

Transcript

Fed Talk: Amplifying Voices with the Small Business Credit Survey

Federal Reserve Bank of Cleveland

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Presentation

Speakers

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- [Ann Marie Wiersch](#), Senior Policy Advisor, Federal Reserve Bank of Cleveland

Moderator

- [Allison Clark](#), SBCS Project Manager, Federal Reserve Bank of Cleveland

Allison Clark:

Good afternoon and welcome to today's *Fed Talk*, Amplifying Voices with the Small Business Credit Survey. I'm Alison Clark, project manager for the Small Business Credit Survey and moderator for today's session. If this is your first time joining us, you may wonder [what is a Fed Talk](#). It's the Federal Reserve Bank of Cleveland speaker series where we dive into research that really matters to our community. *Fed Talks* have covered everything from inflation to getting into the job market to financial literacy. And if you've missed any past sessions, no worries. You can catch them all online at clevelandfed.org.

Before we jump in, just a few housekeeping items. Your microphone and camera are disabled during the event. We want your questions. You can submit them using the Q&A feature in Zoom. We will get to as many questions as we're able to. If Zoom decides to act up and the meeting drops, just use the dial-in information from your invitation to rejoin by phone. And one last thing. The views shared today by myself and our panelists are our own and not necessarily those of the Federal Reserve Bank of Cleveland or the Federal Reserve System.

All right, let's get started. Across the United States, 99.7% of employer establishments are classified as small businesses. Small businesses are a critical part of the economy and are pivotal to the health of communities all across the country. Collecting data and analyzing business performance, lending trends, and other aspects of the small business population helps us better understand how the economy is doing and to better inform a wide range of stakeholders. Since 2016, the Federal Reserve has worked with hundreds of community and business groups to administer the small business credit survey.

During today's discussion, speakers will share more about this key survey and provide an in depth look at findings from the recently released 2026 report on employer firms. Among other topics, you'll hear insights on business finance needs, credit outcomes and challenges, owner demographics, and customer dynamics, adoption of AI, and more. To date, the SBCS continues to be the largest national data set of its kind, and its reports provide awareness of small business dynamics, challenges, and opportunities.

I'd like to introduce today's speakers. **Hal Martin** is the director of the Small Business Credit Survey and a policy economist in the Cleveland Fed's research department. His current work

focuses on small business financing and housing. **Ann Marie Wiersch** is a principal policy advisor in the community development department at the Federal Reserve Bank of Cleveland. She conducts research and analysis on a range of policy issues with the focus on small business credit needs and outcomes and borrower experiences with FinTech lenders. Today's presentation will share findings on the 2026 report on employer firms findings from the 2025 Small Business Credit Survey.

If you'd like to explore the survey data and resources after today's session, you can visit fedsmb.org. I'll now turn it over to Hal to share the findings from the report.

Hal Martin:

All right. Thank you, Allison, and hello everybody. Before we get started, I wanted to invite the audience to tell us a little bit about yourselves with our first polling question. So if you wouldn't mind putting that out for us, Christian. Tell us which best describes your connection to small businesses. I'll say one of the privileges of working on the survey is that we encounter folks across the ecosystem of small business support and small business advocacy and small business policy spaces. So I'm eager to see who's in the room with us and what you all are up to. And Christian, when you feel like you've got enough responses, let's go ahead and take a look at the results here so we know who's here.

All right. You guys have a very broad distribution. It's great to see. We've got some small business owners in the room, some folks at government agencies. It looks like we have some bankers, researchers, and of course some nonprofit folks as well. So welcome all of you. I hope you each get something out of today's session and I look forward to the questions you might have for us along the way. All right. Let's go ahead to the next slide and I'll tell you a little bit about the survey. So the Small Business Credit Survey or the SPCS is an annual survey conducted through a partnership between the 12 ... Oh, sorry, one more slide, Christian, if you don't mind. And we'll give you some details to read as well. So we do this along with all 12 Federal Reserve banks and a national network of more than a hundred business and civic organizations.

As this happens to be a Cleveland *Fed Talk*, I should mention that the team that administers the survey and writes the core reports is my team, and we are based right here in Cleveland. Every year, the survey's open to all business owners in the US and its territories. We primarily reach respondents through partner organizations who share the survey with their small business count contacts. We also contact past respondents and other small businesses directly by email. Each year after data collection, we weigh the survey data so that it matches the distribution of small firms across the US on firm and owner characteristics. The 2025 survey was fielded from September through November of last year.

It was online and it was offered in both English and Spanish. In addition to the standard questions about business conditions, debt, and financing experiences, the 2025 questionnaire included special questions about customers and trade and artificial intelligence. We also included what has become a regular natural disasters impact module of questions for those that are touched by natural disasters. This presentation focuses on the responses from more than 6,500 employer firms that responded to our 2025 survey. Those are the firms with one to 499 employees in addition to the owners. The findings presented here are drawn, as Allison mentioned from the 2026 report on employer firms, findings from the 2025 small business credit survey. We released that in March of this year, and it's available on our website at

fedsmallbusiness.org. Now to the findings. Let's begin by looking at what we know about business performance and operations. So on the next slide, I'll show you what we learned there.

We'll go one more forward. Each year we ask firms whether their revenue and employment has increased, decreased, or remained the same over the prior 12 months. On slide five here, we show the performance indexes or the share that are reporting increases less those that report decreases. Revenue performance is in blue and employment performance is in orange. Revenue and employment growth were both relatively stable in the years leading up to the pandemic when the levels declined. Both measures recovered somewhat starting in 2021 and in recent years they've stabilized, but they remain below their pre-pandemic levels. I'll also note the revenue growth index is negative for the second consecutive year, meaning that more firms said revenues declined than said they increased in the prior 12 months. Let's go to the next slide where we'll see the responses on firms' expectations for revenue and employment growth over the coming 12 months coming from last fall that is.

Shown here, the revenue and employment expectation indexes are again in blue and orange respectively, and they showed a similar pandemic era dip and more recent stability. Of note, the revenue expectation index fell six points and employment expectations fell three points compared to the prior year. Now, before we look at the survey data on challenges, we wanted to ask you another polling question. We'll share with you what the business has told us last fall about their challenges, both operational and financial, but we're interested in hearing from you what you are seeing on the ground today about some of these types of challenges. So you might check all that apply here, sorry, the top three that apply as you see it amongst weak sales, hiring qualified staff, increased costs, credit availability, utilizing technology, managing cashflow, these sorts of things. I apologize. We gave you a subset of the financial and the operational challenges here, so curious to see how you see the current landscape.

All right, Christian, if you have enough responses, let's go ahead and close up the poll and see what our audience is saying. All right. Top answer that you're telling us is you're seeing common challenges with increased costs and good services in our wages. Looks like that's followed by hiring or retaining qualified staff and shortly after that, paying operating expenses. It's very helpful to see, and I think that broadly reflects what we see in the survey from businesses from last year. So let's go ahead to the next slide and I'll show you what they told us.

So we break these questions into ... We ask about operational challenges and financial crowd challenges separately. Here, I'm showing you the operational challenges, but firms may select all that apply. Note that most businesses around nine and 10 experienced at least one operational challenge in 2025. That's similar to recent years. In 2025, the most common experienced operational challenge was reaching customers and growing sales at 57%, and that was followed by challenges with hiring or retaining qualified staff at 46%. The share reporting most of these challenges did not change much from year to year, although there were changes in the hiring challenges, which declined from 51 to 46% year over year. On the next slide, we'll see businesses financial challenges. Again, businesses can select all that apply. So here, 94% of small businesses experienced at least one financial challenge in 2025. A majority of firms reported challenges with rising costs at 77%, which experienced either challenges with the rising costs of goods, services, or wages.

We also saw that 42% of firms reported ... Sorry, 73% expressed explicitly costs, challenges with goods, services, and wages. 42% told us about increased costs associated with tariffs. Across those two elements, 77% told us about cost increases of some sort being a challenge. On the next

slide, we'll break out these financial challenges by industry to tell you a little bit more about those. First, across all industries, the most common financial challenge remained the increased costs of goods, services, and/or wages. Second, the increased costs associated with tariffs was the second most common financial challenge, specifically for firms in retail and manufacturing.

Other sectors experienced slightly different second and third most common financial challenges. Moving on to the next slide, the next chart breaks out the actions that small businesses took in response to their financial challenges. The most common action was the use of the owner's personal funds at 54%, followed by raising prices the business charges at 48%. Others relied on cash reserves or took steps to reduce their costs. While we don't show it here, actions varied by type of business. For example, newer and smaller firms were more likely than others to rely on the owner's personal funds, and industry sectors like retail, manufacturing, and leisure and hospitality were more likely than others to say that they raised their prices.

In 2025, we asked new questions about trade-related challenges, which we'll see on the next two slides. First, we asked about firms' inputs from abroad, so if we can go to that slide. Let me walk you through each of these charts. As shown in the leftmost chart, nearly half of firms reported that they sourced at least some of their inputs from outside the US in 2024, while 14% said they did so for more than half of their inputs. So the middle chart shows the changes in prices of those internationally sourced inputs for the firms that sourced such inputs in 2025. Sorry, the price changes in 2025 compared to 2024. So 84% that said that prices changed year over year on the imports they sourced from abroad. The rightmost chart shows the actions taken by firms experiencing cost increases on those internationally sourced inputs. So most firms at 76% passed on at least some of those costs to customers, and still a large number absorbed at least some of those costs internally at 60%.

Firms could check all that applied here, and we see that relatively few switched suppliers or onshore production. In the next slide, you'll see what firms told us about their international sales. The left chart shows that just one in five firms reported that they made sales to international customers in 2024. The chart on the right shows these firms' expectations for how their full year 2025 international sales would wind up comparing to 2024. Recall that we made this survey in the fall, and so they're projecting forward to the end of their 2025 when they tell us these responses. Most firms expected a decrease or 40%, or the most firms expected a decrease or no change 37% in the sales to international customers by the end of 2025, while 16% expected an increase. Now I'd like to turn over the presentation to **Ann Marie Wiersch** to share what we learned about debt and financing. Ann Marie?

Ann Marie Wiersch:

All right. Thank you, Hal. So let's move to slide 14 for a look at small firms outstanding debt. So starting at the top of the chart on the left, we see that 31% of employer firms were carrying no debt at the time of the survey. 32% had less than \$100,000 outstanding, and 38% had more than 100,000. These levels have been steady for the last few years, but the share with more than \$100,000 in outstanding debt remains elevated compared to pre-pandemic years. The chart on the right shows the ways debt holders secured their debt through collateral and guarantees. In practice, lenders often require that financing be secured in multiple ways, including commitments from the business owner.

And these findings demonstrate the interconnectedness of business finances with the owner's personal finances as 59% secured their debt with a personal guarantee and 38% used personal

assets, for example, pledging a home or retirement savings. As noted in the box, the share that secure debt with personal assets was seven percentage points higher than it was in the 2019 survey.

The chart on slide 15 shows the types of products businesses reported that they regularly use or carry a balance on. Credit cards, loans, and lines of credit were the most common products used by small businesses. As noted in the box, businesses use both personal and business credit cards to pay their business expenses. The survey finds that reliance on external financing is up from pre-pandemic years, and this survey, 86% of firms said they used one or more of the products shown, which is a six percentage point increase from the 2019 survey. On slide 16, we have data on small firms' applications for new financing in the 12 months prior to the survey. As indicated in the chart on the left, 60% of small businesses in the 2025 SBCS applied for some type of financing. That includes loans, lines of credit, merchant cash advances, credit cards, leases, trade credit, and factoring.

The most common reasons firms applied for financing was to obtain funds for operating expenses or for business expansion. The chart on the right shows overall financing received, and as indicated in green, 42% of applicants received all the financing they applied for. The remaining 58% got most, some, or none of the amount they were seeking. The survey finds that of these applicants, about two-thirds said their financing applications were not approved, while others said they had pending applications or were approved for funds they decided not to take.

Slide 17 provides an overview of demand for credit by product type. What we see here is essentially a breakout of the first chart on the prior slide with that 40% who did not apply for financing shown again in gray. The 60% that did apply are accounted for in the blue bars, which do add up to more than 60% because some firms applied for more than one product. So the top of this chart shows a combined category for loans, lines of credit and merchant cash advances. In order to provide context for the next series of slides, which draw from the surveys more detailed questions on application experiences for these three product types. Credit cards and trade credit were also among the top products sought. I'll note here that the survey finds a considerable increase in the last several years in applications for credit cards. In 2019, for example, just 12% of employer firms that they applied for credit card in the prior 12 months.

Slide 18 provides perspectives on how the application rate is trending over time. We're looking at the share firms that applied for a loan, line of credit, or merchant cash advance in each survey year since 2018. The drop in the application rate in 2020 coincides with the availability of pandemic support programs like PPP and IDEL, which are excluded from this chart. And the uptick in 2022 coincides with the wind down of these programs than in 2023 and after the application rate has returned to pre-pandemic levels and has been holding steady. Slide 19 takes a deeper look at these loan line of credit and merchant cash advance applications. Here we see application trends by lender type. Now, there's a lot going on on this chart, so I'll start with the legend on the right. These are the lender categories for which the SBCS collects application data. First are the large and small banks, which are split at \$10 billion in assets.

Then we have non-bank lenders, online lenders, also known as FinTech lenders and finance companies, which include auto finance, equipment dealers, insurance companies, and similar types. And finally, credit unions and community development financial institutions or CDFIs. Looking now at the data, we see that consistent with past years, firms in the 2025 survey applied for financing, most often at large banks shown in green. Below that, we do see some overtime changes. In the past five years, the survey has found a decline of 11 percentage points in the

small bank application rate and a 12 percentage point increase in the online lender application rate. The application rates that the other lenders have remained mostly flat over time.

Slide 20 looks at why applicants sought financing at the sources they did. For large and small bank applicants, the relationship firms had with their banks was the top factor in their decision of where to apply. Past research suggests that relationships are a proxy for other factors as prior experiences with the lender can help shape future expectations about the speed of the application process, likelihood of approval and borrowing costs, which also registered as top factors for bank applicants. Conversely, among firms that applied at online lenders, nearly two-thirds said their top priority was the speed of decision or funding, and about half said their chance of being funded was a top factor. 38% chose to apply at the online lender because they did not require collateral. Not shown on this slide are the 28% of online lender applicants that said they applied at their lender because they had been denied at other lenders.

The chart on slide 21 shows how financing approval rates have changed over time. Specifically, it shows the outcomes for applicants that sought loans, lines of credit, or merchant cash advances with this share fully approved, shown in green, partially approved in yellow and denied in red. The survey found little movement in outcomes over the past several years. The most pronounced overtime change since pre-pandemic years is the share of applicants fully approved, which now stands at 52%, somewhat lower than the readings of 58 and 62% in 2018 and 2019. The decline in the share fully approved is offset by an increase in the share firms that were partially approved.

Slide 22 breaks out approvals from the 2025 survey by type of lender. Applicants at small banks were most likely to be fully approved, followed by finance companies, credit unions, and large banks. Online lenders and CDFI applicants were least likely to be fully approved, which is not entirely unexpected given that these lenders are more likely to serve higher risk businesses who may face challenges obtaining approval at most sources. Next, slide 23 presents data from a new question in the SBCS about the experiences of borrowers, that is those applicants that were approved and accepted the financing offered by their lender. This chart shows firms experiences with borrowing costs relative to their expectations at the time they accepted the approved financing. Starting at the top of the chart, 60% of firms that borrowed from online lenders reported that their borrowing costs were higher than they had expected.

Among finance company borrowers, 44% said their costs were higher than expected, though 13% also reported lower than expected costs. At banks and credit unions, a majority of borrowers said their costs were in line with their expectations, but still roughly a third of these borrowers reported their costs were higher.

Slide 24 provides a different perspective on applicant's experiences. Here we're looking at satisfaction with lenders for applicants that were approved for at least some of the financing they saw. Credit union and small bank applicants were most satisfied with their experiences followed by large bank and finance company applicants. As the survey has found in prior years, online lender applicants were least satisfied. Net satisfaction ratings were up a bit in 2025 compared to prior years for each of the primary lender categories, except for small banks, which declined slightly year over year.

And slide 25 provides some context for firm satisfaction with their lenders. Overall, applicant's most commonly reported challenge was high interest rates. A relatively high share of online lender applicants represented by the gray bars also had challenges with unfavorable repayment terms. Moving across the chart, we see the challenges at large and small banks, the green and

orange bars are higher than at non-banks for difficulty of the application process, unclear approval criteria, and long wait for credit decision or funding.

Then at the far right of the chart, we see the share of applicants with no challenges. Again, online lender applicants were least likely to say they had no challenges with their experiences. So now I'll turn the program back over to Hal, who will share the survey findings on small businesses use of artificial intelligence.

Hal Martin:

Thank you, Ann Marie. Before we move on to the next slide, I'm going to bring to you our final polling question, and we want to start with what we've learned ... We will share with you in a moment what we've learned about businesses use of AI. The polling question here is not one that we asked directly in the survey, but we're curious to know what you see as you interact with businesses. How do they feel about AI? Are they enthusiastic? Are they cautious, but interested, confused, indifferent? Are they concerned? Curious to know what the sentiment is out there as you see it.

And Christian, if you wouldn't mind closing up the poll, let's go ahead and see what our audience tells us. Cautious but interested takes the crown. That is clearly the far and away sentiment that you all are hearing. All right. Well, thank you for that and let us share with you what businesses are telling us about how they're engaging with AI. So on this next slide, I want to emphasize that for the entire AI module, when we defined AI use to businesses, we described any type of use by the business or by its employees for work purposes. So this is a very broad definition of using AI. It could encompass internet tools. It could encompass AI features that are already baked into software that the firm uses that have been introduced, and it can, of course, encompass boutique and designed solutions that the firm might have put in place.

So a wide variety of models for using AI when we ask businesses whether they're currently using it. And 46% of them tell us that they are currently using AI at the time of the survey. 48% were not, and that was split between those that plan to use AI within the next 12 months at 15%, and those that did not yet have plans to do so at 33%.

On the next slide, we'll see two ways of measuring the level of use for that 46% that said that they already are using it. So on the left, we show the level of AI adoption. About half of firms using AI said they were experimenting with AI tools, and that could include things like testing tools or running pilots. And another 44% told us that they at least had partially integrated AI into some of their business processes. Just 7% reported having AI fully integrated into their business functions. On the right, we see the self-reported importance of AI to the production of the business's core goods and services. Just over one in five firms consider it very important, with 42% considering it somewhat important and 37% not important to the firm's core goods and services.

On the next slide, this slide shows the different processes and tasks for which firms have used AI amongst those that are using it. Writing or marketing was by far the most common task, which includes examples like working on documents, ads, logos, and social media. That's followed by individual productivity, which included examples like note-taking, summarizing, or scheduling, and then followed by planning or analysis, which included things like researching, forecasting, or business strategy purposes. Unsurprisingly, use across tasks varied by industry. For example, individual productivity was reported, and it's not shown here, but it was reported at 67% firms in professional services and real estate, but only 46% in retail. Coding or coding assistance was

highest at 31% for professional services and real estate firms, and lowest at about 11 to 13% across industries, including leisure and hospitality and others.

On the next slide, we'll show you the self-reported changes at businesses resulting from the use of AI. The left set focuses on performance metrics, sales, productivity, and the quality of goods and services, while the right side focuses on changes in costs, spending on outside services and labor.

Very few firms reported any decreases in the performance metrics with over two-thirds reporting an increase in productivity. Only about one in six firms reported reporting reduced costs as a result of AI uses, with a large majority reporting no changes in costs, and that's clear from the two bars on the right. Those that did report changes to labor costs shown in blue and orange on the far left bar were asked about changes to the number of employees, and most had not added or cut staff. 10% said they'd increased the number of employees because of AI and 11% that said that they had reduced staff because of AI.

On the next slide, we will show you the comparison between the challenges faced by firms that were currently using AI and the challenges that may be anticipated or already experienced by firms that were planning to implement AI use in the next 12 months. Firms already using AI reported challenges with accuracy and misinformation almost twice as often as those that were just at the planning stage. On the other hand, challenges with adapting tools to meet business needs, time to implement and train employees, and cost were more common among firms that were just planning to use AI. And as I mentioned, the challenges reported by firms planning to use AI may be either anticipated or experienced, depending on where they are in the process. The final chart that I'll share with you shows the reasons that firms do not plan to use AI for those that said that they did not.

A majority of these firms reported that AI was not applicable to their businesses, with just under a third reporting that they prefer not to use it. So with that, that concludes the findings that we're going to share with you, and I'll turn over the microphone to Allison so that we can open up to the Q&A.

Allison Clark:

Thanks, Hal and Ann Marie. I'll now transition to audience questions and a reminder for the audience to please use a Zoom Q&A feature to submit questions. We are going to start with an audience question that was submitted in advance. Can either of you speak to why small businesses are seeking capital?

Ann Marie Wiersch:

Sure. I can take that one. So as part of the survey, we do ask those firms that applied for financing what their reasons were for seeking credit. And the top reason it was meeting their operating expenses. Others said that they wanted to expand their business, pursue new opportunities or acquire assets. But to round up the rest of the reasons, having available credit for future use as needed, refinancing or paying down their debt and making repairs or replacing assets. The top response, meaning operating expenses, more than half businesses said that this was their reason. Now, the reasons have been very steady over the last several years. What we don't have a one-to-one comparison to years prior to 2023, we did have another older version of this question. And there we saw a significant shift around the time of the pandemic up until 2019. Expansion was the top reason that firms had applied for financing.

And then in 2020 and beyond, the top reasons flipped and operating expenses was the top reason for firms that applied, and that remains the case today. In the report on employer firms, page 10 has a chart on this that will provide more detail if you're interested in the percentages.

Allison Clark:

Thank you. The next question is also related to financing. What variables impact the receipt of funding and does it vary by demographics? Also, for those interested in data on specific firm demographics, what data cuts are available?

Hal Martin:

Great question. I can take this one. So let me break it into a couple of parts. What variables affect the funding that firms receive? So we collect some limited data about the reasons that firms did not receive funding. That's probably the most direct way to answer this question. We know why they tell us that they didn't receive funding, and they're relatively evenly spread across a few different reasons. So about a quarter to a third of firms that were denied financing indicate that their credit score was too low or they had insufficient collateral weak sales, or they had too much debt already. These are likely reasons that were given to them by lenders in the application process. They're typical amongst the explanations that lenders might give. We do know that application outcomes vary by some firm and owner demographics. So that's kind of the next part of the question.

For instance, we know that older and larger firms are more likely to be approved as are white owned firms relative to minority owned firms. Firms in manufacturing are more likely to be approved than in some of the other industries like healthcare and education. So that's some of what we know about what varies amongst firms that are approved. And I think the last part of the question was about demographic cuts. I've shared some information about demographic cuts.

A lot of this information can be found in one of two places. So we produce a chartbook set called Firms in Focus. And there we share many of the survey items by firm characteristics like firm age, firm size and industry, as well as owner characteristics like owner age, race and ethnicity and gender. You can find those firms and focus chartbooks at our website, [fedsmb.org](https://www.fedsmb.org). We also have some of the more detailed questions broken out in our Excel appendix to the report on employer firms. We published that alongside the report, and that's also on our website. So that's where these statistics can be found.

Allison Clark:

Thank you. Rounding out a question on lenders. We have a question, how have credit standards changed over the last six to 12 months, and which financial covenants do lenders feel are most at risk in the current environment?

Hal Martin:

It's a great question. I'm glad this question came in. This is one of the ones that came in from the audience ahead of time. I'm happy to take it because I dug in a little bit to see what we can find out. First of all, our survey is not the place to look for this kind of information. We are well positioned to answer what borrowers and applicants and firms that haven't applied tell us about their credit-seeking experiences. But this is much more about the kinds of things that the banks would be able to get perspective on. Fortunately, there is a Fed survey that gives that perspective.

It is the senior loan officer opinion survey. It's affectionately known as SLUS, and it's a quarterly survey. It's been running for quite a long time. I think it goes back to the early '90s and it asks about changing lending standards among other things.

So I took a look at that survey before the webinar started just to see where they show up with changes in lending standards. Their changes to lending standards for CNI loans for small firms. It looks like it's eased just a bit over the last few quarters, but it's still net positive. And what that means is that about 8% more loan officers are reporting tightening than loosening credit standards. That said, a large share of the respondents report no change to the lending standards in a given quarter.

So for the most part, banks are not reporting changes to their lending standards. That turns out to translate on a couple of the other elements they track, tightening on loan covenants as well as collateralization requirements, followed a very similar pattern. Just a couple of institutions more tended to say that they were tightening standards rather than loosening standards on those. Most say that there are no changes to those standards. I would encourage you to look at sluce for more insights like that.

Allison Clark:

Thanks for doing the research for us and pointing to additional Fed research that's available. Very helpful. And to the audience for submitting questions in advance, that's also helpful for our team. An additional question on CDFIs. So what is the role that CDFIs play in small business lending? Are there specific business needs or financing products that drive firms to apply at CDFIs?

Ann Marie Wiersch:

Sure. I can take that question. So the survey does collect data on applications that firms submit to CDFIs as lenders. These lenders traditionally serve harder to serve populations, and they often provide technical assistance to assist borrowers in preparedness to borrow and to get through that application process. So we try to report CDFI data when we have it. It's relying entirely on the number of responses we get to the various questions.

As Hal just mentioned, the reports, Excel appendix file, which will include additional data points that aren't included in the PDF report. So in that file, if you go to the employer firm's tab, you can see borrowing costs, challenges, factors in the decision to apply and satisfaction for CDFI lenders. And then in the individual, in the other tabs for firm and owner demographics, you can go to loan line of credit and cash advanced sources applied to and see the application rates at CDFIs for different firm segments.

So just to summarize at a higher level, and I'm generalizing somewhat over the last several years, we do see higher application rates at CDFIs among smaller firms, firms owned by people of color and higher credit risk firms. With respect to outcomes, we did report outcomes this year. We had a sufficient number of responses, and their approval rates are a little bit lower. As I mentioned during the presentation, this is likely related to the risk profile of the businesses that are applying at these sources.

And that said, satisfaction tends to be higher with experiences at CDFIs. I see a question coming in the chat too about credit unions. And I would say a lot of the same thing in terms of where the additional data can be found on that. Checking the reports appendix file, you can get some of

those same indicators that I mentioned, outcomes and challenges with the lenders broken out for the different lender types, including credit unions.

Allison Clark:

Thanks for looking ahead to that one. We're going to shift a little bit to focus now on business challenges. When you look over the past few years, how have those challenges, which you mentioned on a few slides, changed over time?

Ann Marie Wiersch:

Yeah, I could take the challenges question. The survey does find some significant changes in operational challenges that small businesses face going back a few years. The top challenges were hiring and retaining qualified staff and supply chain issues. So looking back to about 2022, 2023, both of those challenges were cited by about 60% of respondents.

Now, since then, we've seen the shares have dropped for those challenges. The share citing hiring challenges has declined by about 14 percentage points and supply chain issues is down by about 30 points. Reaching customers and growing sales has increased somewhat over that time, but by about six percentage points since the 2023 survey. And really that's been the top operational challenge cited by employer firms in the last two years.

Allison Clark:

Thank you. We also had a question about businesses looking to attract talent. I know that may be related to a particular challenge that someone in the audience may have sparked their interest in that, but what data is available within the SBCS on workforce and hiring?

Hal Martin:

I can take that one. So we don't do a lot on hiring. It does show up in our operational challenges, as Annmarie mentioned. And so, one thing we can do from the appendix and from the cuts that we have available is break out and see how that challenge varies across different types of different firms. So taking a look here, a couple of the dimensions that occurred to me to look at are firm size, and we see that by firm size, there is a fair amount of variation in the rate at which firms report this challenge, and it goes from small to large. So smaller firms tend to report this challenge less frequently and larger firms more frequently. The firms that have one to four employees flag this challenge for us about 37% of the time, and the firms that have 10 or more employees report it in the range of 60 to 64% of the time. So it's more common amongst larger firms.

It's also more common amongst some industries than others. Firms in leisure and hospitality had the challenge most often amongst the industries we track at about 60% of the time. And the retail firms actually faced at least often among the industries we track at 36%. So again, these and some other demographic breakouts are available in our Excel appendix file.

Allison Clark:

Thank you. We just had one additional audience question, and that is a moderator question. Will we be sharing the slides? Yes, the full recordings of the *Fed Talks* are always made available. So stay tuned for the post-event email recap and you can explore the others online, which I'll give a

plug for at the end. But we're going to transition now to some final thoughts about partnership with the small business credit survey and housekeeping items as we wrap up today's program. So thank you, Hal and Ann Marie, for answering our questions from the audience.

So Christian, if you could please pull up our deck for us. I wanted to share briefly about the opportunity to potentially partner with our team and the small business credit survey to distribute it this coming September. As Hal mentioned, we depend on organizations nationwide to distribute the survey. Their support is the number one way that we recruit small business respondents.

In support of our distribution partners efforts, we provide partners who recruit 50 or more respondents with a partner report that benchmarks their network's data against the national employer sample. We also provide marketing materials at the launch of the survey, so the only cost to participate is time for recruitment. Organizations that are eligible to partner for survey distribution include nonprofits, state or local governments, and non-bank CDFIs that provide technical assistance. If you're interested, you can confirm your intent to partner by working with your regional Federal Reserve staff member or visiting our become a partner page on [fedsmallbusiness.org](https://www.fedsmallbusiness.org). Next slide, please. If you'd like to learn more about the small business credit survey, including the reports like the one presented today and other small business research, also check out the website. And as Hal mentioned, you will find our newly released firms and focused chart books with data from the survey that compare findings across different types of businesses.

I also wanted to just quickly mention before we wrap up, one of our links in the chat is not working, so I'm just going to ... Oh, I think we got it. There you go. Thanks, Emily. We got the update to Sleuth, so definitely check out that additional data source. All right. I want to go ahead and begin our wrap up and make sure that I mention a few things before we head out for today. First, we want to hear what you thought of today's session. There will be a survey link in the chat and a popup in your browser when you close out of Zoom. So please take a quick moment to share your feedback with us. It really does make these sessions better.

You'll also get a follow-up email with information about today's program, so keep an eye out for that. And if you want to watch or listen again, the video and audio recording, as I mentioned, will be posted. It'll be on the *Fed Talk* website at clevelandfed.org/fedtalk. And if you're a podcast person, you can subscribe to the *Fed Talk* podcast and catch this session and the previous sessions available wherever you get your podcasts. So thank you again for spending your afternoon with us, for the great questions that you send in ahead of time and during the session, and we hope to see you at the next *Fed Talk*. So have a great rest of your day, and thanks for your time.