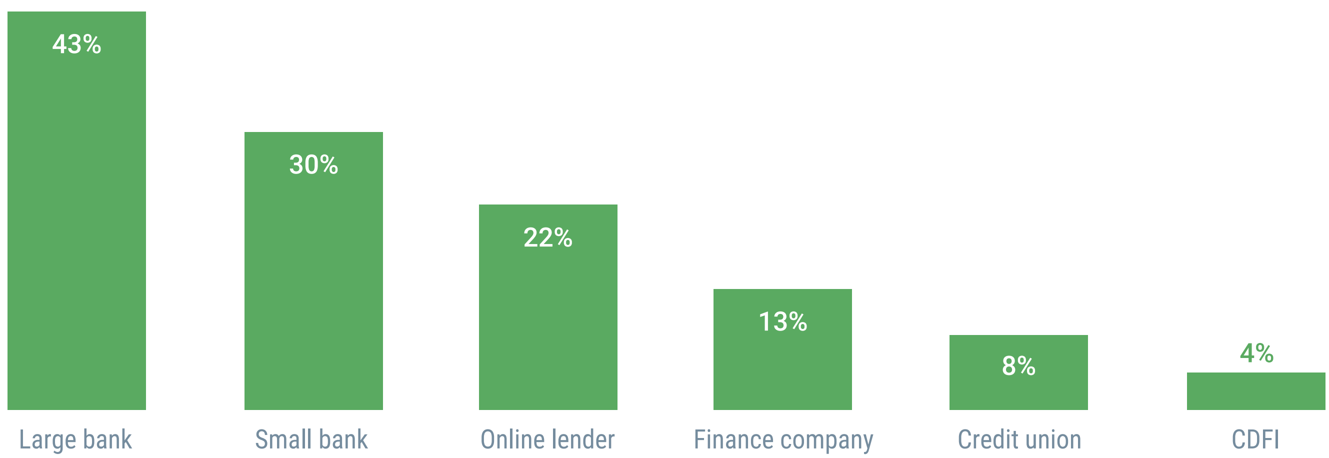
Loan/Line of Credit/Cash Advance Products and Sources

APPLICATION RATE BY TYPE OF LOAN, LINE OF CREDIT, OR CASH ADVANCE[1] N=3,320
(% of loan, line of credit, and cash advance applicants)



Applicants were more likely to seek financing at large banks than at other sources.

CREDIT SOURCES APPLIED TO[1,2] (% of loan, line of credit, and cash advance applicants) N=3,226

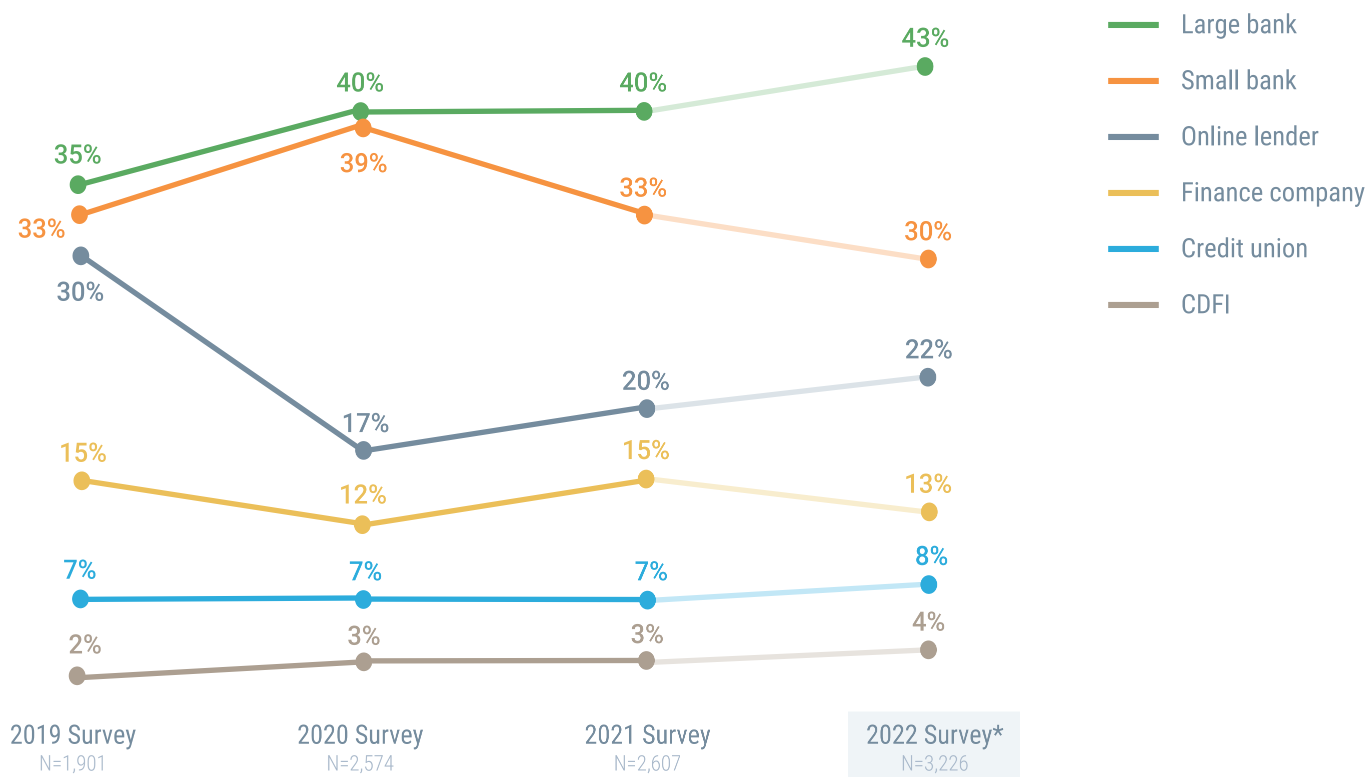


1 *Respondents could select multiple options. Excludes pandemic-related financial assistance applications. Response option "other" not shown. See Appendix for more details.*
2 *See Notes and Definitions for details on time period definitions and lender descriptions used in the SBCS.*

FINANCING APPLICATIONS

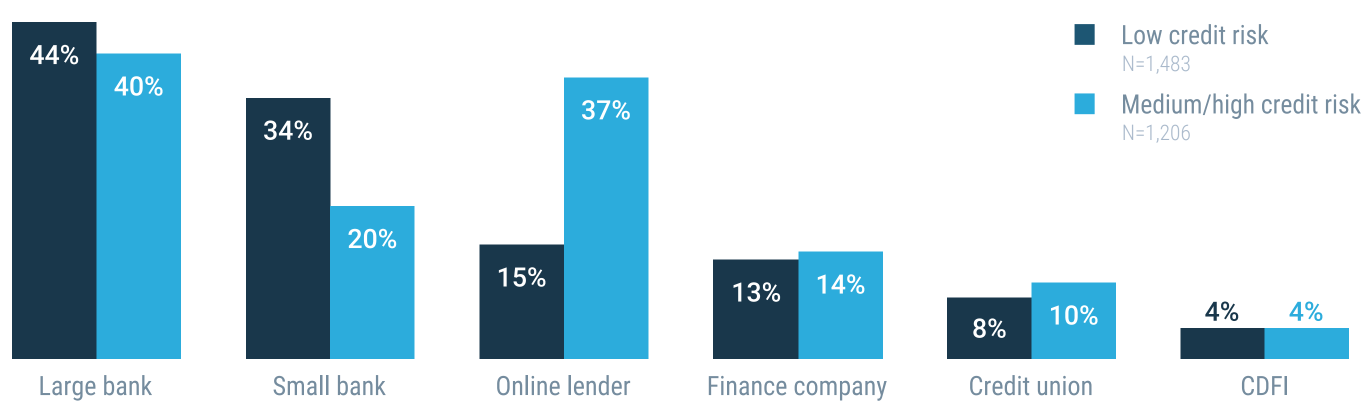
Loan/Line of Credit/Cash Advance Sources

CREDIT SOURCES APPLIED TO, *By Survey Year*[1] (% of loan, line of credit, and cash advance applicants)



** The survey methodology was revised in 2022 to enable more accurate identification of lender types than in prior years. As such, the year-over-year changes in source application rates reflect, in part, the more precise lender categorization. See Methodology for more details.*

CREDIT SOURCES APPLIED TO, *By Credit Risk of Firm, 2022 Survey*[1,2] (% of loan, line of credit, and cash advance applicants)



1 *Select lenders shown. See Appendix for more details. Respondents could select multiple options. Excludes pandemic-related financial assistance applications. In the 2022 survey, details on firms' experiences with lenders were collected only for the two most recent applications. For comparison purposes, percentages shown here from the 2019, 2020, and 2021 surveys include only firms' two most recent applications; therefore, percentages may vary slightly from past reports. See Notes and Definitions for details on lender descriptions used in the SBCS.*

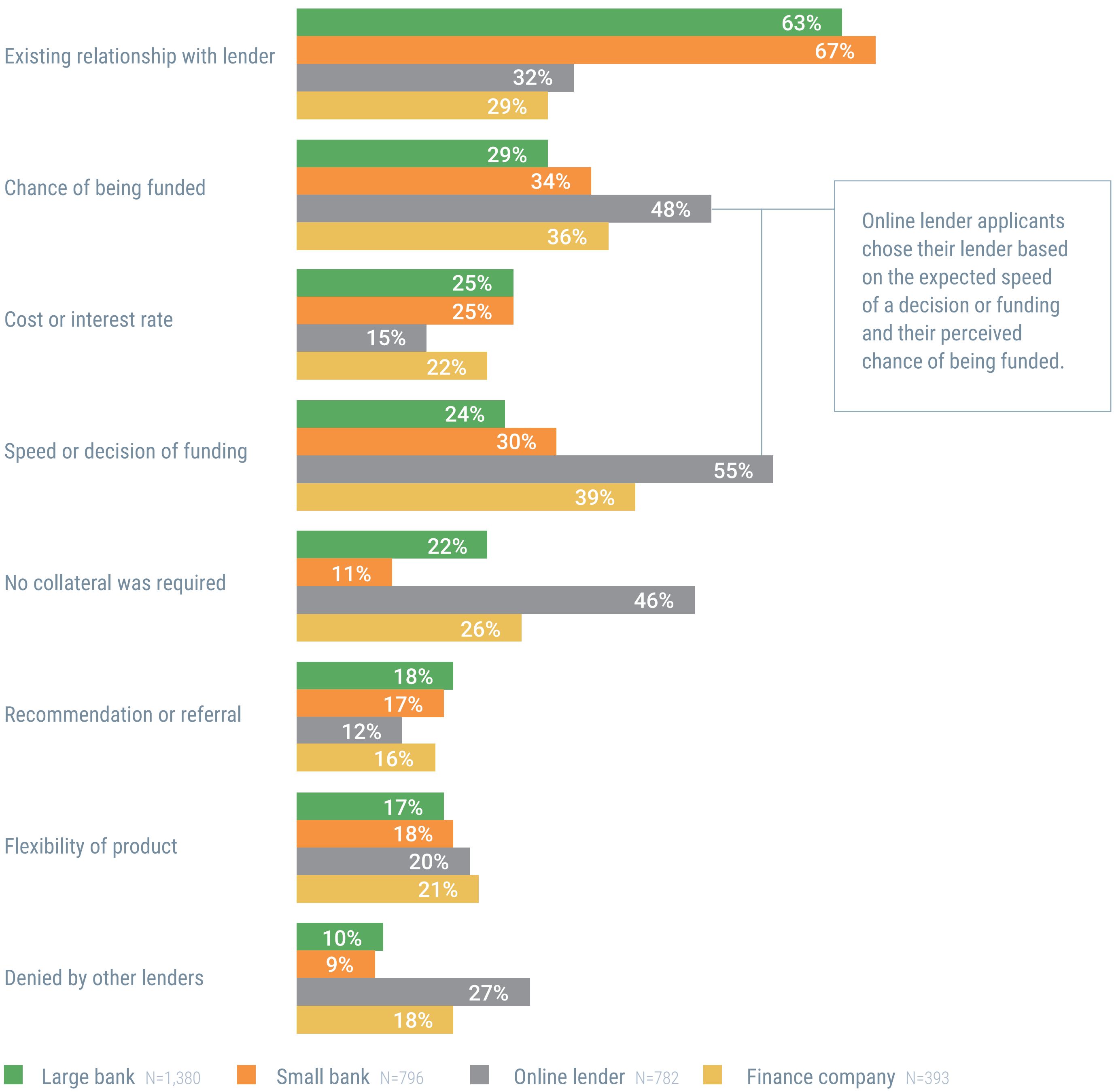
2 *See Notes and Definitions for details on time period and credit risk definitions used in the SBCS.*

FINANCING APPLICATIONS

Loan/Line of Credit/Cash Advance Sources (Continued)

Bank applicants most often cited their existing relationship with their lender as the top factor influencing where they applied. Online lender and finance company applicants prioritized the speed of a decision or funding.

FACTORS INFLUENCING WHERE FIRMS APPLY[1] (% of loan, line of credit, and cash advance applicants at source)



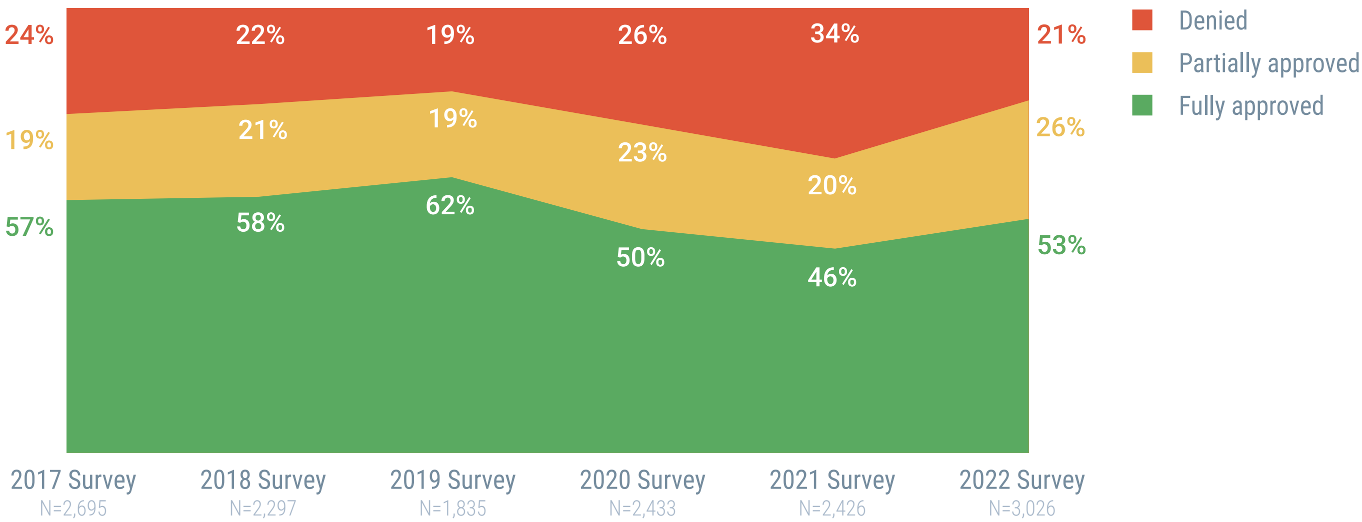
1 *Respondents could select multiple options. Select lenders and response options shown. See Appendix for more details. See Notes and Definitions for details on lender descriptions used in the SBCS.*

FINANCING APPLICATIONS

Loan/Line of Credit/Cash Advance Application Outcomes

Approval rates on loan, line of credit, and merchant cash advance applications improved year-over-year, but the share fully approved remains below prepandemic levels.

OUTCOMES FOR LOAN, LINE OF CREDIT, OR CASH ADVANCE APPLICANTS, *Prior 12 Months, By Survey Year*[1,2]
(% of loan, line of credit, and cash advance applicants)



SHARE OF APPLICANTS AT LEAST PARTIALLY APPROVED BY TYPE OF LOAN, LINE OF CREDIT, OR CASH ADVANCE[2,3] (% of loan, line of credit, and cash advance applicants)

1 *See Notes and Definitions for details on time period definitions used in the SBCS. In the 2022 survey, details on firms' experiences with lenders were collected only for the two most recent applications. For comparison purposes, percentages shown here from the 2017–2021 surveys include only firms' two most recent applications; therefore, percentages may vary slightly from past reports.*
2 *Excludes pending applications and all applications for pandemic-related financial assistance.*
3 *Response option "other" not shown in chart. See Appendix for more details.*

Source: Small Business Credit Survey, Federal Reserve Banks

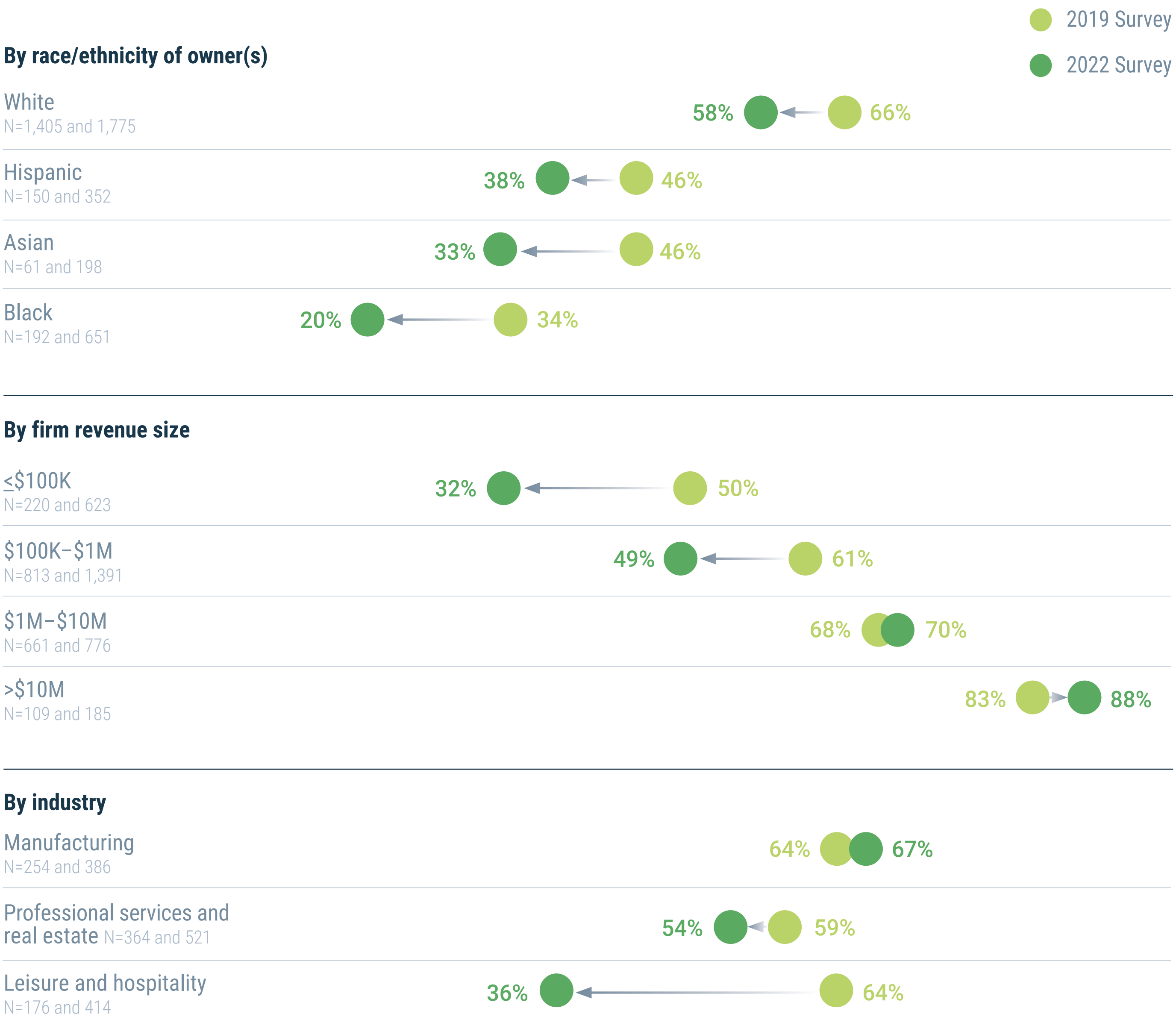
FINANCING APPLICATIONS

Loan/Line of Credit/Cash Advance Approval Over Time

Of applicants that sought loans, lines of credit, and cash advances, Black-owned firms and leisure and hospitality firms were among those least likely to be fully approved in 2022. For most firm categories, financing approval rates declined from prepandemic levels.

SHARE OF APPLICANTS THAT WERE FULLY APPROVED, *By Survey Year*[1]

(% of loan, line of credit, and cash advance applicants)



1 *Excludes pending applications and all application for pandemic-related financial assistance. Select firm categories shown. American Indian- and Alaskan Native-owned firms not shown because of sample size limitations. Revenue size categories have been condensed and simplified for readability. Actual categories are ≤$25K, $25,001–$50K, $50,001–$100K, $100,001–$250K, $250,001–$500K, $500,001–$1M, $1,000,001–$5M, $5,000,001–$10M, and >$10M. See Appendix for more details. Number of observations varies by year; number of observations for 2019 shown first.*

Source: Small Business Credit Survey, Federal Reserve Banks

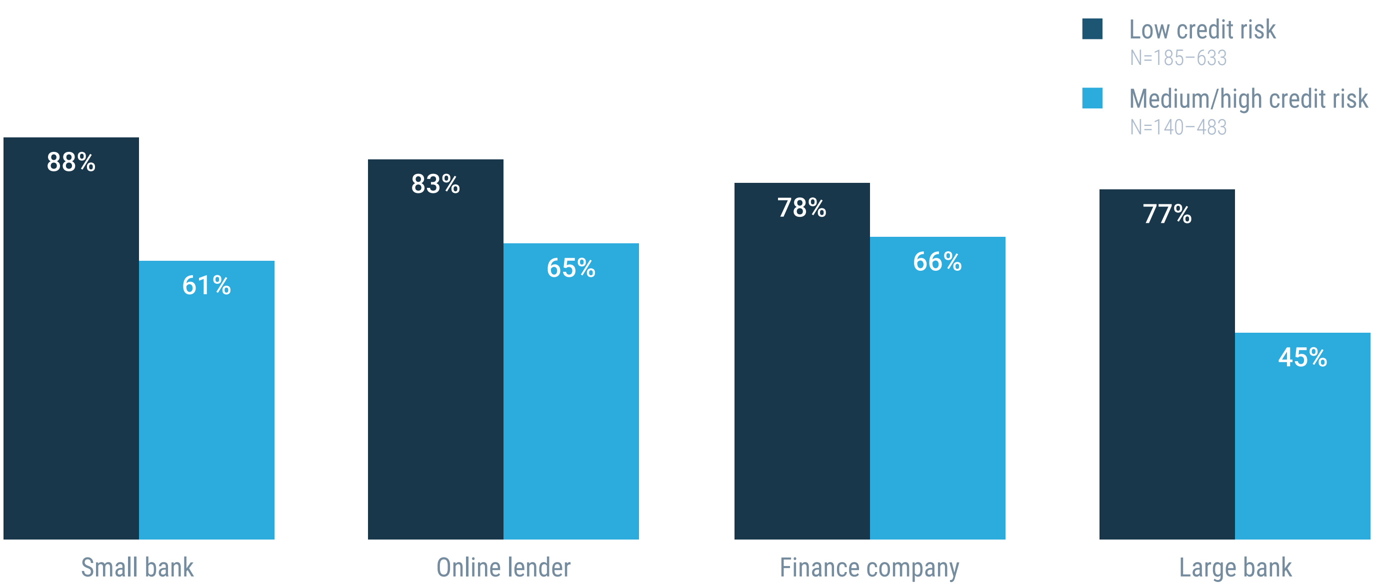
FINANCING APPLICATIONS

Loan/Line of Credit/Cash Advance Approval Rates by Source

Overall financing approval rates were highest at small banks; however, medium- and high-credit-risk applicants were more likely to be approved at nonbank lenders.

SHARE OF APPLICANTS AT LEAST PARTIALLY APPROVED[1] (% of loan, line of credit, and cash advance applicants at source)

SHARE OF APPLICANTS AT LEAST PARTIALLY APPROVED, *By Credit Risk of Firm, By Source*[1,2]
(% of loan, line of credit, and cash advance applicants at source)



1 *Excludes pending applications and all applications for pandemic-related financial assistance. Select lenders shown. See Appendix for more details. See Notes and Definitions for details on lender descriptions used in the SBCS.*
2 *See Notes and Definitions for details on credit risk definitions used in the SBCS. Credit union and CDFI not shown because of sample size limitations. See Appendix for more details. Number of observations varies by source.*

Source: Small Business Credit Survey, Federal Reserve Banks

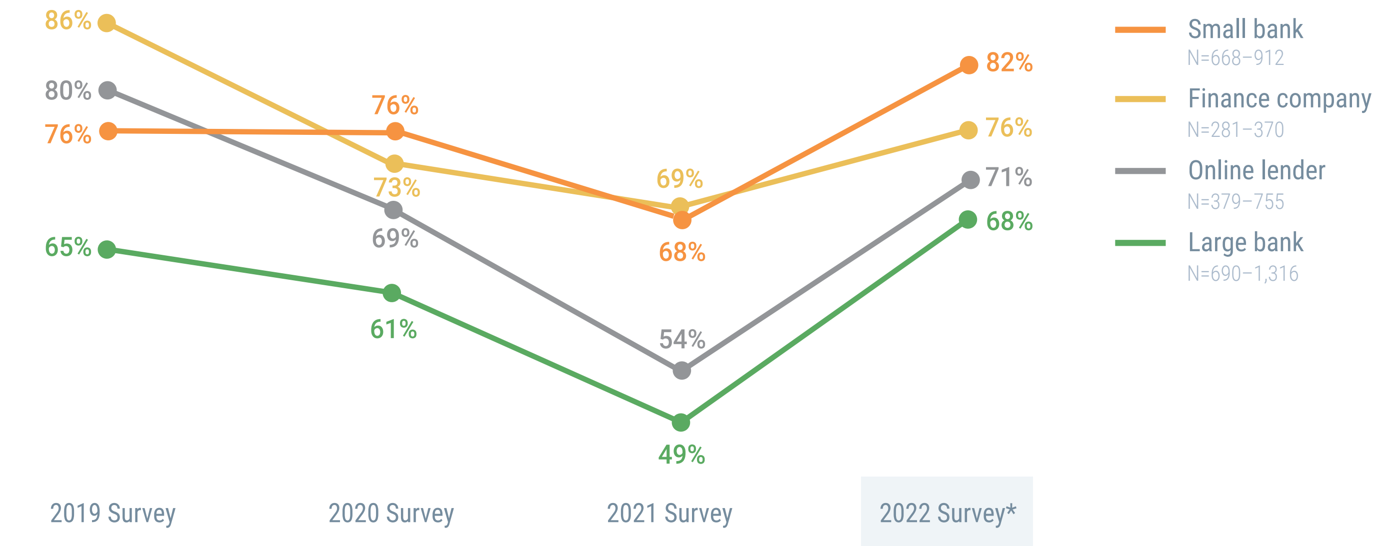
FINANCING APPLICATIONS

Loan/Line of Credit/Cash Advance Approval Rates by Source (Continued)

Approval rates increased in 2022 across sources.

SHARE OF APPLICANTS AT LEAST PARTIALLY APPROVED BY SOURCE, *By Survey Year*[1,2]

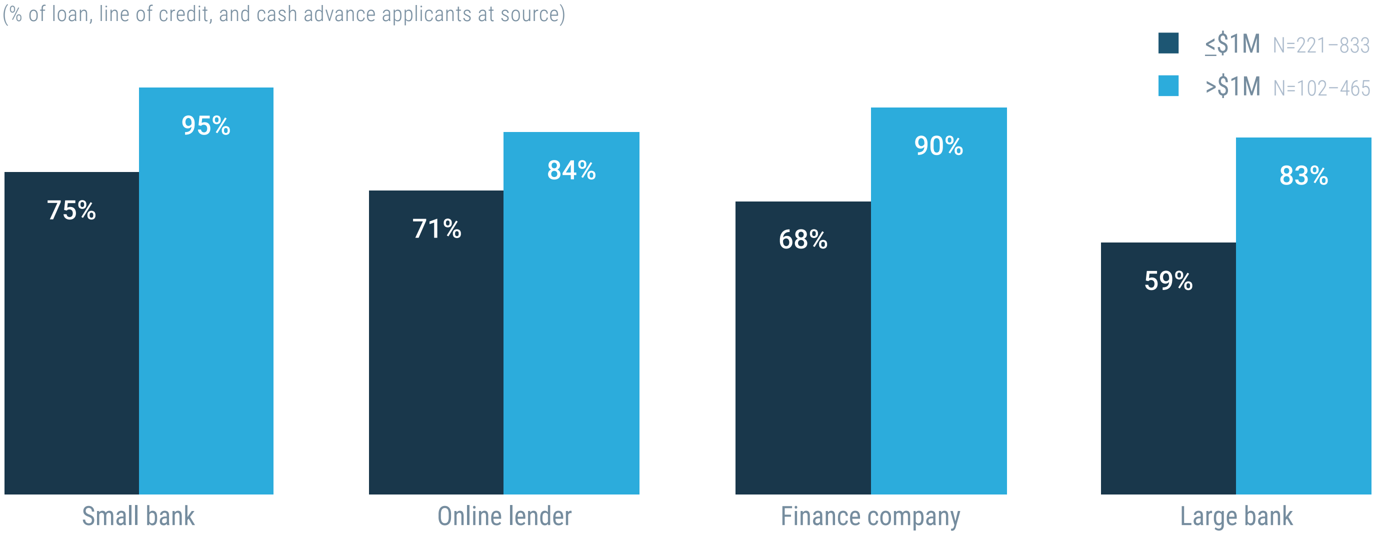
(% of loan, line of credit, and cash advance applicants at source)



** The survey methodology was revised in 2022 to enable more accurate identification of lender types than in prior years. For 2022 approval rates by source, the difference between these estimates and those generated with the prior years' methodology are not statistically significant at the 5% level. See Methodology for more details.*

SHARE OF APPLICANTS AT LEAST PARTIALLY APPROVED BY SOURCE, *By Firm Revenue Size*[2]

(% of loan, line of credit, and cash advance applicants at source)



1 *In the 2022 survey, details on firms' experiences with lenders were collected only for the two most recent applications. For comparison purposes, percentages shown here from the 2019, 2020, and 2021 surveys include only firms' two most recent applications; therefore, percentages may vary slightly from past reports. See Methodology for more details on changes to the 2022 questionnaire and related implications for over-time comparisons.*

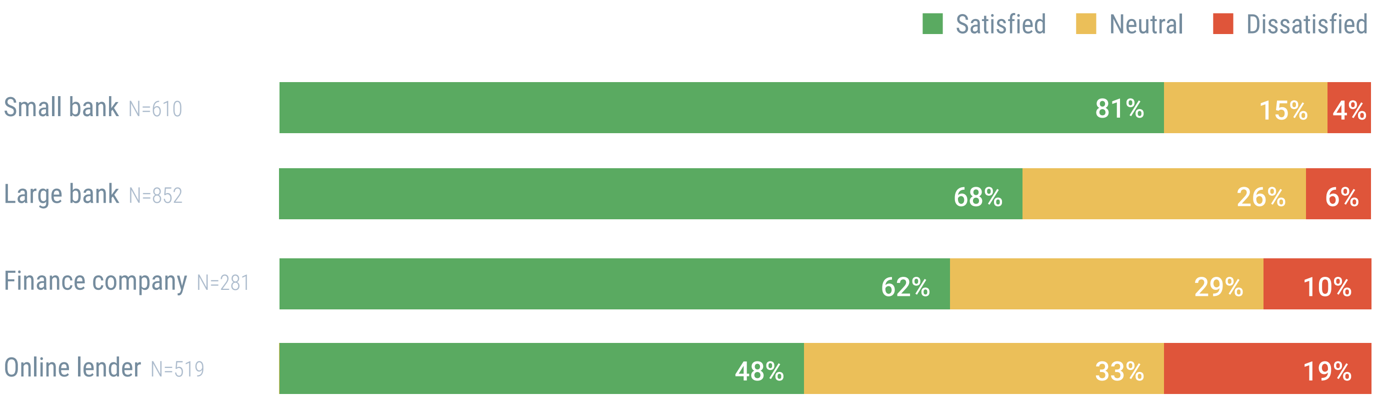
2 *Excludes pending applications and all applications for pandemic-related financial assistance. Select lenders shown. See Appendix for more details. See Notes and Definitions for details on time period definitions and lender descriptions used in the SBCS. Samples vary between the charts on this page because of nonresponse to the revenue question.*

FINANCING APPLICATIONS

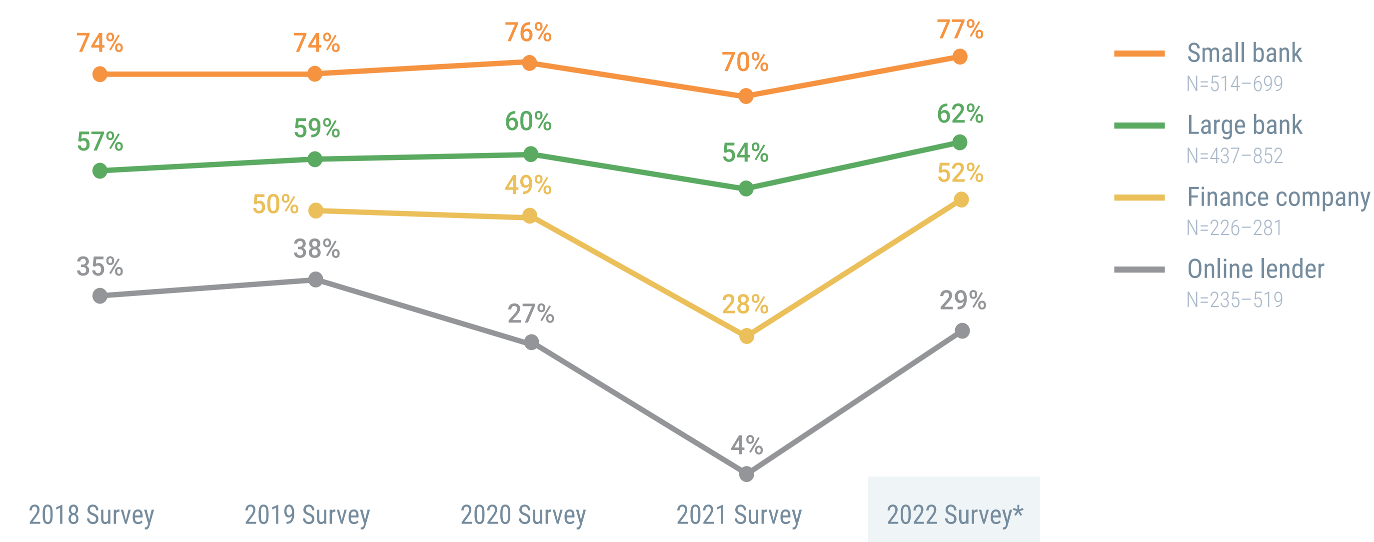
Satisfaction with Lenders

Among applicant firms approved for at least some financing, small bank applicants were most satisfied with their experiences, while online lender applicants were least satisfied.

SATISFACTION WITH LENDERS[1,2] (% of loan, line of credit, and cash advance applicants approved for at least some financing at source)



NET SATISFACTION, *By Survey Year*[2,3] (% of loan, line of credit, and cash advance applicants approved for at least some financing at source)



** The survey methodology was revised in 2022 to enable more accurate identification of lender types than in prior years. For 2022 net satisfaction by source, the difference between these estimates and those generated with the prior years' methodology are not statistically significant at the 5% level. See Methodology for more details.*

1 *Percentages may not sum to 100 because of rounding.*
2 *See Notes and Definitions for details on lender descriptions used in the SBCS. Select lenders shown. See Appendix for more details.*
3 *Net satisfaction is the share of firms satisfied minus the share of firms dissatisfied. Finance company satisfaction data for 2018 are not available because it was not included as a discrete answer choice. In the 2022 survey, details on firms' experiences with lenders were collected only for the two most recent applications. For comparison purposes, percentages shown here from the 2018, 2019, 2020, and 2021 surveys include only firms' two most recent applications; therefore, percentages may vary slightly from past reports.*

Source: Small Business Credit Survey, Federal Reserve Banks

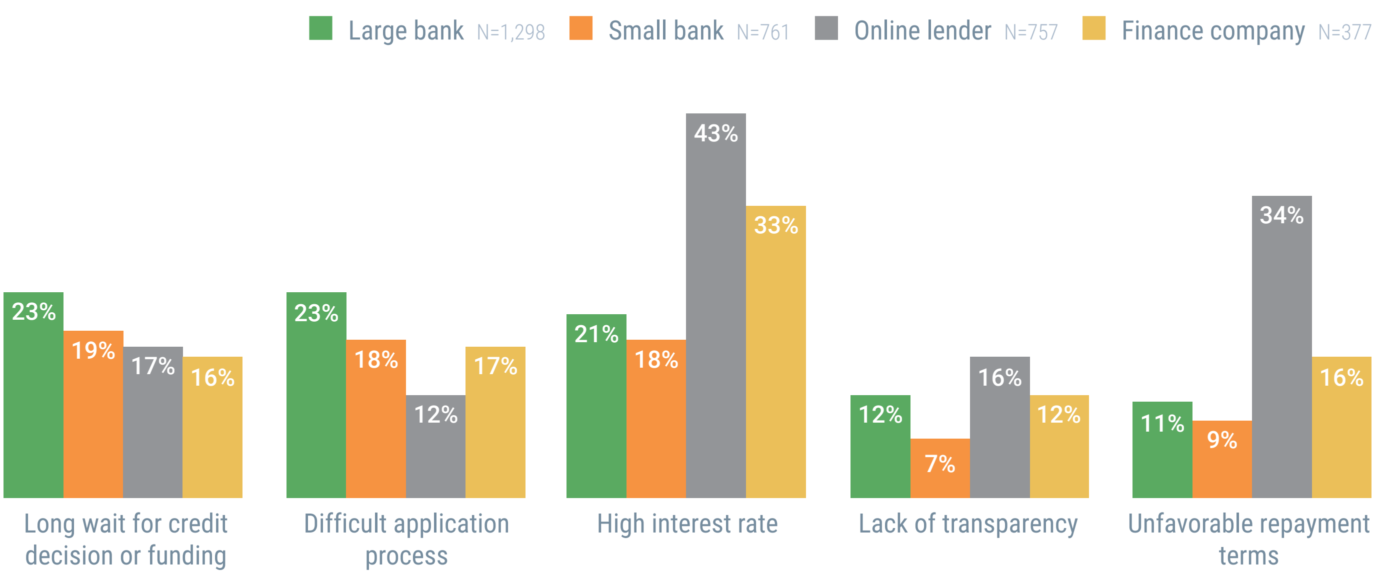
FINANCING APPLICATIONS

Challenges with Lenders

Applicants that sought financing at small banks reported fewer challenges than applicants at other sources. Online lender applicants reported challenges with high interest rates and unfavorable repayment terms.

SHARE OF APPLICANTS WITH CHALLENGES AT SOURCE, *Select Lenders*[1]
(% of loan, line of credit, and cash advance applicants at source)

CHALLENGES WITH LENDERS, *Select Lenders*[1,2] (% of loan, line of credit, and cash advance applicants at source)

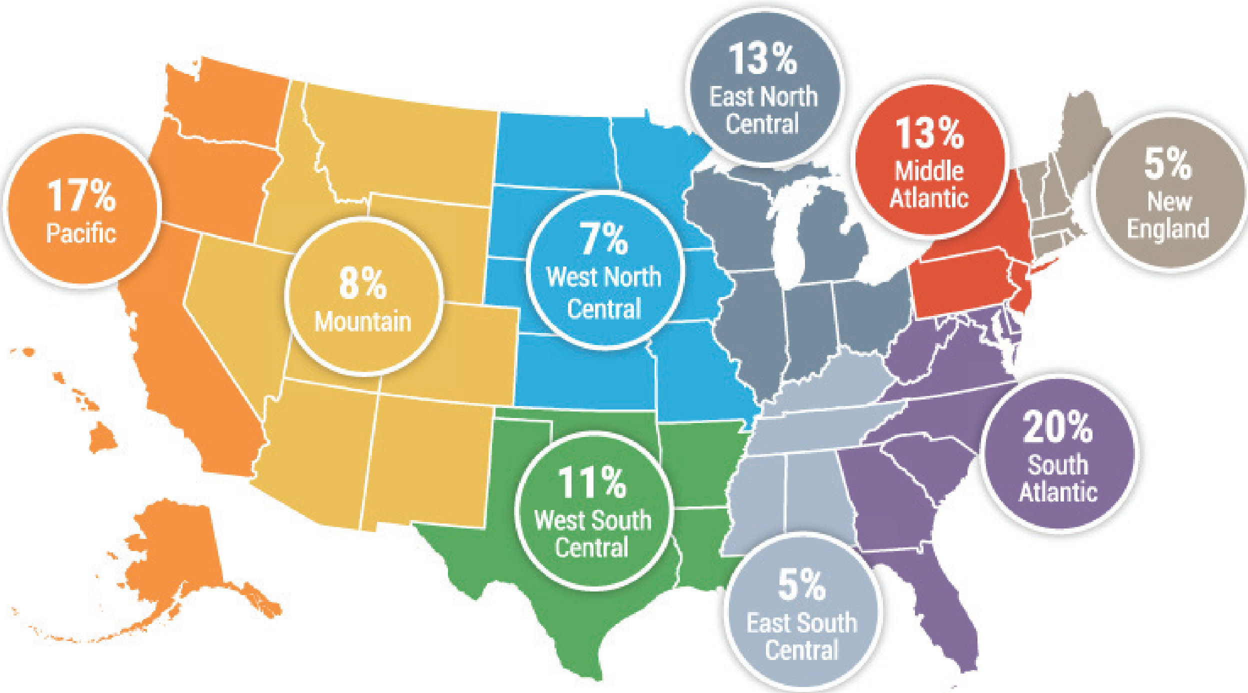


1 *Select lenders shown. See Appendix for more details. See Notes and Definitions for details on lender descriptions used in the SBCS.*
2 *Respondents could select multiple options. Select response options shown. See Appendix for more details.*

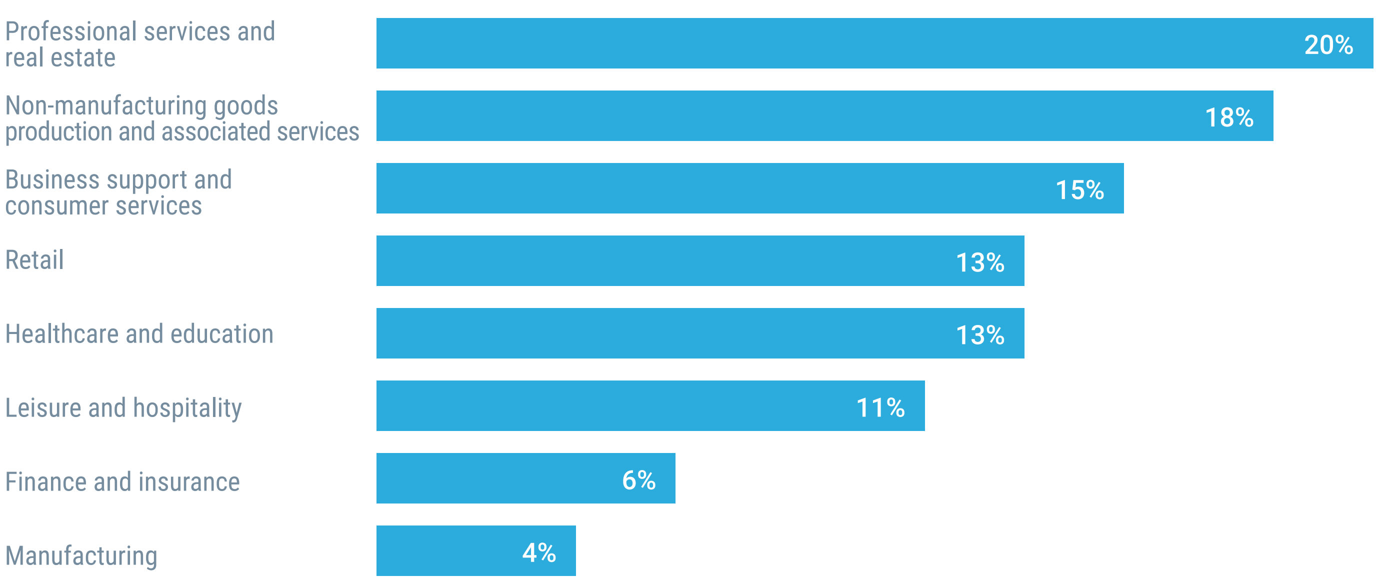
DEMOGRAPHICS

The following charts provide an overview of the survey respondents.

CENSUS DIVISION[1] (% of employer firms) N=7,864



INDUSTRY[1,2] (% of employer firms) N=7,864



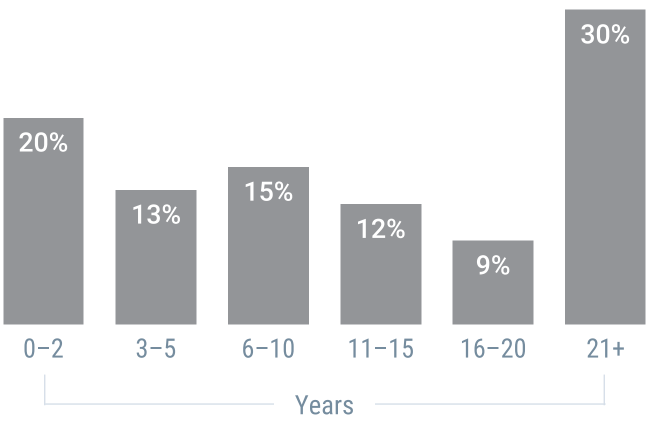
1 *SBCS responses throughout the report are weighted using US Census data to represent the US small employer firm population on the following dimensions: firm age, number of employees, industry, geography, race/ethnicity of owner, and gender of owner. For details on weighting, see Methodology. Percentages may not sum to 100 because of rounding.*

2 *The non-manufacturing goods production and associated services category includes industries such as agriculture, construction, wholesale trade, transportation, and warehousing. See Appendix for more details.*

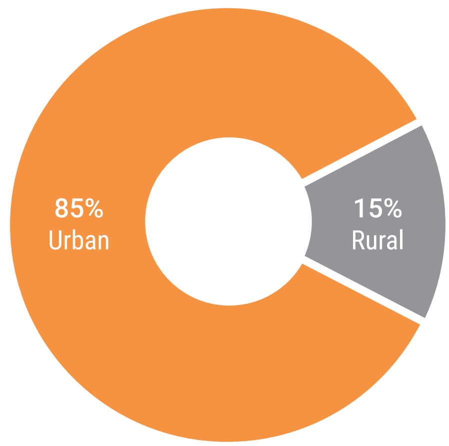
Source: Small Business Credit Survey, Federal Reserve Banks

DEMOGRAPHICS
(Continued)

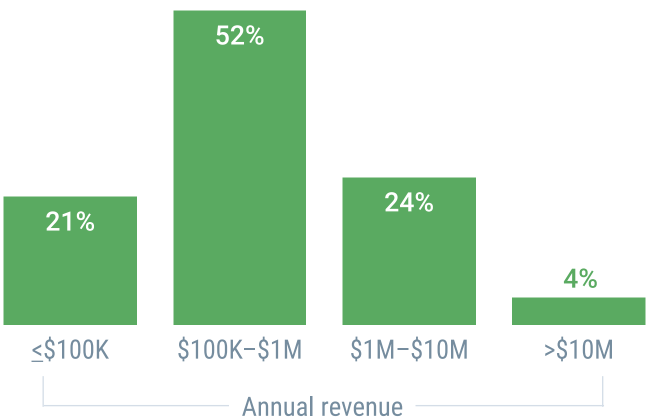
AGE OF FIRM[1,2] (% of employer firms) N=7,864



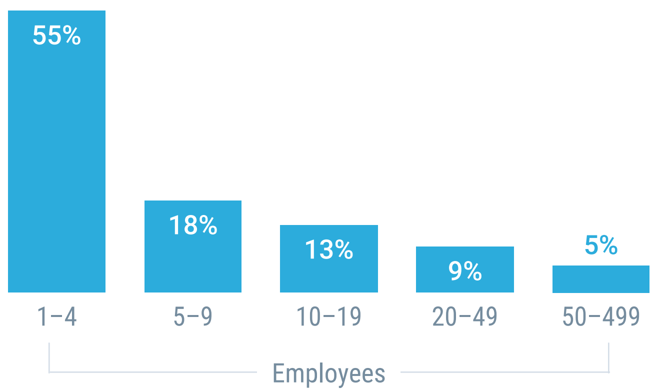
GEOGRAPHIC LOCATION[1,3] (% of employer firms) N=7,864



REVENUE SIZE OF FIRM[1,2,4] (% of employer firms) N=7,694



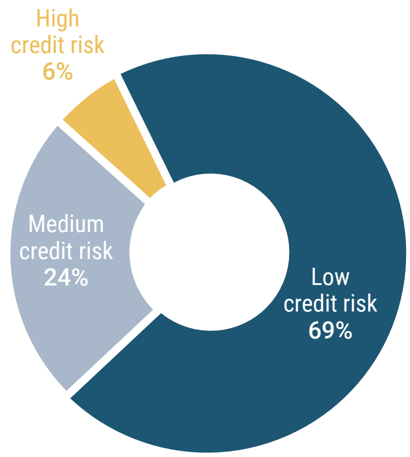
NUMBER OF EMPLOYEES[1] (% of employer firms) N=7,864



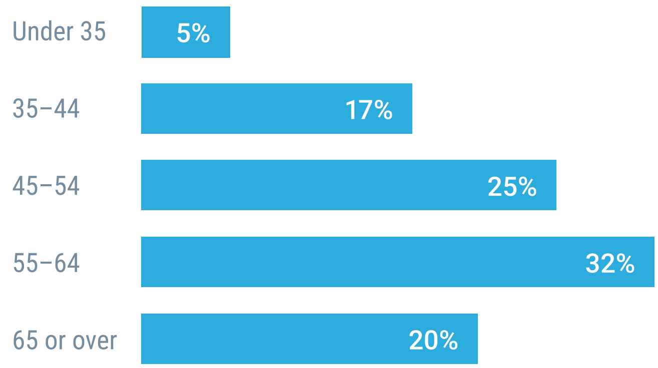
1 *SBCS responses throughout the report are weighted using census data to represent the US small employer firm population on the following dimensions: firm age, number of employees, industry, geography, race/ethnicity of owner, and gender of owner. For details on weighting, see Methodology.*
2 *Percentages may not sum to 100 because of rounding.*
3 *Urban and rural definitions come from US Department of Agriculture Rural-Urban Commuting Area codes.*
4 *Revenue size categories have been condensed and simplified for readability. Actual categories are ≤$25K, $25,001–$50K, $50,001–$100K, $100,001–$250K, $250,001–$500K, $500,001–$1M, $1,000,001–$5M, $5,000,001–$10M, and >$10M. See Appendix for more details.*

DEMOGRAPHICS
(Continued)

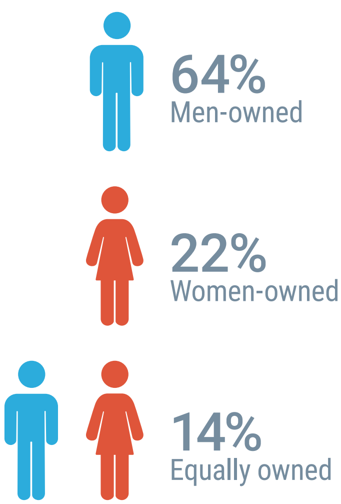
CREDIT RISK OF FIRM[1,2] (% of employer firms) N=5,879



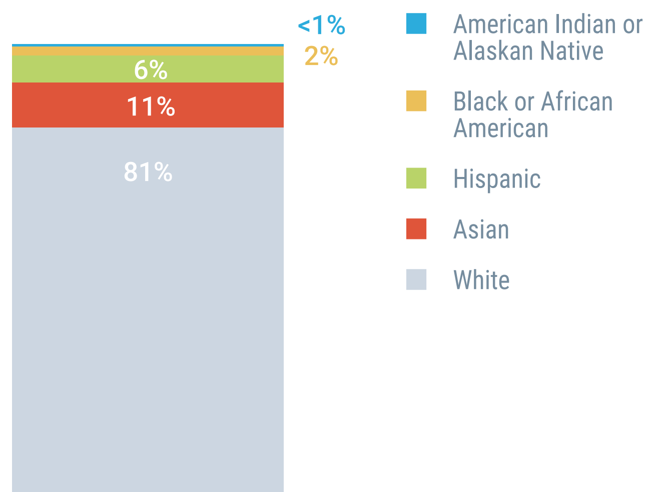
AGE OF FIRM'S PRIMARY FINANCIAL DECISION MAKER[2] (% of employer firms) N=7,494



GENDER OF OWNER(S)[3] (% of employer firms) N=7,864



RACE/ETHNICITY OF OWNER(S)[3] (% of employer firms) N=7,864



22% of employer firms are at least partially owned by an **immigrant.**

15% of employer firms are at least partially owned by a **veteran.**

9% of employer firms are at least partially owned by a member of the **LGBTQ community.**

1 *See Notes and Definitions for details on credit risk definitions used in the SBCS.*
2 *Percentages may not sum to 100 because of rounding.*
3 *SBCS responses throughout the report are weighted using US Census data to represent the US small employer firm population on the following dimensions: firm age, number of employees, industry, geography, race/ethnicity of owner, and gender of owner. For details on weighting, see Methodology.*

Source: Small Business Credit Survey, Federal Reserve Banks

METHODOLOGY

DATA COLLECTION

The SBCS uses a convenience sample of establishments. A diverse set of partner organizations that serve the small business community contact businesses by email.[1] The Federal Reserve Banks also directly contact prior SBCS participants, and, in the past, have contacted other small businesses on publicly available email lists.[2] The survey instrument is an online questionnaire that typically takes 6 to 12 minutes to complete, depending on the intensity of a firm's search for financing. The questionnaire uses question branching and flows based on responses to survey questions. For example, financing applicants receive a different line of questioning than nonapplicants. Therefore, the number of observations for each question varies by how many firms receive and complete a particular question.

WEIGHTING

The sample for the SBCS is not selected randomly; thus, the SBCS may be subject to biases that random sample surveys would not be subject to. For example, there are likely small employer firms not on our contact lists, a situation which could lead to noncoverage bias. To control for potential biases, we weight the sample data so the weighted distribution of firms in the SBCS matches the distribution of the small firm (1 to 499 employees) population in the United States by number of employees, age, industry, geographic location (census division and urban or rural location), gender of owner(s), and race or ethnicity of owner(s).

For this report and analysis, we first limit the sample in each year to only employer firms.[3] We then post-stratify respondents by their firm characteristics. Using a statistical technique known as "raking," we compare the share of businesses in each category of each stratum (for example, within the industry stratum, the share of firms in the sample that are manufacturers) to the share of small businesses in the nation in that category.[4] As a result, underrepresented firms are up weighted and overrepresented firms are down weighted. We iterate this process several times for each stratum to derive a sample weight for each respondent. This weighting methodology was developed in collaboration with the National Opinion Research Center (NORC) at the University of Chicago. The data used to construct the weights originate from the US Census Bureau.[5]

We are unable to obtain exact estimates of the combined racial and ethnic ownership of small employer firms for each state or at the national level. To derive these figures, we assume that the state-level distribution of small employer firm owners' combined race and ethnicity matches the state-level distribution of these characteristics among owners of firms of all sizes. Given that small employer firms represent 99.7% of businesses with paid employees, we expect these assumptions align relatively closely with the true population.[6]

RACE/ETHNICITY AND GENDER IMPUTATION

Not every respondent provided complete information on the gender, race, and/or the ethnicity of their business's owner(s). We need this information to correct for differences between the sample and the population data. To avoid losing these observations, we use a series of statistical models to impute the missing data. Generally, when the models predict a given characteristic with an accuracy of around 80 percent in out-of-sample tests, we use the predicted values from the models for the missing data.[7] When the model's predictive power is below that threshold, those data are not imputed, and the responses are dropped. After the models impute the data, we compare descriptive statistics of key survey questions with and without imputed data to ensure robustness of estimates. In the final sample, eight percent of employer firm observations have imputed values for the gender, race, or ethnicity of a firm's ownership.

1 *For more information on partnerships, please visit www.fedsmallbusiness.org/partnership.*

2 *For past surveys, we directly approached businesses reported on System for Award Management (SAM) Entity Management Extracts Public Data Package; Small Business Administration (SBA) Dynamic Small Business Search (DSBS); state-maintained lists of certified disadvantaged business enterprises (DBEs); state and local government Procurement Vendor Lists, including minority- and women-owned business enterprises (MWBEs); state and local government-maintained lists of small or disadvantaged small businesses; and a list of veteran-owned small businesses maintained by the Department of Veterans Affairs.*

3 *Weights for nonemployer firms are computed separately, and a separate report on nonemployer firms is generally issued annually.*

4 *Employee size strata are 1–4 employees, 5–9 employees, 10–19 employees, 20–49 employees, and 50–499 employees. Age strata are 0–2 years, 3–5 years, 6–10 years, 11–15 years, 16–20 years, and 21+ years. Industry strata are nonmanufacturing goods production and associated services, manufacturing, retail, leisure and hospitality, finance and insurance, healthcare and education, professional services and real estate, and business support and consumer services. Race/ethnicity strata are non-Hispanic white, non-Hispanic Black or African American, non-Hispanic Asian, non-Hispanic Native American, and Hispanic. Gender strata are men-owned, equally owned, and women-owned. See Appendix for industry definitions, urban and rural definitions, and census divisions.*

5 *State- and MSA-level data on firm age come from the 2020 Business Dynamics Statistics. In contrast to prior years, we here use the firm age for all firms, not just for firms with fewer than 500 employees, for each state and MSA. Unfortunately, data on firm age and size have not been available at the state or MSA level since the 2014 Business Dynamics Statistics. At the national level, we find only very slight deviations between firm ages for all firms, as opposed to those for firms with fewer than 500 employees. We derive industry, employee size, and geographic location data from the 2020 County Business Patterns. USDA Rural-Urban Commuting Area codes are used to classify ZIP codes as urban or rural. Data on the race, ethnicity, and gender of business owners are derived from the 2020 Annual Business Survey.*

6 *US Census Bureau, County Business Patterns, 2020.*

7 *Out-of-sample tests are used to develop thresholds for imputing the missing information. To test each model's performance, half of the sample of nonmissing data is randomly assigned as the test group, while the other half is used to develop coefficients for the model. The actual data from the test group are then compared with what the model predicts for the test group. On average, predicted probabilities that are associated with an accuracy of around 80 percent are used, although this varies slightly, depending on the number of observations that are being imputed.*

METHODOLOGY

COMPARISONS TO PAST REPORTS

Because previous SBCS reports vary in terms of the population scope, geographic coverage, and weighting methodology, some survey questions are not directly comparable across time. The employer report using 2015 survey data covered 26 states and is weighted by firm age, number of employees, and industry. The employer reports using 2016 and 2017 data included respondents from all 50 states and the District of Columbia. We weight these data by firm age, number of employees, industry, and geographic location (both census division and urban or rural location). The 2017 survey weight also included gender, race, and ethnicity of the business owner(s), as described previously.

In addition, the categories used within each weighting characteristic also differ across survey years. For instance, there were three employee size categories in the 2015 survey and five employee size categories in the 2016 and 2017 surveys.

Because of changes in the weighting methodology of over-time data, the time series data in this report supersede and are not comparable with the time series data (2015–2017 survey years) in the Employer Firms Report published in May 2018. Compared to those previous reports, the current weighting scheme makes use of a greater number of variables (it includes the race, ethnicity, and gender of a business's owner(s)) and is thus more representative of the US small employer-firm population. Data for the 2015 survey year are not displayed in this report, as they lack information on the aforementioned variables. The data in this report are, however, comparable to the report containing 2018 survey data that was published in 2019, the 2019 survey data that were published in 2020, the 2020 survey data that were published in 2021, and the 2021 survey data that were published in 2022.[8] For more information on the methodological changes to the "time-consistent" weights, please refer to the methodology section of the 2019 Report on Employer Firms.

In addition, many survey questions are not comparable over time because of changes in the response options. For example, the option "Finance company" was added as an application source in the 2019 survey; thus, the application rates by source displayed in the 2023 report are not directly comparable to reports prior to the 2019 survey.

CHANGES TO FINANCING QUESTIONS IN THE 2022 SBCS

The COVID-19 pandemic brought about substantial changes in funding needs and sources for small businesses. These shifts introduced new challenges for surveys that capture information about small business funding, including the Small Business Credit Survey. In response to the pandemic, new sources of funds became available in the form of the $800 billion Paycheck Protection Program (PPP), and the $390 billion Economic Injury Disaster Loan (EIDL) program, as well as through the continued availability of public and private grant programs, loan programs, and other support. Small-business owners also increasingly relied on funds from their personal savings or from family and friends.

Furthermore, pandemic-era interventions caused survey respondents to answer questions about their financing needs and experiences differently. For example, some appear not readily able to distinguish pandemic relief programs from more traditional forms of financing or formal financing applications from direct appeals for loans from personal contacts. These considerations motivated adjustments to the 2022 SBCS questionnaire to better identify and track funding products and sources. The key differences in the 2022 questionnaire compared to prior years are described below.[9]

The most significant change was the addition of a product table requiring a "yes" or "no" response for each financing product. This approach represents a survey research best practice for collecting information on a detailed set of response options and replaced the following questions from previous questionnaires: (1) an overarching question asking whether the firm applied for financing in the prior 12 months, (2) a follow-up question about products sought, and (3) a previously separate question about pandemic-related financial assistance. The new table yielded an unexpectedly high application rate. Analysis of the text responses for the "other" forms of financing provided additional context. In this text field, respondents mentioned applications for grants, solicitation of donations, new draws on existing credit lines, or the movement of

8 Because of adjustments to the weighting of the 2020 survey data after the publication of the 2021 report, percentages shown in the 2021 report related to 2020 survey data may differ from 2022 and 2023 report findings on 2020 survey data.

9 This section addresses the most material changes to questions and structure the 2022 questionnaire; other changes, such as the return of previously asked questions, are not described. See the 2022 questionnaire for details on the phrasing and flow of questions. Past years' questionnaires are available at fedsmallbusiness.org.

METHODOLOGY

funds from the owner's personal accounts to the business. These responses were recoded out of the applicant branch of questions because they do not meet SBCS parameters for applicant firms. Still, these responses provide important information about the increasing complexity of small business financing, and lessons from the 2022 responses will be applied to future questionnaires.

While text responses for “other” products could be reviewed and recoded, the standard selections in the new product table did not allow for the same level of review. As such, this report does not present findings for overall financing sought, overall financing received, and nonapplicant actions. The nonapplicant data are considered incomplete because respondents that selected “other” financing were routed past the nonapplicant questions.

The report does include findings for applicants seeking loans, lines of credit, and cash advances. Though the changes outlined above affected this pool of applicants, the survey presents additional questions to these respondents (in the “application detail branch”) which enabled us to more readily identify and remove responses for firms that did not apply for a loan, line of credit, or merchant cash advance—as defined in the SBCS—in the prior 12 months. Additionally, respondents in this branch were asked for the number of loan, line of credit, or cash advance applications submitted in the prior 12 months, with the option to enter zero if they submitted none other than pandemic relief. Those entering zero—for example, an EIDL loan applicant that selected “yes” for both pandemic-related financial assistance and for a loan in the product table—were removed from this pool of applicants. This validation step, combined with our intensive data cleaning approach, provides a high degree of confidence in comparability for this select set of applicant firms.

Several relatively minor changes were made within the application detail branch. For one, to reduce respondent burden, detailed questions were asked only for the two most recent applications. Prior years’ surveys included questions about the third most recent. For comparisons of 2022 estimates with past survey years, only the responses associated with applicants’ two most recent applications were considered. As a result, the figures presented in this report may vary slightly from prior years’ reports.

Additionally, the 2022 questionnaire included a new optional open-ended question asking respondents for the name of the lender at which their business applied. These responses provided important insights on respondents’ understanding of the lender categories used in the SBCS. Approximately 70 percent of applicants provided a lender name in the open-ended question. We recoded their text responses using the SBCS lender categories and then compared them to respondents’ multiple-choice lender selection. The recoded text responses and multiple-choice responses matched about 80 percent of the time. The most common mismatch was found with bank lenders—specifically, respondents selected “small bank” in the multiple-choice question though their bank met the criteria for large bank (more than $10 billion in deposits). Throughout this report, data on sources and lenders are presented using the recoded responses.

Because prior years’ questionnaires did not include the open-ended lender question, we must rely on the multiple-choice selection for sources at which firms applied. This report includes notations for over-time comparisons indicating the differences between the approach used to categorize sources more accurately in 2022 and the approach used for past surveys. For partial credit approvals and net satisfaction by source, the differences in percentages calculated using the multiple-choice responses and those using the text responses were not statistically significant at the 5% level.

METHODOLOGY

CREDIBILITY INTERVALS AND STATISTICAL TESTS

Credibility intervals are an important component of the analysis in this report. Where there are large differences in estimates between types of businesses or survey years, we perform additional checks on the data to determine whether such differences are statistically significant. The combination of the results of these tests and several logistic regression models helped to guide our analysis and decide on the variables to include in the report. To determine whether differences are statistically significant, we develop credibility intervals using a balanced half-sample approach.[10] Because the SBCS does not come from a probability-based sample, the credibility intervals we develop should be interpreted as model-based measures of deviation from the true national population values.[11]

We list 95% credibility intervals for key statistics in the following table. The intervals shown apply to all employer firms in the survey. More granular results with smaller observation counts will generally have larger credibility intervals.

Credibility Intervals for Key Statistics in the 2023 Report on Employer Firms

	Percent	Credibility Interval (Percent)
Share that applied for a loan, line of credit, or cash advance	40.3	+/- 2.0
Share with outstanding debt	72.1	+/- 1.2
Loan/line of credit and cash advance approval rate	79.2	+/- 2.9
Share of firms with revenue growth in prior 12 months	44.4	+/- 1.7
Share of firms in fair or poor condition	57.0	+/- 1.4

10 *Wolter. Survey Weighting and the Calculating of Sampling Variance. 2007.*
11 *American Association for Public Opinion Research. Task Force on Non-probability Sampling. 2013.*