

# SMALL BUSINESS CREDIT SURVEY



## 2022 REPORT ON NONEMPLOYER FIRMS



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 views expressed in this report are those of the authors and are not necessarily those of the Federal Reserve Bank of Cleveland or the Federal Reserve System. Data used in this report may be subject to updates or changes.*

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<sup>2</sup> For a full list of community partners, please visit [www.fedsmallbusiness.org](http://www.fedsmallbusiness.org).

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# EXECUTIVE SUMMARY

## INTRODUCTION

Nonemployer firms—that is, businesses with no employees other than the owner(s) of the business—are an important piece of the US economy, accounting for approximately four in five small businesses and \$1.3 trillion in sales.<sup>1</sup> Yet, as demonstrated in previous Small Business Credit Survey (SBCS) reports, nonemployer firms are more likely to experience financial challenges and difficulties accessing financing than firms with employees (employer firms); these trends were only exacerbated by the COVID-19 pandemic.<sup>2</sup> This publication uses 2021 SBCS data to explore the experiences of nonemployer firms and highlight findings around firm performance and access to funding.

While revenue performance numbers improved between the 2020 and 2021 surveys, evidence of persisting financial difficulties among nonemployers showed in the 2021 data. The share of nonemployer firms reporting financial challenges increased. Despite improvements in 2021 revenues versus 2020, well over half of nonemployers reported that revenues at the time of the 2021 survey were still lower than in 2019. Findings indicate there were notable gaps in revenue performance between smaller nonemployer firms (that is, nonemployer firms with less than \$100,000 in annual revenues) and their larger-revenue counterparts; in fact, smaller nonemployer firms were more than twice as likely as larger nonemployers to report that they were in poor financial condition.

Many pandemic-related financial assistance programs were available in 2021 to help small businesses cope with the financial

effects of COVID-19. Earlier in 2021, policymakers made significant changes to the Paycheck Protection Program (PPP) to ensure that the smallest businesses could access the funds.<sup>3</sup> Still, the SBCS found that just half of smaller nonemployer firms applied for PPP funding in 2020 or 2021, and among those smaller nonemployer firms that applied in 2021, less than half received the full amount they sought. Similarly, when smaller nonemployers applied for traditional financing such as loans or lines of credit, they were around half as likely as larger nonemployers to receive all that they needed. However, nonemployer firms of all sizes had challenges accessing financing, as just 29% ultimately reported having their financing needs met.

This report highlights SBCS data that show that nonemployer firms largely have yet to recover from the effects of the pandemic, and that financing remains difficult for these firms to access. Importantly, the data show that those trends are particularly evident among smaller nonemployer firms.

## SURVEY FINDINGS

The 2021 SBCS yielded 6,834 responses from a nationwide convenience sample of nonemployer firms. This publication summarizes data for firms that were currently operating or temporarily closed at the time of survey. Because the SBCS findings represent the experiences of those firms that were operating at the time of the survey, the data do not reflect the collective experiences of all small firms throughout the pandemic. Firms that recently closed are not included in the sample for this report.

### Revenue performance improved between the 2020 and 2021 surveys, though most nonemployer firms noted experiencing financial challenges.

- Thirty-one percent of nonemployers in the 2021 SBCS reported an increase in revenue, compared to just 14% in the 2020 SBCS. Despite the improvement in revenue performance from 2020, a majority of nonemployers reported that revenues remain lower than in 2019.
- The share of nonemployer firms reporting some type of financial challenge grew from 81% in 2020 to 88% in 2021. Financial challenges include dealing with uneven cash flows, paying operating expenses, accessing credit, and growing sales.
- The recovery of smaller nonemployer firms' revenues notably lagged that of larger nonemployer firms, or those with more than \$100,000 in annual revenues. Thirty-one percent of larger nonemployers reported that revenues had increased relative to prepandemic levels, compared to 19% of smaller nonemployers.
- While 37% of smaller nonemployer firms reported they were in poor financial condition, that was the case for just 16% of larger nonemployer firms.

1 US Census Bureau, *Nonemployer Statistics*, 2019.

2 *Small Business Credit Survey 2021 Report on Nonemployer Firms*. <https://www.fedsmallbusiness.org/survey/2021/report-on-nonemployer-firms>.

3 *US Small Business Administration, Biden Administration PPP Reform Fact Sheets*, 2021. <https://www.sba.gov/document/support-biden-administration-ppp-reform-fact-sheets>.

# EXECUTIVE SUMMARY

(Continued)

**Despite their financial challenges, nonemployer firms were less likely than employer firms to seek pandemic-related financial assistance in the 12 months prior to the survey.**

- Sixty-two percent of nonemployers applied for pandemic-related financial assistance in the prior 12 months, 15 percentage points fewer than the share of employer firms that applied.
- Twenty-eight percent of nonemployer firm owners reported collecting unemployment insurance.
- Nonemployers were most likely to apply to the Economic Injury Disaster Loan (EIDL) program (39%). Twenty-eight percent of nonemployers sought loans through the Paycheck Protection Program (PPP).
- Larger nonemployer firms were far more likely than their smaller counterparts to receive all of the PPP funding for which they applied in 2021. While 64% of larger nonemployer firms received all of the PPP funding they sought, that was the case for just 46% of smaller nonemployers.
- Nonemployer firms that applied for a PPP loan were less likely than employer firms to apply through a bank but more than twice as likely as employer firms to apply at an online lender.

**Smaller nonemployer firms were less likely than both larger nonemployer firms and employer firms to apply for financing; they were also less likely to receive the financing they sought.**

- Twenty-nine percent of larger nonemployer firms applied for financing in the 12 months leading up to the survey, slightly more than the 25% of smaller nonemployers that applied.<sup>4</sup>
- Just 16% of smaller nonemployer firms reported receiving all of the financing for which they applied. In comparison, 29% of larger nonemployers received all that they sought, nearly in line with the share of employer firms that were fully funded.
- Among firms that sought loans, lines of credit, or cash advances, nonemployer firms were less likely than employer firms to apply at banks but more likely to apply at online lenders. At either banks or online lenders, nonemployers were less likely than employer firms to have their credit applications approved.

## ABOUT THE SURVEY

The SBCS is an annual survey of firms with fewer than 500 employees. The SBCS sample includes nonemployers, which represent over 77% of all US establishments.<sup>5</sup> 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.

<sup>4</sup> The share of firms that applied for financing in 2021 excludes firms that applied for only pandemic-related financial assistance, such as PPP.

<sup>5</sup> US Census Bureau, CBP and NES Combined Report, 2019.

# 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, or how conditions at that point in time compare to a prior reference period. 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:

**Prior 12 Months.** The 12 months prior to the fielding of the survey. For the 2021 SBCS, this is approximately September–November 2020 through September–November 2021.

**At Time of Survey.** September through November 2021.

**Next 12 Months.** The 12 months following the fielding of the survey. For the 2021 SBCS, this is approximately September–November 2021 through September–November 2022.

## 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. Examples vary between questions to convey the most relevant services and providers.<sup>1</sup> The financial services providers and lenders 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 application 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 provided to respondents vary by question but include mortgage companies, equipment dealers, auto finance companies, investment funds, and insurance companies.

**Online lender/fintech company.** Online lenders/fintech companies are nonbanks that operate online. Examples provided to respondents vary by question but include OnDeck, Kabbage, CAN Capital, Paypal, and Square.

**Credit union.** Credit unions are nonprofit cooperatives where members can borrow money at competitive rates from pooled deposits.

**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.

**Financial services company.** Financial services companies are nonbank providers of business financial services. Examples include companies that provide payroll processing, merchant services, and accounting services.

**Alternative financial source.** Examples of alternative financial sources provided to respondents include payday lenders, check cashing services, pawn shops, and money order/transmission services.

## 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.

<sup>1</sup> See the [SBCS questionnaire](#) for more details.

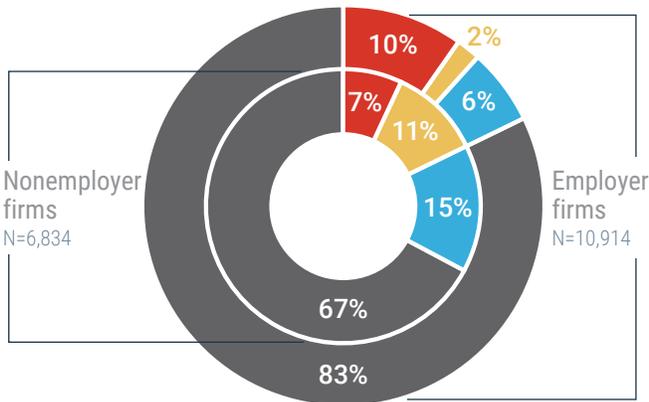
# DEMOGRAPHICS

## Firm Owner Characteristics

Nonemployer firms are more likely than employer firms to be owned by people of color and women.

### RACE/ETHNICITY OF OWNER(S)<sup>1,2</sup>

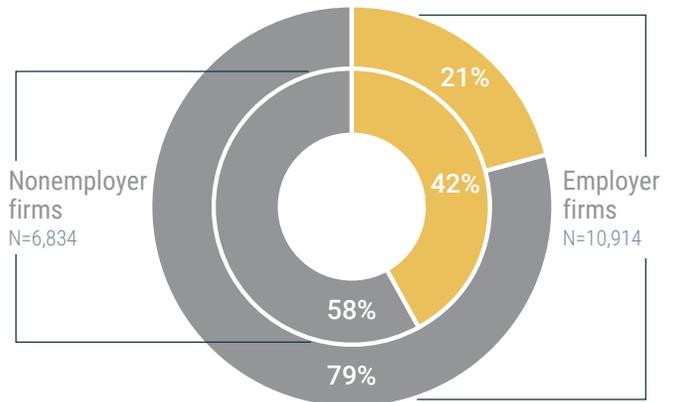
(% of nonemployer and employer firms)



■ Asian ■ Black ■ Hispanic ■ White

### GENDER OF OWNER(S)<sup>2</sup>

(% of nonemployer and employer firms)

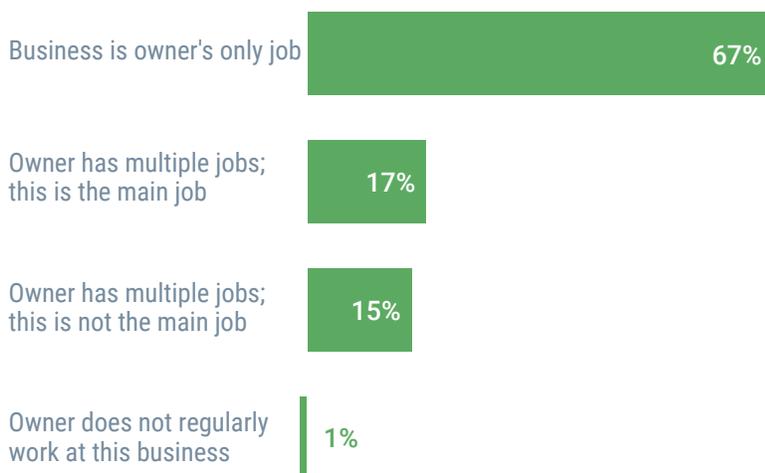


■ Women-owned ■ Men-owned or equally owned

### DESCRIPTION OF PRIMARY OWNER'S WORK FOR THE BUSINESS

(% of nonemployer firms)

N=6,399



**40%** of nonemployer firms work as independent contractors for other businesses or agencies

**17%** of surveyed nonemployer firms perform gig work<sup>3</sup>

**76%** of nonemployer firms are legally incorporated

1 Non-Hispanic Native American firms, not shown, account for less than 1 percent of nonemployer firms and less than 1 percent of employer firms.  
 2 SBCS responses throughout the report are weighted using Census Bureau data to represent the nonemployer firm population in the United States by age, industry, geographic location, gender of owner(s), and race or ethnicity of owner(s). Employer firm responses are weighted using Census Bureau 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](#).  
 3 The [SBCS questionnaire](#) describes a gig as a single project or task for which a worker is hired, sometimes through a digital marketplace, to work on demand. Examples include Uber driver, freelancer, etc.

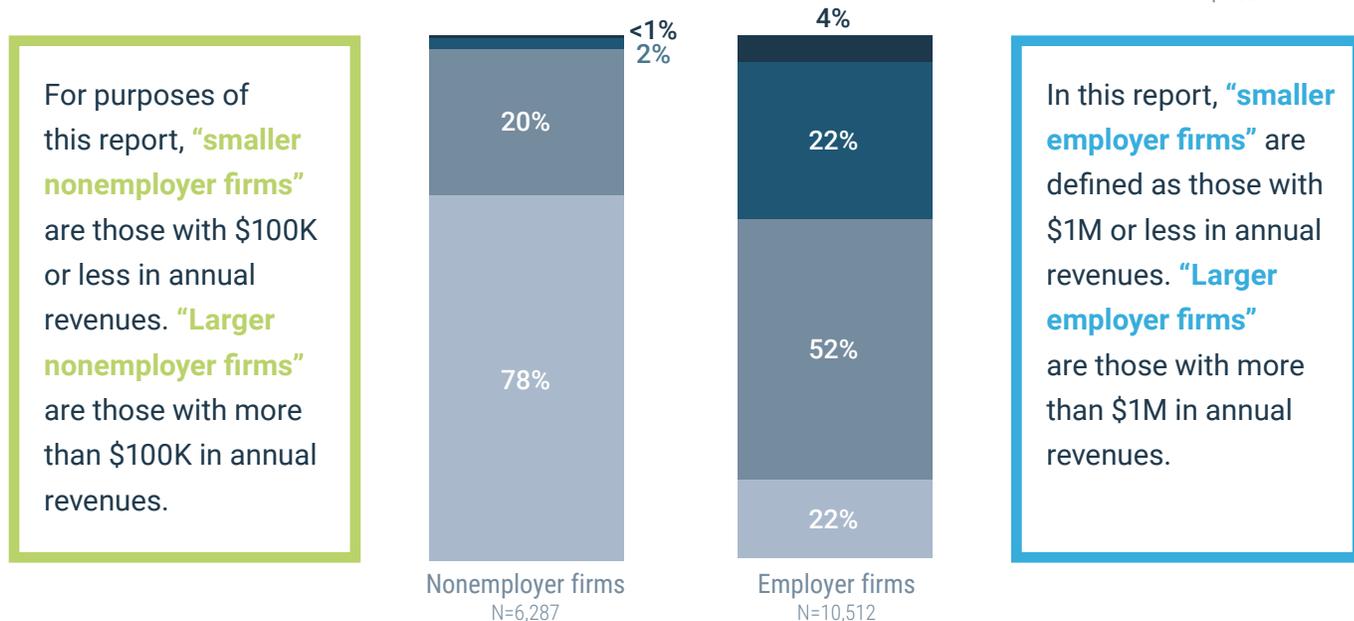
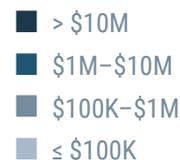
# DEMOGRAPHICS

## Firm Characteristics

Nonemployer firms are significantly smaller than employer firms, as measured by annual revenues, and are more likely to be in service industries.

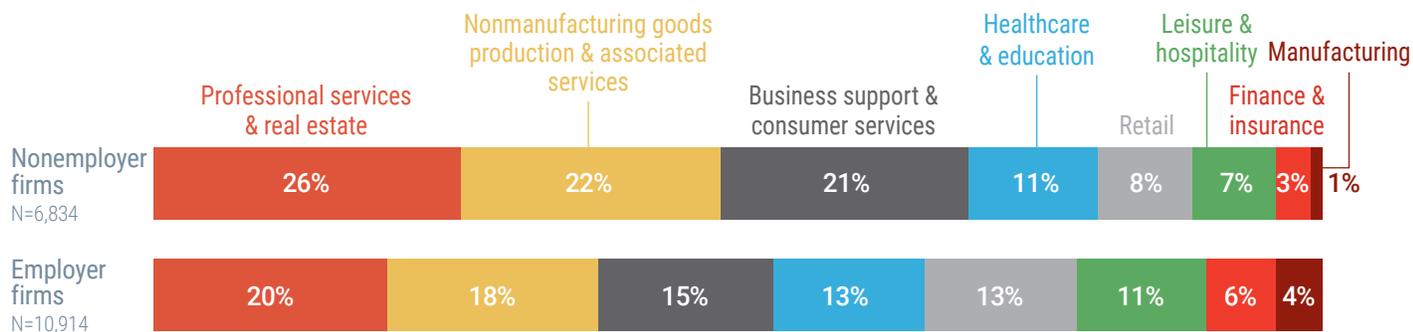
### REVENUE SIZE OF FIRM<sup>1,2</sup>

(% of nonemployer and employer firms)



### INDUSTRY<sup>2,3</sup>

(% of nonemployer and employer firms)



1 Categories have been condensed and simplified for readability. Actual categories are ≤\$25K, \$25,001–\$50K, \$50,001–\$100K, \$100,001–\$500K, \$500,001–\$1M, \$1,000,001–\$5M, \$5,000,001–\$10M, >\$10M.

2 SBCS responses throughout the report are weighted using Census Bureau data to represent the nonemployer firm population in the United States by age, industry, geographic location, gender of owner(s), and race or ethnicity of owner(s). Employer firm responses are weighted using Census Bureau 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.

3 The nonmanufacturing goods production and associated services category includes industries such as agriculture, construction, wholesale trade, transportation, and warehousing. Within this industry category, the share of nonemployer firms is higher than the share of employers for transportation and wholesale businesses.

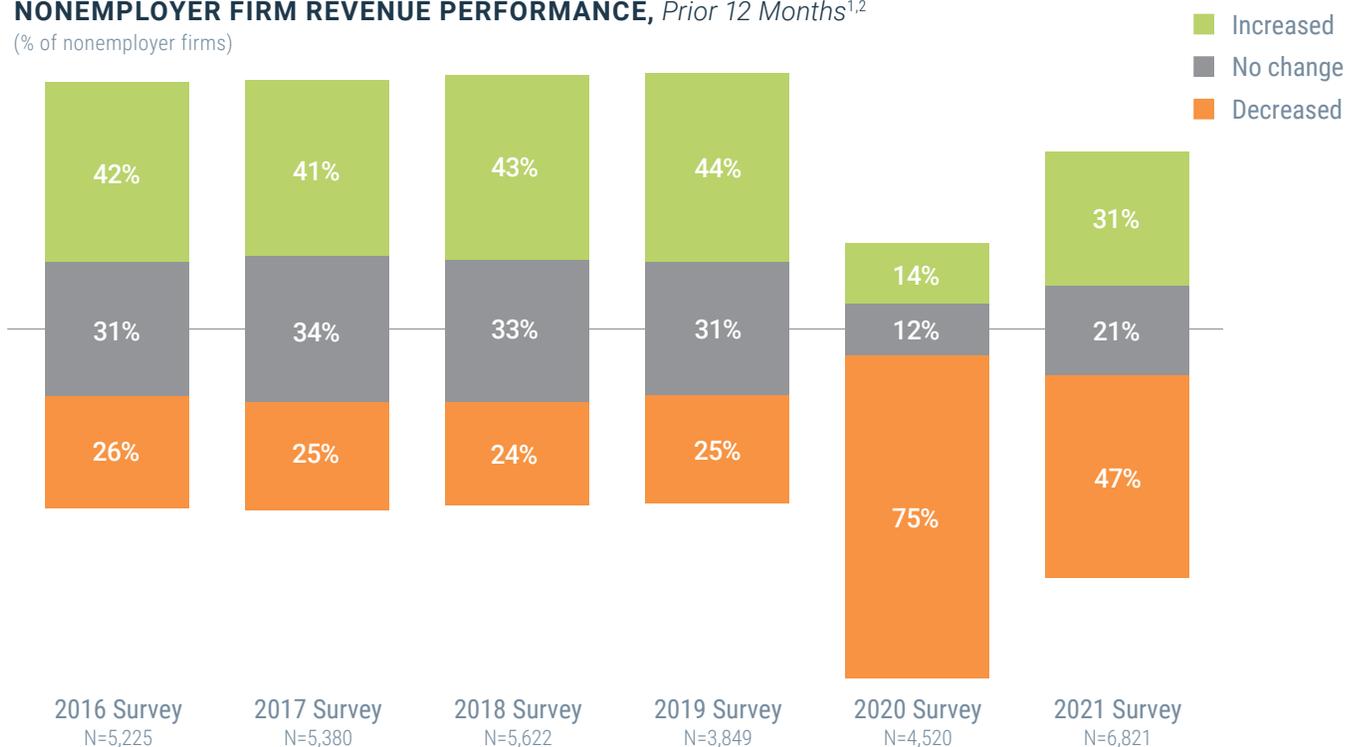
# PERFORMANCE AND CHALLENGES

## Revenue Performance

Compared to the 2020 survey, more nonemployer firms reported revenue growth, though overall revenue performance remains below prepandemic levels.

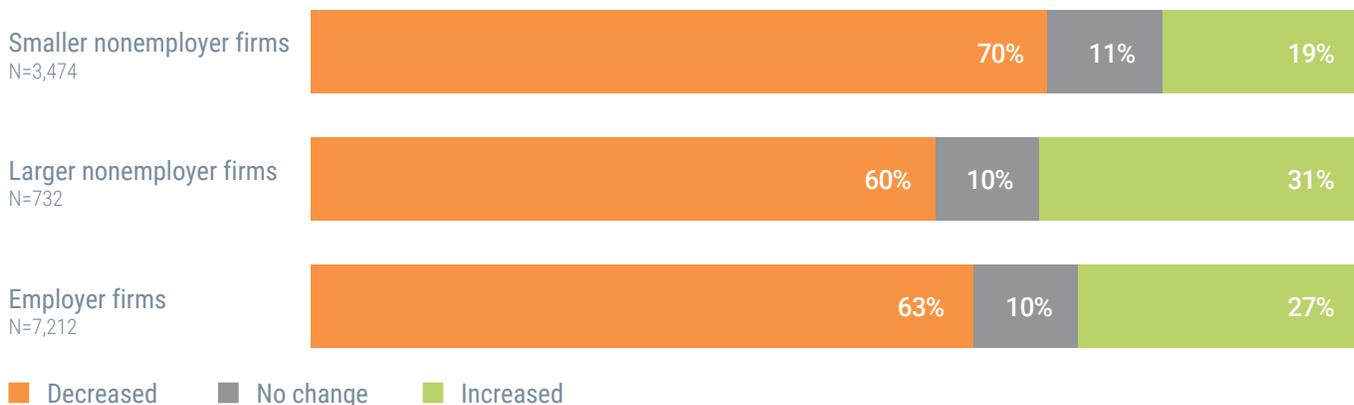
### NONEMPLOYER FIRM REVENUE PERFORMANCE, Prior 12 Months<sup>1,2</sup>

(% of nonemployer firms)



### REVENUE CHANGE SINCE 2019<sup>2,3</sup>

(% of nonemployer and employer firms)



1 See [Notes and Definitions](#) for details on time period definitions used in the SBSCS.

2 Percentages may not sum to 100 because of rounding.

3 Respondents from firms that were established in 2019 or earlier were asked to compare their revenue and employment levels at the time of the survey to the same time in 2019.

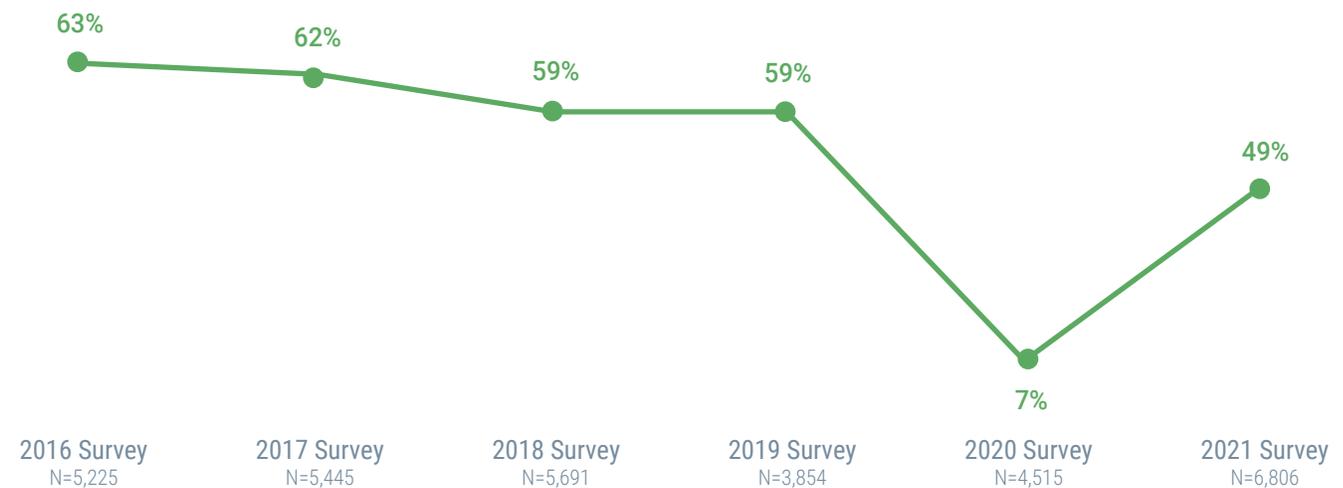
# PERFORMANCE AND CHALLENGES

## Revenue and Employment Expectations, Next 12 Months

Revenue expectations among nonemployer firms improved year-over-year, but firms were still less optimistic about revenue growth than in years prior to the pandemic.

### NONEMPLOYER FIRM REVENUE EXPECTATIONS INDEX, Next 12 Months<sup>1,2</sup>

(% of nonemployer firms)



### PLANS TO ADD EMPLOYEES, Next 12 Months<sup>2</sup>

(% of nonemployer and employer firms)



**35%** of nonemployer firms are **potential employers**—that is, they plan to add employees in the next 12 months.

<sup>1</sup> The index is the share reporting expected revenue growth minus the share reporting expected declines.  
<sup>2</sup> See [Notes and Definitions](#) for details on time period definitions used in the SBCS.

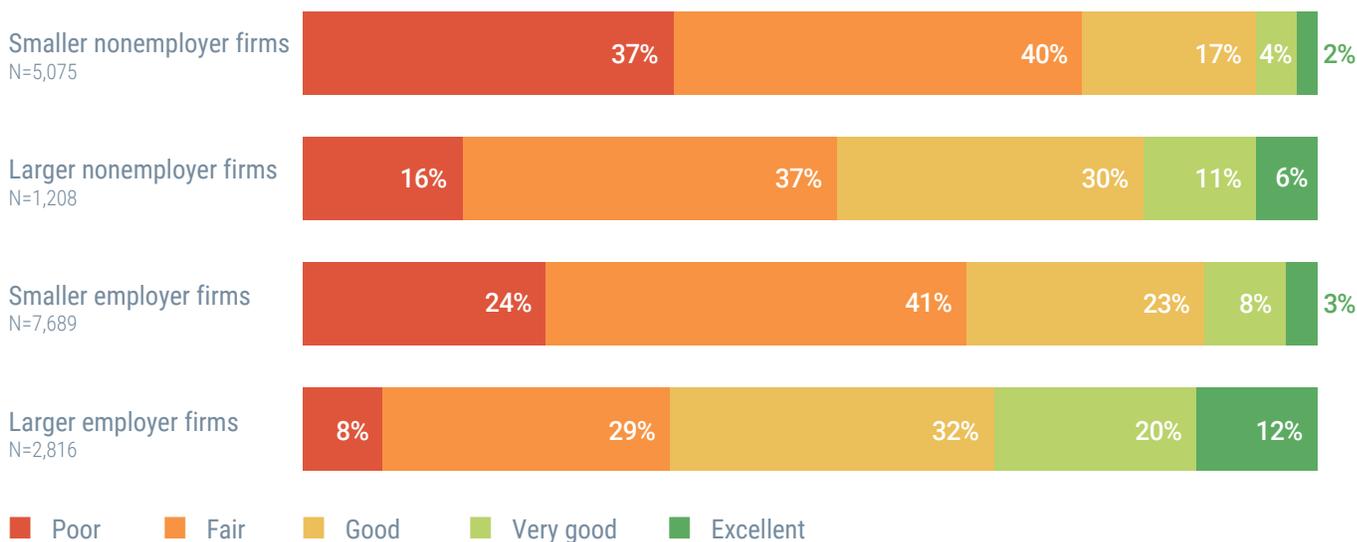
# PERFORMANCE AND CHALLENGES

## Financial Condition and Challenges

Among both nonemployer and employer firms, smaller-revenue firms were more likely to report their businesses were in fair or poor financial condition at the time of the survey.

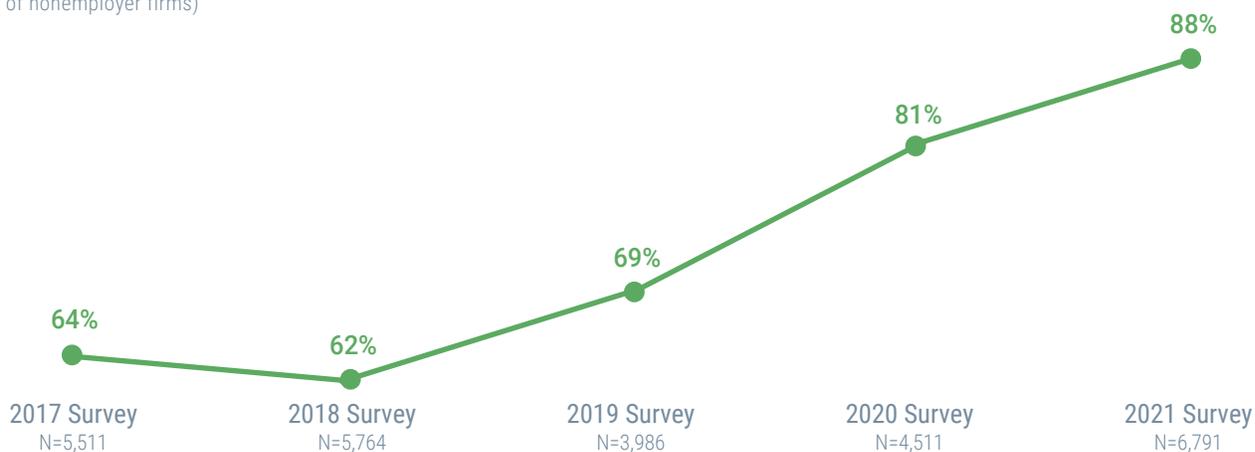
### FINANCIAL CONDITION, At Time of Survey<sup>1,2</sup>

(% of nonemployer and employer firms)



### SHARE OF FIRMS WITH FINANCIAL CHALLENGES, Prior 12 Months<sup>2,3</sup>

(% of nonemployer firms)



1 Self-reported financial condition at time of survey. 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 For comparison, 85% of employer firms in the 2021 survey reported financial challenges, an increase of four percentage points since the 2020 survey.

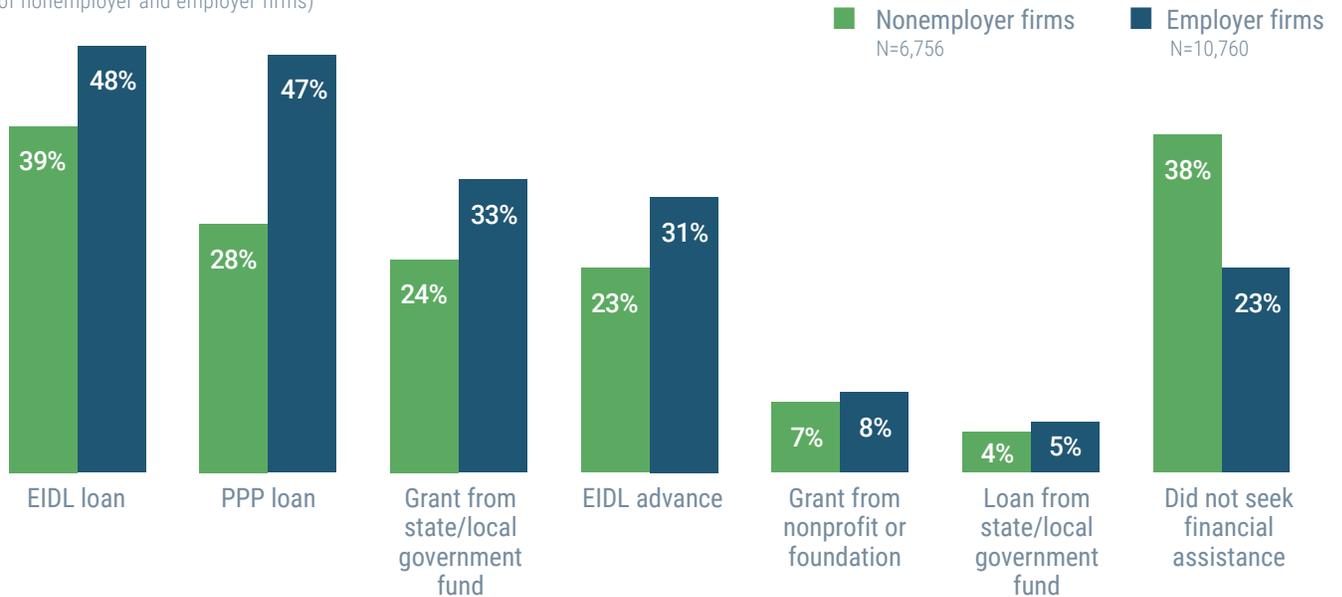
# PANDEMIC-RELATED FINANCIAL ASSISTANCE

## Funding Applications

Overall, nonemployer firms were less likely than employer firms to have sought pandemic-related financial assistance in the prior 12 months.

### TYPES OF FINANCIAL ASSISTANCE SOUGHT, Prior 12 Months<sup>1,2</sup>

(% of nonemployer and employer firms)



### PANDEMIC-RELATED FINANCIAL ASSISTANCE APPLICATIONS AND OUTCOMES, Prior 12 Months<sup>2,3</sup>

(% of nonemployer and employer firms)



**28%** of nonemployer firm owners collected **unemployment insurance benefits** in the prior 12 months.<sup>2,4</sup>

1 The Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) are administered through the US Small Business Administration. Select response options shown. See [Appendix](#) for more detail. Respondents could select multiple options.

2 See [Notes and Definitions](#) for details on time period definitions used in the SBCS.

3 Percentages may not sum to 100 because of rounding. In this chart, unemployment benefits are included with financial assistance.

4 The CARES Act gave states the option of extending unemployment compensation to independent contractors and other self-employed workers who are ordinarily ineligible for unemployment benefits.

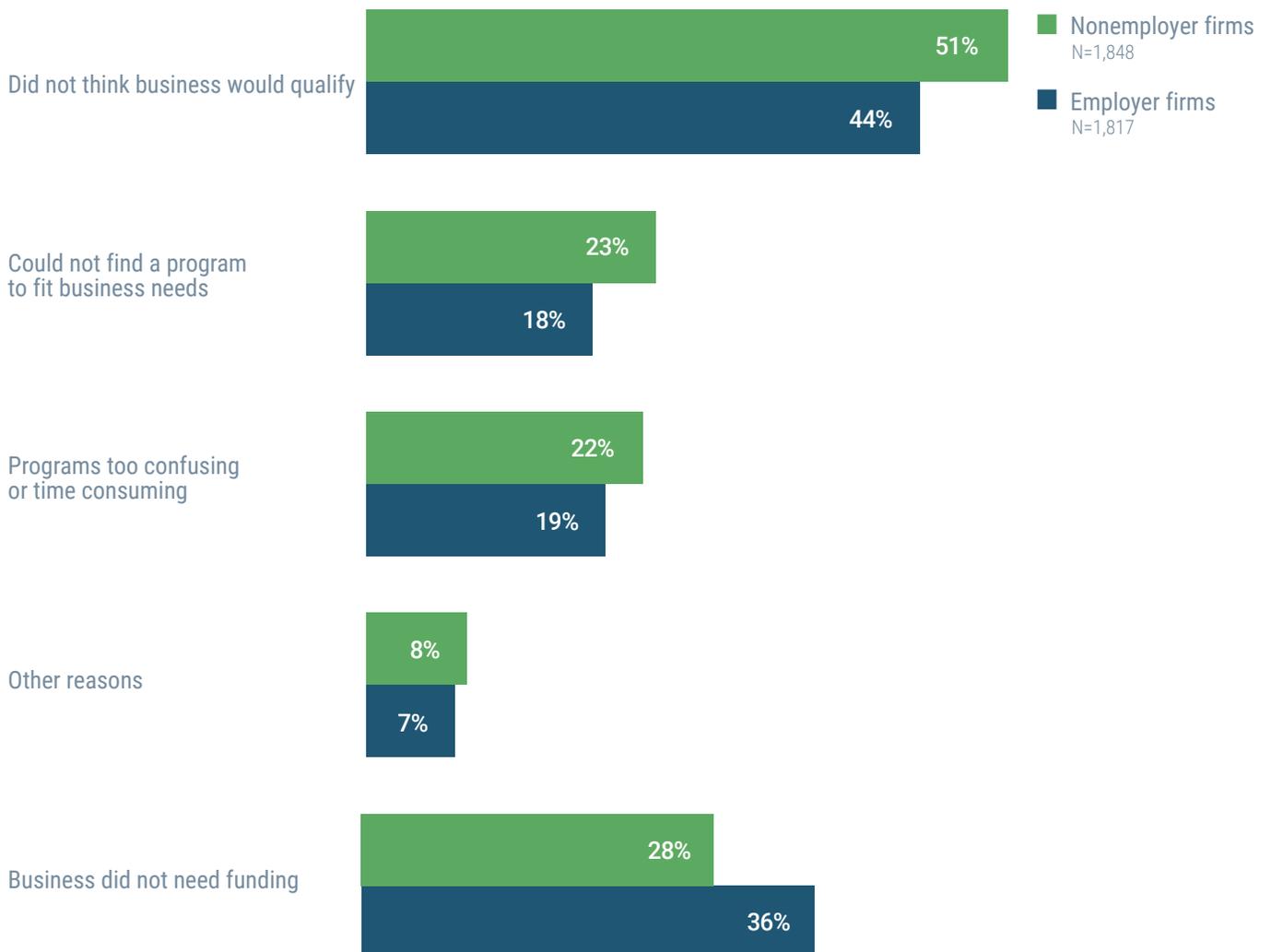
# PANDEMIC-RELATED FINANCIAL ASSISTANCE

## Nonapplicants

Among firms that did not apply for financial assistance, nonemployer firms most often said the reason was that they did not think they would qualify. Employer firms were more likely than nonemployer firms to say they chose not to apply because they did not need the funding.

### REASONS FIRMS DID NOT SEEK FINANCIAL ASSISTANCE, Prior 12 Months<sup>1</sup>

(% of nonemployer and employer firms that did not apply for assistance)



<sup>1</sup> See [Notes and Definitions](#) for details on time period definitions used in the SBCS. Respondents could select multiple options.

# PANDEMIC-RELATED FINANCIAL ASSISTANCE

## PPP Applications and Outcomes

Overall, the share of firms that applied for PPP loans declined from 2020 to 2021. Nonemployers were less likely than employers to have sought PPP loans.

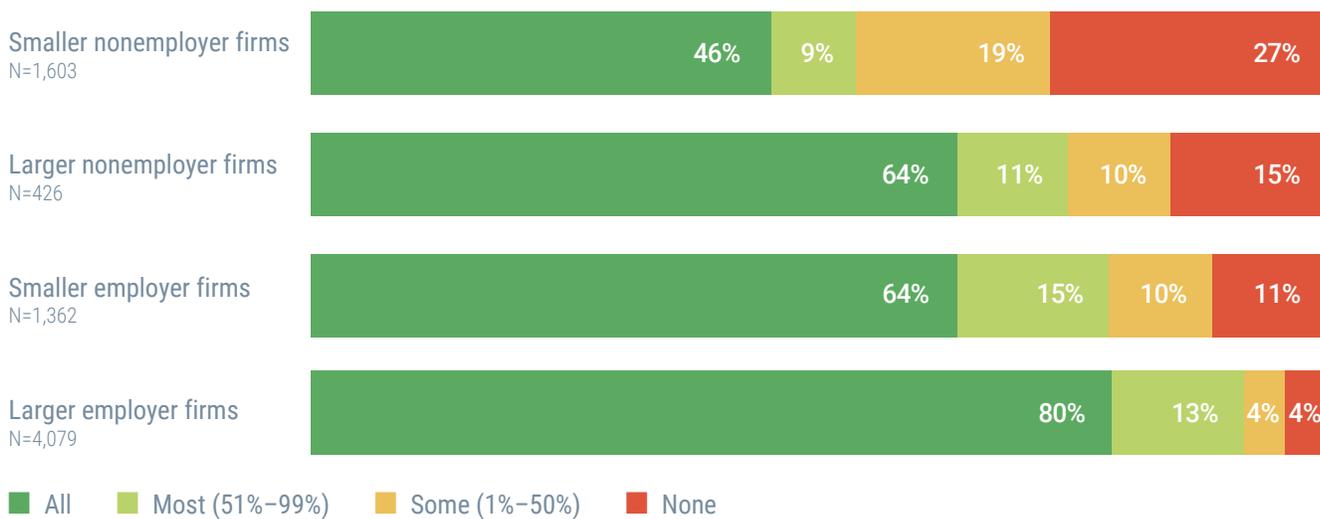
### PPP APPLICATIONS, 2020 and 2021<sup>1</sup>

(% of nonemployer and employer firms)



### PPP FUNDING RECEIVED, AS A SHARE OF AMOUNT SOUGHT BY APPLICANTS, 2021<sup>2</sup>

(% of nonemployer and employer PPP applicants)



1 The Paycheck Protection Program (PPP) is administered by the US Small Business Administration (SBA). PPP loans were available from April through August 2020 and January through May 2021.

2 Percentages may not sum to 100 because of rounding.

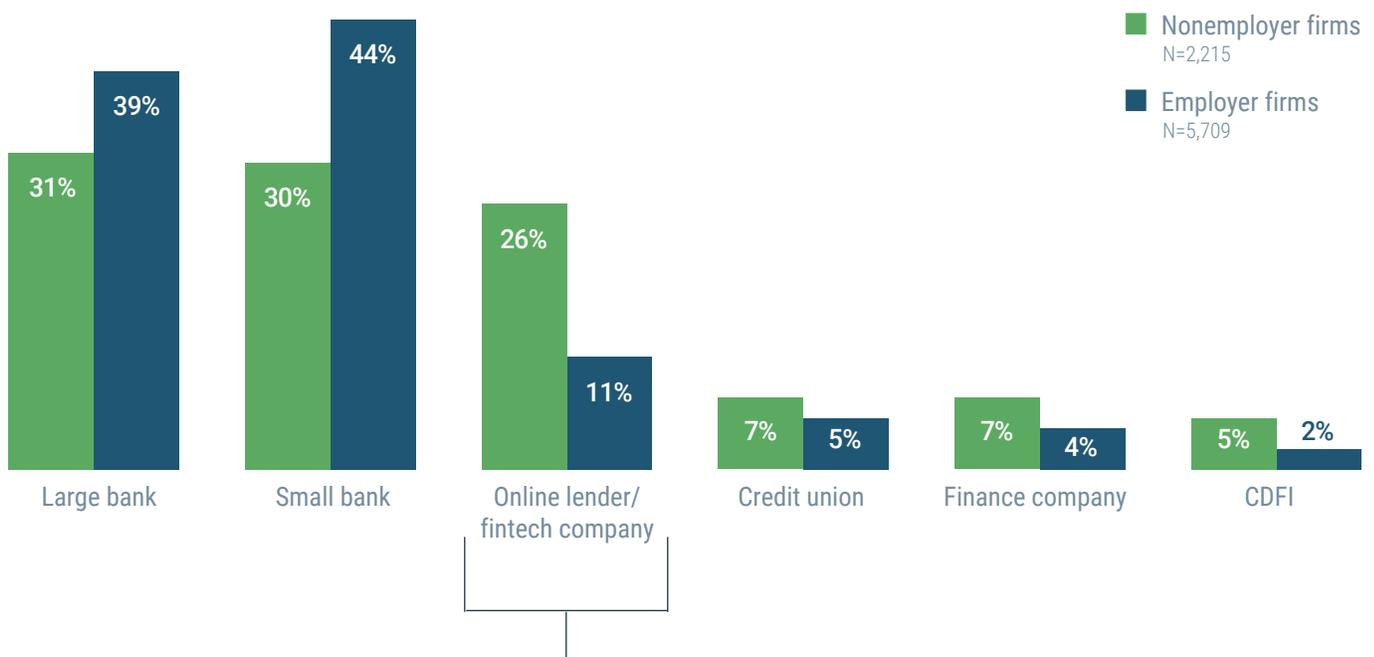
# PANDEMIC-RELATED FINANCIAL ASSISTANCE

## PPP Applications by Source

Compared to employer firm PPP applicants, nonemployer firms that sought PPP loans were less likely to apply at banks and more likely to apply at online lenders.

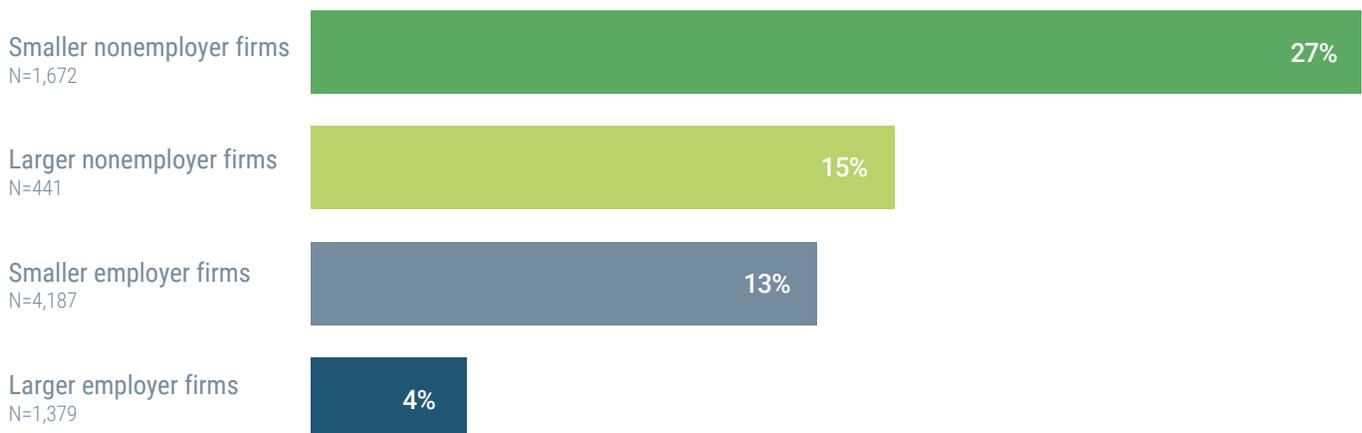
### PPP APPLICATIONS BY SOURCE, 2021<sup>1,2</sup>

(% of nonemployer and employer PPP applicants)



### SHARE OF PPP APPLICANTS THAT APPLIED AT ONLINE LENDERS, 2021<sup>2</sup>

(% of nonemployer and employer PPP applicants)



1 Respondents could select multiple options.

2 The Paycheck Protection Program (PPP) is administered by the US Small Business Administration (SBA). The SBCS lender categories differ somewhat from lender classifications used by the SBA to report PPP lending volume by lender type. Of note, the SBA classifies banks that originated PPP loans in partnership with fintech platforms as fintech lenders; the SBCS classifies them as banks.

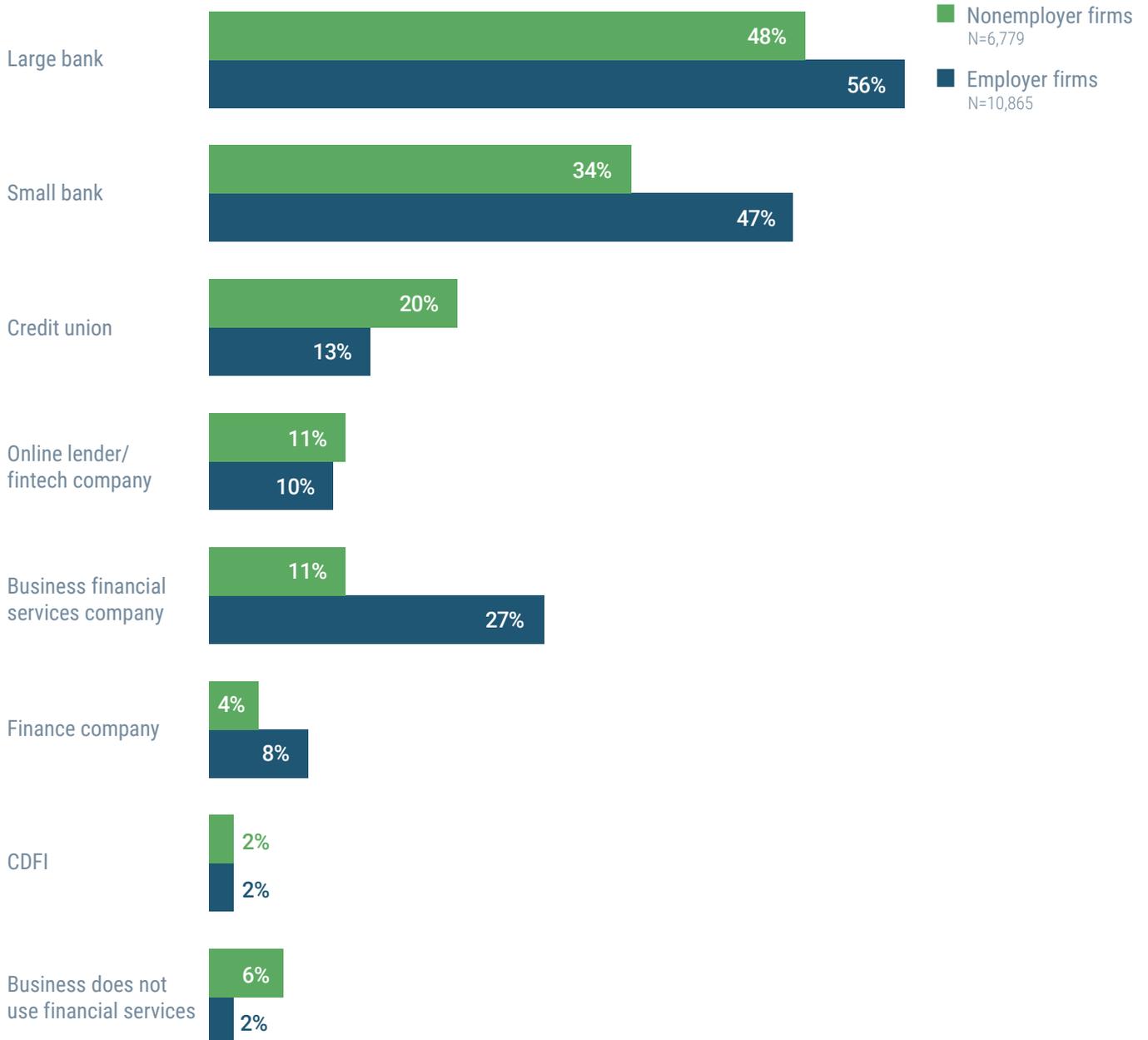
# DEBT AND FINANCING

## Financial Services Providers

**Nonemployer firms are less likely than employer firms to use banks for financial services.**

### USE OF FINANCIAL SERVICES PROVIDERS<sup>1</sup>

(% of nonemployer and employer firms)



<sup>1</sup> 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 descriptions used in the SBCS. Respondents could select multiple options. Select response options shown. See [Appendix](#) for more details.

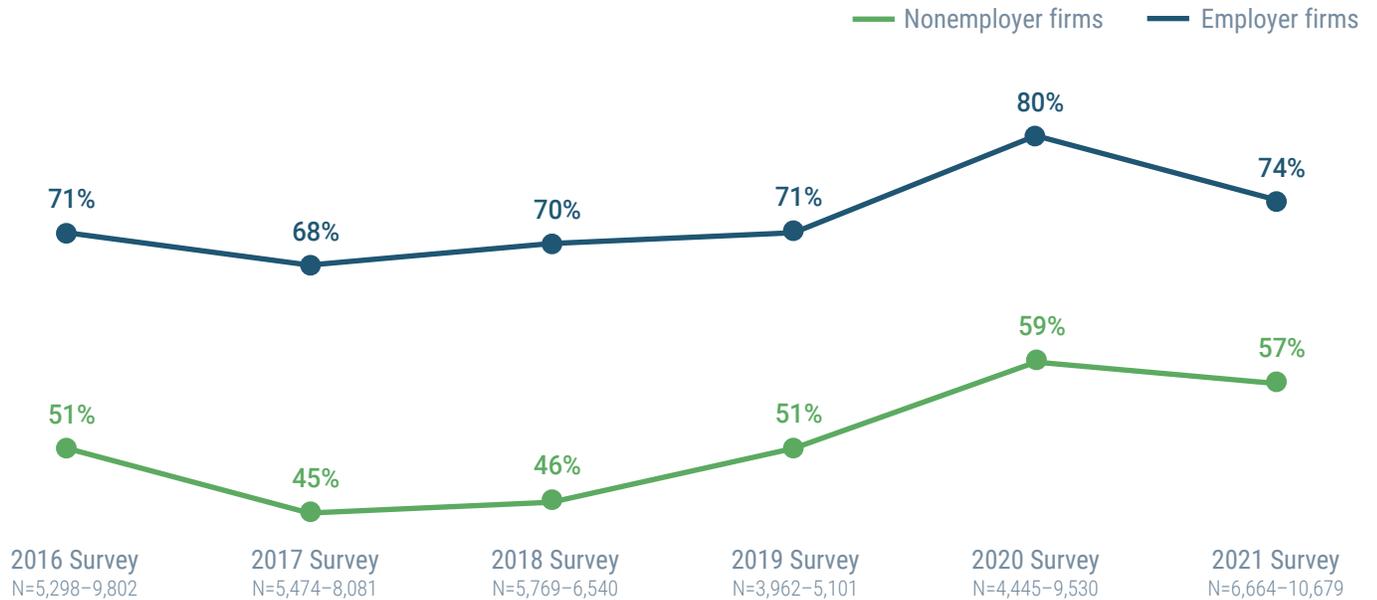
# DEBT AND FINANCING

## Debt Outstanding

Among nonemployer and employer firms, the share of firms with outstanding debt remains elevated compared to prepandemic survey periods.

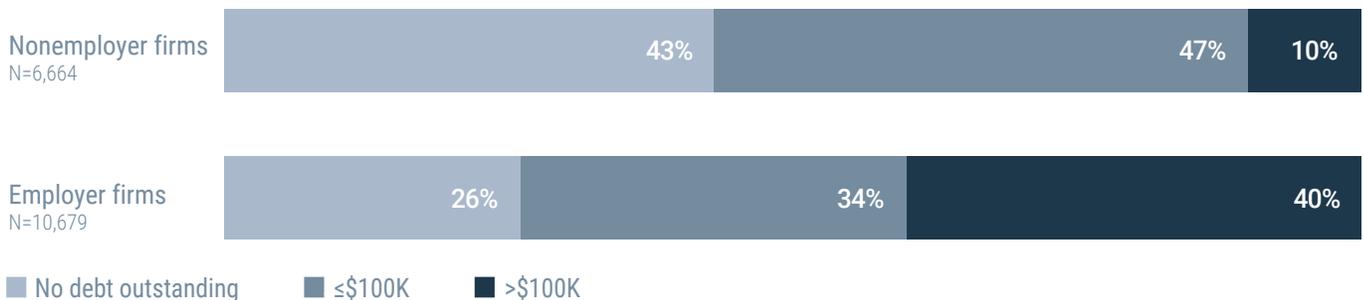
### SHARE OF FIRMS WITH DEBT OUTSTANDING, At Time of Survey<sup>1,2</sup>

(% of nonemployer and employer firms)



### AMOUNT OF DEBT, At Time of Survey<sup>2,3</sup>

(% of nonemployer and employer firms)



1 Respondents were instructed to exclude loans they expected would be forgiven from their outstanding debt (for example, PPP loans).  
 2 See [Notes and Definitions](#) for details on time period definitions used in the SBCS.  
 3 Categories have been simplified for readability. Actual categories are ≤\$25K, \$25,001-\$50K, \$50,001-\$100K, \$100,001-\$250K, \$250,001-\$1M, and >\$1M.

# DEBT AND FINANCING

## Financing Demand and Outcomes

Nonemployer firms were less likely than employer firms to have sought financing in the prior 12 months.

### SHARE THAT APPLIED FOR FINANCING, Prior 12 Months<sup>1,2</sup>

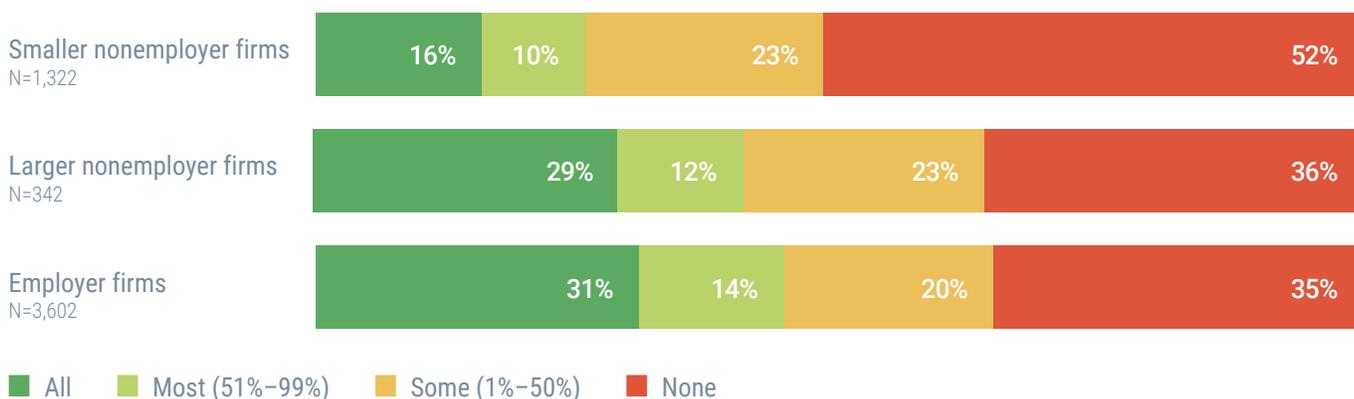
(% of nonemployer and employer firms)



Among **potential employers**—that is, nonemployer firms expecting to add employees—**34%** applied for financing in the prior 12 months. **59%** of potential employers that applied said they were seeking financing to expand their businesses.

### TOTAL FINANCING RECEIVED<sup>2,3</sup>

(% of nonemployer and employer applicant firms)



1 See *Notes and Definitions* for details on time period definitions used in the SBCS.  
 2 Excludes pandemic-related financial assistance applications.  
 3 Percentages may not sum to 100 because of rounding.

# DEBT AND FINANCING

## Financing Needs and Outcomes

### FUNDING NEEDS AND OUTCOMES<sup>1</sup>

N=6,638

(% of nonemployer firms)

To gauge funding success and shortfalls, we combine applicants' financing outcomes and nonapplicants' reasons for not applying.

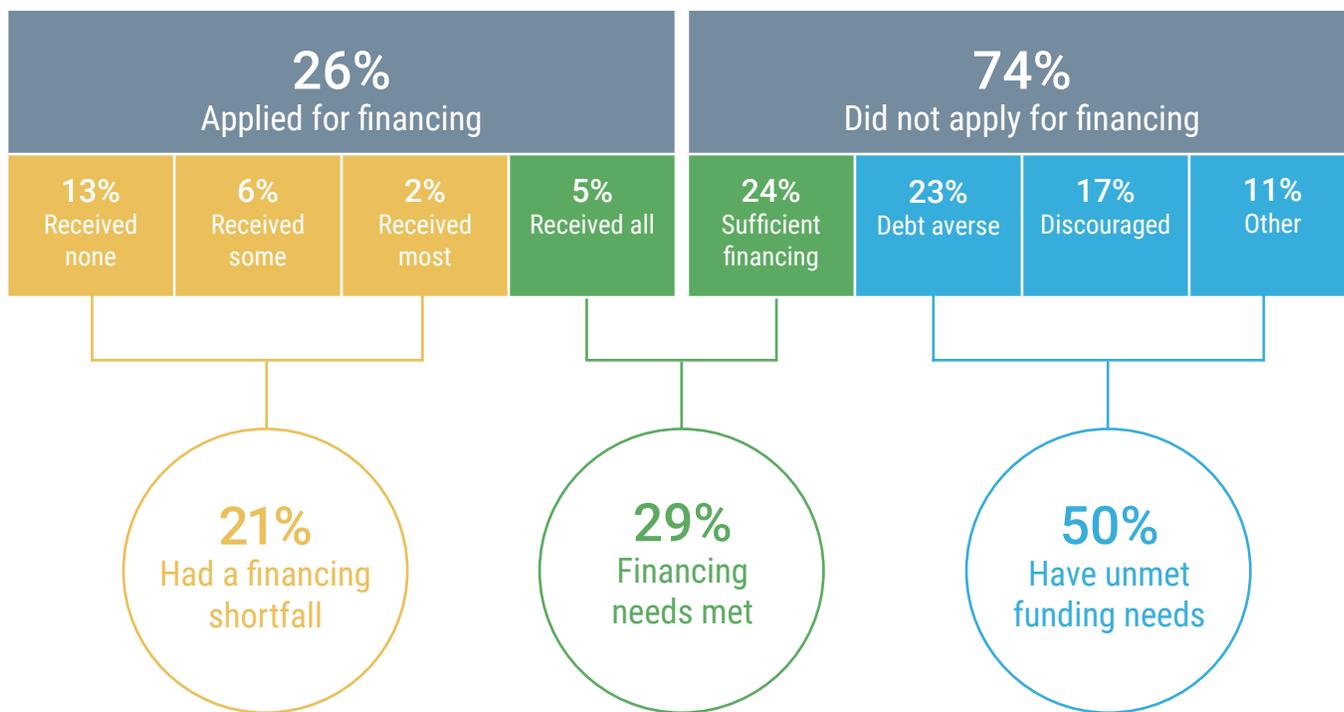
Firms that had their funding needs met include

- 1) Applicant firms that received the full amount of financing sought
- 2) Nonapplicant firms that did not apply for financing because they already had sufficient financing

Firms that did not have their funding needs met include

- 1) Applicant firms that did not obtain the full amount of financing sought
- 2) Nonapplicant firms that needed funds but chose not to apply

When applicant firms did not obtain the full amount of financing sought, we consider them to have a funding shortfall. When nonapplicant firms needed funds but chose not to apply, we consider them to have unmet funding needs.



<sup>1</sup> Excludes pandemic-related financial assistance applications. Discouraged firms are those that did not apply for financing because they believed they would be turned down. Percentages may not sum to 100 because of rounding. For comparison, among employer firms, 24% had a financing shortfall, 42% had their financing needs met, and 35% had unmet funding needs.

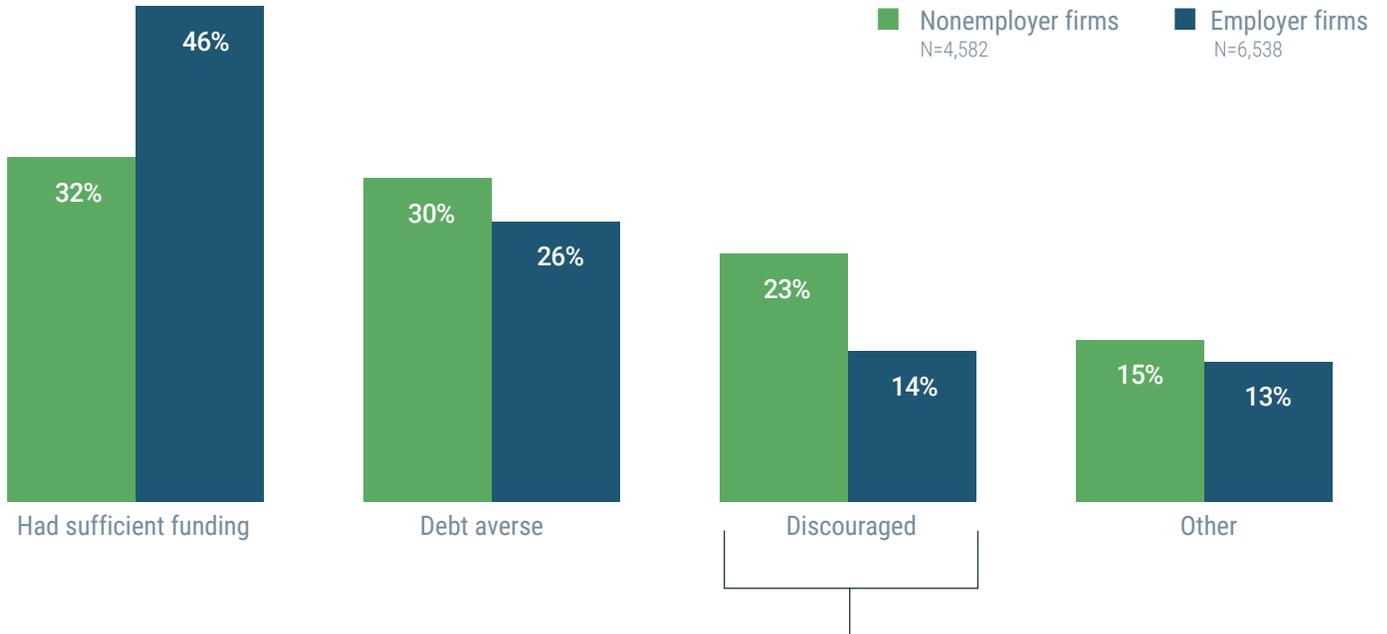
# DEBT AND FINANCING

## Nonapplicants

Among nonapplicants—that is, firms that did not apply for financing—nonemployer firms were less likely than employer firms to say their business had sufficient funding.

### PRIMARY REASONS FIRMS DID NOT APPLY FOR FINANCING<sup>1,2</sup>

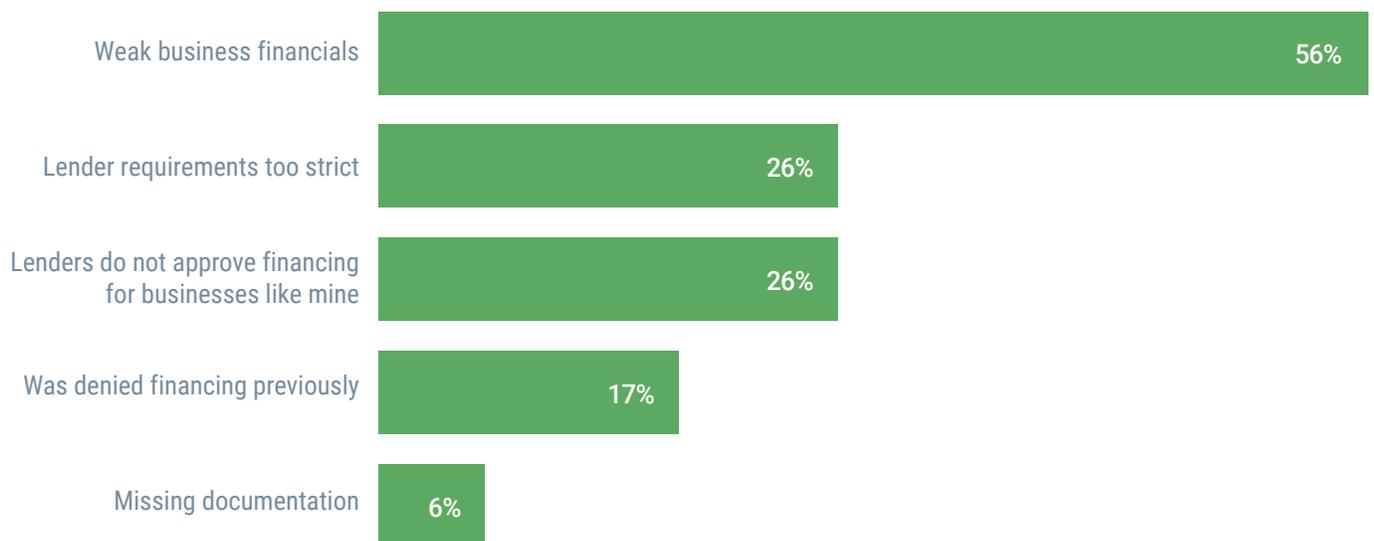
(% of nonemployer and employer nonapplicant firms)



### REASONS DISCOURAGED NONAPPLICANTS DID NOT EXPECT TO BE APPROVED<sup>2,3</sup>

N=1,040

(% of discouraged nonemployer nonapplicant firms)



1 Response option "other" includes "credit cost was too high," "application process was too difficult or confusing," and "other." See [Appendix](#) for more details.

Percentages may not sum to 100 because of rounding.

2 Discouraged firms are those that did not apply for financing because they believed they would be turned down.

3 Respondents could select multiple options. Response option "other" not shown. See [Appendix](#) for more details.

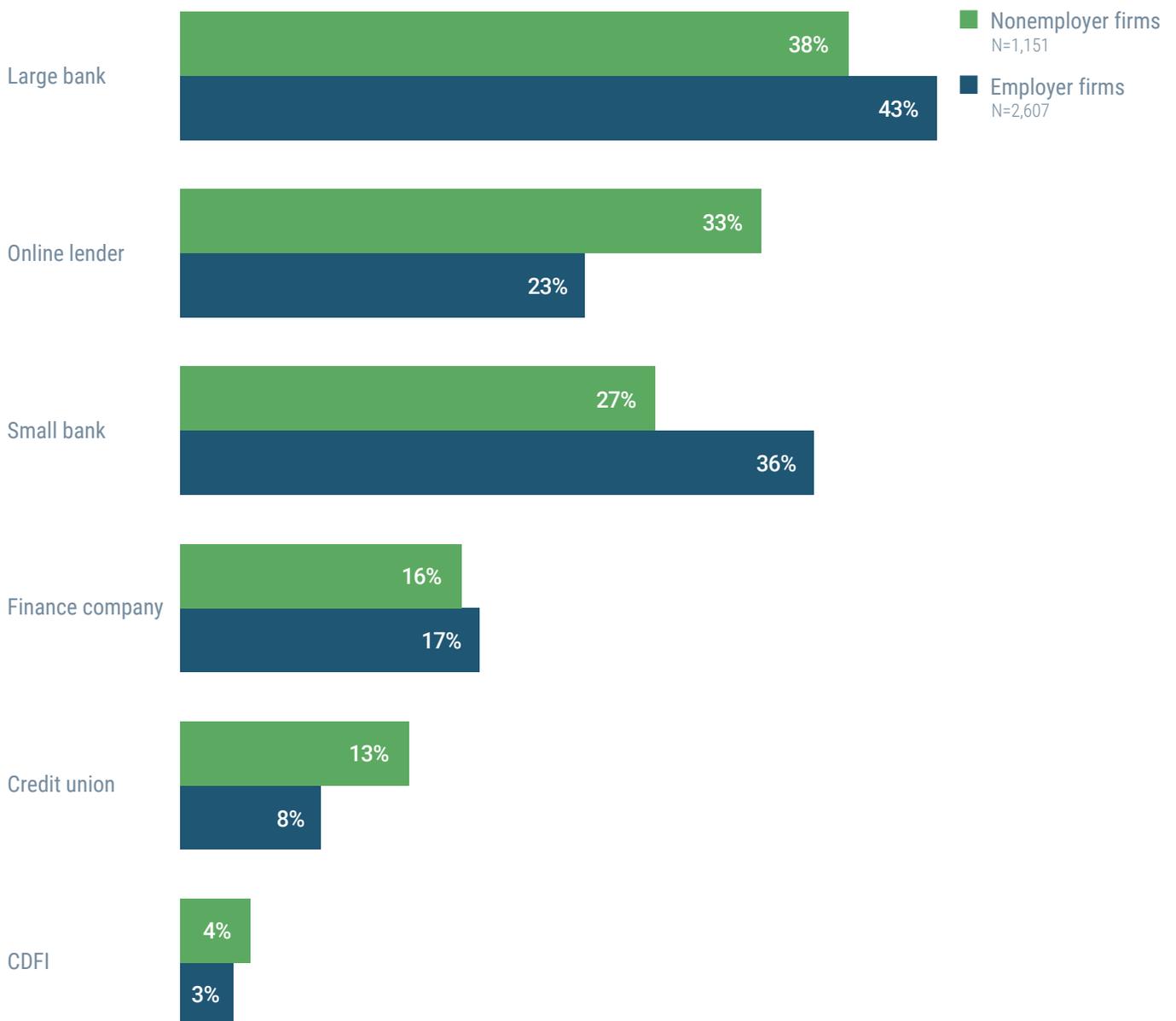
# FINANCING APPLICATIONS

## Loan/Line of Credit/Cash Advance Sources

Among firms that applied for loans, lines of credit, or cash advances, nonemployer firms were less likely than employer firms to apply at banks and more likely to apply at online lenders.

### CREDIT SOURCES APPLIED TO<sup>1</sup>

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



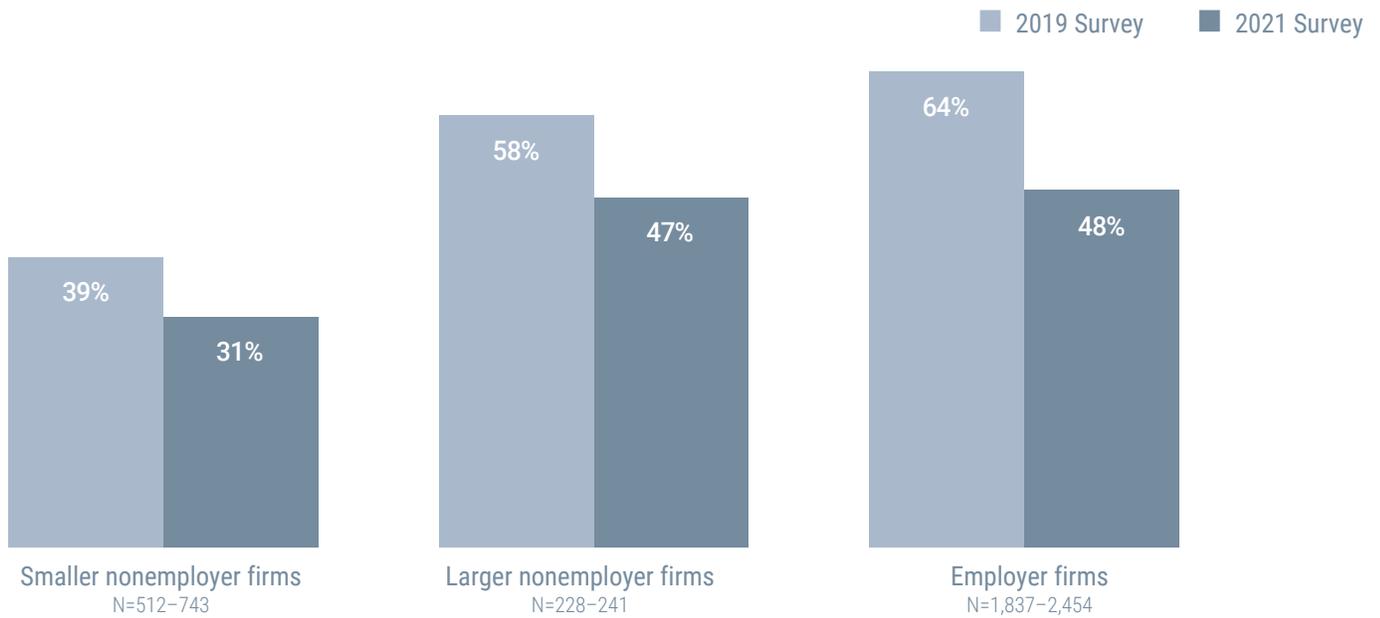
<sup>1</sup> Excludes pandemic-related financial assistance applications. See [Notes and Definitions](#) for details on lender descriptions used in the SBCS. Respondents could select multiple options. Response option "other" not shown in chart. See [Appendix](#) for more details.

# FINANCING APPLICATIONS

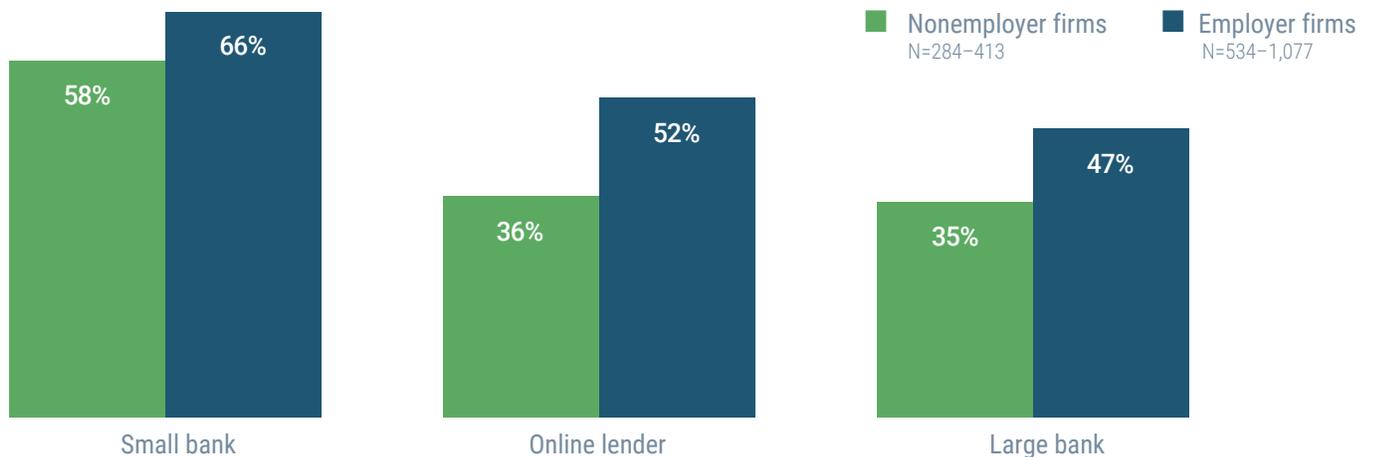
## Loan/Line of Credit/Cash Advance Approval

Across nonemployer and employer firm applicants, approval rates have declined since prepandemic times. In the 2021 survey, applicants were most likely to be approved at small banks.

**SHARE OF LOAN, LINE OF CREDIT, AND CASH ADVANCE APPLICANT FIRMS THAT WERE FULLY APPROVED, By Year<sup>1</sup>** (% of loan, line of credit, and cash advance applicants)



**SHARE OF LOAN, LINE OF CREDIT, CASH ADVANCE APPLICANTS THAT WERE AT LEAST PARTIALLY APPROVED, By Source, 2021 Survey<sup>1,2</sup>** (% of loan, line of credit, and cash advance applicants at source)



<sup>1</sup> Excludes pandemic-related financial assistance applications.

<sup>2</sup> Select lenders shown. See [Appendix](#) for more details. See [Notes and Definitions](#) for details on lender descriptions used in the SBCS.

# METHODOLOGY

## DATA COLLECTION

The SBCS uses a convenience sample of establishments. A diverse set of organizations that serve the small business community contact small firm respondents by email.<sup>1</sup> 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 responses for each question varies by how many firms receive and complete a particular question.

## WEIGHTING

A sample for the SBCS is not selected randomly; thus, the SBCS may be subject to biases not present with surveys that do select firms randomly. For example, there are likely firms not on our contact lists, and this may lead to a noncoverage bias. To control for potential biases, the sample data are weighted so that the weighted distribution of firms in the SBCS matches the distribution of the nonemployer firm population in the United States by age, industry, geographic location (urban or rural location), gender of owner(s), and race or ethnicity of owner(s). We first limit the sample in each year to only nonemployer firms.<sup>2</sup> 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 nonemployer businesses in the nation that are in that category.<sup>3</sup> As a result, underrepresented firms are up weighted, and overrepresented businesses 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 for weighting come from data collected by the US Census Bureau.<sup>4</sup>

## 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 with an accuracy of around 80 percent in out-of-sample tests, we use the predicted values from the models for the missing data.<sup>5</sup> When the model outcomes are less certain, 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 stability of estimates. In the final sample, five percent of nonemployer firm observations have imputed values for the gender, race, or ethnicity of a firm's ownership.

## COMPARISONS TO PAST REPORTS

Because previous SBCS reports have varied in terms of the population scope, geographic coverage, and weighting methodology, the survey reports are not directly comparable across time. Geographic coverage and weighting strategies have varied from year to year. For example, the 2016 data were not originally weighted by race, ethnicity, or gender of owner(s), whereas the 2017 through 2021 data (presented in this report) did include these owner demographics in the weighting scheme, as described previously. In addition to being weighted by different firm characteristics over time, the categories used within each characteristic have also differed across survey years. After implementing changes to the weighting methodology, post-2015 survey years have been weighted with a uniform set of variables. Data for the 2015 survey year are thus not displayed in this report, as they lack information on several of the weighting variables. The data in this report are, however, comparable to the report containing 2018 survey data that was published in 2019 and 2017 survey data that were published in 2018. For more information on the methodological changes to the "time-consistent" weights, please refer to the methodology section of the *Small Business Credit Survey 2019 Report on Employer Firms*. In addition, many survey questions are not comparable over time due to changes in the response options.

1 For more information on partnerships, please visit [www.fedsmallbusiness.org/partnership](http://www.fedsmallbusiness.org/partnership).

2 Weights for employer firms are computed separately, and a separate report on employer firms is issued annually.

3 Age strata are 0–2 years, 3–4 years, 5–12 years, and 13+ 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 Hispanic, non-Hispanic Asian, non-Hispanic Black or African American, non-Hispanic Native American, and non-Hispanic white. Gender strata are men-owned or equally owned, and women-owned. See Appendix for industry definitions and urban and rural definitions.

4 Data on industry and urban/rural location come from the US Census Bureau's 2018 Nonemployer Statistics (NES). Data from the US Department of Agriculture's Rural-Urban Continuum Codes are used to classify a business's county as urban or rural. Data on firm age come from the US Census Bureau's 2012 Survey of Business Owners. Data on the race, ethnicity, and gender of business owners are derived from the US Census Bureau's 2017 NES-D release.

5 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% are used, although this varies slightly, depending on the number of observations that are being imputed.

# METHODOLOGY

(Continued)

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 2022 report are not directly comparable to reports prior to the 2019 survey.

## CREDIBILITY INTERVALS

The analysis in this report is aided by the use of credibility intervals. Where there are large differences in estimates between types of businesses, we perform additional checks on the data to determine whether such differences are statistically significant. The results of these tests help guide our analysis and help us decide what ultimately is included in the report. To determine whether differences are statistically significant, we develop credibility intervals using a balanced half-sample approach.<sup>6</sup> 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.<sup>7</sup> We list 95 percent credibility intervals for key statistics in the following table. The intervals shown apply to all nonemployer firms in the survey. More granular results with smaller observation counts will generally have larger credibility intervals.

| Credibility Intervals for Key Statistics in the 2022 Report on Nonemployer Firms |         |                                |
|--|---------|--------------------------------|
|  | Percent | Credibility Interval (Percent) |
| Share that applied   | 26.2    | +/- 1.3                        |
| Share that received all financing sought   | 19.6    | +/- 3.7                        |
| Loan/line of credit and cash advance approval rate                               | 54.4    | +/- 3.1                        |
| Share of firms with financial challenges in prior 12 months                      | 88.4    | +/- 0.6                        |
| Share of firms in fair or poor financial condition                               | 72.4    | +/- 0.8                        |

<sup>6</sup> Wolter. *Survey Weighting and the Calculating of Sampling Variance*. 2007.

<sup>7</sup> American Association for Public Opinion Research. *Task Force on Non-probability Sampling*. 2013.