SMALL BUSINESS CREDIT SURVEY

2021 REPORT ON NONEMPLOYER FIRMS

FEDERAL RESERVE BANKS

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The 2020 Small Business Credit Survey and this report are the result of the collaborative effort, input, and analysis of the following teams:

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The views expressed in the following pages are those of the report team and do not necessarily represent the views of the Federal Reserve System.

1 *For a full list of community partners, please visit www.fedsmallbusiness.org.*
2 *For complete information about the survey methodology, please see Methodology.*
3 *Joseph Firschein, Board of Governors of the Federal Reserve System; Karen Leone de Nie, Federal Reserve Bank of Atlanta; Prabal Chakrabarti, Federal Reserve Bank of Boston; Daniel Sullivan, Federal Reserve Bank of Chicago; Emily Garr Pacetti, Federal Reserve Bank of Cleveland; Roy Lopez, Federal Reserve Bank of Dallas; Teesha Miller, Federal Reserve Bank of Kansas City; Alene Tchourumoff, Federal Reserve Bank of Minneapolis; Tony Davis, Federal Reserve Bank of New York; Theresa Singleton, Federal Reserve Bank of Philadelphia; Christy Cleare, Federal Reserve Bank of Richmond; Daniel Davis, Federal Reserve Bank of St. Louis; and Laura Choi, Federal Reserve Bank of San Francisco.*
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EXECUTIVE SUMMARY

The COVID-19 pandemic affected small businesses across the United States, with few escaping financial and operational challenges as a result of declines in economic activity and actions taken to reduce the spread of the virus. Among the most impacted firms were the smallest businesses—nonemployer firms—which are businesses with no employees other than the owner(s). Given nonemployers make up 81% of all small businesses in the United States, understanding the impact of the pandemic on those businesses and their ability to access emergency funding is important in assessing the overall well-being of the small business sector.

This publication focuses on the experiences of nonemployer firms in the months leading up to the pandemic and the first six months of the crisis. The report supplements the findings from the 2020 Small Business Credit Survey (SBCS) described in the *Small Business Credit Survey 2021 Report on Employer Firms,* which explored outcomes for businesses with 1–499 paid employees other than the owner(s). Nonemployer firms are distinct from employer firms in more than just the employment size of the business. Nonemployers are concentrated in different industries and are more likely to be owned by women and people of color. While some nonemployers are gig workers supplementing their income, a majority of the respondents in the SBCS sample reported that their firm was the primary source of income for their household, and a quarter of them planned to become employer firms within the next year.

This publication examines findings for nonemployer firms and highlights the differences in experiences between nonemployer and employer businesses. On average, nonemployer firms reported larger declines in performance in the 12 months preceding the survey than employer firms, and nonemployers also more often struggled to access the funding necessary to keep their businesses afloat. This report also underscores the importance of revenue size: Nonemployer firms with $100,000 or less in annual revenues faced more challenges and worse outcomes than larger-revenue nonemployers, which often reported conditions similar to those of smaller-revenue employer businesses.

SURVEY FINDINGS

The SBCS provides data on small business performance, financing needs and decisions, and borrowing outcomes. The 2020 SBCS, which was fielded in September and October 2020, yielded 4,531 responses from nonemployer firms (hereafter "nonemployers," or "nonemployer firms") in all 50 states and the District of Columbia. This report also includes findings from a sample of 9,693 small employer firms—that is, firms with 1-499 full- or part-time employees (hereafter "employers," or "employer firms").

In some instances, this report references "larger" and "smaller" nonemployer firms and employer firms. Smaller nonemployer firms are those with $100,000 or less in annual revenues; larger nonemployers are those with more than $100,000 in annual revenues. Smaller employer firms are those with $1 million or less in annual revenues; larger employers are those with more than $1 million in annual revenues.

Nonemployer firms widely reported declining revenues between 2019 and 2020 and often turned to personal funds in response to financial challenges.

- Seventy-six percent of nonemployers reported a decline in revenues in the 12 months prior to the survey. Just 13% reported revenue growth.
- Among all nonemployers, 32% characterized their financial condition as "poor" at the time of the survey. Thirty-six percent of smaller nonemployer firms were in poor financial condition; this figure falls to 23% for larger nonemployer firms.
- Eighty-one percent of nonemployer firms experienced some type of financial challenge in the 12 months prior to the survey. Compared to employer firms, nonemployers more often turned to personal funds and reported some impact to household finances as a result of those challenges.

EXECUTIVE SUMMARY
(Continued)

Nonemployer firms accessed COVID-related small business assistance at lower rates than employer firms, though many nonemployer firm owners received enhanced unemployment benefits.

- While 91% of employer firms completed an application for emergency assistance funding, just 66% of nonemployers completed an application. However, 30% of nonemployer firm owners reported collecting unemployment insurance benefits.
- Smaller nonemployer firms were less likely than larger nonemployer firms to apply for and receive emergency assistance funding. While 62% of smaller nonemployers sought and received assistance, 78% of larger nonemployers did so.
- The Paycheck Protection Program (PPP), which was the most popular emergency funding program for employer firms, was far less commonly used by nonemployers. Thirty-five percent of nonemployers applied for a PPP loan, as compared to 82% of employers. Nonemployers that did apply for a PPP loan were less successful than employers at obtaining the funding they sought.

As the availability of emergency funding increased, demand for traditional financing fell among nonemployers between 2019 and 2020. Nonemployer firms that did apply for financing were less likely than employer firms to receive the full amount they sought.

- Twenty-four percent of nonemployers applied for financing in the 12 months prior to the survey, a decline from 29% in the 2019 survey period.
- More than one in three nonemployer firms received none of the financing for which they applied. Among smaller nonemployer firms, 42% received none of the financing they sought. The same was true for 35% of larger nonemployer applicant firms.
- Compared to employer firms that applied for financing, nonemployers firms that applied were less likely to seek financing at small banks (30% vs. 43% of employers) and more likely to turn to online lenders (25% vs. 20% of employers).
- Across the most common sources of loans, lines of credit, and cash advances, nonemployer applicant firms were more likely to be at least partially approved at small banks (56%) than at online lenders (50%) or large banks (41%).

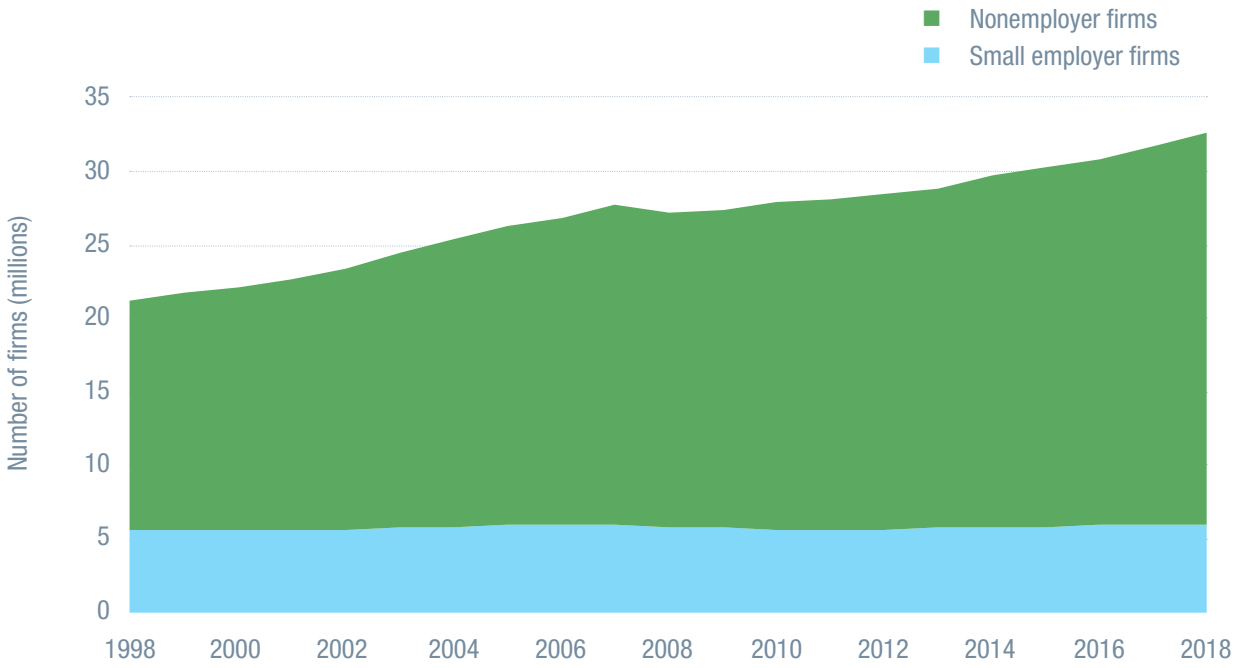
ABOUT THE SURVEY

The SBCS is an annual survey of firms with fewer than 500 employees. 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.

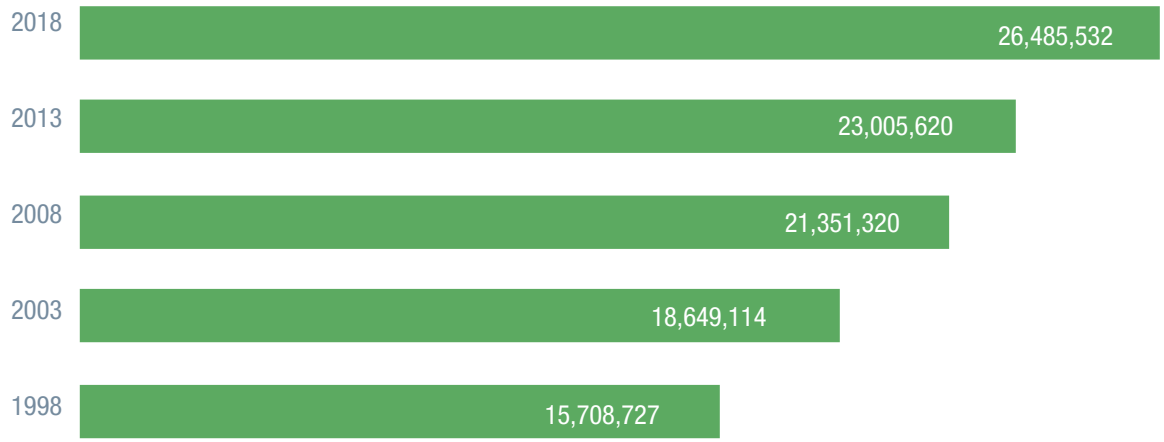
DEMOGRAPHICS
Nonemployer Trends

81% of small businesses are nonemployer firms—firms with no employees other than the business owner(s).

NUMBER OF SMALL BUSINESSES, 1998–2018[1,2]



NUMBER OF NONEMPLOYER FIRMS[3]

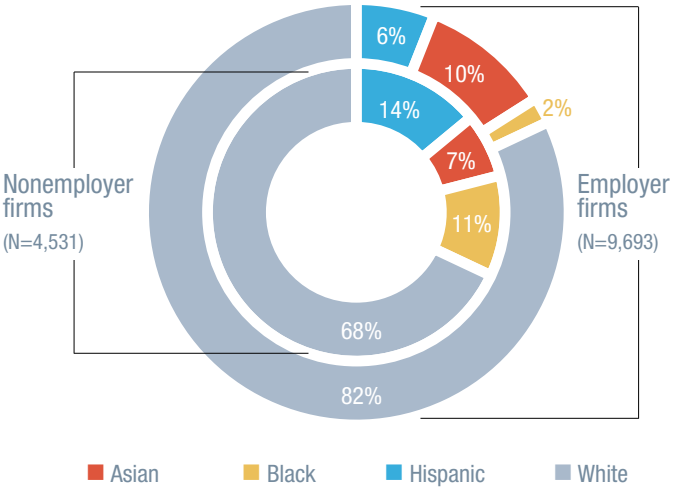


1 *Data for small employer firms is sourced from US Census Bureau's Statistics of US Businesses. Data for nonemployer firms is sourced from US Census Bureau's Nonemployer Statistics.*
2 *Small employer firms are businesses with 1–499 employees.*
3 *Sourced from US Census Bureau, Nonemployer Statistics.*

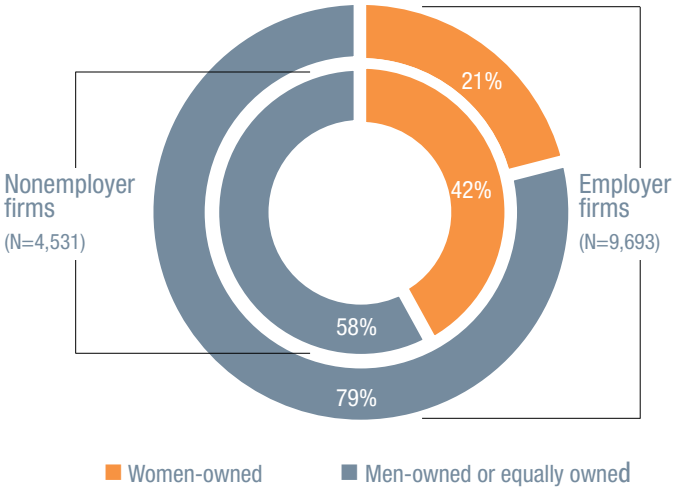
DEMOGRAPHICS
Firm Owner Characteristics

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

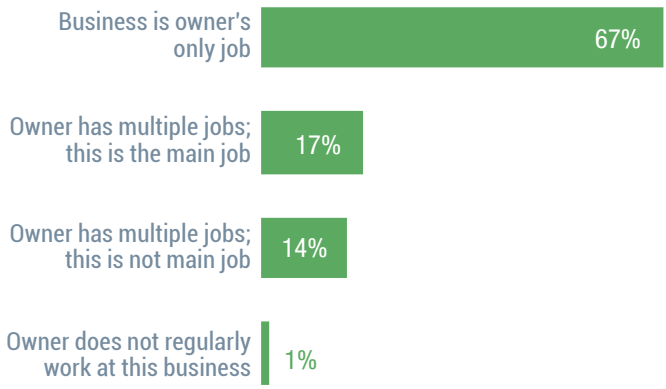
RACE/ETHNICITY OF OWNER(S)[1,2]
(% of nonemployer and employer firms)



GENDER OF OWNER(S)[2]
(% of nonemployer and employer firms)



DESCRIPTION OF PRIMARY OWNER'S WORK FOR THE BUSINESS[3] (% of nonemployer firms)
N=4,011



59% of nonemployer firms account for all or most of their primary owner's household income

45% of nonemployer firms work as independent contractors for other businesses or agencies

18% of surveyed nonemployer firms perform gig work[4]

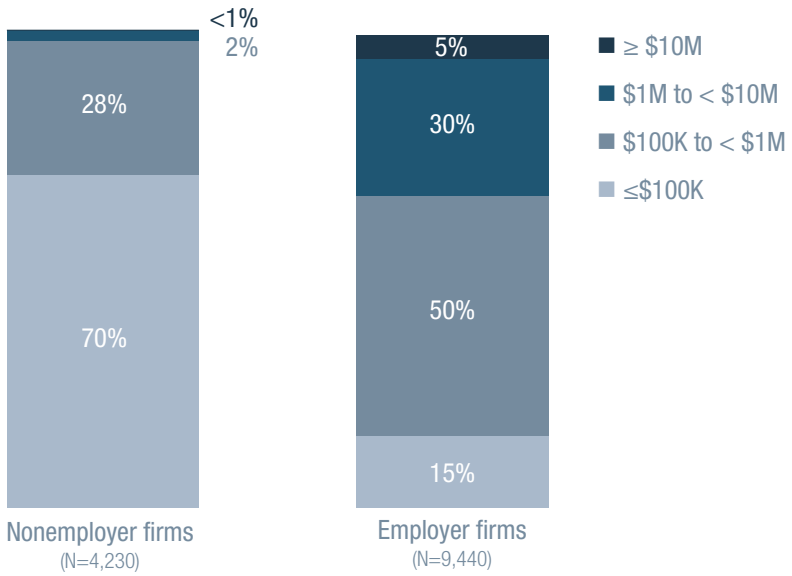
1 *Non-Hispanic Native American, not shown, account for less than 1 percent of nonemployer firms.*
2 *SBCS responses throughout the report are weighted using Census Bureau data to represent the nonemployer firm population in the United States by age, industry, geographic location, gender of owner(s), 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 *Percentages may not sum to 100 due to rounding.*
4 *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

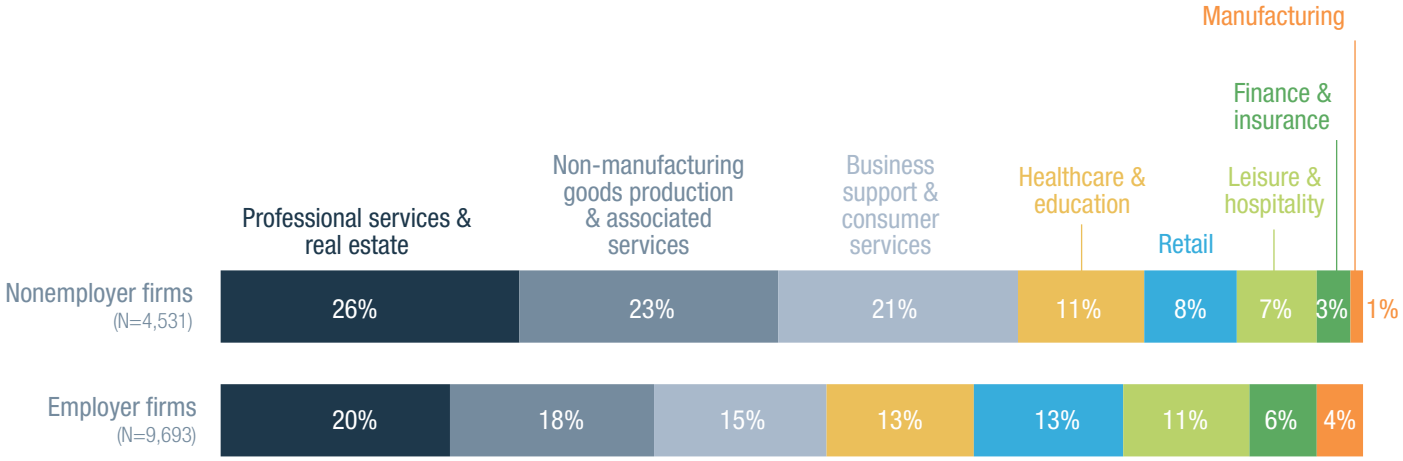
Compared to employer firms, nonemployer firms are smaller, as measured by revenues. Nonemployer firms are more concentrated in service industries.

REVENUE SIZE OF FIRM[1,2] (% of nonemployer and employer firms)

For purposes of this report, **"Smaller nonemployer firms"** are those with $100K or less in annual revenues. **"Larger nonemployer firms"** are those with more than $100K in annual revenues.



INDUSTRY[1,3,4] (% of nonemployer and employer firms)



1 *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.*

2 *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.*

3 *Percentages may not sum to 100 due to rounding.*

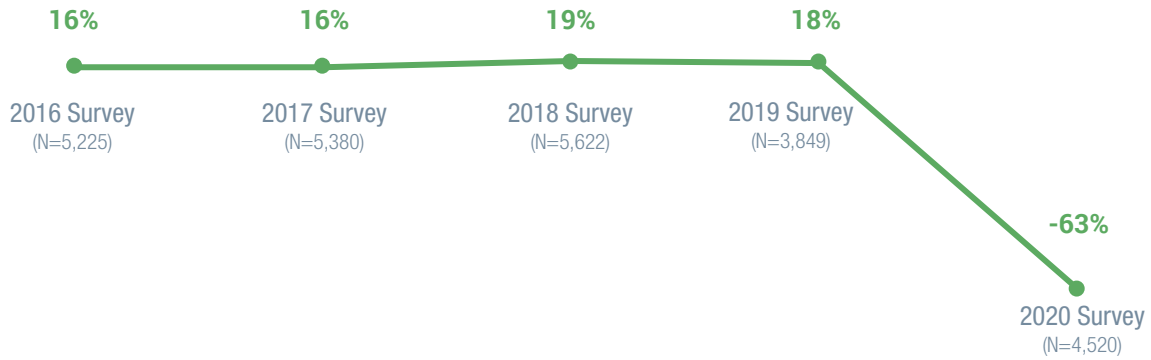
4 *Within non-manufacturing goods production and associated services, the share of nonemployer firms is higher than the share of employers for transportation and wholesale businesses.*

PERFORMANCE & CHALLENGES

Revenue Change and Financial Condition

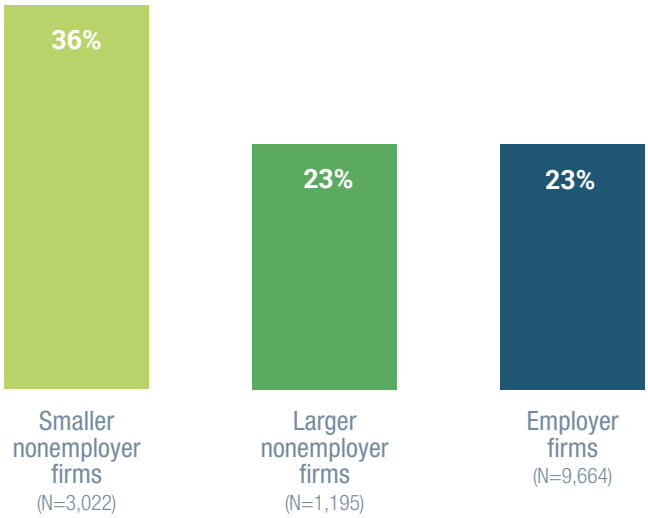
A majority of nonemployer firms experienced declines in revenues during the prior 12 months.

NONEMPLOYER FIRM REVENUE PERFORMANCE INDEX, *Prior 12 Months*[1,2] (% of nonemployer firms)



36% of smaller nonemployers and 23% of larger nonemployers were in poor financial condition at the time of the survey. Overall, 32% of nonemployers reported that their firm was in poor financial condition.

SHARE OF FIRMS IN "POOR" FINANCIAL CONDITION, *At Time of Survey*[3,4] (% of nonemployer and employer firms)



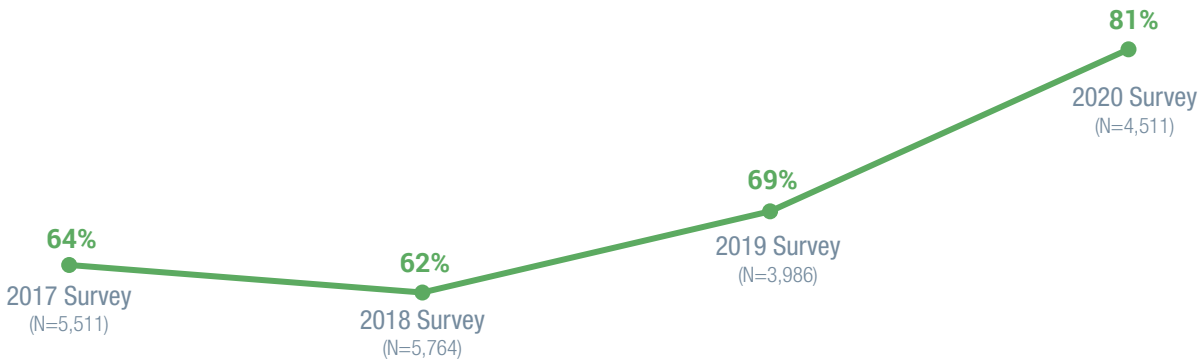
1 *The index is the share reporting revenue growth minus the share reporting a reduction.*
2 *Prior 12 months is approximately the second half of the prior year through the second half of the surveyed year.*
3 *Firm's financial condition was self-reported by the respondent. Response options were excellent, very good, good, fair, and poor. See Appendix for more detail.*
4 *At time of survey, September through October 2020.*

PERFORMANCE & CHALLENGES

Financial Challenges and Reliance on Personal Funds

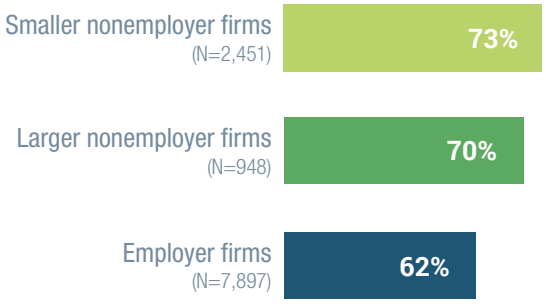
Nonemployer firms reported more financial challenges in 2020 than in prior years. Compared to employer firms, nonemployer firms were more likely to rely on the owners' personal funds to address challenges.

SHARE OF FIRMS WITH FINANCIAL CHALLENGES, *Prior 12 Months*[1] (% of nonemployer firms)



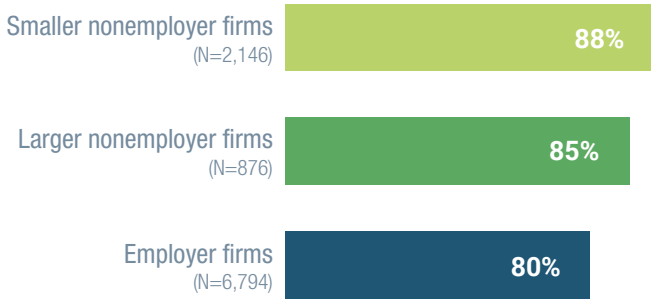
SHARE OF FIRMS USING OWNERS' PERSONAL FUNDS TO ADDRESS FINANCIAL CHALLENGES, *Prior 12 Months*[2,3]

(% of nonemployer and employer firms)



SHARE OF FIRM OWNERS REPORTING IMPACT ON PERSONAL FINANCES FROM THEIR FIRMS' PANDEMIC-RELATED CHALLENGES[4]

(% of nonemployer and employer firms)



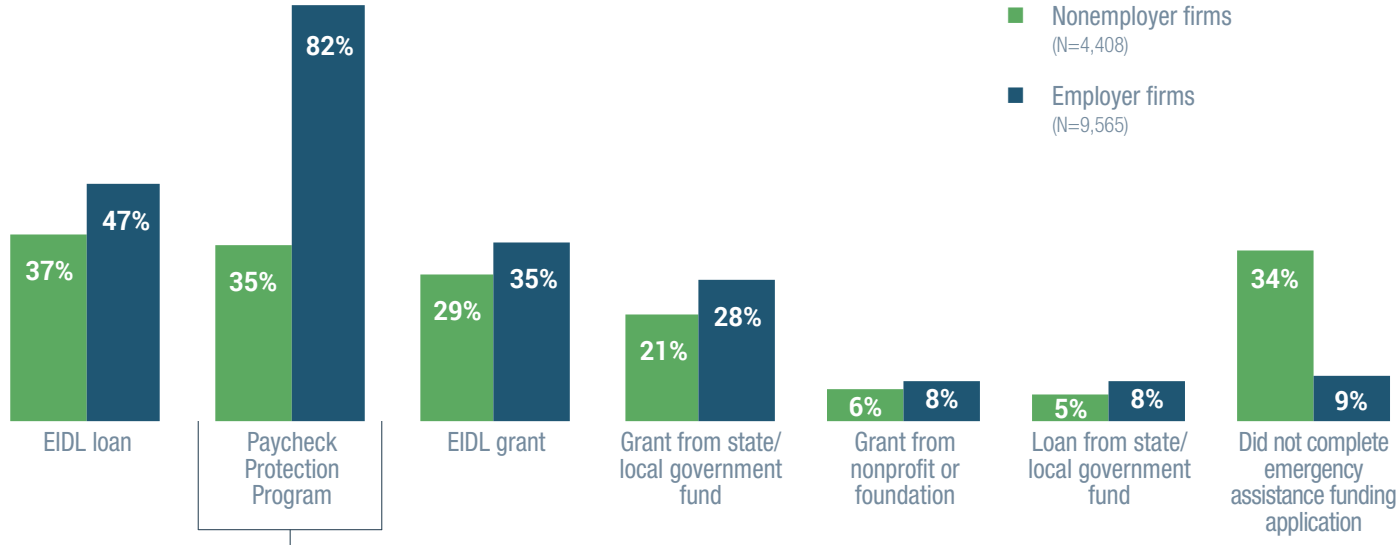
1 *Prior 12 months is approximately the second half of the prior year through the second half of the surveyed year.*
2 *Prior 12 months is approximately the second half of 2019 through the second half of 2020.*
3 *Select response option shown. See Appendix for more detail on other actions taken in response to financial challenges.*
4 *Data on personal finances were drawn from questions in the optional end-of-survey module (completed by approximately 80% of respondents). This subset of respondents is re-weighted to be reflective of the overall small firm population. See Appendix for more detail on responses.*

EMERGENCY FUNDING

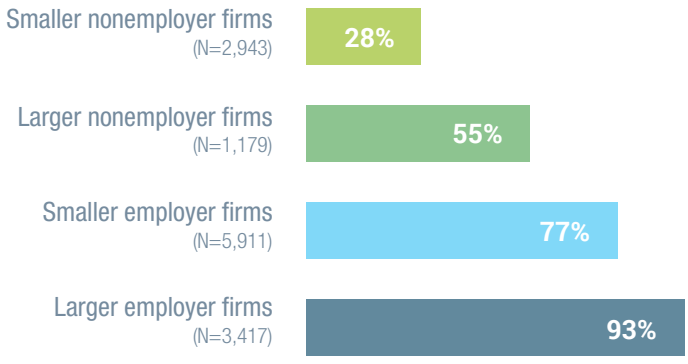
Pandemic-Related Emergency Funding Needs

Nonemployer firms were less likely than employer firms to apply for Paycheck Protection Program (PPP) loans. Smaller nonemployer firms were least likely to apply.

APPLICATIONS FOR EMERGENCY ASSISTANCE FUNDS[1,2] (% of nonemployer and employer firms)



SHARE OF FIRMS THAT APPLIED FOR A PPP LOAN[3] (% of nonemployer and employer firms)



30% of nonemployer firm owners collected unemployment insurance benefits.[4]

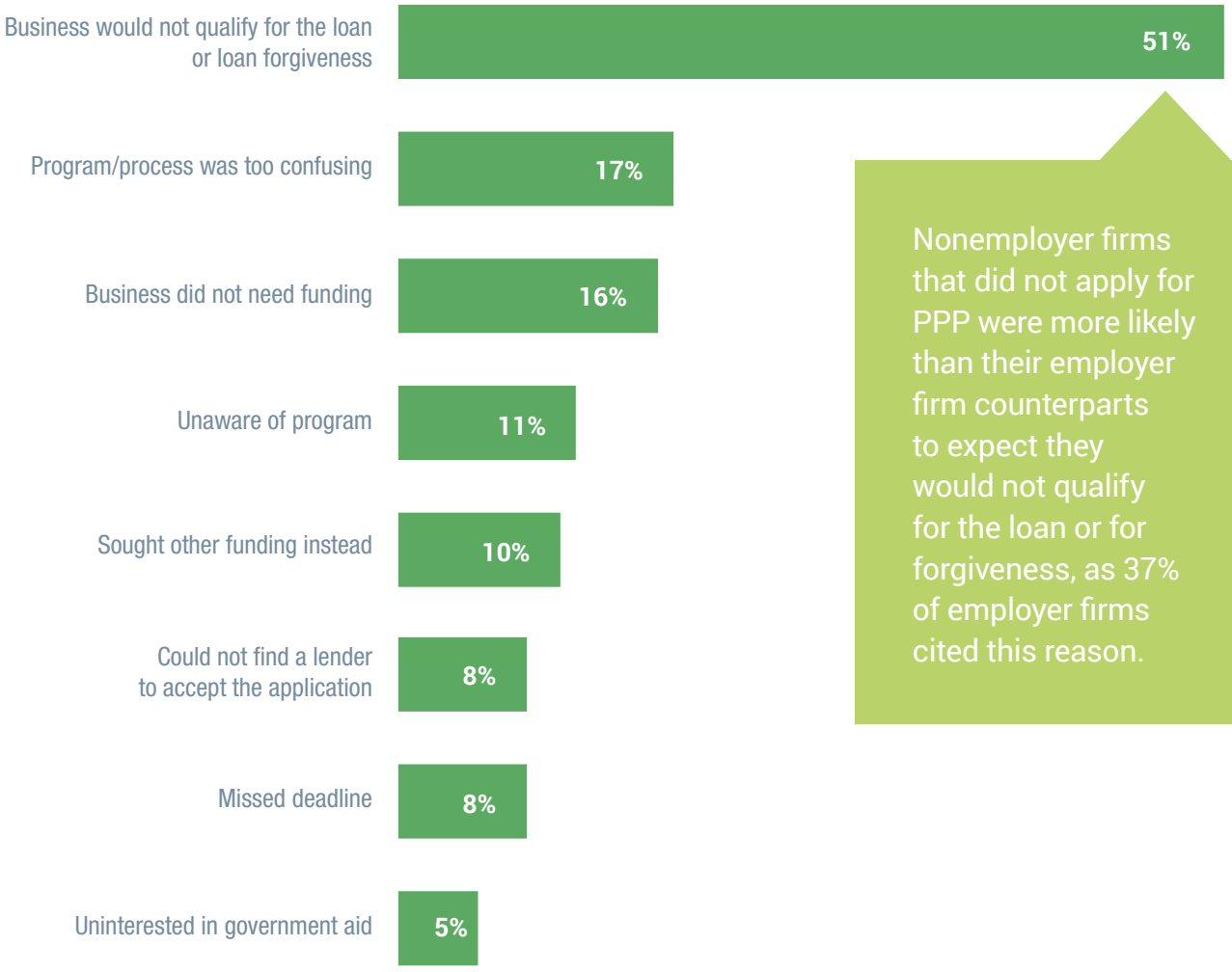
1 *The Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) are administered through the US Small Business Administration. Select response options shown. See Appendix for more detail.*
2 *Respondents could select multiple options.*
3 *For purposes of this report, "Smaller employer firms" are those with $1M or less in annual revenues. "Larger employer firms" are those with more than $1M in annual revenues.*
4 *The CARES Act gives states the option of extending unemployment compensation to independent contractors and other self-employed workers who are ordinarily ineligible for unemployment benefits.*

EMERGENCY FUNDING

PPP Nonapplicants

Nonemployer firms that did not seek PPP loans most often said they chose not to apply because they did not expect they would qualify for the loan or for loan forgiveness.

REASONS FIRMS DID NOT APPLY FOR A PPP LOAN[1,2,3] (% of nonemployer firms that did not apply for PPP) N=2,965



Nonemployer firms that did not apply for PPP were more likely than their employer firm counterparts to expect they would not qualify for the loan or for forgiveness, as 37% of employer firms cited this reason.

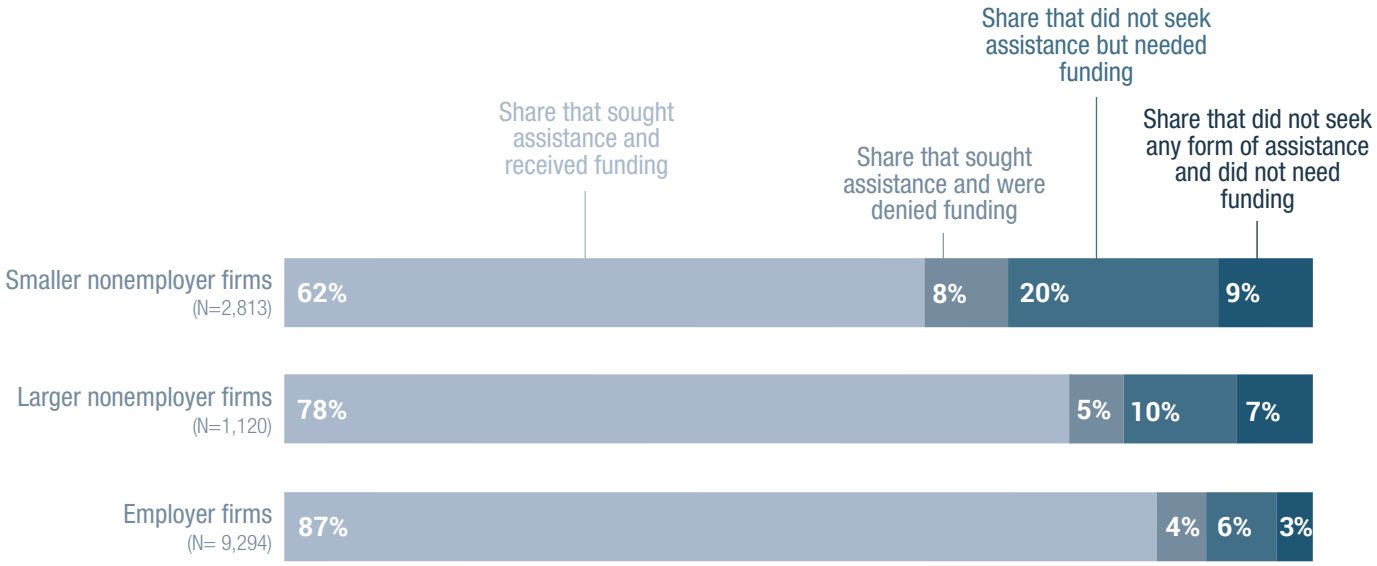
Loan forgiveness was a concern even for nonemployers that applied for and received PPP loans. Among those that received PPP loans, 31% did not expect full loan forgiveness or were unsure, compared to 20% of employer firms.

1 *The Paycheck Protection Program (PPP) is administered through the US Small Business Administration.*
2 *Respondents could select multiple options.*
3 *Top response options shown. See Appendix for more detail.*

EMERGENCY FUNDING
Applications and Outcomes

Overall, nonemployer firms were less likely than their employer firm counterparts to seek emergency funding and less likely to be approved.

PANDEMIC-RELATED EMERGENCY ASSISTANCE APPLICATIONS AND OUTCOMES[1,2]



PPP FUNDING RECEIVED, AS SHARE OF AMOUNT SOUGHT[1] (% of nonemployer and employer PPP applicant firms)

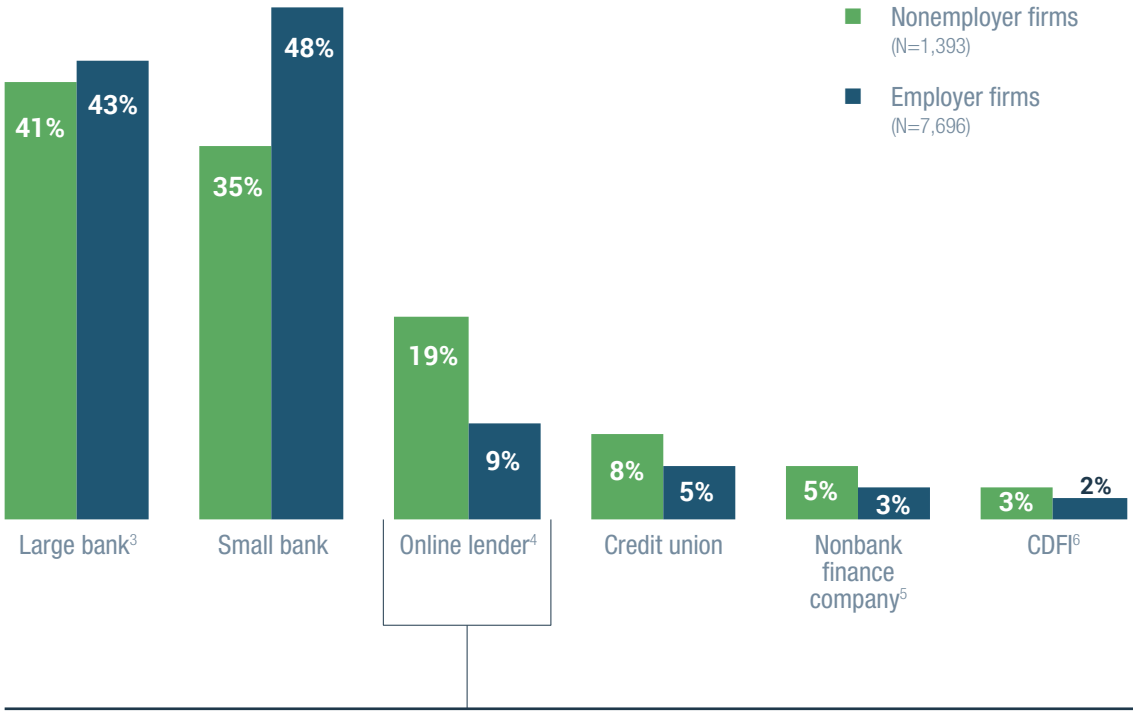
1 *The Paycheck Protection Program (PPP) is administered through the US Small Business Administration.*
2 *Percentages may not sum to 100 due to rounding.*

EMERGENCY FUNDING

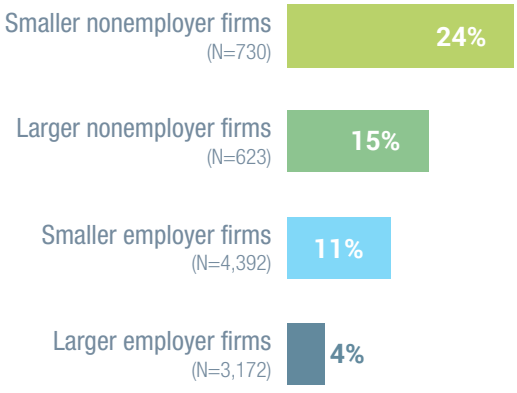
PPP Applications and Outcomes

Nonemployer PPP applicant firms were more likely than employer PPP applicant firms to apply at an online lender. Smaller nonemployers were the most likely to apply at an online lender.

PPP APPLICATIONS AT SOURCE[1,2] (% of nonemployer and employer PPP applicants)



SHARE OF FIRMS THAT APPLIED FOR PPP AT ONLINE LENDERS[1,4,7] (% of nonemployer and employer PPP applicants)

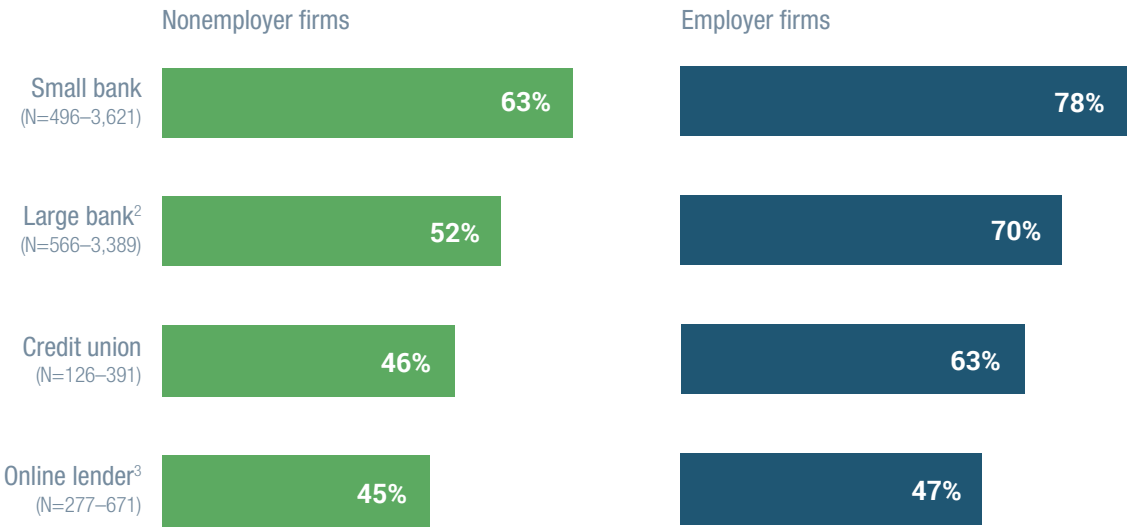


1 *The Paycheck Protection Program (PPP) is administered through the US Small Business Administration.*
2 *Respondents could select multiple options; respondents may have submitted more than one application.*
3 *Respondents were provided a list of large banks (those with at least $10B in total deposits) operating in their state.*
4 *"Online lenders," also called fintech lenders, are nonbanks that lend online. Examples include Lending Club, OnDeck, CAN Capital, Paypal Working Capital, Kabbage, etc.*
5 *"Finance company" includes nonbank lenders such as mortgage companies, equipment dealers, insurance companies, auto finance companies, etc.*
6 *Community development financial institutions (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.*
7 *For purposes of this report, "Smaller employer firms" are those with $1M or less in annual revenues. "Larger employer firms" are those with more than $1M in annual revenues.*

Nonemployer firms that sought PPP were most successful at small banks and least successful at online lenders and credit unions. Regardless of source, nonemployer firms were less likely than employer firms to receive all the PPP funding sought.

SHARE OF PPP APPLICANTS THAT RECEIVED ALL OF THE PPP FUNDING SOUGHT, *By Source*[1]

(% of nonemployer and employer PPP applicants)



1 *Select lenders shown. See Appendix for more detail.*
2 *Respondents were provided a list of large banks (those with at least $10B in total deposits) operating in their state.*
3 *"Online lenders," also called fintech lenders, are nonbanks that lend online. Examples include Lending Club, OnDeck, CAN Capital, Paypal Working Capital, Kabbage, etc.*

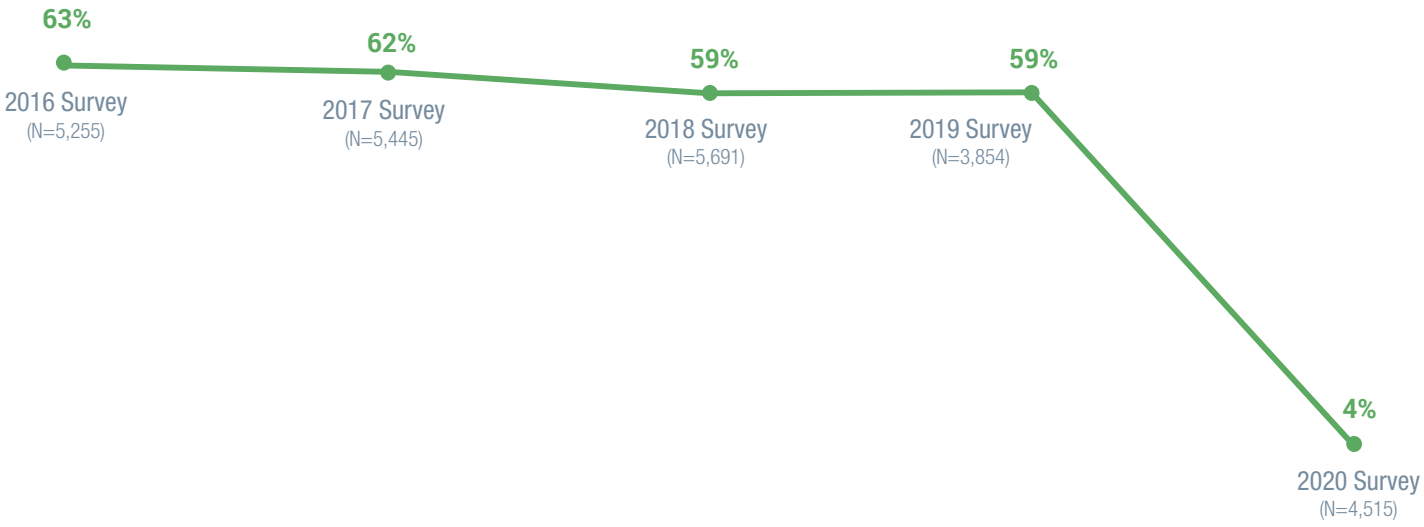
LOOKING AHEAD

Performance Expectations, Next 12 Months

The net share of nonemployer firms expecting revenue growth in the coming year declined sharply from levels observed in prior surveys. Still, about a quarter of nonemployers plan to add employees in the next 12 months, a slight decline from 2019.[1]

NONEMPLOYER FIRM REVENUE EXPECTATIONS INDEX, *Next 12 Months*[2,3]

(% of nonemployer firms)



25% of nonemployer firms and 31% of employer firms expect to add employees in the next 12 months.[4]

1 *The share of nonemployer firms that expected to add employees in the next 12 months declined slightly, from 29% in 2019 to 25% in 2020.*
2 *The index is the share reporting expected growth minus the share reporting a reduction.*
3 *Expected change in approximately the second half of the surveyed year through the second half of the following year.*
4 *Next 12 months is approximately the second half of 2020 through the second half of 2021.*

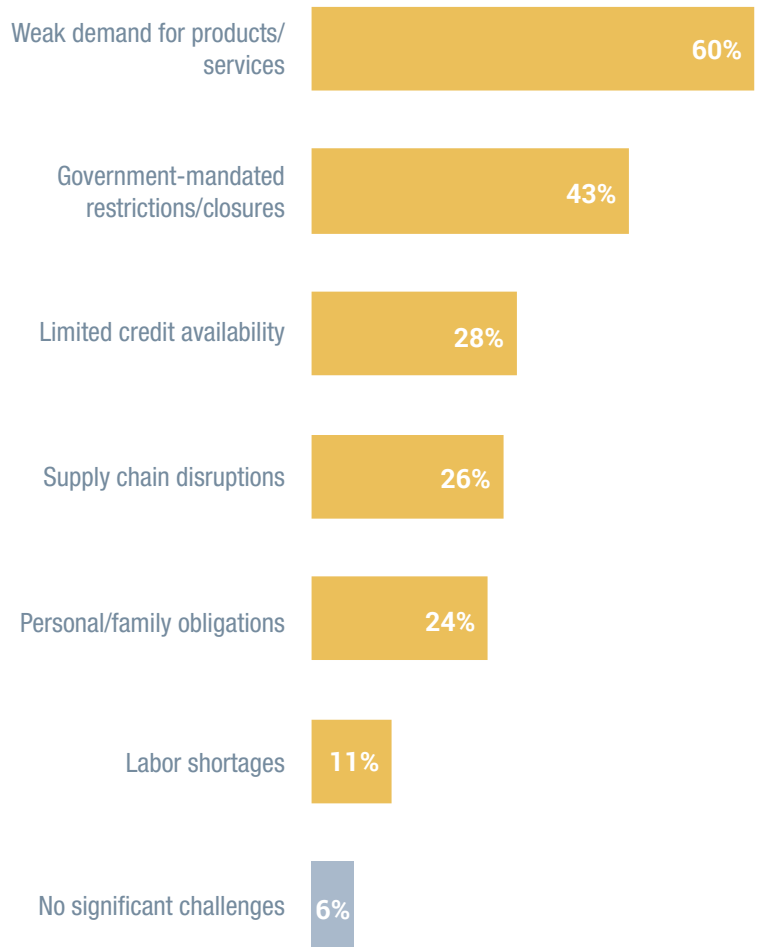
LOOKING AHEAD

Expected Pandemic-Related Challenges, Next 12 Months

94% of nonemployers anticipated pandemic-related challenges in the 12 months following the survey.

CHALLENGES FIRMS EXPECT TO FACE AS A RESULT OF THE PANDEMIC, ***Next 12 Months***[1,2] N=4,435

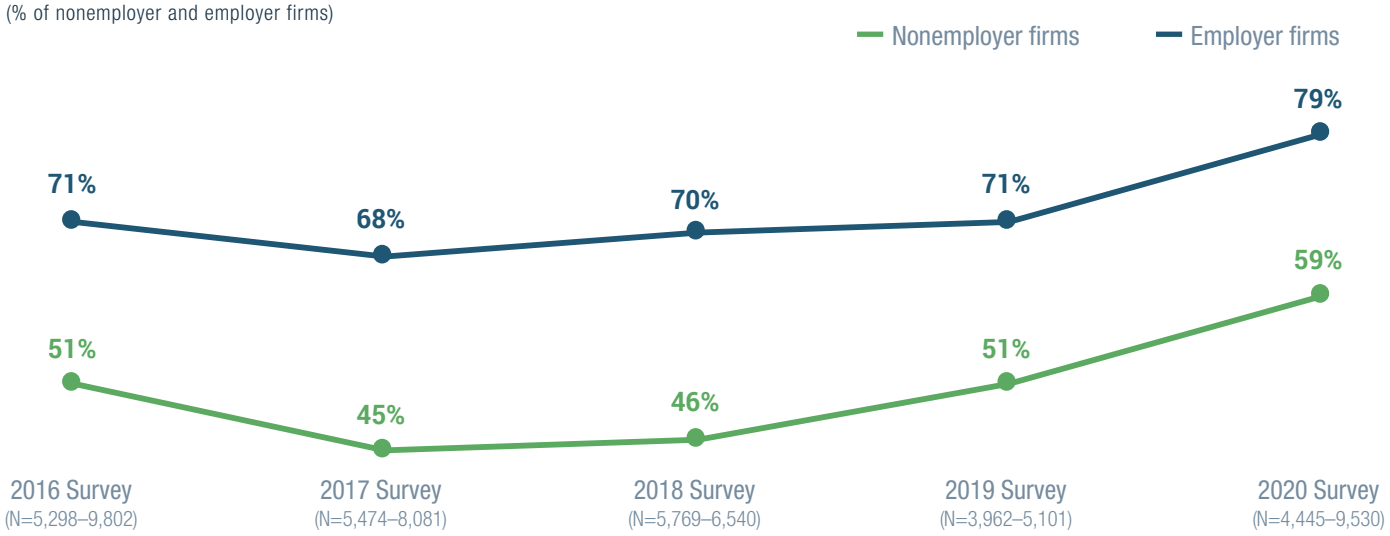
(% of nonemployer firms)



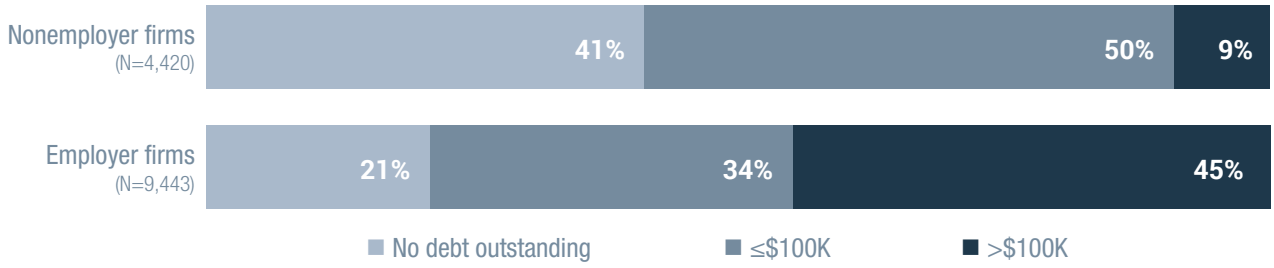
1 *Respondents could select multiple options.*
2 *Next 12 months is approximately the second half of 2020 through the second half of 2021.*

The share of nonemployer firms with debt increased from 2019, pandemic-related assistance aside.

SHARE OF FIRMS WITH DEBT OUTSTANDING, *At Time of Survey*[1,2]
(% of nonemployer and employer firms)



AMOUNT OF DEBT, *At Time of Survey*[1,2,3] (% of nonemployer and employer firms)

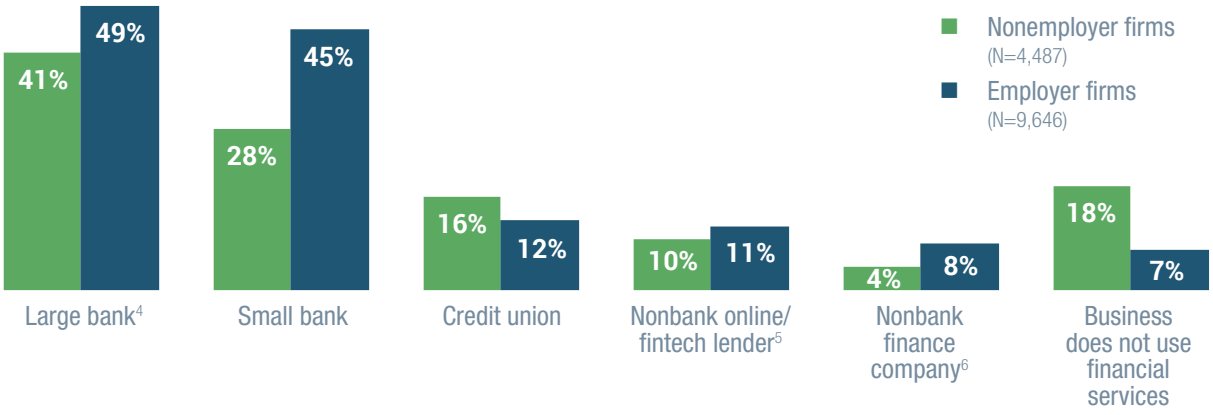


1 *Respondents were instructed to exclude loans they expected would be forgiven from their outstanding debt (for example, PPP loans).*
2 *At time of survey, September through October 2020.*
3 *Categories have been condensed and simplified for readability. Actual response options are: ≤$25K, $25,001–$50K, $50,001–$100K, $100,001–$250K, $250,001–$1M, >$1M.*

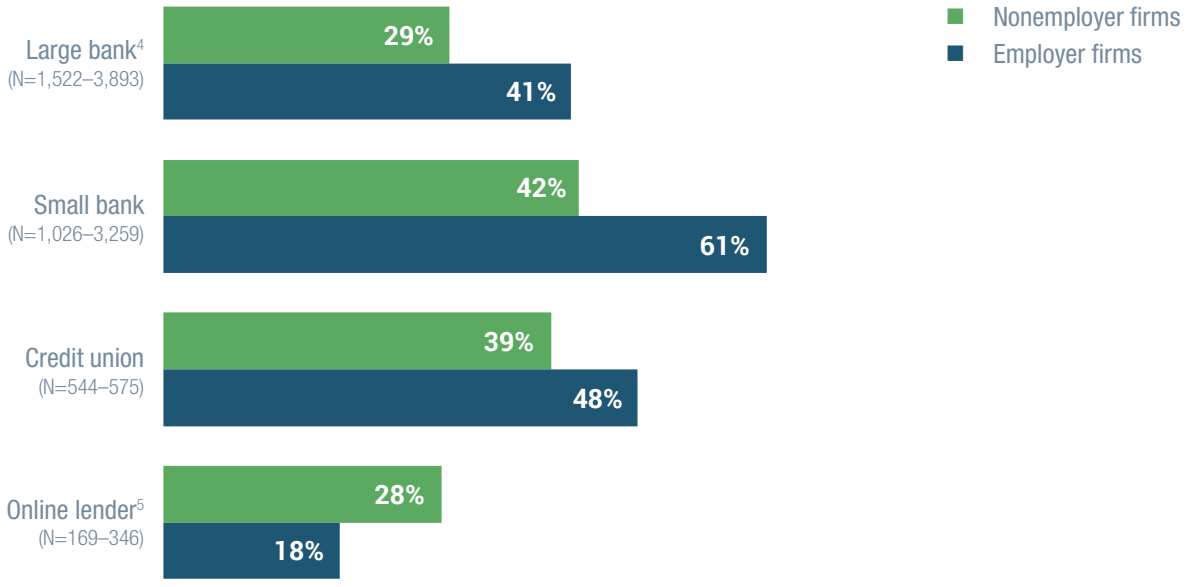
DEBT & FINANCING
Financial Services Providers

Compared to employer firms, nonemployer firms were less likely to use a large or small bank for financial services, and they were more likely to report they did not use any financial services providers.

USE OF FINANCIAL SERVICES PROVIDERS[1,2,3] (% of nonemployer and employer firms)



SHARE SATISFIED WITH SUPPORT FROM PRIMARY FINANCIAL SERVICES PROVIDER DURING THE PANDEMIC[7] (% of nonemployer and employer firms that use provider)



1 *Financial services providers are those at which the firm has an account or uses other financial services (including loans, payments processing, etc.).*
2 *Respondents could select multiple options.*
3 *Select providers shown. See Appendix for detail.*
4 *Respondents were provided a list of large banks (those with at least $10B in total deposits) operating in their state.*
5 *Online lenders/fintech companies are nonbanks that operate online. Examples include OnDeck, Kabbage, Paypal, Square, etc.*
6 *"Finance company" includes nonbank lenders such as mortgage companies, equipment dealers, insurance companies, auto finance companies, etc.*
7 *Satisfaction is available for only respondents' primary financial services providers. Select providers shown. See Appendix for details on primary financial services providers.*

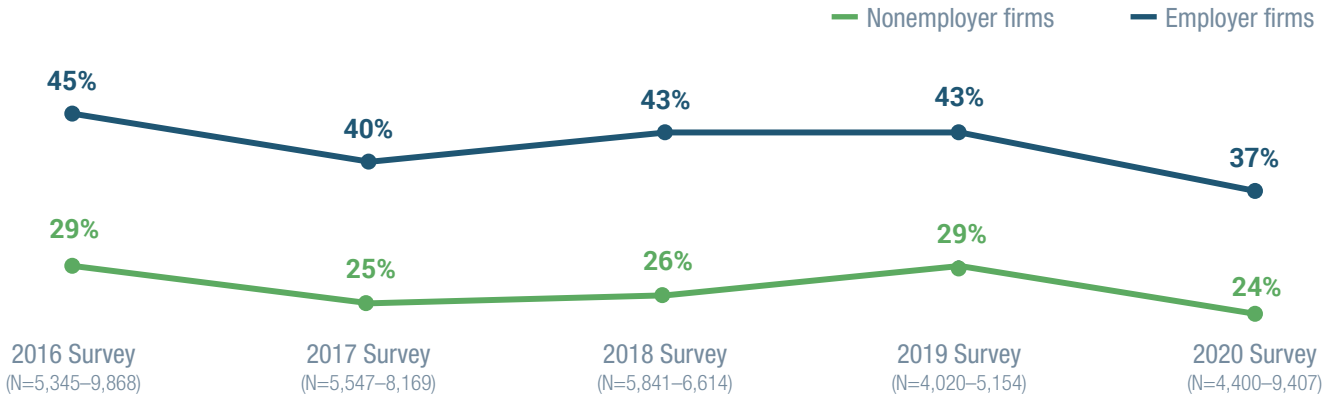
DEBT & FINANCING

Financing Demand and Outcomes, Prior 12 Months

Demand for traditional financing declined among both nonemployer and employer firms between the 2019 and 2020 surveys.

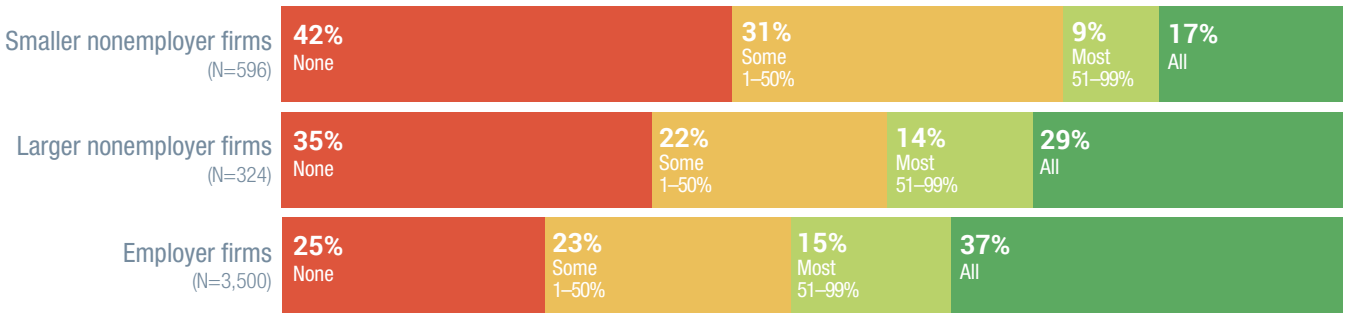
SHARE THAT APPLIED FOR FINANCING, *Prior 12 Months*[1,2] (% of nonemployer and employer firms)

2020 application rate excludes PPP and other pandemic-related emergency funding applications.



Overall, 60% of nonemployer firms received at least some of the financing they sought. Larger nonemployers were more likely to obtain the financing they sought than smaller nonemployers.

TOTAL FINANCING RECEIVED[3,4] (% of nonemployer and employer applicant firms)



1 *In the 2020 survey, respondents were asked first about their applications for pandemic-related emergency funding, and then were asked to exclude these emergency funding applications from subsequent responses on the applications for financing.*
2 *Prior 12 months is approximately the second half of the prior year through the second half of the surveyed year.*
3 *Excludes emergency funding applications.*
4 *Percentages may not sum to 100 due to rounding.*

DEBT & FINANCING
Financing Needs and Outcomes

FUNDING NEEDS AND OUTCOMES[1,2] (% of nonemployer firms)

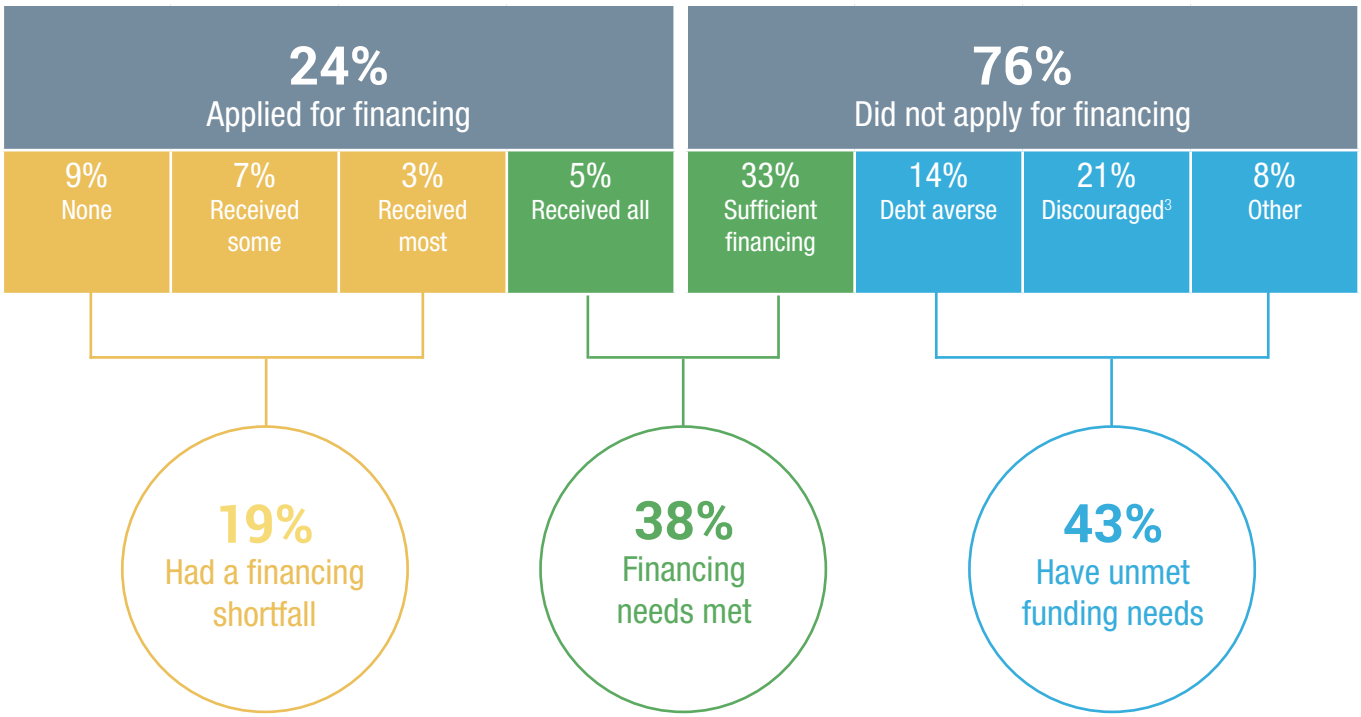
N=4,294

To gauge funding success and shortfalls, we combine applicants' financing outcomes and nonapplicants' reasons for not applying. Firms that had their funding needs met emerge in two forms:

1) Applicant firms that received the full amount of financing sought; or

2) Nonapplicant firms that did not apply for financing because they already had sufficient financing.

The remaining firms have unmet funding needs. When applicant firms did not obtain the full amount of financing sought, we consider them to have a funding shortfall. When nonapplicant firms reported they did not have sufficient financing, we consider them to have unmet funding needs.



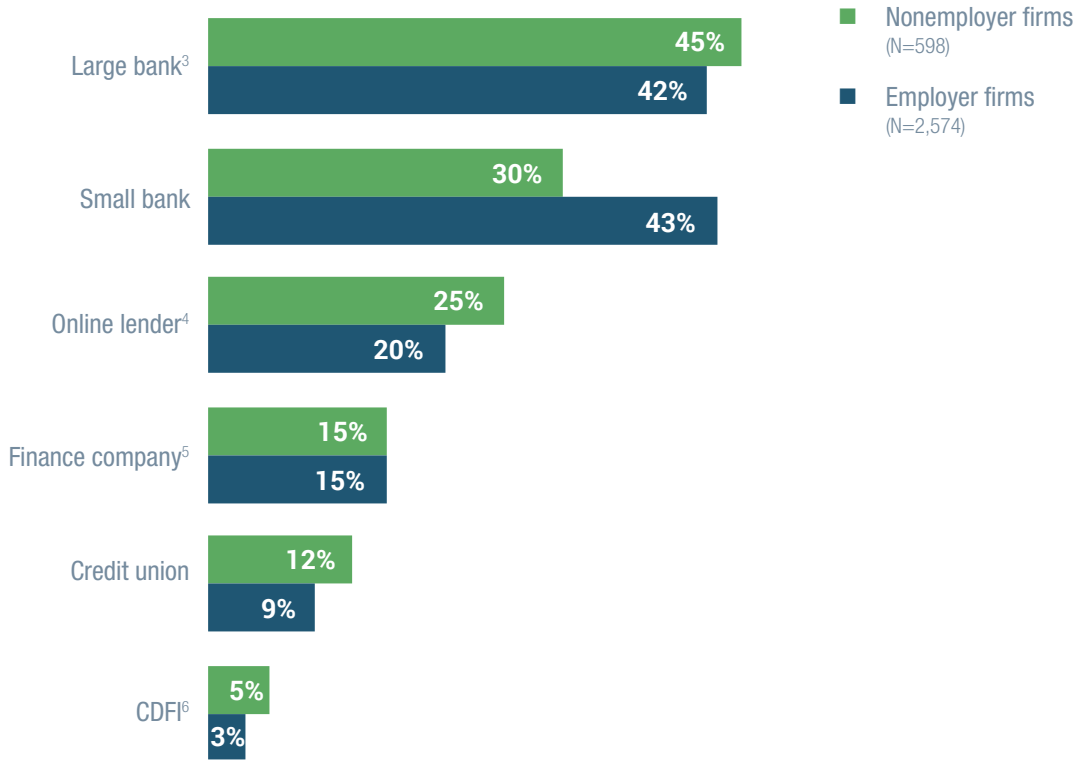
1 *Based on the prior 12 months, which is approximately the second half of 2019 through the second half of 2020.*
2 *Excludes emergency funding applications.*
3 *Discouraged firms are those that did not apply for financing because they believed they would be turned down.*

DEBT & FINANCING

Loan, Line of Credit, and Cash Advance Sources

Compared to employer firms, nonemployer firms that sought financing were less likely to apply for financing at small banks and more likely to apply at online lenders.

CREDIT SOURCES APPLIED TO[1,2] (% of nonemployer and employer loan, line of credit, and cash advance applicant firms)

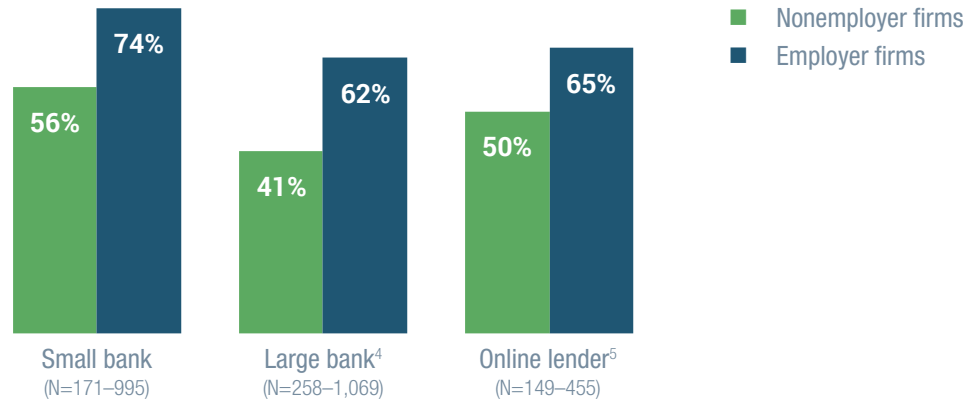


1 *Excludes emergency funding applications.*
2 *Respondents could select multiple options.*
3 *Respondents were provided a list of large banks (those with at least $10B in total deposits) operating in their state.*
4 *"Online lenders," also called fintech lenders, are nonbanks that lend online. Examples include Lending Club, OnDeck, CAN Capital, Paypal Working Capital, Kabbage, etc.*
5 *"Finance company" includes nonbank lenders such as mortgage companies, equipment dealers, insurance companies, auto finance companies, etc.*
6 *Community development financial institutions (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.*

Both nonemployer and employer applicants were more successful obtaining financing at small banks than at other sources.

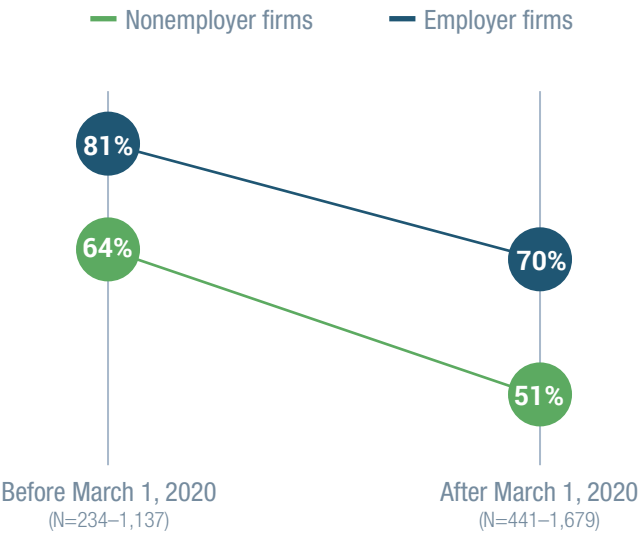
APPROVAL RATES FOR LOAN, LINE OF CREDIT, AND CASH ADVANCE APPLICATIONS, *By Source*[1,2,3]

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



APPROVAL RATES FOR LOAN, LINE OF CREDIT, AND CASH ADVANCE APPLICATIONS, *Prior 12 Months*[1,2,6]

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



1 *Approval rate is the share approved for at least some credit.*
2 *Excludes emergency funding applications.*
3 *Select sources shown. See Appendix for more detail.*
4 *Respondents were provided a list of large banks (those with at least $10B in total deposits) operating in their state.*
5 *"Online lenders," also called fintech lenders, are nonbanks that lend online. Examples include Lending Club, OnDeck, CAN Capital, Paypal Working Capital, Kabbage, etc.*
6 *Prior 12 months is approximately the second half of 2019 through the second half of 2020.*

METHODOLOGY

DATA COLLECTION

The Small Business Credit Survey (SBCS) uses a convenience sample of establishments. Businesses are contacted by email through a diverse set of organizations that serve the small business community.[1] Previous SBCS participants and small businesses on publicly available email lists are also contacted directly by the Federal Reserve Banks.[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

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 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. 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.[3] As a result, underrepresented firms are up weighted, and overrepresented businesses are down weighted. We iterate this process several times for each stratum in order 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.[4]

RACE/ETHNICITY AND GENDER IMPUTATION

Nine percent of nonemployer respondents completed the survey but did not provide information on the gender, race, and/or the ethnicity of their business' owner(s). This information is needed to correct for differences between the sample and the population data. To avoid dropping these observations, a series of statistical models is used to attempt to impute the missing data. When the models are able to predict with an average accuracy of 80 percent in out-of-sample tests, the predicted values from the models are used for the missing data.[5] When the model is less certain, those data are not imputed, and the responses are dropped. After data are imputed, descriptive statistics of key survey questions with and without imputed data are compared to ensure stability of estimates. In the final sample of nonemployers, seven percent of observations have imputed values for the gender, race, or ethnicity of a firm's ownership.

To impute for owners' race and ethnicity, a series of logistic regression models is used that incorporates a variety of firm characteristics, as well as demographic information on the business owners' zip code. First, a logistic regression model is used to predict if business owners are members of a minority group. Next, for firms classified as minority-owned, a logistic probability model is used to predict if business owners are of Hispanic ethnicity.[6] Finally, the race for the business owners is imputed separately for Hispanic and non-Hispanic firms using a multinomial logistic probability model. A similar process is used to impute the gender of a business's owners. First, a logistic model is used to predict if a business is owned by a man.

1 *For more information on partnerships, please visit www.fedsmallbusiness.org/partnership.*
2 *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 *Age strata are 0–2 years, 3–4 years, 5–12 years, and 13+ years. Industry strata are non-manufacturing 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 2016 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 non-missing 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 is then compared with what the model predicts for the test group. On average, prediction 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.*
6 *For some firms that were originally missing data on the race/ethnicity of their ownership, this information was gathered from public databases or past SBCS data.*

METHODOLOGY
(Continued)

Then, for firms not classified as men-owned or equally owned, another model is used to predict if a business is owned by a woman. For some firms that were originally missing data on the race/ethnicity of their ownership, this information was gathered from public databases or past SBCS surveys.

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 2020 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. 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 2021 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.[7] 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.[8] We list 95 percent credibility intervals for key statistics in Table 1. The intervals shown apply to all nonemployer firms in the survey. More granular results with smaller observation counts will generally have larger credibility intervals.

TABLE 1

	Percent	Credibility Interval
Share that applied	23.9%	+/- 1.9%
Share with outstanding debt	59.3%	+/- 1.8%
Share of firms that received at least some of the financing they sought	59.9%	+/- 2.0%
Share of firms with financial challenges in prior 12 months	18.6%	+/- 0.7%
Share of firms in poor condition	32.0%	+/- 0.8%

7 *Wolter. Survey Weighting and the Calculating of Sampling Variance. 2007.*
8 *AAPOR. Task Force on Non-probability Sampling. 2013.*